



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Job Creation in Jordan:

Emphasizing the Role of the Private Sector

September 2016

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.



منتدى الاستراتيجيات الأردني JORDAN STRATEGY FORUM

جاء تأسيس منتدى الاستراتيجيات الأردني ترسيخاً لإرادة حقيقية من القطاع الخاص بالمشاركة في حوار بناء حول الأمور الاقتصادية والاجتماعية التي يُعنى بها المواطن الأردني، ويجمع المنتدى مؤسسات وشركات رائدة وفاعلة من القطاع الخاص الأردني، إضافة إلى أصحاب الرأي والمعنيين بالشأن الاقتصادي؛ بهدف بناء تحالف يدفع نحو استراتيجيات مستدامة للتنمية، ورفع مستوى الوعي في الشؤون الاقتصادية والتنموية، وتعظيم مساهمة القطاع الخاص في التنمية الشاملة. وقد تمّ تسجيل المنتدى بتاريخ 2012/8/30 بوصفه جمعية غير ربحية تحمل الرقم الوطني 2012031100026، وتقع ضمن اختصاص وزارة الثقافة.

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Abstract

This paper demonstrates the importance of the private sector in generating jobs in Jordan, and in particular SMEs (small and medium-sized enterprises). It reviews the labor force structure, including the predominance of the public sector and lack of participation by women. It then highlights the potential of SMEs to generate jobs. If barriers to entry can be ameliorated by appropriate policy strategies, then SMEs can help resolve major unemployment problems. However, the proper functioning of SMEs also requires the recalibration of educational, fiscal, and social policies, which in turn mandates close coordination between the government and these firms.

Introduction

Unemployment is one of the most pressing issues facing Jordan. The economy has not yet accommodated the record number of Jordanians entering the domestic labor force every year. This paper explores this issue with a thorough review of statistical findings and policy studies. It ultimately argues for the advancement and support of small and medium-sized enterprises (SME's) as one potential solution. Presenting results from an original survey of firms mostly founded since the year 2000 representing a cross-section of the national production sectors, the paper highlights the problems facing new companies in the private sector. Such issues can be resolved with concerted policy action, but needed above all is greater coordination between the government on the one hand and private sector actors in general and SMEs in specific on the other.

This paper is divided into three sections. The first reviews the deficiencies of the Jordanian labor market. It shows that economic growth without job creation has been a major problem, as has the poor rate of female labor participation, the size of the public sector, and the large role played by foreign workers in the domestic market. It also introduces SMEs as private sector entities, notes the difficulties of definition and classification that have bedeviled this topic in the literature, and then evaluates the impact of SMEs in Jordan. The literature suggests that SMEs face immense obstacles to succeeding in a way that can spark job growth, such as lack of financial resources, poor physical infrastructure, and competition from informal enterprises.

The second section presents the results of the original survey of Jordanian companies, and reveals 23 key findings and conclusions from the data. Among those are that private firms have little knowledge of available opportunities for workers to access the government-run Vocational Training Corporation; that contrary to what is established in the literature, access to financial resources in Jordan was not perceived as a serious problem; and that the demand for skills varies dramatically based upon each firm's sector and occupation.

The final section lists policy recommendations based upon the survey and literature review. Among them is the need for government to engage SMEs more formally and systematically, and to invest heavily in promoting SME growth through targeted subsidization.

1. Literature Review: The Labor Market in Jordan

Since the advent of the Arab Spring, the lack of feasible employment for young populations was one of the fundamental causes of mass protests and anti-establishment sentiment (Amin et al. 2012; Winckler 2013; IMF 2014). Jordan is not exempt from this problem of a labor market that cannot accommodate new and existing job seekers.

Refugees aside, the Jordanian national workforce is growing by nearly 2.5% per annum (*World Development Indicators*, World Bank, 2015). Meanwhile, more than two-thirds of the population is under the age of 35, and a third is under 14. The latter suggests very high *staggered* demands for unemployment over the next decade as these youths exit their education and enter the economy. The official unemployment rate in Jordan was 13% overall for the year 2015, increasing from 11.9% for the year 2014, while it was more than double that for youths aged 15-24 as it reached 26.7% for males and 53.3% for females in this age group (unofficially, unemployment in Jordan has been put much higher). In addition to the youth bulge, a widening gender gap persists. At 13.3%, Jordan's female revised economic participation rate is among the lowest in the world, despite that it has an extremely high female literacy rate at 97% (Department of Statistics, 2014).

Based upon current demographic projections, hitting the ambitious target of 8% joblessness¹ in 2025 would require creating, on average, over 66,000 new jobs per year over the next decade. This will help accommodate a workforce that will grow from 1.84 million to over 2.5 million over the coming 10 years (*Jordan 2025*, 2014).

A. GDP Growth is Not the Problem

Jordan has experienced episodes of high economic growth without corresponding improvement in unemployment. Take as an example the recent 2004-2008 period, when the Kingdom enjoyed more than 8% annual real GDP growth – the highest cycle of growth since the late 1970s. During these years, unemployment actually increased from 12.4% to 12.7%. Also rising, joblessness among youths aged 15-24 went from 27.3% to 28.9% (Department of Statistics, 2014).

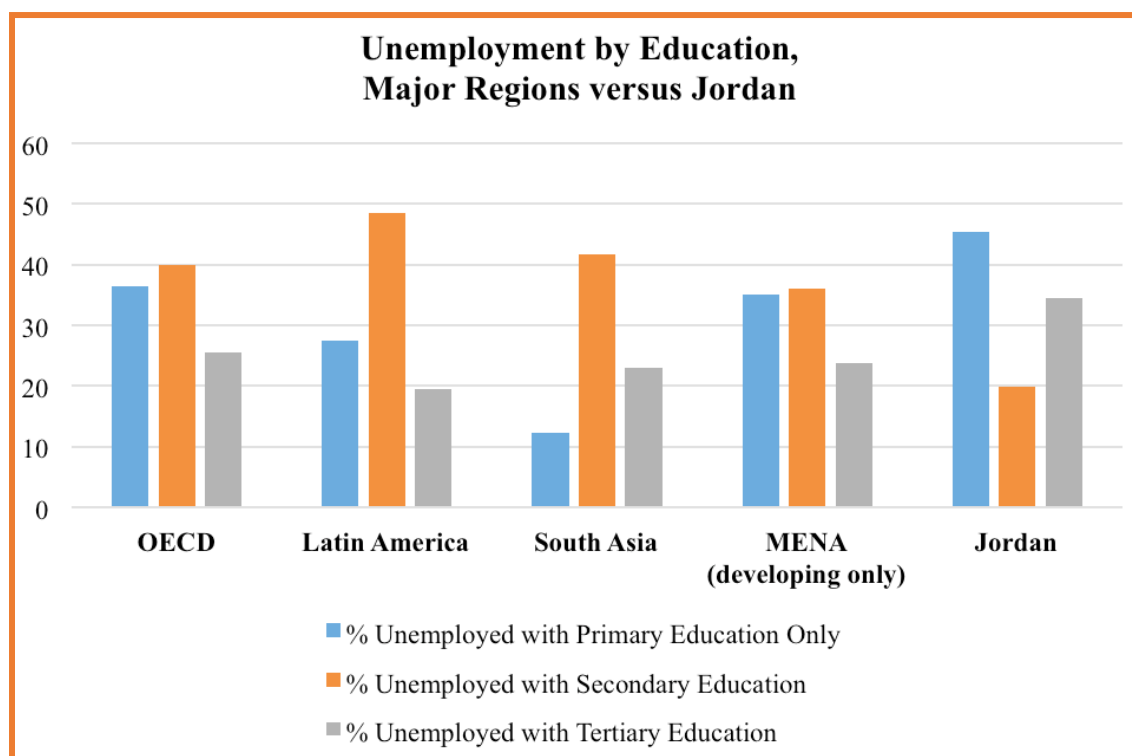
Why is that? Since the 1990s, economic growth in Jordan has been bolstered by capital-intensive sectors that attract foreign direct investment, but do not generate many new jobs for locals, such as real estate and banking. It has also been buoyed by labor-intensive sectors

¹ From hereon the terms joblessness and unemployment will be used interchangeably.

like tourism and construction whose demand for low-wage unskilled or semi-skilled workers nevertheless results in greater employment benefits for foreign workers (CDPR, 2011; Kreishan, 2011; Saif and Choucair, 2010). Meanwhile, job creation in skill-intensive sectors outside of finance represented the lowest source of new jobs during this period (World Bank, 2012a, p.19). These include telecom and ICT-enabled services, as well as skilled manufacturing.

The problem is also not one of simple educational attainment, in the sense that achieving more academic degrees will automatically translate into job placement. Here, the data tells a striking story. **Figure 1** underscores unemployment rates from regions across the world versus Jordan divided by primary, secondary, and tertiary education. In Latin America, as well as OECD countries, South Asia, and even the Middle East and North Africa (MENA) regional average, the unemployment curve looks like an upside-down “U”. Put simply, this means that those with only primary schooling as well as university graduates have the easiest time finding some type of paid employment – the former in unskilled or semi-skilled work and the latter in what Western economists dub “white-collar” employment, such as business, financial services and administration.

Figure 1: Unemployment by Education: Major Regions Versus Jordan



Data from World Bank (2015).

In Jordan, however, the exact reverse emerges. In its 2015 Employment and Unemployment report, the Department of Statistics states that while 7% of the unemployed are illiterate, 11.1% have less than secondary education, 8.2% have secondary education, 12.6% have intermediate diploma, and 18.6% have Bachelors and above level of education. This shows that the unemployment curve follows a “U”-shape, meaning that the highest unemployment rate is among university and college graduates. These figures reflect the percentages from the total population, while the World Bank figures in Figure 1 reflects the percentages of unemployment among educated population.

Though high unemployment among those with only primary education may indicate the preferential hiring of guest workers in unskilled and semi-skilled positions, the fact of the matter is that the unemployment rate among university graduates is nearly *double* those with only a high school education is unique, even in the MENA region. Put differently, and paradoxically, Jordanians have a better chance of finding employment if they do *not* attend university.

A recent poll of the unemployed in Jordan verified this trend, namely that rising joblessness is linked to increased educational attainment. Indeed, as of the first quarter of 2015, 57.3% of those identifying themselves as “unemployed” had at least a high school education. The negative perception Jordanian society has towards vocational work and the weak support for technical and vocational training as well as recruiting graduates have contributed to the oversupply of the overeducated. In 2013, the Ministry of Higher Education estimated that only 8% to 10% of all undergraduate degree holders specialized in technical disciplines, far below the average of 60% reported in from non-OECD countries (*Jordan Times*, 2013).

B. Labor Flows

Jordan, perplexingly, is both a labor importer and exporter. The 2010 Jordan Labor Market Panel Survey (from hereon, JLMPS) showed that 3.7% of all households had at least one family member who had migrated abroad seeking a better employment opportunity; more than 81% of those emigrants had a secondary or higher education, while 55% were university degree holders (Department of Statistics, 2010).

The vast majority of Jordanian emigrants are employed in the Arab world (mostly in neighboring Gulf countries). Put in historical context, the ratio of Jordanian labor abroad to the local population has gradually dipped over time, from about 6.9% in 1970 to 5% in 2006 (Magableh et al., 2010, p. 60). The number is currently predicted to stand at about 4.8%. According to the Department of Statistics, the numbers of Jordanians currently working in the Gulf were as follows: 236,000 in Saudi Arabia, 170,000 in the UAE and 70,000 in Kuwait.

Looming behind this, as well as interacting with it, the Jordanian labor market also accommodates a relatively high number of foreign workers. In 2014, the Ministry of Labor estimated there were 324,410 *officially* registered foreign workers in Jordan (Department of Statistics, 2014). However, the true number is undoubtedly much higher. It is well known that there are several hundred thousand foreign workers (prior to the Syrian refugee crisis, mostly Egyptian and Iraqi) whose registrations expired but who never left the Kingdom. Second, practically all Syrian refugee workers (99%) of the 1.26 million Syrians who reside in Jordan are working outside labor regulations and therefore informally employed according to an ILO/FAFO study on the impact of Syrian refugees on the Jordanian labor market.

Thus, a fair estimate for the total foreign workforce in Jordan (including *unregistered* labor) today would be approximately 625,000, which takes into account the at least 120,000 additional Syrian workers who have entered the labor market minus the Egyptians and other Arab workers who have departed due to the downward trend in wages in many unskilled jobs like food retail, gas station attendants, and construction (*Al-Monitor*, 2015). Assuming that most Syrian refugees will stay in the Kingdom due to the ongoing civil war in their country, Jordan may have as many as 800,000 foreign workers by 2025.

While it is true that many foreigners, such as Syrian refugees, are willing to accept lower wages than Jordanian job seekers and, therefore, “crowd out” domestic competition from unskilled and low-skilled jobs (Stave and Hillesund, 2015, pp.114-15), many can accept lower wage jobs *only* because they also receive humanitarian assistance in the form of money, food and other goods from international donor agencies like the UNHCR. Furthermore, many economists believe the “crowding out” effect to be small to modest at best. They argue that the “crowding out” effect is matched by the increase in aggregate demand generated by the growing labor force and population. Syrian families and other expatriates rent housing, buy goods and services, consume and otherwise improve demand for many industries, thereby stimulating the entire economy (Mansour, 2015).

Though there are no comprehensive studies yet conducted on this, it would be difficult to conclude that the presence of foreign workers *alone* is a leading cause of domestic unemployment for Jordanian citizens. Studies reveal that foreign workers substitute for Jordanians in the private sector not because of any *skills*-based difference (that is, the assumption that foreigners are more talented), but rather because employers assume those foreigners will be more productive, work longer hours and have lower financial demands. Contrary to popular belief, however, most unemployed Jordanians have educational qualifications that match those of foreign workers. At the same time, Jordanian workers have

more work-based experience in the labor market than their foreign counterparts (World Bank, 2008, pp. 16-17).

C. Public Sector Employment

There are roughly 830,000 workers in the private sector, compared to about 550,000 in the public sector (Department of Statistics, 2015). To reach the aspirational 8% unemployment rate projected by the *Vision 2025* plan, the private sector will need to employ more than a million people (*Vision 2025*, 2014). The public sector simply cannot be relied upon to absorb the growing Jordanian workforce, especially if the treasury suffers fiscal crises and must halt expanding the civil service, payrolls in state-owned enterprises, and other government-owned venues.

So, how can the Jordanian economy create more than a quarter million *formal* private sector jobs in the next 10 years? The answer must necessarily involve micro, small and medium-size enterprises (that is, those employing 1-4, 5-19, and 20-49 workers, respectively). These companies supply 60% of all *formal* jobs outside the government, and represent 98.5% of all private sector firms in terms of establishment count (Konrad Adenauer Stiftung, 2015).

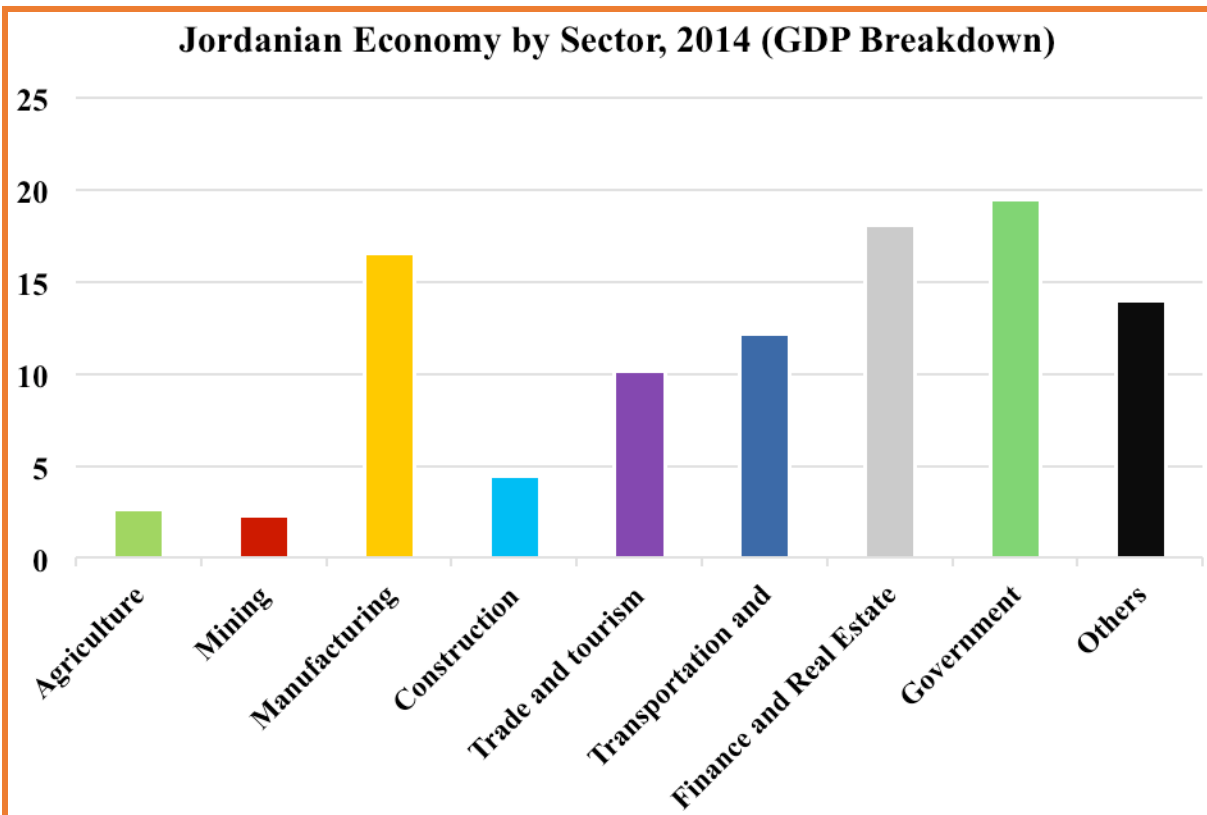
By sharp contrast, very large firms (those employing 100 or more workers) currently generate 256,230 of the 744,114, i.e. 34.4% of the total private-sector jobs in Jordan, and are concentrated in the manufacturing, retail, and financial/banking sectors (Department of Statistics, 2014). Hitherto, even assuming healthy growth in these sectors, extremely large companies will not likely generate more than one-third of all jobs in 2025.

The problem is that many Jordanians, especially those who consider themselves upper middle-income, see only “bulge bracket” or “gazelle” firms (those with extremely prominent brand names or very visible profit margins). This means policymakers must formulate new strategies to draw youths towards smaller companies, including SMEs, especially since these also generate demand for vocational and technical skills.

D. The Economy across Sectors

Figure 2 summarizes the breakdown of the economy, in terms of GDP contribution by sector of origin (Department of Statistics, 2014). Government, finance/real estate and manufacturing produce the most value in terms of goods and services. Trade and tourism are important, as is transportation and communications.

Figure 2: Jordanian Economy by Sector, 2014 (GDP Breakdown)



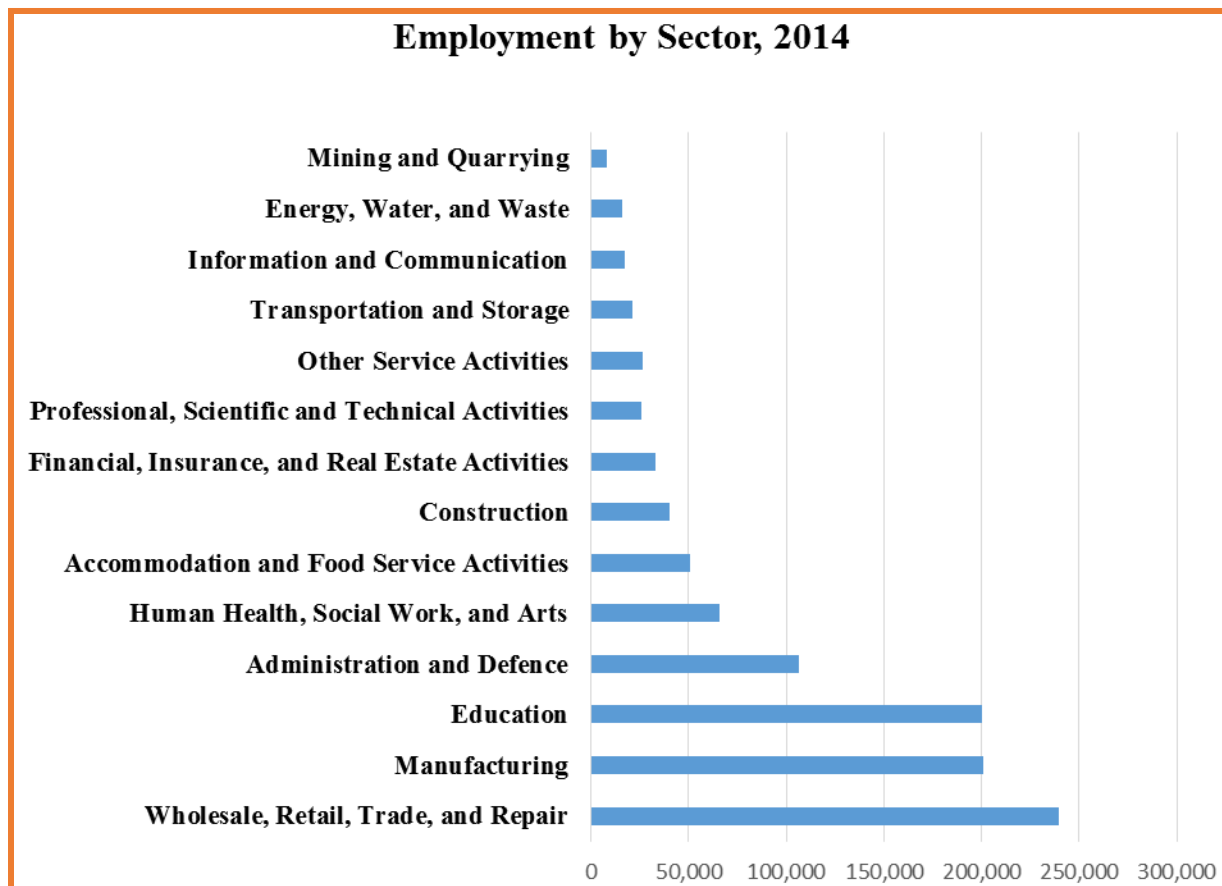
Data from Department of Statistics.

However, the picture changes when examining *employment* by sector. In 2014, there were roughly one million employed workers in Jordan. **Figure 3** presents these figures, showing that the largest sectors in terms of job absorption are administration/defense, education, manufacturing, and wholesale, retail trade and repair.

Delving deeper into the statistics, all of the administration/defense category workers work for the state with no presence for the private sector in this field. In the educational field, the majority of workers works for the state, as well as the majority of the Mining and Quarrying and the majority of the Energy, Water, and Waste sectors. Workers in the private sector firms represent the majority elsewhere. These include transport and logistics; manufacturing; construction and engineering; tourism and events; healthcare, especially for medical tourism; life sciences, in particular pharmaceuticals; digital and business services (i.e., ICT); and financial services. Notably, however, and contrary to common belief, ICT is a relatively small field in terms of overall employment, and is unlikely to create many of the jobs necessary for the 2025 unemployment target.

By contrast, some see a promising source of job creation in agricultural business, especially outside Amman where it is widely spread and where it enjoys access to micro funding from the government and other institutions. Though this certainly has been effective in terms of job creation in rural areas, its effect is likely to remain small, as the sector does not constitute a major part of the economy. What's more, given that 42% of the population lives in Amman, agriculture can play an important but ultimately relative role in economic development. The primary vector in unemployment reduction will need to be urban-oriented.

Figure 3: Jordan: Employment by Sector, 2014



Data from Department of Statistics.

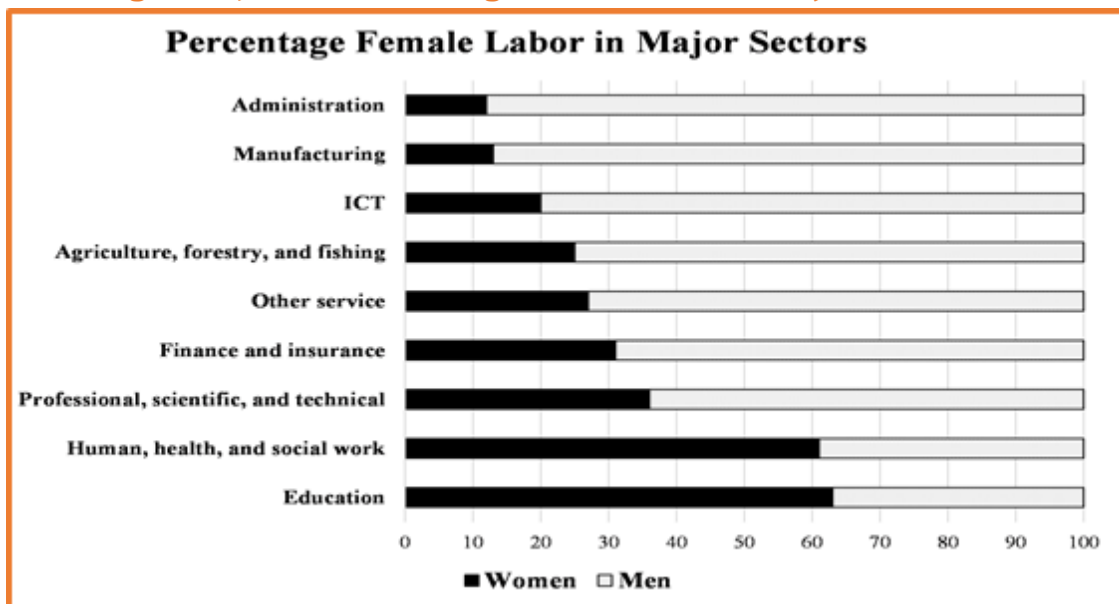
E. Gender Economics

Despite many signs of economic progress, female participation in the Jordanian labor force (12.6%) remains one of the lowest in the world. In order to reach the targeted labor participation rate for women of 25%, the current employment rate among females must rise from its current level of 10.8% to 18.5% (*Vision 2025*, 2014).

The problem is not that Jordanian women are undereducated. The female literacy rate is 97.4% – the highest in the entire MENA region, including Israel. What’s more, over 50% of Jordanian women enroll in colleges and universities, which puts Jordan in the middle-tier of the region, and well ahead of Arab neighbors like Morocco (13%), Egypt (31%), and Kuwait (40%). The issue, instead, concerns social norms and economic discrimination or other issues (World Bank, 2012a).

Neither is this a problem inherent within Jordanian women. Take as an example Jordanian female immigrants in the US. Figures show that these have a 50% labor participation rate, with the number peaking at 70% for single women (World Bank, 2012b, p.5). In other words, once put in a different labor market environment and social setting, and benefiting from “friendlier” gender regulations, Jordanian women have little trouble either obtaining or retaining jobs.

Figure 4. Jordan: Percentage Female Labor in Major Sectors, 2010



Data from Department of Statistics.

Figure 4 offers yet another perspective (Department of Statistics, 2014). It shows all major economic sectors where women make up at least 10% of employed labor. The only sectors where women form the *majority* are education (63%) and human, health, and social work (61%).

Accordingly, what are the main reasons for the low female participation rate in the workforce? One is societal. As it still stands today, values within Jordanian society put strong pressures for women to stay at home, especially *after* marriage. The average age for female marriage in Jordan is currently estimated at 25.6 years, meaning that women who do actually work are only doing so for a very short period of time – an average of four years.

Why? One reason is that women in Jordan are acculturated into believing that marriage and giving birth to children is their primary goal in life instead of pursuing a successful professional career. The high fertility rate, at 3.2 live births per woman, both stems from and reinforces this ideal. Indeed, Jordan's fertility rate (though falling) is still the fourth highest in the MENA region, after Egypt, Yemen, and Palestine.

Another problematic area in this regard is educational curricula within the primary and secondary levels. A comprehensive study of Jordanian textbooks showed that the images, language and lessons taught from primary school through high school tended to convey extremely powerful gender bias in the following ways (Abu Jaber, 2014): Vocational work was not desirable for women *even* for stereotypically "feminine" jobs such as cooking; Teaching was the most culturally-acceptable job for women to engage in; Women working outside the home will be unable to meet their family's demands while becoming worse mothers; Females lack the entrepreneurial capabilities of males; Women themselves are poorly represented in terms of being the authors of materials assigned to read and learn, including textbooks themselves; and finally, women should be prepared to enter the *marriage* market more than the labor market.

Second, workplace environments are *not* designed to take into account the needs of women (World Bank, 2012b). In Jordan, most firms do not provide childcare facilities for working mothers, thus discouraging them from seeking employment. At the same time, many employers are likely to practice *informal* discrimination against women, although there are no large-scale studies of this phenomenon. Furthermore, there are still many sectors that are considered taboo for women, and commuting long distances away from home is still discouraged in many segments of society, especially those living outside Amman.

While social norms dissuade women from entering the economic arena, *informal* discrimination via the workplace encourage female job seekers to leave the labor market.

Statistically speaking, the proportion of women looking for work sharply declines with age. The 2010 JLMPS showed that one in every two educated women in their 20s is looking for a job, but cannot find one. It also noted that only 7% of women who ever worked found their first job *after* turning 30 years old (Department of Statistics, 2010).

These figures indicate that 95% of women have married by the time they reach 30 years of age, and only a very small percentage of married women who have never held a job before entering the labor market actually do so by seeking employment after marriage (World Bank, 2012b). This validates the earlier educational bias that makes the marriage market more “attractive” than the labor market.

By contrast, by their late 30s, virtually all Jordanian men reported having held at least one job, whereas no cohort of women *over* the age of 30 reported more than 40% employment. In all, 88% of private sector workers are men (Department of Statistics, 2014).

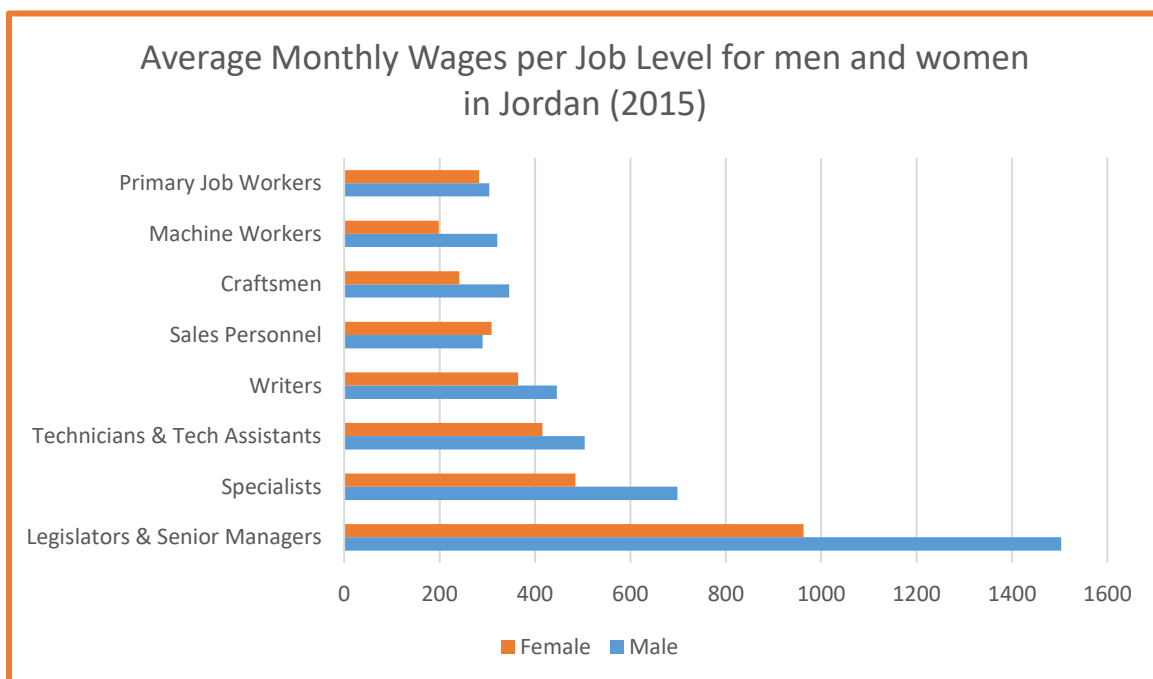
Against this background, promoting greater female labor participation over the next 10 years must focus on women at a younger age, for it is much easier to place *unmarried* women in their 20s into viable work than persuade married Jordanian women, especially mothers, to enter the labor market for the first time. In Jordan, once women leave the labor market, they are *unlikely* to return.

F. Labor and Gender Trends in the Public and Private Sectors

The public sector is overpaying for unskilled work, and underpaying its university-educated employees in comparison to the private sector. According to figures from 2009, unskilled workers, or those not holding a bachelor's degree, made 20%-30% more than their private sector counterparts, while those with a degree earned 20% less (Dougherty, 2009). Overall, it appears that public sector jobs pay around 70% of the equivalent job in the private sector for managerial positions, and around 150% for unskilled work (Dougherty, 2009). These figures – presented alongside the generous health, retirement and other various compensation benefits offered for public sector work, in addition to job security and stability – are enough to sway many young people joining the labor force to opt out of the private sector. Such preferences have far reaching implications for foreigners and women who are not afforded the same opportunity.

Although Jordan has made great strides in overcoming the greatest barrier to female labor participation, which is education, the cultural and social biases towards women in the workplace have severely hindered this progress. On average, men in the private sector earn as much as 41% more than women. In the public sector, this gap only reaches about 28%

(ILO, 2013). However, there are far more men than women employed in the public sector. In fact, the jobs with the most equitable sectors of the economy (in terms of hiring patterns and wages) are the telecommunications and financial services sectors; in other words, high skill segments of the economy, those most neglected by the public sector (Dougherty, 2009). Yet, even in these sectors, prejudice persists. According to the Department of Statistics (2015), there is an evident gap between the salaries of men and women even when they share the same job level. As an example, male legislators and senior managers make an average of JD1,503 per month, compared with an average of JD963 for females in the same job levels. The figures also show that the gender wage gap persist along all echelons starting from entry/basic job types to senior and managerial jobs, except in the sales and marketing sector, where women are paid slightly higher than men on average.



Although women may be given the same salary for entry-level positions, they may be denied appropriate maternity leave necessary to maintain their careers while raising a family (ILO, 2013). When it comes to accessing corporate benefits, including healthcare, expenses and promotions, women are often set at a distinct disadvantage, in some cases because they simply don't know or feel it is within their rights to ask for these benefits.

The government has denoted equal opportunity and equal wages as a top priority as increased female labor participation would benefit all members of the society. However, effective legislation will only go so far in combating this issue, as this predicament is often subject to cultural perceptions and values. Traditional gender roles ascendant in the Jordanian society often ascribe household financial provision to men, while women remain

largely liable for house chores and care taking. Therefore, given their predicated societal roles, men might be stereotypically seen as more deserving of higher wages. According to the Department of Statistics (2015), 78.3% of economically inactive women are housewives, while 19.7% are students. More specifically, 96.8% of economically inactive women who hold a High Diploma are classified as housewives, while 94.6% of economically inactive women who have a Bachelor's degree (or above) are classified as housewives.

G. Defining SMEs and their Impact

Firms are classified as small- and medium-sized enterprises (SMEs) by a non-standard classification that differs by country (Katua, 2014). This definition varies according to the research literature and across national regulatory systems (Katua, 2014; Nasr and Rostum, 2013; OECD, 1997; Sarkar, 2016). Typically the main characteristics that delineate SMEs are factors such as the number of employees, the turnover rate, or the value of the capital and assets employed (Kongolo, 2010; Sarkar, 2010). Kongolo (2010) asserts that SMEs are substantially involved in promoting a country's economic development to enhance its "achievement of wider socio-economic goals". Kongolo's (2010) research takes into account agriculture-led and industrial economies to detail the direct and *indirect* benefits provided by SMEs to their respective countries, such as employment creation, an increased national drive for innovation, and the formation of "flexible economic systems" that is "very crucial for the attraction of foreign [direct] investment".

The World Bank's (2012) findings confirm these benefits by attributing SMEs of being the "main source of private sector jobs in MENA", in addition to its substantial impact on the MENA countries' GDP. Their research reveals that SMEs in Jordan create more jobs annually than larger corporations active in the country and, therefore, have a significant contribution to Jordanian employment rate statistics (World Bank, 2012). Despite this, the World Bank's report (2012) conflicted with Haltiwanger, Jarmin and Miranda's (2013) research that indicates that there is no systematic relationship between employment growth opportunities and SMEs once the age of the organization is a controlled variable.

Nevertheless, the lack of an official, internationally accepted definition of a SME is problematic as it can be interpreted too subjectively (OECD, 1997). According to Katua (2014), the discrepancy of a SME definition is further compounded by taking into consideration the context of the SME's sector. Katua (2014) found that a SME could be classified as "small" in a large sector, whereby another SME of similar size and output could be classified as "large" in a different sector populated with smaller, less-competitive

organizations. On an international scale, the sizing standard by which a SME firm is deemed to be a “small” or “medium” is inconsistent across global economies (Schreyer, 1996).

In the MENA region, the majority of firms are classified as “microenterprises” and not a SME (Nasr and Rostom, 2013). Nasr and Rostom (2013) emphasize that an inherent issue with the non-standard classification is that the official employment statistics will be impacted by being “under-counted in official records due to informality”, which leads to an “under-recording of informal small and micro enterprises”. The Nasr and Rostom (2013) report focused on four MENA countries – Morocco, Egypt, Lebanon and Yemen – without delving into specifics of the SME situation in Jordan.

The Jordan Enterprise Development Corporation (2013) conducted their own research according to their definition of what constitutes a SME. Their report asserts that SMEs are “the backbone and vanguard of the modern enterprise sector in Jordan” despite lamenting the lack of “density” of Jordanian SMEs, as compared to the global average (Jordan Enterprise Development Corporation, 2013). Nonetheless, the Jordan Enterprise Development Corporation (2013) study did not probe deeply to investigate the type of relationship between Jordanian firm size, firm age and net employment to ensure that the statistics are not skewed.

H. SME Barriers to Entry and to Sustainable Success

A lack of standardized, international classification is not the worst obstacle for SMEs regarding their births and survival as there are many hindrances affecting SME existence no matter their geographic location. The International Labor Office (2015) asserts in their report that the “three biggest constraints” for SMEs in general (not specific to Jordan) are “:

1. Access to finance
2. Access to electricity
3. Competition from informal enterprises”.

Despite providing a rather comprehensive action plan to overcome the SME challenges, the International Labor Office (2015) report does not highly rank other significant constraints such as the SME’s respective national regulatory and legal environment or the lack of SME employee skills development and training – although these factors are prioritized in the World Bank’s (2012) findings. As job creation and economic contribution is critically dependent on the start-up and survival of these SMEs, barriers to entry and to compete should be critically appraised (Haltiwanger, Jarmin and Miranda, 2010).

Even so, in terms of SME births and survival globally, perhaps the largest barrier to entry and competitive survival is the access to financial resources due to the regulatory

environment infrastructure (Katua, 2014; Kongolo, 2010; World Bank, 2012). Across the MENA, SMEs on average have access to 10% and below of banks' credit in 2011 (Nasr and Rostum, 2013). In Jordan, the SMEs have difficulty fulfilling the banks' collateral requirements and so are often unable to access capital or other financial requests (Jordanian Enterprise Development Corporation, 2013). The World Bank report (2012) maintains that Jordanian SMEs' access to financial capital is hindered by the "inadequate legal and institutional framework", which triggers weak regulations of financial services in the country. Moreover, the Jordanian Enterprise Development Corporation's (2013) research reveals that other "forms of equity investment capital are under-developed".

Katua (2014) asserts that this leads to more risk-averse and less competitive business activities as the SMEs lack the financial insurance to support dynamic, expansionary activities. Furthermore, perhaps due to the inconsistent Jordanian micro-financing schemes in place throughout the country, SMEs are largely concentrated in the capital, Amman (Jordanian Enterprise Development Corporation, 2013). This disparate positioning of SMEs throughout the Kingdom limits their potential socio-economic benefits, such as job creation across Jordan. This also reflects the worldwide trend of SMEs according to the International Labor Office's research (2015). Despite this, the statistical problems associated with defining SMEs leads to the absence of suitable and relevant data to measure the impact of Jordanian SMEs' lack of financial access on net job creation.

With regard to human capital development in Jordan's MENA region, Nasr and Rostum's (2013) report examines the quality of the labor force skills in SMEs as a hindrance to SME growth. Their findings indicate that the lack of employee training is partly caused by complacency on behalf of the SMEs themselves as the firms most likely do not feel motivated (Nasr and Rostum, 2013). This is supported by the OECD's (1997) verdict that SMEs depend on "external recruitment" to increase firm competence rather than investing in their employees training. The International Labor Office (2015) acknowledges that this lack of human capital development is a barrier to SME growth as the SME employees and entrepreneurs will miss out on economic and business opportunities due to their the lack of education and skills training.

In the context of Jordan, the Jordan Enterprise Development Corporation (2013) stresses that while it is difficult to ascertain the cause of the slow SME growth rate, there is "room for boosting" promotion and competitiveness. This could be achieved through SME employee skills development to create an "enabling environment for growth" that will help ameliorate the Jordanian unemployment rates (International Labor Office, 2015; World Bank, 2012).

This is also conducive to expanding the Jordanian labor force to include more women by taking advantage of their skills, education, and economic potential that might have been denied in larger corporation settings due to “glass ceilings” or other restricting norms (OECD, 1997). Although the Jordanian Enterprise Development Corporation (2013) found that the self-employment rate of Jordanian women comprises less than 5% of the total, the female self-employment job creation pace is “three times the rate of men” within the decade spanning from 2003 through 2013. The Jordanian Enterprise Development Corporation (2013) report did not delve into much detail regarding the employment of women in other SMEs as they focused on women-owned SMEs. Nevertheless, previous research indicates that by creating and supporting an ecosystem favorable to SMEs, the Jordanian government has an opportunity to alleviate the unemployment rate through job creation that is favorable and inclusive to both men and women (Nasr and Rostum, 2013; OECD, 1997; World Bank, 2012).

This literature review has exposed the deficiencies of the Jordanian labor market and economic development strategy in absorbing unemployment. Joblessness remains one of the biggest problems today, yet the structure of the economy and workforce preparation are not yet aligned. This review has suggested SMEs as a mechanism to reduce joblessness while fostering growth. Though some issues such as conceptual definition and institutional climate must be addressed, the literature shows promise that SMEs can play a vital role in delivering sustainable, job-absorbing growth in Jordan.

2. Survey Analysis

A. Methodology

Following a literature review of the Jordanian labor market as well as global and local examinations of SMEs and job creation more generally, an analysis, conclusion, and recommendations were made also based in part on a questionnaire (see Annex below). Initially, the plan was to approach three companies in nine different sectors for a total of 27 companies, including one SME in each of:

- Agribusiness
- Industry & Manufacturing
- Telecoms & IT
- Energy
- Media & Advertising
- Tourism
- Financial Services
- Education
- Healthcare

However, due to lack of response from some, it was decided to cover a total of 10 sectors, adding construction to the above. Responses were obtained from (17) companies before the work was stopped due to the need to conclude it in a timely manner since many firms would not reply. (Thus, though not based on a large and/or random sample, the questionnaire provides interesting insights into Jordanian firms, including SMEs, allowing the drawing of significant conclusions and hopefully valuable recommendations.

B. Survey Analysis

This survey established the validity of three general points that highlight not just the structural problems in the labor market, but the obstacles faced by firms in general and SMEs in specific within Jordan. First, the skills mismatch between educational outcomes and worker abilities is real: from critical thinking to on-the-fly innovation, the skills desired by private employers are not being emphasized in schools. Second, the government's role thus far in improving private sector conditions for hiring is not seen positively. Vocational training is obscure or ineffective, financial incentives for start-ups are lacking, and the tax environment discourages entrepreneurship and risk-taking. Finally, on a more subtle yet crucial point, all these firms acknowledged the role played by SMEs in generating economic

growth. Most exhibited some knowledge of their prevalence, and suggested robust ideas to enable their continued expansion and improvement as an engine of job creation. Suggestions such as improving infrastructure, easing access to bank credit, and facilitating collaboration between SMEs and large firms all deserved to be considered by policymakers.

Following is a detailed analysis of the survey:

1. Most of the companies surveyed were established from the year 2000 – that is in the current globalizing economic climate with its partial focus on small business, and on policy debate regarding education, skills, etc. Other firms date mainly from the mid/late 20th century, though one goes back to 1926.
2. The surveyed companies comprise a representative cross-section of Jordanian enterprise and are active across various sectors, though there are also a couple of firms specializing in each of Energy, Healthcare, and Agribusiness.
3. The number of workers each company employs full/part time varies widely from 4,200 for the largest to four for the smallest. Defining micro, small and medium-size enterprises as those employing 1-4, 5-19, and 20-49 workers respectively, one firm falls in the first category, seven in the second, and none in the third; the survey thus mainly focuses on what would be considered large firms in the Jordanian context.
4. Figures for annual turnover of the surveyed companies in 2015 were not given by five of them, with the remainder varying between JD39 million and JD28,000, for an average of JD5.057 million.
5. The ownership of firms was mainly by a small number of individuals each, with only two public shareholding companies, and three others being subsidiaries of large entities. It is interesting to note that only two women are mentioned as partners among the private firms.
6. As regards innovation or other change, most surveyed firms mentioned that during the past 12 months they introduced a new or significantly improved product or service to the market, a new or significantly improved production process or method, a new organization of management, and/or new way of selling goods or services. Only two failed to do any of the above, one firm blaming “current economic and political instability” for this.

7. A very wide range of challenges facing the private sector/small and medium-size enterprises (SMEs) that may hinder job creation in Jordan were mentioned. Those brought up by more than one firm included economic and political instability in the region leading to regional market disturbances and logistical issues; Jordanian state failure to help overcome the impact of weak regional markets and to promote local ones; higher taxes and poor fiscal incentives; an unstable Jordanian regulatory environment regarding taxation and other laws, with no clear government policy for SMEs; and government bureaucracy. Specific issues that were also brought up included increased water and electricity bills; cultural issues in some regions in Jordan, especially regarding women workers; social security; decreased quality of university graduates; venture capital access; and lack of professional accreditation and training.
8. Regarding any specific training and development schemes that firms would adopt to boost their ability to create new jobs, all but one firm indicated activity on this score. In general companies emphasized training and skills that encourage innovation and strategic thinking, create a culture of professionalism, and prepare new employees to switch from the local educational system mentality into workforce attitudes. Specifically, the topics firms were pursuing included languages, business writing, digital media production, equipment installation, selling techniques, implementation of new systems for workflow, and knowledge management. To that end, one firm has opened its own education and training center, while three recognized universities as playing a key role in this respect.
9. All firms recognized the need for creating a wide range of jobs in specific sectors, as well as the skills in particular that would be necessary to make this effort productive. Among the latter emphasized were customer engagement, communication (especially English language capabilities), awareness of international issues and services, an analytical and logical approach to problem solving, the ability to work effectively individually and as part of a team, and high levels of integrity.
10. Asked to rate training provided by the government-run Vocational Training Corporation (VTC) compared to private sector training schemes and/or “on-the-job” training, a majority of firms indicated lack of familiarity with the VTC or its irrelevance to them. Of the rest, most indicated approval of the VTC, while three indicated their negative point of view.
11. In general, firms complained about a mismatch between the skills they need and what the labor market is producing. As such, the skills required by the private sector that

Jordanian workers/graduates often lack include communication skills, time management, critical and analytical thinking, IT and other computer skills, proper business writing (Arabic and English), attitudes towards learning, working in teams, ability to work beyond what the day-to-day job tasks requires, innovating and thinking creatively, cultural training to help in knowing what the rest of the world is doing, and common sense as an acquired skill that is produced by the education system and institutions. Most of these should be taught early as retraining takes a lot of time and effort. In particular, four firms suggested that local universities should require a certain amount of practical work for students to graduate, including internships translated into university credits. It was also noted that English as a language may be important, but firms would rather have a worker who is disciplined and pays attention to detail than someone having partial English proficiency and no other real skills.

12. Three firms asked to map out the broad skill set of current employees in their sector did not respond, while the rest gave a wide range of answers. These included leadership skills, communication skills, teamwork, computer skills, proper business writing (Arabic and English), financial reasoning, analytical thinking, willingness to learn new techniques, online content management, programming, interviewing, problem solving, action planning, and time management.
13. Regarding regulations and government policies that stand in the way of job creation by the private sector and how can these be changed from the perspective of employers, six companies responded that they were unaware of any, or that the question was otherwise not applicable. The rest mentioned customs regulations, policies related to energy, bureaucracy, the Investment Promotion Law, the Income Tax Law, government measures for establishment of companies, minimum wage regulations, taxing and pricing of production inputs including water and energy, conflicting government policies between some ministries, the Press and Publications Law, social security and tax requirements for start-ups or SMEs, the Transportation Law, free zone regulations, and hiring people under pressure in government contracts. In particular, several firms also mentioned the Labor Law.
14. Asked whether firms would consider offering Syrians work opportunities, and if so, would these be white or blue collar, six responded negatively, while of the rest, five favored hiring blue-collar workers, three white, and the remainder both.

15. Assuming this becomes a widespread phenomenon, most firms thought that Syrians will end up competing with Jordanians generally in the labor market or for specific jobs, while five only did not.
16. Regarding SMEs specifically, when asked about the prevalence of “gazelle” firms and the type of new strategies needed to drive youths towards small companies to help generate demand for vocational and technical skills, eight companies responded that the question was not applicable to them or that they did not understand it or face such a problem. Most of the rest emphasized that the government needs to play a role in this respect by for example giving incentives for SMEs regarding social security and income tax reductions, while creating a better business environment in general, as well as promoting collaboration between large enterprises and SMEs, and even subsidizing the latter.
17. Regarding SMEs specifically and their access to financial resources, when asked about challenges in this regard and changes policymakers need to put in place to overcome the financing problem, eight companies responded that there was no big problem in this respect or saw the question as not applicable. Suggestions made by the rest included state encouragement of banks to be more flexible with reputable companies that have been operating for some time (e.g. over five years), establishing a credit bureau that at least rates companies, and introducing insurance for loans. However, several firms made the point that as important as finance is, the bureaucracy and stifling official requirements were more serious. In that respect, government was urged to “get out of the way” by not funding selective start-ups and tying them up to mostly incompetent state or NGO funders that have little to no understanding of how new businesses work.
18. With regard to bank credit, five firms said that its availability has improved for them over the past year, two that it remained unchanged, four that it deteriorated, and six saw the question as irrelevant.
19. Asked whether they feel confident to talk about financing with banks and/or equity investors/venture capital firms and to obtain positive results in doing so, four companies considered the question as irrelevant, while only one gave a negative answer. The remainder was more or less split among those with confidence in talking to banks only, to equity investors/venture capital firms only, or to all.
20. Regarding SMEs specifically and their being largely concentrated in Amman, the question as to what needs to happen to convince a firm to venture out of the capital

was seen as irrelevant by five companies. The rest made various suggestions such as to improve infrastructure across governorates, create more incentives to invest in them, give SMEs easy access to transportation, and establish private sector business incubators. In addition, one respondent made the important point that an SME should not be looked at as a charity or NGO as though fulfilling the need to foster and spread social services. On the contrary, SMEs must be seen as private for profit companies that will follow the market.

21. Regarding SMEs specifically, the question of what can be done to remedy the problem of lack of employee training being partly caused by complacency of the SMEs themselves as they most likely do not feel motivated was unanswered by five firms. Of the rest, two stated that they did not have that problem, while the remainder presented various suggestions including that: the government should subsidize some of the training, the Income Tax Department should calculate income tax on SMEs differently, and that universities should arrange for graduates to be well trained for at least three months, either by a reputable company or during their studies.
22. Asked how much the firm grew on average annually over the last three years, three companies did not respond, while the rest gave answers ranging from -17% to +25%, for an average of about +10%.
23. As a private sector employer, asked about what kind of skills are required by the type of job expected to be created by the firm in the short- to medium-term, one did not answer while another claimed to be pessimistic about any job creation due to the business outlook being negative. The rest gave a wide range of answers, including sales, marketing, internal audit, risk management, healthcare, grading, standardization, quality control, digital media, project engineers, customer care, and marketing.

3. Policy Recommendations

The literature review above and qualitative analysis make it evident that SMEs in Jordan are the prime job creators in the coming generations, as opposed to larger corporations. According to the Jordan Vision 2025, the country shall create 1 million additional jobs within the coming 10 years in order to reduce the national unemployment rate to 8%. This, however, will not be possible without providing SMEs with the support needed for their growth. Today, SMEs comprise around 98% of all businesses in Jordan and provide around 60% of formal jobs (KAS, 2015), not taking into account the informal economy, which has been estimated at 44% by the UNDP (2013).

Based on the literature review as well as the survey results, what follows are 10 concrete policy recommendations designed to promote SMEs as a vector of job creation while also attending to economic growth in Jordan. They cluster into three types of policy intervention: social and technical recommendations; fiscal and capital recommendations; skills-based and educational recommendations. These interventions all share one thing in common – they require close coordination between SMEs and the government.

A. Social and Technical Recommendations

- **Women & Youth:** Jordan cannot afford to let a generation of young women and youth go without decent employment and livelihoods. Investing in SME competitiveness is a key ingredient towards this goal. Under-25 and female-owned SMEs must be promoted through proper incentives such as preferential access to capital, tax breaks, and access to training.
- **Informal Economy:** Registration of *informal* firms should be encouraged by offering them free training and tax breaks other upgrading programs. At the same time, there should be better law enforcement to ensure that all companies, SMEs or otherwise, are formally registered.
- **Statistical Problems:** As the literature has clearly shown, the lack of an official, internationally accepted definition of a SME is problematic as it can be interpreted too subjectively. Jordan is no exception to this trend and as such any of these problems associated with defining SMEs must be resolved.

B. Fiscal and Capital Recommendations

- **Finance Problems:** SMEs suffer many constraints that larger enterprises do not suffer – constraints like infrastructure, access to technology, regulatory environment and above all, access to finance. Access to affordable long-term finance is one of the biggest barriers to development of SMEs as they face a momentous challenge of raising capital.

Banks in Jordan continue to shun SMEs and for the most part ignore them (though some exceptions exist). In fact, for the most part, the only way to obtain financing in Jordan is by providing the bank with a collateral – something that many SMEs are unable to come up with. Furthermore, debt finance is not only expensive and difficult to get, but also inconvenient given the relatively short maturities of loans.

Equity finance offers an opportunity for SMEs to raise capital, share risks, complement knowledge and skills, etc. Yet, it is grossly underdeveloped. Hence, new forms of SME equity investment capital, subsidized if necessary, must be developed that are less risk-averse. Furthermore, workshops should be organized in Amman and elsewhere for Jordanian banks to interact with SME managers and discuss financial issues.

- **Taxation:** The Income and Sales Tax Department should meet with SME representatives to discuss taxation issues regarding their firms, including organizing a workshop on their preparation of annual income statement. This will also help improve revenue collection from the perspective of the government while enhancing common standards across this economic sector of productivity.
- **Decentralization:** SMEs in Jordan are concentrated in Amman, where nearly half the population resides and where the bulk of economic activity takes place. Meanwhile, outside Amman, cities and governorates suffer from many forms of underdevelopment, including high unemployment and extensive pockets of poverty. SME establishments outside Amman must thus be encouraged through appropriate tax incentives, policy initiatives, and other measures.

C. Skills-Based and Educational Recommendations

- **Training Familiarization:** As this report has shown, many SMEs don't feel the urge to train their employees. This lack of employee training due to complacency by SMEs must be overcome by an information campaign targeting their management. Otherwise, the innovative aspects and future growth prospects of an SME will be subdued.
- **Training Courses:** Short training courses on topics such as sales, marketing, internal audit, risk management, standardization, quality control, customer care, and marketing should be organized for start-up SMEs by the VTC. These should be available at little or no cost, because the goal is to convey an enduring set of productive skills that can then be disseminated and taught to others by new SMEs.
- **Universities & Internships:** Throughout Jordan's history (Kanaan and Kardoosh, 2004), and in recent years in particular, there has been a complaint by the private sector that what the education system produces does not satisfy the needs of 21st Century Jordan (the so-called "mismatch" problem). As such, Jordanian universities should be approached to discuss concrete programs for internships that would enhance skills of fresh graduates to help them set up or otherwise work in SMEs.
- **Curricula Changes:** University business schools as well as community colleges and training institutes should meet with SME representatives to discuss curricula and suggest changes to them. This is essential to better prepare new graduates to the realities of the modern-day labor market. It could also encourage more new graduates to take on the entrepreneurship route by joining SMEs. Curricula change which targets changing stereotyping women & encouraging them more to join the work force must also be initiated

In sum, to overcome the challenges faced by SMEs, a fast action mechanism needs to be implemented. This mechanism should rely on close coordination between SMEs and the business community on the one hand, and the government on the other. Everything flows from that initiative – as long as there is dialogue and constant contact between the two sides, then the three sets of recommendations can be implemented. The key message here is that they cannot be implemented through imposition, but rather through collaboration.

Annex: Survey Questionnaire

1. In what year was your company established?
2. In which sector(s) is your company active?
3. How many workers does your company employ full- or part-time?
4. What was the annual turnover of your company in 2015?
5. Who are the owners of your firm?
 - Shareholders (company listed on the stock market)
 - Family or entrepreneurs (more than one owner)
 - Other firms or business associates
 - Venture capital firms or business angels (individual investors providing capital and/or know how to young innovative firms)
 - Only one owner (male)
 - Only one owner (female)
 - Other
6. Please indicate whether during the past 12 months you introduced a:
 - New or significantly improved product or service to the market
 - New or significantly improved production process or method
 - New organization of management
 - New way of selling your goods or services
7. What would you say are the challenges facing the private sector/SMEs that may hinder job creation in Jordan?
8. From your perspective, are there any specific training and development schemes you would adopt to boost your company's ability to create new jobs?
9. What type of jobs would you say your sector needs most? Which skills in particular would be necessary to make these jobs viable?
10. How would you rate training provided by the state-run Vocational Training Corporation? How does such training compare to private sector schemes and/or on-the-job training?

11. In general, employers in Jordan complain about a mismatch between the skills they need and what the labor market is producing. As such, can you identify the skills required by the private sector that Jordanian workers/graduates often lack?
12. Can you map out the broad skill set of current employees in your sector?
13. Which regulations and state policies stand in the way of job creation by the private sector and how can these be changed from your perspective as an employer?
14. With the influx of Syrian refugees, we have witnessed the entry of Syrians into the Jordanian labor market: would you consider offering Syrians work opportunities in your company? If so, what type of jobs would these be (white- versus blue-collar)?
15. Assuming this becomes a widespread phenomenon, do you think Syrians will end up competing with Jordanians in the labor market?
16. [SME-Specific Question] A common problem in Jordan is that many Jordanians, especially those who consider themselves urbane and upper middle-income, see only “bulge bracket” or “gazelle” firms (those with extremely prominent brand names or very visible profit margins). As an SME, have you faced this problem? What type of new strategies would policymakers need to apply to drive youth towards small companies, especially since they also generate demand for vocational and technical skills?
17. [SME-Specific Question] Perhaps the largest barrier to entry and competitive survival for SMEs in Jordan is access to financial resources. As an SME, have you faced challenges in this regard? Which changes would you say policymakers need to make to overcome the financing problem?
18. With regard to bank credit, would you say that its availability has improved, remained unchanged, or deteriorated for your firm over the past year?
19. Do you feel confident to talk about financing with banks and get desired results? How about equity investors/venture capital firms?
20. [SME-Specific Question] In Jordan, SMEs are largely concentrated in the capital, Amman. This disparate positioning of SMEs throughout the Kingdom limits their potential socio-economic benefits, such as country-wide job creation. What, in your opinion, needs to happen to convince your SME to venture out of Amman?

21. [SME-Specific Question] One school of thought asserts that lack of employee training is partly caused by complacency by SMEs themselves as they most likely do not feel motivated. Do you feel this is a big problem in Jordan? If so, what can be done to remedy this?
22. Over the last three years, how much did your firm grow on average per annum?
23. As a private sector employer, what type of jobs do you expect to create in the short- to medium-term? Specifically, what kind of skills would these jobs require?

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