



The Role of the Private Sector in the Jordanian Economy: Contribution to Enhancing Growth, and Reduction in Unemployment

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منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



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The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at www.jsf.org or contact us via email at info@jsf.org. Please visit our Facebook page at Facebook.com/JordanStrategyForumJSF or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.



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1. Background:

Within the context of what determines economic growth (and employment), the role of the state versus the private sector has been, for so long, a challenging issue to development economists. Irrespective of what the available arguments are, one can state that a pure central economy does not exist, and nor does a pure market economy. What we have are varying weights in the form of public and private activities.

While public sector and private sector activities sometimes overlap, recent decades have witnessed some changes in this relationship. During certain periods, for example, the prevailing approach was based on the promotion of the role of the private sector, and defined the role of the state and the public sector. However, the resultant implications, especially in the social sphere and concentration of wealth, has necessitated some reviews in this approach. Jordan, in this context, was not exempted from such global changes, as well as the changes in the adopted policies.

It is obvious that the private sector is instrumental in most economies across the globe in promoting growth and development, and in the creation of employment opportunities. Indeed, private sectors pay taxes to governments, and enable them to finance the provision of public goods and services.

The role of the private sector in Jordan, traditionally, is not any different from private sectors in other countries. However, given the structure of economies in general, and their sectors in particular, it is clear that organizing the relationship between the public sector and private sector is indispensable. Such a relationship is critical in ensuring consistency in their respective roles. After all, the ultimate goal is to achieve prosperity and promote development and hence, to ensure economic sustainability.

Relative to the above-mentioned arguments, the objectives of this policy paper, issued by the Jordan Strategy Forum (JSF) are two-fold:

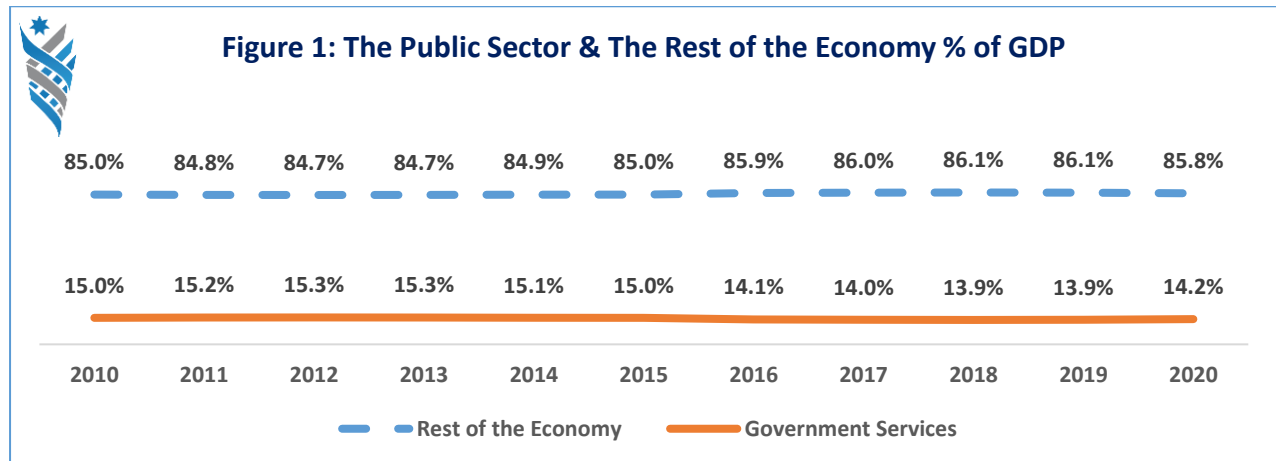
- A. Outline the importance of the strategic role, and contributions, of the private sector in Jordan.
- B. Outline some recommendations whose objectives are to promote the role of the private sector in the growth performance of the national economy, and in reducing the hitherto existing high unemployment rates.

The rest of the paper is organized as follows. In section 2, the weight of the private sector in the Jordanian economy is outlined. In section 3, a multitude of observations about the relationship between the size of private sector establishments and employment creation are reported. Finally, in section 4, the paper recommends a number of policy (future) implications.

2. The Private Sector in Jordan: Some Observations

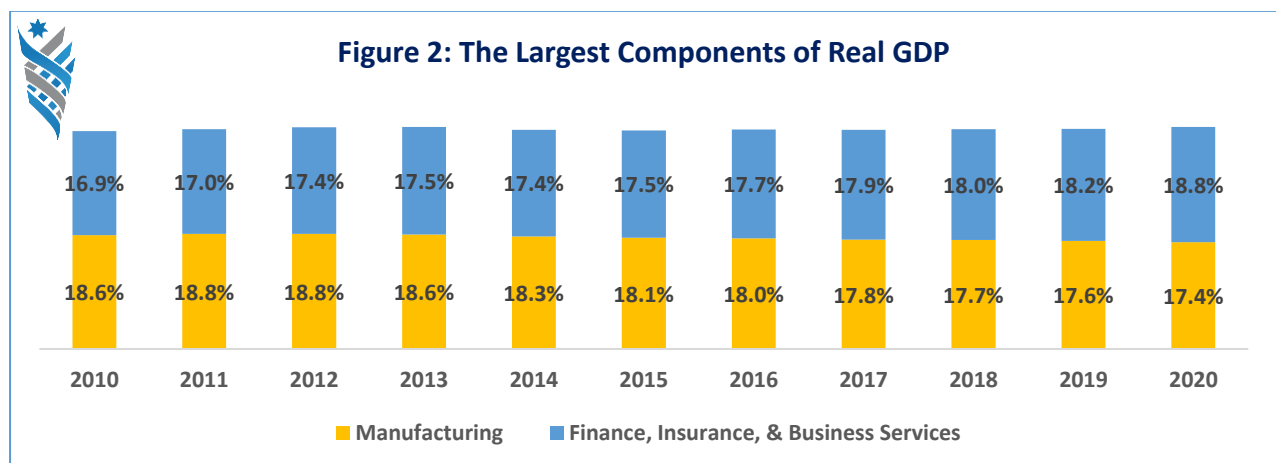
As mentioned in the background section, the aim of this section is to map-out the importance of the private sector in Jordan. Below, we outline a number of observations.

- A. On average, since 2010, the private sector has maintained its share in the Jordanian economy's Gross Domestic Product (GDP). The proportion remains around the 84% to 86% of GDP.



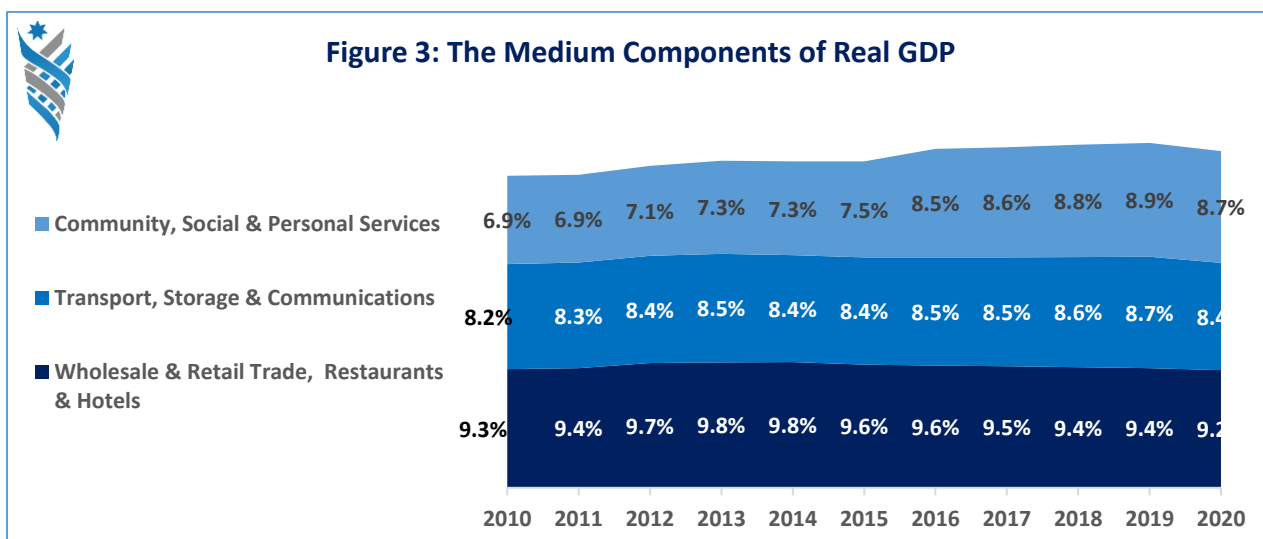
Source: Department of Statistics / Jordan.

- B. The large sectors in the economy are the finance, insurance, and business services and the manufacturing sectors. The proportions of these two sectors to GDP have remained, more or less, constant over the past 10 years. Together, they account for about 36% of real GDP.



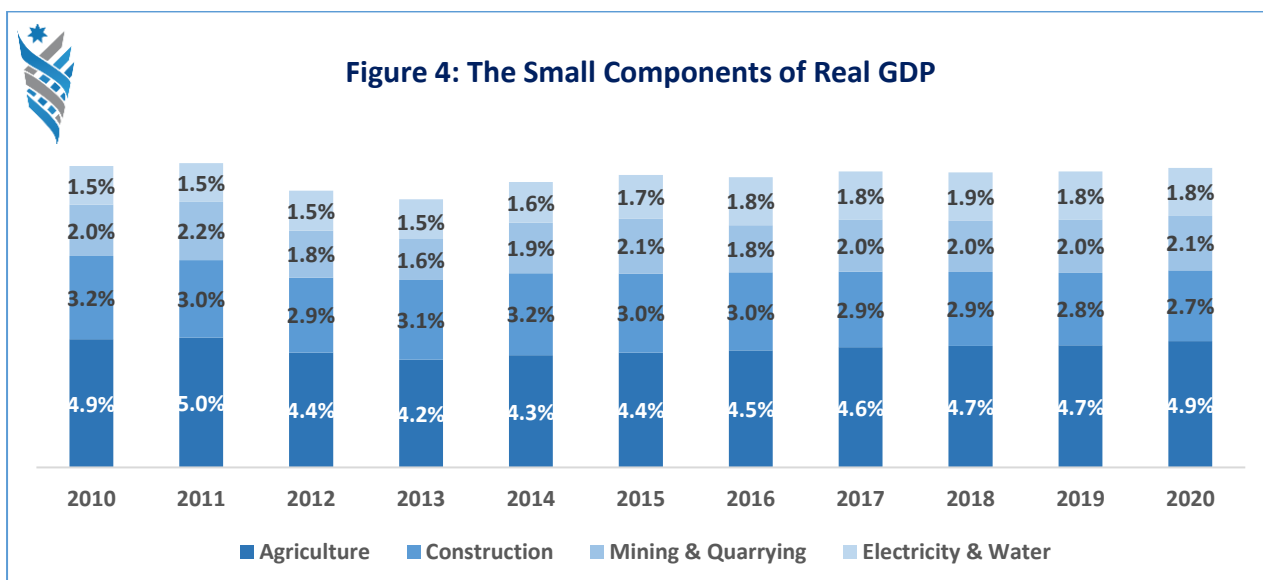
Source: Department of Statistics / Jordan.

- C. The medium-sized sectors account for about 27% of real GDP. Over time, the share of the community, social, and personal services sector in GDP has increased, albeit marginally.



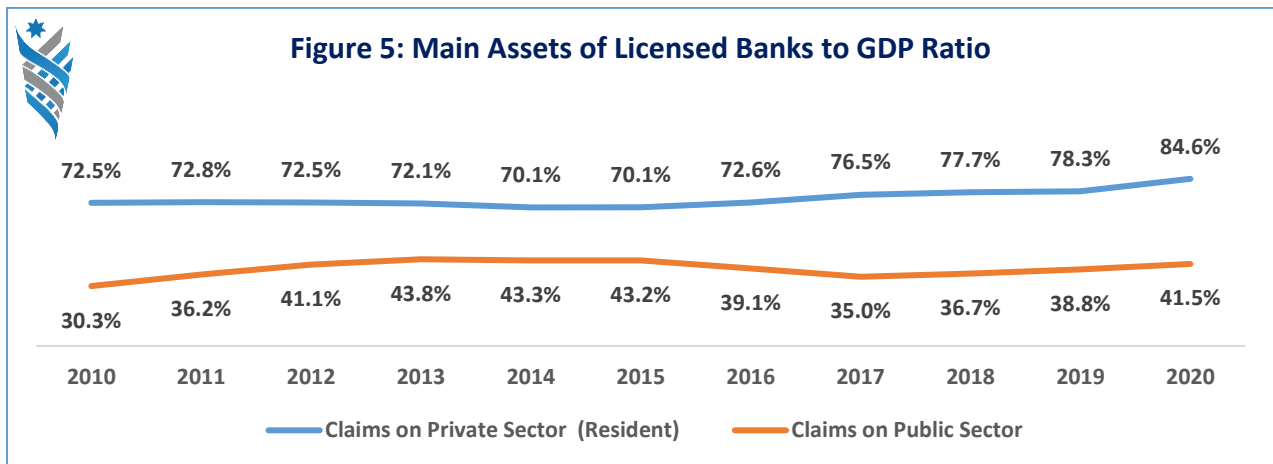
Source: Department of Statistics / Jordan.

- D. The smallest sectors in the Jordanian economy account for about 11.5% of real GDP. These sectors have maintained their weights in the national economy relatively stable.



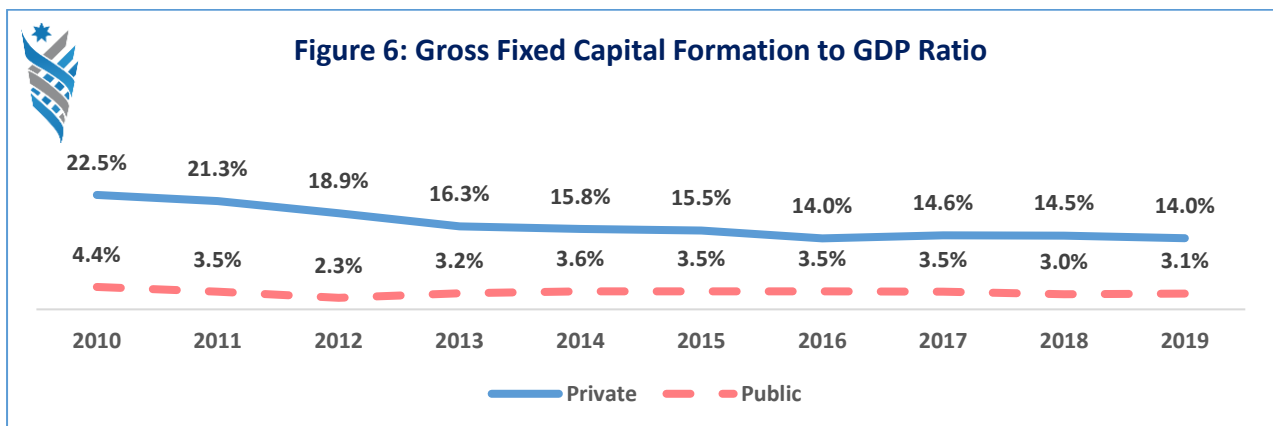
Source: Department of Statistics / Jordan.

- E. Within the context of the size of the finance, insurance, and business services sector in GDP, it is worth noting that licensed banks in Jordan are large. Over time, their claims, as a percentage of GDP, on the private sector (resident) and the public sector have increased. This lending behavior indicates the growing importance of banks in lending both the private as well as the public sector.



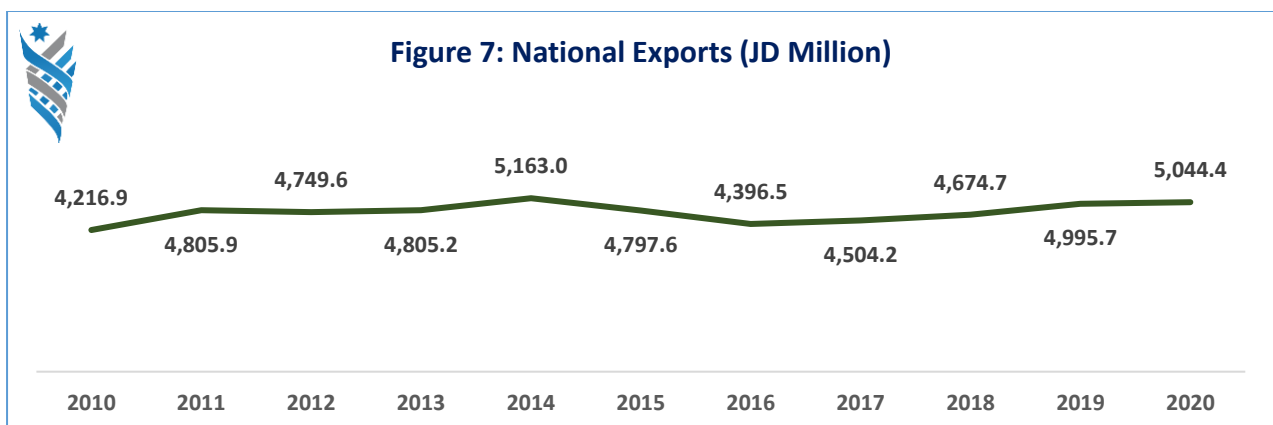
Source: Central Bank of Jordan.

- F. The private sector dominates the public sector in its investment activities. However, since 2010, this private sector activity (gross fixed capital formation to GDP ratio) has fallen from 22.5% in 2010 to 14.0% in 2020.



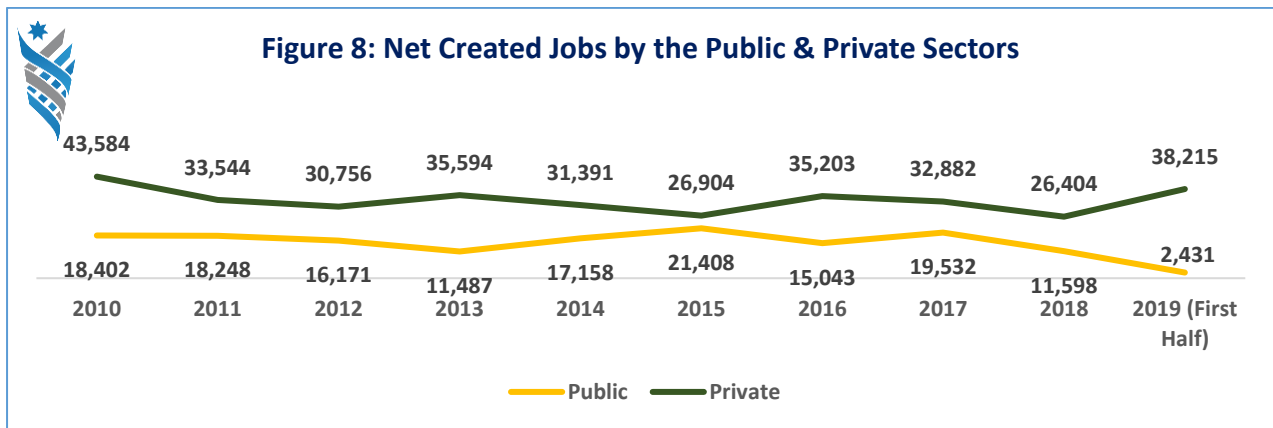
Source: the World Bank database.

- G. On average, the private sector, through national exports, is a significant contributor to the economy's foreign exchange deposits.



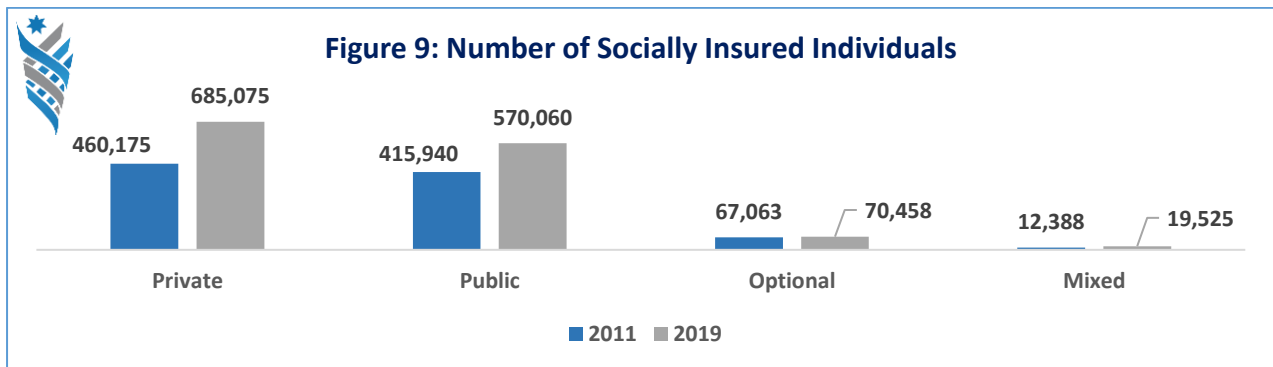
Source: Central Bank of Jordan.

- H. The private sector creates a much larger number of net created jobs than the public sector. In the first half of 2019, private sector jobs showed a healthy increase in net created jobs.



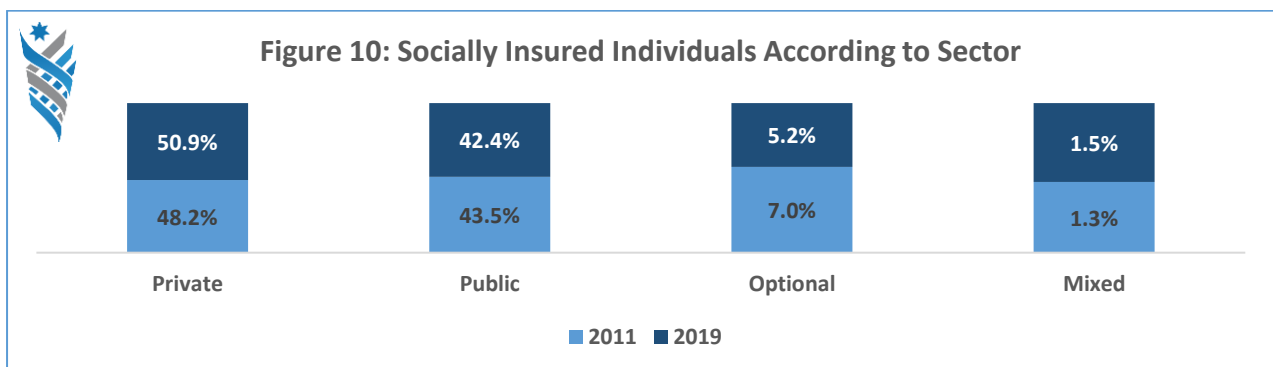
Source: Department of Statistics / Jordan.

- I. The total number of socially insured individuals working in the private sector has increased from 460,175 (2011) to 685,075 (2019) individuals (Figure 9) or by 48.9%. Insured public sector employees, on the other hand, increased by 37.1% (from 415,940 in 2011 to 570,060 in 2019).



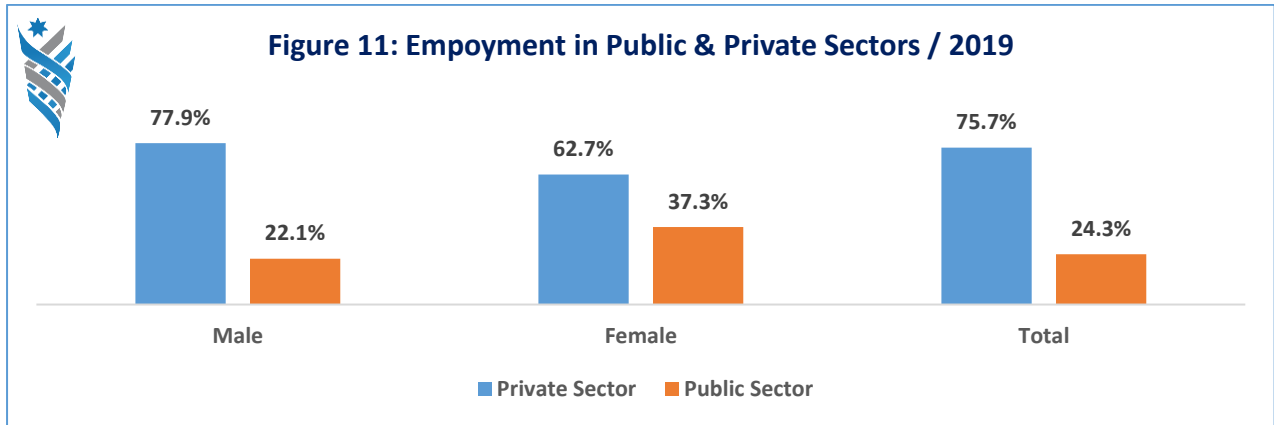
Source: Social Security Corporation.

- J. As a result of the higher increase in socially insured private sector employees, their proportion to the total number of insured employees has increased from 48.2% in 2011 to 50.9% in 2019.



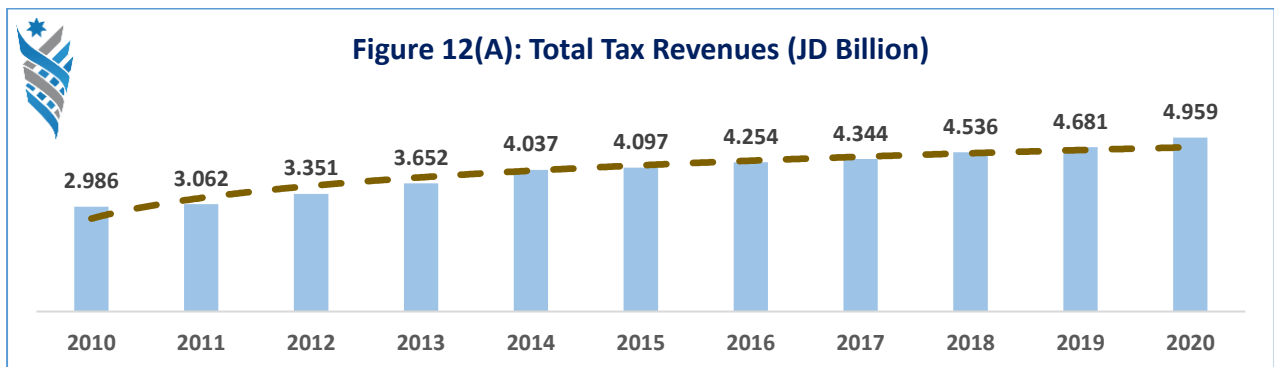
Source: Social Security Corporation.

Naturally, if we add the number of private sector employees who are not socially insured, the proportion of private sector employment to total employment would be higher. Indeed, based on the ILO's published figures, about 76% of employment in Jordan is private. This ratio for male and females are equal to 77.9% and 62.7% respectively (Figure 11).

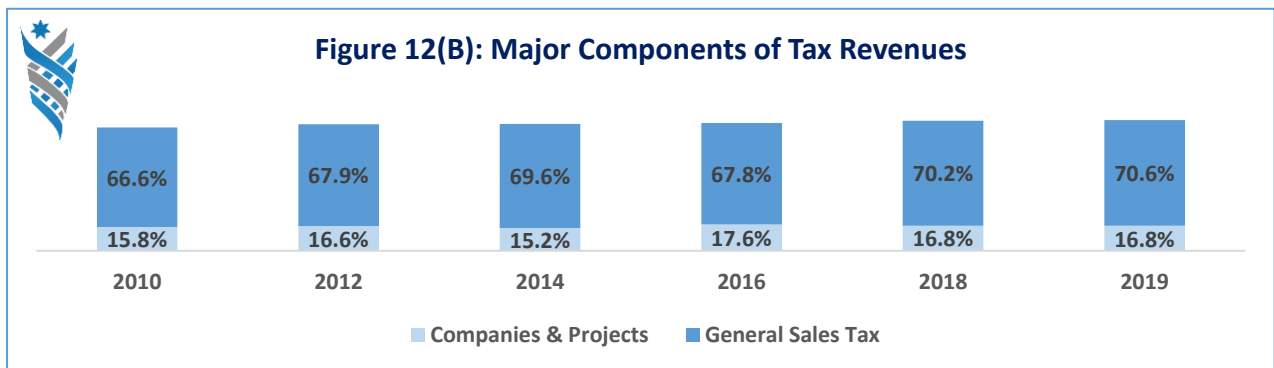


Source: ILO.

- K. Total paid taxes have increase from JD2.986 billion in 2010 to more than JD4.8 billion in 2020. Taxes paid by “private sector companies and projects” make-up about 17% of total paid taxes. Sales tax revenues is the major tax source (71% of total taxes).



Source: Ministry of Finance.



Source: Ministry of Finance.

3. IN A NUTSHELL

The Jordanian private sector is large in terms of its contribution to the national GDP, employment levels, employment creation, public revenues (taxes), fixed capital formation, and undoubtedly, in others. Hence, it would not be an exaggeration to state that private sector establishments form the backbone of the Jordanian economy. Indeed, their role in the national economy should be enhanced to achieve higher, and more balanced, economic growth.

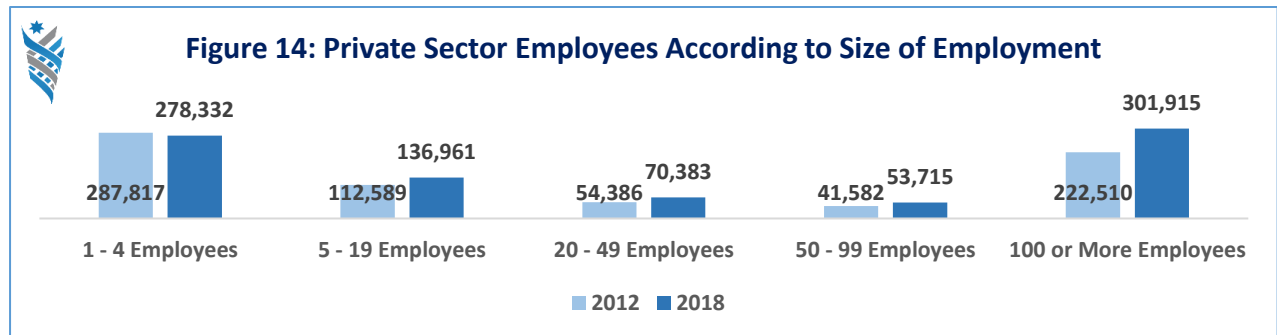
The Private Sector: Employment

To shed some further light on the private sector, we report below a number of observations.

1. Private sector establishments that employ 1–4 employees accounted for 89% (2012) and 88% (2018) of all establishments. Those that employ 100 or more individuals accounted for 0.6% and 0.4% of all establishments in 2012 and 2018 respectively.



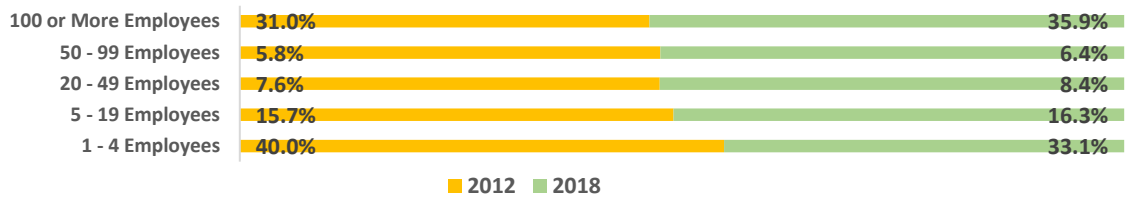
2. Private sector establishments that employ 100 or more individuals dominate the employment market. In 2018, they employed 301,915 individuals. The 2nd and 3rd largest employers are establishments that employ 1–4 individuals and 5–19 individuals.



3. Establishments that employ 100 individuals or more have increased their share in total private employment from 31.0% in 2012 to 35.9% in 2018. This increase has come at the expense of micro enterprises.



Figure 15: Distribution of Private Sector Employees According to Size of Employment



Source: Department of Statistics

4. During the period 2012–2018, the source of the highest proportional increase in employment was enterprises that employ 100 or more individuals (35.7%), followed by 50-99 and 20-49 employees. Micro enterprises, on the other hand, witnessed a 3.3% decrease in employment.



Figure 16: % Change in Employment (2012 - 2018)

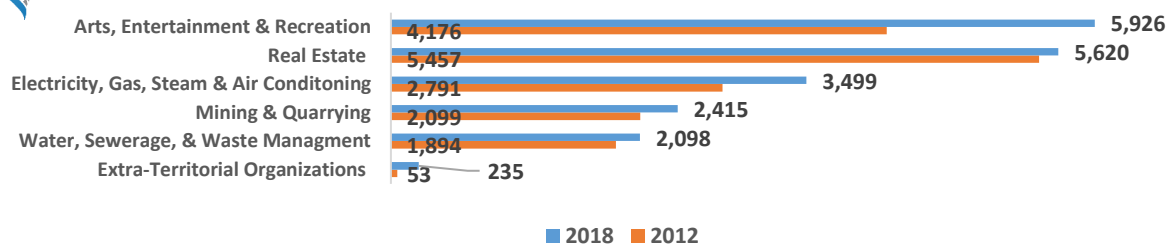


Source: Department of Statistics

5. All of the small employing sectors experienced increases in their numbers of employees.



Figure 17: Sectoral Distribution of Employees: Small Sectors

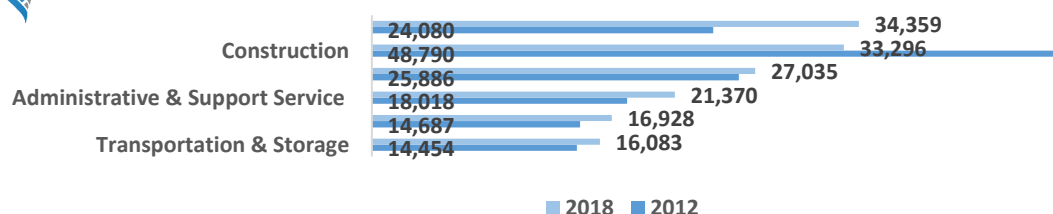


Source: Department of Statistics

6. The medium employing sectors, with the exception of construction, experienced increases in their numbers of employees.

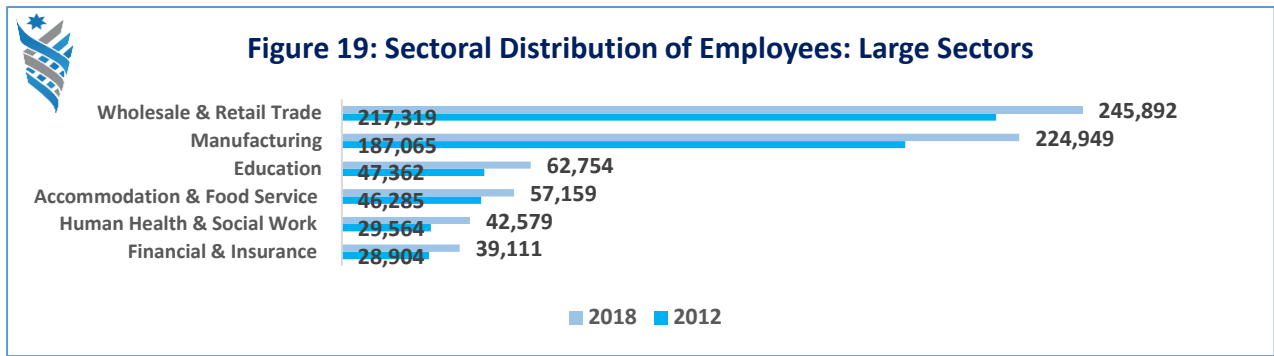


Figure 18: Sectoral Distribution of Employees: Medium Sectors

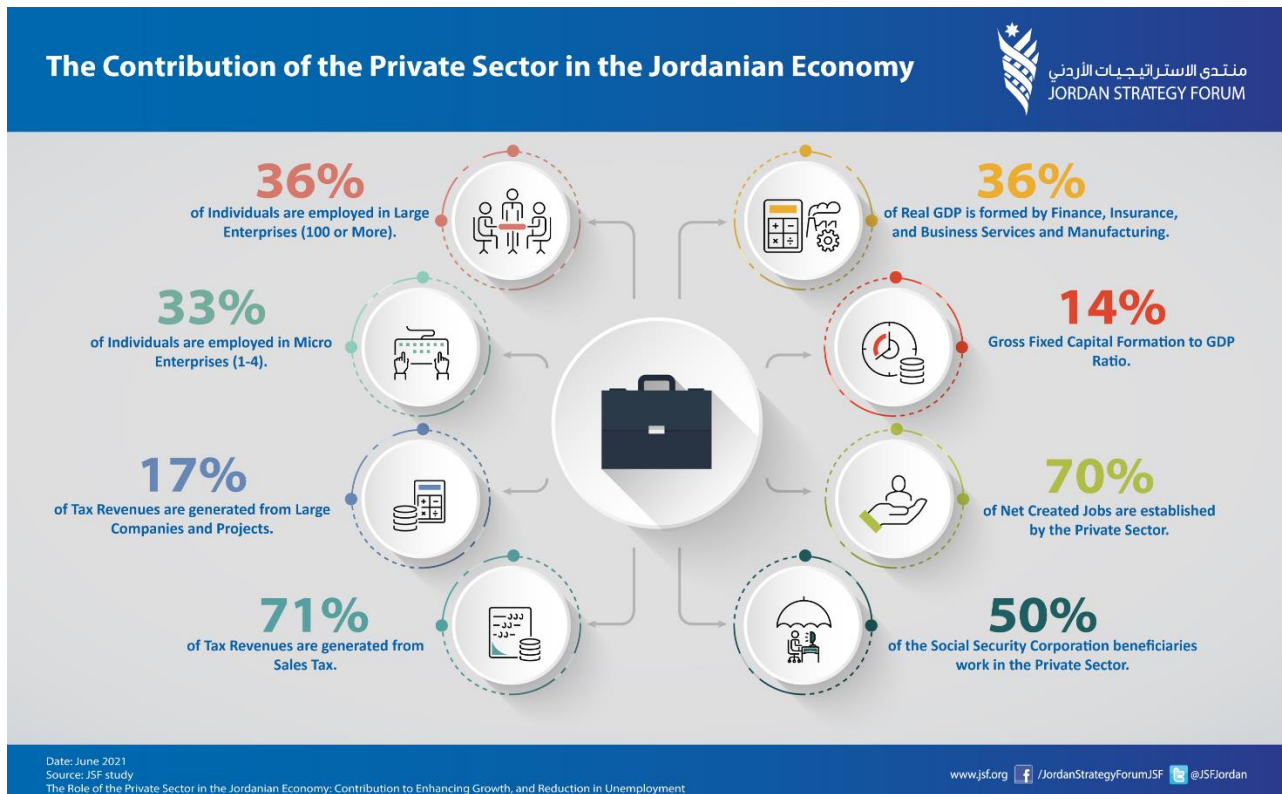
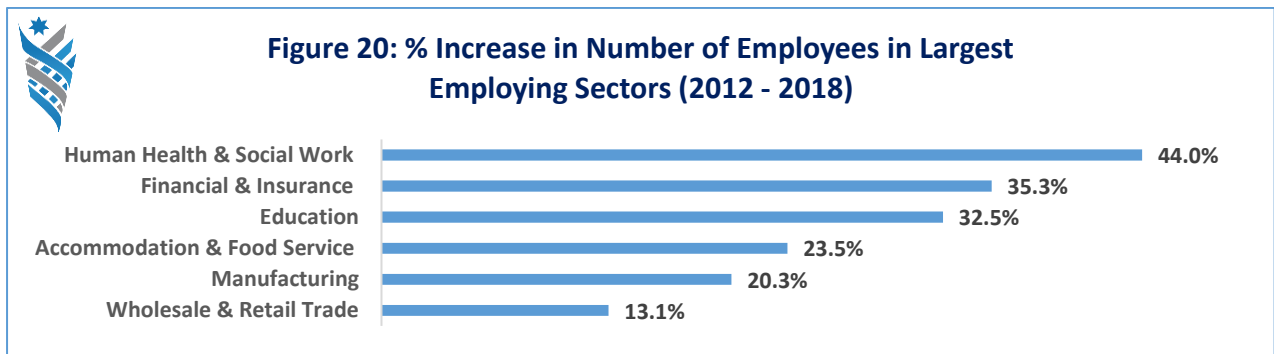


Source: Department of Statistics

7. The large employing sectors experienced increases in their numbers of employees.



8. The largest six employing sectors witnessed varying degrees in their respective employment growth rates. However, the largest two employing sectors (wholesale and retail trade and manufacturing) witnessed the lowest increases (13.1% and 20.3% respectively).



4. Recommendations

The Jordanian private sector is large in terms of its contribution to GDP, employment levels, employment creation, public revenues (taxes), fixed capital formation, and undoubtedly, to others. Private sector firms are the backbone of the Jordanian economy.

Within the context of the “weight” of the Jordanian private sector in the national economy, it is critically important to note that if there is a difference between advanced and developing countries, it is the limited, if not the absence, of “large” companies in the latter. Based on the World Bank’s literature, advanced economies rely on large companies, with sophisticated institutional structures.

Within the context of what determines economic growth and development, the role of the state versus the private sector has also been, for so long, a challenging issue to development economists. Irrespective of what the available arguments are, one can state that a pure centrally economy does not exist, and nor does a pure market economy.

As in many of the developing countries across the globe, private firms in Jordan are indeed small. For example, 93.9% of the manufacturing firms (second largest employer) employ 1 – 19 persons, and 4.4% only employ 20 – 99 employees. Those that employ more than 100 employees are only 4.4% of total firms.

What is needed to support the existing establishments in their growth process?

Basic economic logic asserts that two pillars are critical in the role of any private sector in achieving economic growth and development. At the forefront of these pillars is clarity in vision and the adopted policies, followed by predictive ability. In addition, the narrative related to the performance of the Jordanian economy should be correct and clear, to enable the private perform its role in achieving development and employment creation, and not just realizing profits. A road map that will strengthen the foundations of the partnership between the public and private sector is essential in achieving the desired goals. The private sector invests, and contributes towards rising to the challenges facing the Jordanian economy. However, based on the information provided in this paper, one can state that the economy has not really witnessed any major structural changes. Within this context, there must be a framework that includes:

Institutions: To achieve private sector-led growth, institutions (state) must be transparent, efficient, and accountable. The institutions are:

- A.** A modern and efficient judiciary, able enforce the rule of law, support property rights, and enforce business legislations.
- B.** Effective civil service in the implement of policies.
- C.** Strong political leadership, capable of successfully making any necessary reform measures.

Policies: To achieve private sector-led growth, policies should:

- A.** Maintain a stable macroeconomic environment, in terms of changes in real GDP (volatility), budget deficit, and public debt.

- B.** Maintain an appropriate regulatory framework that promotes the development of the private sector. This includes competition, products, labor, and financial markets laws, tax policies, and more. The objective is to maintain a business environment conducive to private sector growth, and attracts investments.
- C.** Maintain an appropriate legal framework that develops public-private partnerships, and transparent and competitive in public procurements.
- D.** Promote equality (income and opportunity) and social justice whose implicit objective it to maximize the productive capacity of the labor force.
- E.** Adopt and use open and flexible communication between investors and the private sector, and for the government's messages to be consistent and avoid duplication so that such messages are not interpreted differently.
- F.** Attempt to find a reference point for communication with the private sector to discuss the challenges facing the sector within a continuous mechanism, and to speed up the decision-making process related to investment issues, including automation of many of the existing procedures.
- G.** Promote and encourage merger activity between private sector enterprises to enlarge their size, and hence their employment growth.



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