



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Challenges of Starting a Small Business in Jordan

Prepared by Mr. Mohammed Amawi
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This study is the property of the Jordan Strategy Forum (JSF). For further information please contact the research department at: info@jsf.org or by phone at 06-566-6476.

I. Premise

This Policy Paper prepared by Jordan Strategy Forum aims to support new investment, increase employment, and innovation in Jordan's economy by identifying challenges facing start-ups and small business in Jordan.

This Policy Paper tries to identify some key questions and realistic solutions that will be used to initiate a policy dialogue with different stakeholders in order to start a simplification and modernization process within Jordan's regulatory framework and public and private sector institutions, in order to support the development and growth of small businesses.

II. Definition

A Startup is an establishment or a company that is in the first stage of its operations. These companies are often initially financed by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand for that is unmet by existing institutions. Due to limited revenue or high costs, most of these small scale operations might not be sustainable in the long term without additional funding from different sources.

The legal definition of "**small business**" varies by country and by industry. Some countries establish small business size standards on an industry-by-industry basis, but generally specify a small business as having a certain number of employees (less than 50 employees), along with other methods that include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition.

In Jordan, there is no one official definition that clarifies for all public and private sector institutions, what counts as a micro, small, and medium enterprises. For the industrial sector, Ministry of Industry and Trade (MIT) – through a Cabinet decision in 2005 - defined the different segments of the industrial sector and businesses, which is slightly different than the

Business Size	Number of Employees			
	US	EU	Jordan / Central Bank of Jordan	Jordan / MIT / Industrial Sector
Micro	1-6	<10	-	1-9
Small	<250	<50	5-20	10-49
Medium	<500	<250	21-100	50-249

Chamber of Industry definition that was stated in its law and regulations. The Central Bank of Jordan issued in 2011 an official memo to the Banks in Jordan with different criteria to define the companies based on assets, turnover, and the number of employees.

In addition to the formal sector, the Informal businesses operate outside the existing business registration and tax system and current zoning regulations, resulting in loss of tax revenue and inadequate regulatory supervision. In 2010, the informal sector in Jordan is estimated to employ 487,861 workers and represent 44% of the total employment in the Jordanian Economy.

III. How Important Are Start-ups and Small Business to Jordan's Economy?

Small Businesses Account for a significant percentage of reported private sector Activity. Jordan's economy is mostly comprised of Micro, Small and Medium Enterprises.

Key Indicators

- Population in 2011: 6.4 (millions)
- GDP in 2011: 29.2 (US\$ billions)
- GDP per capita in 2011: 4,675 (US\$)
- GDP growth in 2010: 2.3%

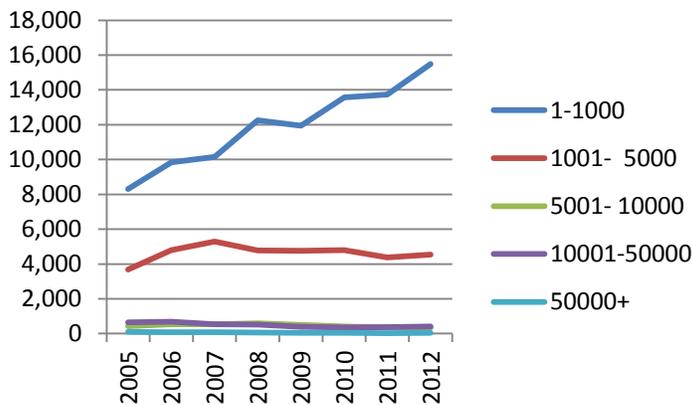


Figure 1: Number of Registered Establishments (sole proprietorship) 2005 -2012 according to Capital

Total number of Registered Establishments in Jordan is 140,447 from 2005 – 2012.

Establishments represent (68.7%) of the total entities registered in the same period compared to Companies (31.3%).

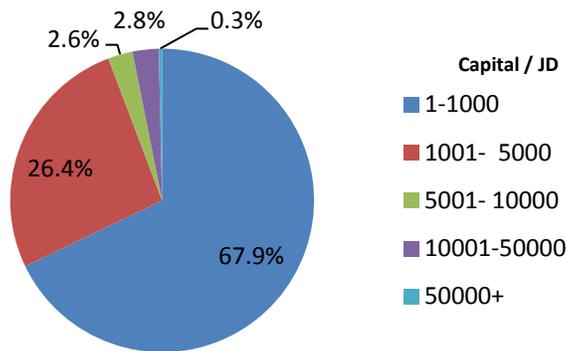


Figure 2: Percentage of Registered Establishments per Capital 2005-2012

Small Businesses under JD 10,000 capital comprise the total of 136,000 establishments (96.9%)

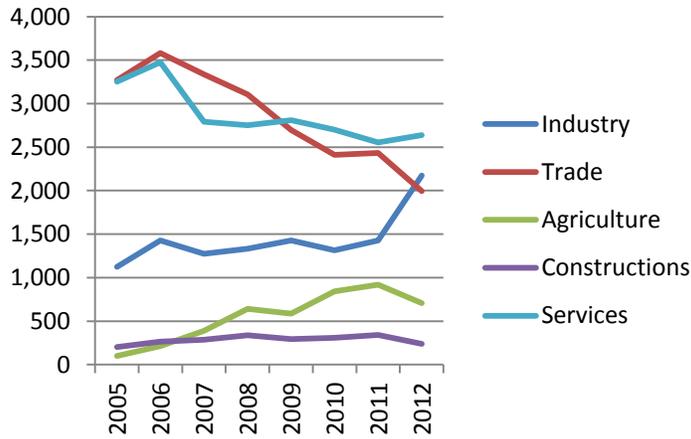


Figure 3: Number of Registered companies Per Economic Sector 2005 - 2012

Total number of Registered Companies in Jordan is 63,978 from 2005 – 2012.

Companies represent (31.3%) of the total legal entities registered in the same period compared to Establishments (68.7%).

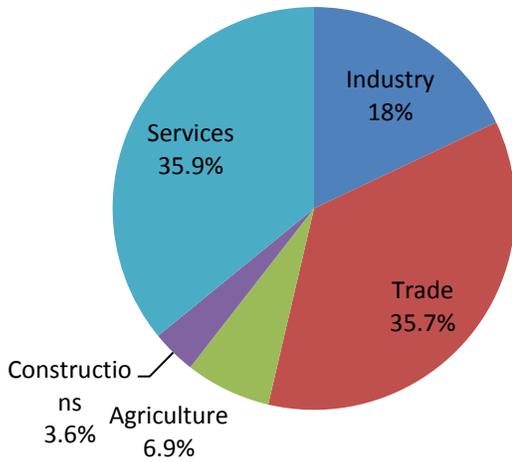


Figure 4: Percentage of Registered Companies per Economic Sector 2005 – 2012

Services and Trade Sectors comprise 71.6% of Jordan's economic sectors.

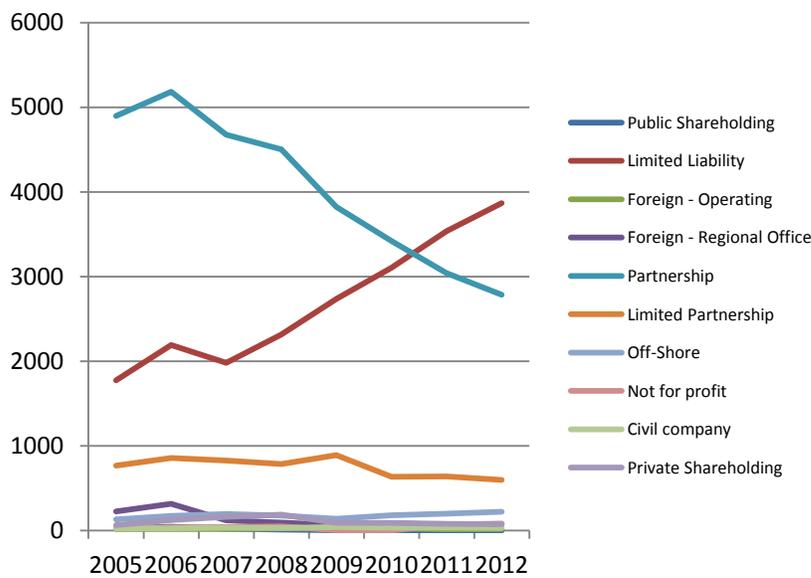


Figure 5: Number of Registered Companies per Legal Type 2005 - 2012

Entrepreneurs are moving towards using the limited liability legal type during the past two years and reaching for 21,506 companies.

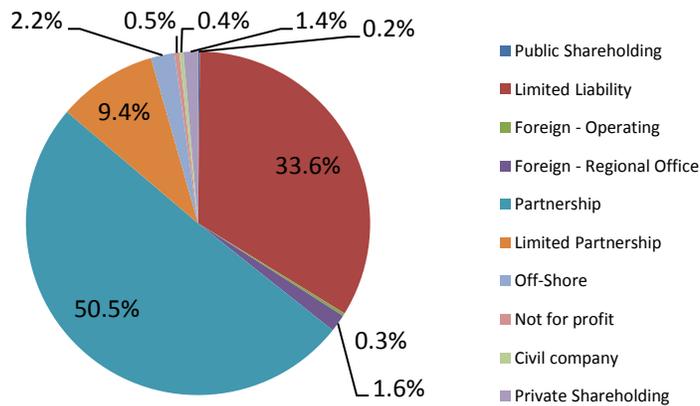


Figure 6: Percentage of Registered Companies per Legal Type 2005 - 2012

Partnership/Limited partnership Company still has the highest number with a total of 38,319 company / 59.9%.

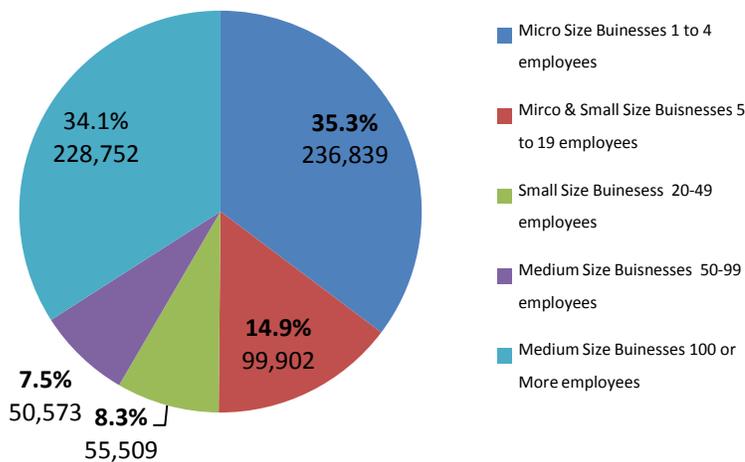


Figure 7: Number and Percentage of Employees Per Size of Business, 2010

Total Number of employees hired by the private sector in 2010 is 671,575.

Micro and Small Businesses contribute to 58.4% of the total employment in Jordan with a total of 392,25. Combined with Medium size Businesses, the percentage will be above 66%.

Small Businesses, as shown in the figures above, are a critical component of vibrant Economies, as they play an important role in innovation, economic growth and employment creation

IV. Is Jordan adopting Smart Policies and Regulations for Small Businesses

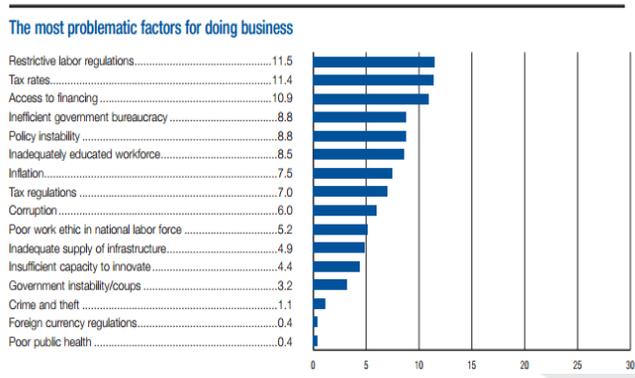
There is no clear SME national policy that identifies strategic objectives and pro-business policies to support this important and large segment of the economy. SMEs policies should be underpinned by a vision based on competitiveness, creativity and unlimited opportunities. High risk, high cost regulations that impede the realization of this vision need to be changed. Even when they are needed, procedures to implement policies are also often marred by overlapping roles. This results in policies that are complicated and cumbersome.

- The policy dimensions of the Euro-Med Charter for Enterprise**
1. Simple procedures for enterprises
 2. Education and training for entrepreneurship
 3. Improved skills
 4. Access to finance and investment-friendly taxation
 5. Better market access
 6. Innovative firms
 7. Strong business associations
 8. Quality business support schemes and services
 9. Strengthening Euro-Mediterranean networks and partnerships
 10. Clear and targeted Information

The 2014 Doing Business Report showed a drop in Jordan's rank on many levels including starting, operating, and existing a business. This indicates that, in spite of the fragmented efforts to modernize the business environment, the same challenges facing businesses are always listed by international organizations, along with the business community in Jordan.

# of Economies (189)	Ease of Closing RANK	Ease of Getting Credit	Ease of starting RANK	JOR overall Rank
2014	113	170	117	119
2013	115	167	112	119
2012	113	165	92	105

It is worth mentioning also that Jordan's rank has decreased to 68 out of 148 economies as stated in the Global Competitiveness report 2013 – 2014. Private sector identified labor regulations, tax rates, and Access to finances as challenges to businesses as stated in the graph.



The following policy issues were identified as the main problems/challenges facing start-ups and small business in Jordan.

According to the business life cycle table below, businesses in Jordan have identified obstacles within the regulatory framework that the government should work on to develop a clear policy in coordination with stakeholders, and use as a tool to assess existing laws and procedures and doing away with those that hamper the development of a thriving private sector.

This life cycle will be used in this paper to highlight the main challenges that affect the start up of new businesses as shown below.

Business Life Cycle		
Stage 1: Starting a Business	Stage 2: Operational	Stage 3: Exiting a Business
- Investment Law - Registration Approvals & fees - Vocational Licensing - Technical Requirements	- Construction permits - Inspection program - Tax Reform - Access to Finance	- Bankruptcy and Insolvency - Liquidation process and cost

Issue 1: Registration Approvals and Fees

The Government of Jordan has significantly simplified the registration process for companies in Jordan. With a minimum capital of (JD 1) for limited liability companies, the government has set a clear policy to encourage entrepreneurs to use this type of companies that provides protection not only to the partners, but also to the government and the public.

However, and despite the ease of registering a company or an establishment at the Ministry of Industry and Trade and the Companies Control Department, the following major issues were identified that complicate the process:

- The Special Approvals for Registering a Company.

Although the registration process for any company or establishment can be finished within 1 day of submitting the needed documents, it was noted that the process can be stopped in order to obtain a special approval from other government entities for security reasons despite of article 6 in the companies law No. 22 of 1997.

The security check performed by the Ministry of Interior and the Intelligence Department on the applicants has no clear legal basis and criteria and no transparent time frame, which can slow down the registration process and cause losses in time and money for business owners. The same applies to other pre-approvals requested by different government entities.

- Registration Fees

The World Bank Doing Business Report has clearly stated the cost of registering a Limited Liability Company starting from JOD 10 (Filing fee), + JOD 10 (Registration certificate fee), + 0.02% of share capital (Registration fee), + JOD 15 (Fee for publication in the official gazette) + JOD 40 (File general assembly first meeting and board of directors' minutes of meeting) + JOD 10 (obtain standard form of memorandum and articles of association).

Based on that calculation, any LLC company with a JD 1000 registered capital should pay the amount of (JD 87) as a registration fee. However, and based on list of fees that was issued by the CCD in pursuance to regulation No. 77 of 2008, a minimum amount was set for the Limited Liability company to be JD 250.

Issue 2: Vocational Licensing / Home Based Business Licensing

- Vocational Licensing.

The current Vocational License requirements and procedures and its governing regulations has proven to be burdensome to the private sector and needs to undergo a substantial reform to meet its purpose.

The Ministry of Planning and International Cooperation initiated in 2011 a reform project in coordination with a national Steering Committee representing public and private sector institutions and the civil society, and with the support of USAID Jordan Economic Development Program to assess the impact of simplifying the vocational licensing procedures on private sector enterprises.

Based on this study which was based on meetings with relevant stakeholders including small business owners and entrepreneurs, the following challenges affect the issuance of vocational licenses for businesses:

- a. Long and inconsistent processes
- b. Irrelevant and irrational requirements (tax clearance and location fees)
- c. Multiple and uncoordinated inspections (zoning, health, safety...etc.)
- d. External irrelevant pre-approvals
- e. Unclear and irrational technical requirements
- f. Unpredictable renewal process

- Home Based Business – Special Vocational Licensing.

In December 2009, Greater Amman Municipality worked with USAID Jordan Economic Development program to transfer the concept of Small Office-Home Office into action by regulating the operation of small businesses from home which ultimately supports startups and those with special needs to grow and participate in the Jordanian economic activities.

Greater Amman Municipality's City Council approved in 2011 the legal instructions that were drafted to legalize home based business in the City of Amman. The instructions proposed administrative procedures in alignment with the existing arrangements used to license other business in commercial zones.

Licensing responsibility was given to the Professional Licenses' Directorate. Small Office- Home Office licensing is subject to pre-inspection and is required to obtain all approvals required for businesses operating in commercial business. Applicant is required to submit evidence proving that he is residing in the property and his property ownership. It is worth mentioning that GAM has set within the final draft of the legal instructions some restrictions that will undermine the objectives of the whole reform process, and can be summarized as the following:

- Excluding all types of companies from the right to obtain a home based business license, and limiting it to establishments/ sole proprietorship.
- Ask for prior written approval from neighbors (without defining any guidelines).

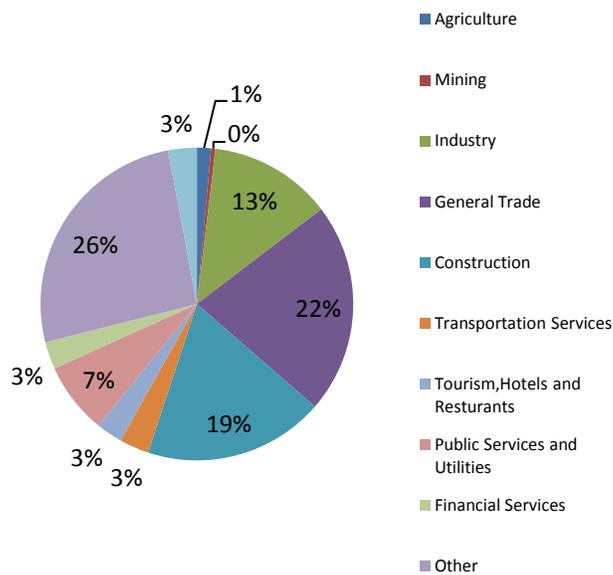
However, it is noted that GAM has not yet implemented the developed system. Until now GAM has not granted a home based business license in the City of Amman.

Issue 3: Access to Finance

Small businesses in the most sophisticated markets struggle to find adequate capital to start-up and expand. Businesses are most often initially capitalized with owners' savings, personal credit cards, home equity loans and funds from friends and family.

In countries all over the world, banks play a critical role in creating a basic level of access to capital for businesses especially those with limited internal capital, like SMEs. Other extremely important institutions, especially in developing countries, include micro-finance institutes (MFIs), which provide small scale loans often unfeasible for larger banks. For many rapidly growing enterprises, particularly in the high tech sectors, venture capital funds are the preferable alternative. The lack of venture capital funds makes many companies over dependent on bank loans and overdrafts for early stage financing, which is usually less flexible, more expensive and less secure.

Figure 8: Credit Facilities according to economic Activity 2005 – 2012



Banks provided 41% of its total credit to the trade and construction sectors with a total of 43,011.6 million JDs between 2005 – 2012.

The regulatory framework supporting access to finance was not quickly updated and modernized to cope with the changes within the Jordanian economy, and also the financial crisis. Although the Credit Bureau Law was issued in 2010 with its supporting regulation to establish a Credit Bureau, but until now the Central Bank of Jordan has not yet accredited this Bureau which will significantly help small businesses in securing loans.

The Movable Assets Law was also issued in 2012 with big conservational discussions from the private sector on whether this law applies the best international practices, and will add anything to the existing regulatory framework.

V. What Should Jordan Do?

There have been a lot of discussion about what should Jordan do to make it easier for small businesses to start operating with minimum time and cost, while still obligating with the regulatory requirements for registration and provision of necessary information.

Based on the consultants' experience, and what other countries did, implementing the following reforms would lead to significant improvements for business startup.

1) INTRODUCE THE CONCEPT OF "SILENCE IS CONSENT"

Statutory time limits on business registration are common, and around 50 countries have such statutes.

The concept simply mandates that when applying for registering or licensing a business, there should be a time limit for accomplishing this. If the applicant doesn't hear from the relevant entity (registrar or municipality) within the specified time limit, then the application is considered approved and the business can start operating immediately.

The rationale is that government officials would have an incentive to meet the deadline, especially since the current practice in Jordan is that the application is denied if the applicant doesn't hear back from the relevant entity, the exact opposite of the "Silence Is Consent" concept.

In some of the countries that enforce this concept, the time limits are too generous—30 days in Albania, Cameroon, Honduras, Lithuania, Mozambique, Uzbekistan and Venezuela. We suggest 5 working days in Jordan, once the deadline has passed the business is automatically considered registered. However, it is important to note that this concept should be limited to businesses that require pre-approvals for registration and for vocational licensing, because in most of the other cases the registration is done at the same day. This approach, pioneered in Italy, is currently enforced in Armenia, Georgia and Morocco.

2) Adopting the "Ex-Post" rather than the "Ex-Ante" Concept

The concept of "Ex-Post" simply dictates that a business can start operating immediately after being registered at the Company Control Department or the Central Registry, and a notice is then sent to the relevant entities (mainly the municipality) about the expected date of operation in order to follow up on the fulfillment of their requirements.

In this case, the business owner commits officially to fulfill all the necessary requirements of the municipality in a written form, under the penalty of closing the business and ceasing all operations in case of failure to commit to requirements. While it might be hard to implement this concept for businesses that can impose high risk on the health and environment, it can be very useful for the majority of business activities that work in the low risk services and production areas.

Several countries in the world implement this concept, including the United States, Chile, Netherlands, Spain and Brazil. Most recently, Mauritius was one of the countries that implemented this concept in 2011.

In fact the same concept is implemented by the Aqaba Special Economic Zone Authority (ASEZA) in Aqaba, where periodic, and generally random, verification takes place after the business has begun to operate. Exceptions to this occur when public safety, often food production or service, are involved, and preapprovals may be deemed necessary.

The same concept can be implemented in another way, where the municipality issues a temporary license that would last for a specific period of time (e.g.6 months) and be replaced by a regular one on inspection by the municipal authority. With this simple reform, starting a business would take days, not months.

3) Simplify Fee Structure

The fees for registration should not be a tool for collecting money from investors, and while an amount of JD 250 might be insignificant for medium investments, it is still a considerable sum for small businesses especially in a country like Jordan where it represents 7.6% of the GNP per capita. Adding to this the vocational licensing fee which can reach JD 300 for some professions, the startup fee burden on small businesses can be insurmountable.

What is suggested in this paper is to simplify the fee structure and introduce a reduced, cost-based, flat fee for business registration and licensing for small businesses (based on a specific threshold capital-for example JD 10,000 or less), so that it doesn't cost more than JD 100.

This amount represents around 3% of the GNP Per capita, which is still high when taking into consideration that the cost of starting up a business for the top 10 countries in terms of "Cost of Starting a Business" according to the World Bank does not exceed 1%.

4) Activate Small Office Home Office (SOHO) Concept

As mentioned before, the Greater Amman Municipalities have allowed the operation from home for a list of specific professions through legal instructions that were issued in 2011. However, the concept wasn't promoted sufficiently, and was restricted with a number of conditions which made it difficult to implement. In fact, not a single license to operate from home was issued until now despite the fact that a lot of businesses operate from home and would like to have the chance to operate formally and benefit from the privileges that come with it.

It is suggested to do the following to activate the concept of working from home officially:

- a. Amend the 2 "Vocational Licensing" Laws and the "Amman Zoning" Bylaw in order to allow working from home for service-based small businesses and on the production activities that don't impose harm on the health or environment and don't create any form of nuisance to the neighbors and surrounding community.
- b. Ease up the restrictions imposed in the new instructions for working from home, so that it becomes open to all types of legal forms of businesses except public shareholding companies, rather than limiting it to sole proprietorships only.
- c. Develop a clearly defined process to allow businesses to apply for home-based license, which describes in clear and detailed terms the requirements, documents, forms, timelines and steps needed to obtain such a license. Having these standard procedures will make it easier to the municipalities and the applicants to understand the requirements for this license.

5) Access to Finance

There has been numerous literature about the challenges that small businesses and start-ups encounter regarding access to finance, and the suggested solutions to deal with them. However, a lot of these recommendations proved to be difficult to implement due to the lack of sufficient public funds available which can be dedicated to support small businesses, and the low appetite among commercial banks to provide credit lines for such businesses because of the level of risks linked with them in comparison to larger businesses and businesses that can provide traditional collaterals such as real estate and cash deposits.

Therefore, the recommendations in this paper will be limited to the reforms that can be pursued by the government and which can have a good impact in this area.

- a. Enact the Movable Assets Law: The government of Jordan with support from international organizations started a project to develop a law which legalizes and regulates the registration of movable assets as collaterals for getting credit from financial institutions. Amending such a law will make it easier for small businesses to get credit using other forms of assets such as cars, machinery and others
- b. Establish a Credit Bureau: A law for regulating the establishment and work of credit bureaus was passed in 2010, which encouraged a number of banks and investors to start the establishment of a company that provides information on the credit status of businesses seeking credit based on their credit score and level of risk. Once the company is officially established and operative, it is expected that this will make it easier for small businesses to obtain finance based on their credit history and financial results rather than just the availability of real estate or other forms of secure collateral.

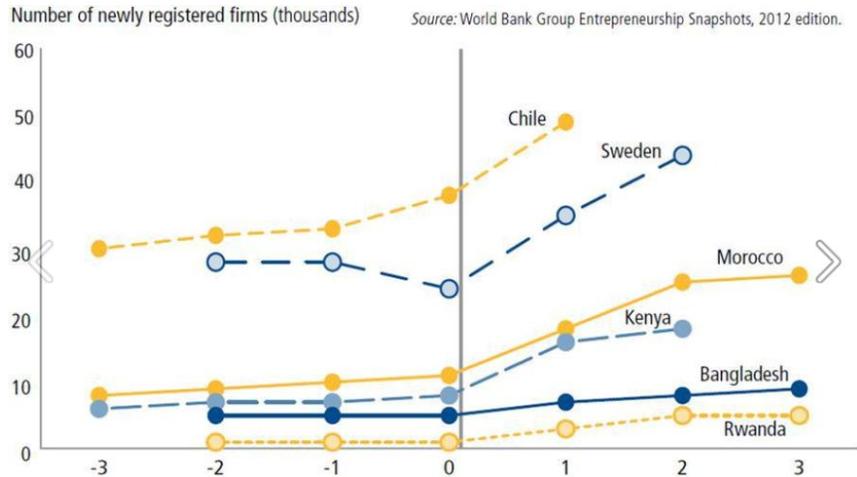
6) Other Reforms

- Develop a clear cross-sectoral SME definition and policy.
- Automate registration and licensing.
- Issue the vocational license for 5 years (optional).
- Create single access points for business.
- Eliminate the lease agreement requirement.
- Remove required professional memberships.

VI. A Final Note

Although policy reforms alone do not guarantee a substantial improvement in business registration, yet there is ample evidence that when such reforms are combined with other macroeconomic improvements, it leads to a big boost in the number of start-ups.

A recent study by the World Bank and Kaufmann Foundation (2012) used data collected directly from 130 company registrars on the number of newly registered firms over the past seven years, to study how the ease of registering a business and the magnitude of registration reforms affect new firm registrations.



The analysis shows that the costs, days and procedures required to start a business are important predictors of the number of new firm registrations. However, they find that small reforms, in general less than a 40 percent reduction in procedures or 50 to 60 percent reduction in costs and days, do not have a significant effect on new registrations. They also find important synergies in multiple reforms of two or more business environment indicators.

Finally, they show that countries with relatively weaker business environments prior to reforms require relatively larger reforms in order to impact the number of newly registered firms.