

RESEARCH STUDY

ON

**STRENGTHENING SMALL AND
MEDIUM ENTERPRISES IN JORDAN**

FOREWORD

to review the current state of the SME sector in Jordan, examine the existing structure for entrepreneurship and SME support, conduct analysis of international practices in SME definitions, SME development strategies and practices, and design of SME Laws,

The process of gathering input for development of the strategy included:

- A study mission to Jordan in February 2012, which involved interviews with 46 officials in 24 stakeholder organisations (ministries, government agencies, financial institutions, business associations, chambers of commerce and industry, incubators, business support providers, economic development organisations, etc.) to gain information about their activities to support entrepreneurship and SMEs, and to capture their views on the major SME and entrepreneurship development challenges in Jordan, the specific needs of SMEs (including start-ups), the policy and programme gaps that should be addressed in a national SME strategy, and the concept of having an SME Law.
- Two consultation roundtable workshops attended by 23 representatives of sector and business associations,
- Brain storming session with ministries responsible for laws affecting the development of SMMEs and examination of the related laws (e.g. Sales Tax Law, Income Tax Law, Companies Law, Social Security Law, Customs Law, Investment Promotion Law, Chambers of Commerce and Industries laws, etc.).
- Review of statistical data on SME sector enterprises, self-employment and entrepreneurial activity in Jordan.
- Mapping of the existing business support environment (e.g. organisations, entrepreneurship and SME support programmes and services).
- Consultations with KAS professionals
- Roundtable meetings with relevant stakeholder organisations

The input and outcomes were reviewed and drafted by Samer kawar (JYES chairman and Mohamed Al Jazi (JYES Deputy Chairman), an Attorneys at Law and Legal consultants.

THANK YOU NOTE:

Organizing round tables and conference of one theme offers challenges for the planning committee and executers is always hard, but organizing a round tables and conference on challenges facing SMEs and what is needed to empower SMEs sector in Jordan, literally possess twice the number of challenges, specially it touches the main engine of GDP, employment and daily lives of many Jordanians.

However despites these concerns we have managed not to only address the challenges, but to lighten the path on the importance of empowering SMEs, and to reach with our partners KAS to lobby in the future and work in more details for flexible supporter regulations, smoother implementation and better quicker results.

I was delighted to see all stakeholders discussing in passion, the obstacles and challenges, which as well lack of electronic communication and procedures understanding between the governmental bodies is on the highlighted. And with a great hope and solid well for a better future for our beloved Jordan.

I would like to thank our partners KAS in this endeavour as well all speakers and participants for their important participation and support. On behalf of JYES I would like to thank each one of you, hope that this will lead for much more corporation to shoulder in serving Jordan, till we meet again, God bless.

Samer Ghazi kawar
Chairman
Jordanian Young Economists Society

ACKNOWLEDGEMENTS

Special acknowledgement must be made to our partner KAS and the great supporters that made this project phase possible and special thanks to:

H.E Mr. Akel Biltaji - Mayor of Amman it is quite competitive

Dr. Adel Sharkas – deputy governor – central bank of Jordan

Dr. Omar Al Razaz – Chairman of the board of directors' – Ahli bank

MP. Mr. Motaz Abu Ruman (Economic committee treasury – Jordanian Parliament)

MP. Dr. Khair Abu Salik (Economic committee Chairman – Jordanian Parliament)

MP. Mr. Dirar Al Daoud (Economic committee member – Jordanian Parliament)

MP. Mr. Ahmad Al Jaloudi (Economic committee member – Jordanian Parliament)

MP. Mr. Raed Al Kalaielh (Economic committee member– Jordanian Parliament)

Dr. Tariq Hammouri – previous Dean of Law faculty – University of Jordan

Dr. Mohamed Al Nsour – professor – University of Jordan

Dr. Raed al Wishah – professor (head of electronic business marketing) Princess Sumaya University for
Technology (PSUT)

Dr. Imad Al Muala – Amman Private University

Dr. Saed Aqel – Petra University

Dr. Mitry Mdanat – German University

Dr. Jaber Al Bdour (Deputy Dean Information Technology System Dep.) PSUT.

Dr. Khalil Al Hiyary (SMES management) Al Balqa University

Dr. Ahmad Al Daher – Amman Private University

Dr. Mahmoud Al Qdah- PSUT

Dr. Abed Al Wahab Al Louzy- Petra University

Ms. Faten Al Sabagh - Prosecutor/head of consultation and legal affairs/income and sales tax department

Mr. Walid Al Qasrawy - assistant executive manager/financial stability department

Mr. Nidal Al Sader – Deputy Director – Company Controller Department – Ministry of Industry and Trade

Mr. Shaman Al Majali – legal Department – Social Security Department

Mr. Rami Nasrawin – National Microfinance Bank

All the private sector representatives from all Jordan.

And the support of the participants from the public and private sector whom participated in our round tables.

As well a special thank you to JYES members who moderated several sessions:

Mohamed Al Jazi - Deputy Chairman

Lara Obidat

Majed Alayan

Shwqy Qopti

As well Randa karadsheh

And a special thanks to KAS Project Manager Ms. Rasha Al Rashed from KAS for moderating and participating in all activities and the continuous support of the German expert Mr. Matthias Schäfer and KAS Jordan Resident Representative Dr. Otmar Oehring.

And the ongoing thanks for JYES ' followers on face book and twitter accounts

TABLE OF CONTENTS

.....

FOREWORD	2.
THANK YOU NOTE & ACKNOWLEDGEMENTS	3-4.
INDEX	5.
EXECUTIVE SUMMARY	6.
I. INTRODUCTION & OVERVIEW	7-13.
II RESEARCH VISION	14.
CHALLENGES TO SMES' GROWTH IN JORDAN	15-16.
OVERCOMING THE CHALLENGES	17-20
CONCLUSION	21.

EXECUTIVE SUMMARY

All over the world micro, small & medium enterprises (SMEs) are considered as backbone of a country's economy. They play a key role in economic development and make an important contribution to employment and GDP, and are important contributors to total employment and job creation. In Jordan SMEs comprise 98.5% from the total amount of registered companies, and 60% of formal jobs, in addition to 50% of the GDP in 2013 (1) and they are the engine of solving the unemployment.

Usually the highest growth in job creation coming from start-ups and young firms that are five years old or less. SMMEs role in reducing economic disparities between urban and rural areas by employment are also a vehicle for the diffusion of entrepreneurial spirit and skills, and help to. SMEs development is essential to the economic and social development of Jordan therefore it should be a priority for the government. Supporting SMMEs to be a main pillar economic development and improve social welfare and security was highlighted in the National Agenda, while so far steps taken are so modest, while most of the government interest is based to attract mega investments projects.

Empowering SMEs is the only solution to open new job opportunities to a good number of young educated Jordanians women and men, which they still struggle and facing unemployment in spite of all the governmental implemented solutions and national employment's strategies.

Multiplicities should play a main role in the growth and competitiveness of SMEs, a plan and a policy framework in addition to strong electronic coordination methods, between different stakeholders is essential and should be a priority to the government as well.

We don't claim providing a framework and guidance for the government's future actions. But it's a JYES mission to be a new mindset and highlight positively on issues that leads for a better Jordan, therefore we are working with KAS on a long term project to empower SMME sector in order to create more jobs, innovate to lead SMEs for a larger scale enterprise and above all continue contributing to Jordan's economic growth.

I. INTRODUCTION & Overview.

Jordan enjoys the right regulatory infrastructure to encourage business including property right, Entrepreneurship, accountability. This is represented in trustworthy regulations and transparent laws. Jordan enjoys an advanced legal system that has been undergoing substantial revision and modernization in recent years. The Jordanian legal framework provides the tools needed to guarantee both a healthy business/investment environment and the protection of their rights. Doing Business Report 2013 published by the World Bank and the IFC ranks Jordan in the 3rd place in the Middle East and North Africa region in terms of an economy regulatory environment.

The different laws governing business ventures (whether for corporate, entrepreneur, family-run business) in Jordan offer equal treatment to both Jordanian and in many cases to non-Jordanian. These laws concerning business and corporate aspects also allow engaging in various economic activities. For non-Jordanian, they have the right to manage projects in the manner they deem appropriate. They can run ventures in Jordan seeking parties seen most fit for the job. They are also entitled to remit abroad without any delay, and to do so with a convertible currency, invested capital and any returns and profits reaped. This also

applies to proceeds of liquidation, investments and sales from all, or part of, the business.

At regional and international levels, Jordan has signed several Promotion and 'Reciprocal Protection of Investments' Agreements with the tens of countries such as Italy, Korea, Malaysia, Austria, Spain, the UK and the US. Jordan is also in the process of signing approximately 15 new agreements with countries including Belgium, Canada, Cyprus, Qatar, South Africa, and the UAE.

We cannot disconnect the above from a strong banking and comprehensive capital market that Jordan enjoys both. Recently, Jordanian Government adopted a comprehensive banking and capital markets reform policy, which aimed at building on the previous 20 years' experience, boosting the private sector, expanding and diversifying the national economy, and improving regulation of the banking and securities market to reach international standards. One of the most important features of the new orientation is institutional changes to strengthening the supervision over the operation of banks and capital market to reach optimal transparency but at the same balancing that with openness and liberalization in business practices in line with globalization with the external world.

The role between the social partnership between employers and trade union is very significant, and is constantly on ongoing improvement. In Jordan, the trade unions are called the Chamber of Commerce, where each governorate in the country should have it is own. The members of the chamber of commerce are elected by traders, and these elected members then will elect a president for each Chamber. At the same time, trader all over the country elects the Jordan Chamber of Commerce.

It could be argued it is both, the Government acts in some occasions as an entrepreneur and in others as a rule maker. If we take the latter, when the Government in the form of rule maker/referee it is called in Jordan “Regulatory Commission”, in which such model has succeeded in many sectors, we name telecommunication and IT, electricity, transportation, aviation, nuclear energy.

On the other hand, the Government acts as entrepreneur, mainly within the context of attracting capital and foreign investment into Jordan. This consists of the facts that The Government realises the importance of this element and thus puts foreign investment top of the agenda. The Government in Jordan tries to create an outward looking economy that is comfortable in an interconnected international economy. It keeps trying to provide the country with the comfort of stability, aiming to ensure Jordan as a haven of relative tranquillity in a troubled region. To promote that, the Government relies on the fact that Jordan enjoys good relations

with all of its neighbours, and over decades has maintained lasting stability, moderation and security within a region prone to potential volatility. It works to make Jordan enjoy consistent and transparent long-term foreign and domestic policies, and to put it on a path of progressive reform of political, economic, fiscal, legal and social aspects of society. The idea is to make investors (whether domestic or foreigner) have great confidence in Jordan’s economy, its political stability, its excellent international relations and its cost-competitiveness. These attributes would enable Jordan to entice a groundswell of investment from domestically and from different parts of the region and the world. The Government realises that such contribution will maintain a momentum of growth and development in Jordan.

But, given that Jordan has few natural resources, a question may raise: where do we expect future economic growth will come from? Jordan’s current main natural resources are Phosphate and Potash. Recently huge quantities of Uranium and Oil Shale have been added to the natural resources list. The problem with the Jordanian economy is due to our limited natural resources, oil bill burden, large trade deficit, water scarcity and high levels of poverty (14.2%) and unemployment (official rate 13.5%, unofficial rate almost 30%). The Jordanian Government’s future plans include a nuclear power plant (project development currently in progress through Nuclear Energy Commission) and subsequent discussions with potential strategic partners (with the aim to secure the technology to be

used). Currently weekly meetings with King Abdullah II are held to present developments and updates on this front.

Oil Shale is another mentioned source of future economic growth (currently five companies have concessions in Jordan including Eesti Energia, Petrobras, British Jordan Energy and Mining Limited, Saudi Arabian International Corporation for Oil Shale Investment and Royal Dutch Shell). Renewable energy is also under development in Jordan (in particular wind, solar and hydroelectric energy – Red Dead Sea Canal project). It is also important to note the impact of a number of strategic mega projects which are being developed in Jordan, which will inevitable stimulate economic growth, such as:

- The Queen Alia International Airport Project
- Disi Water Conveyance Project
- Qutraneh IPP Project
- Fujaij Wind Power Faem
- The IPO of Royal Jordanian Airline

Others in the pipeline include;

- The National Rail System
- Light Rail System
- Dead-Red Sea Project (includes hydroelectric energy plants, water desalination plants, residential communities, agricultural projects and the proposed nuclear power plant)
- Jordan Petroleum Refinery Company
- Wind Power Farms

These projects are expected to attract international companies and investors, create jobs, generate cash

flows (FDI's), stimulate tourism, solve the water problem and reduce or even eliminate oil bill burden and contribute to economic development in general.

Jordan's Central Bank has high restriction against the FED. Central Bank believes that FED has big impact on economic stability, in addition FED requires ongoing procedures of lowering interest rate, which would ensure of course liquidity and capital flows in Jordan, but thus no attraction for Foreign Direct Investment and which will result a decrease in the value of assets in Jordanian Dinar. This all will produce regression in the economy in general and at the end negative impact on the exchange rate. That said, Central Bank of Jordan believes in a balanced economic approach economic however with a preference toward the ECB.

With regard to the monetary policy and fiscal policy, there is quite significant distinction between them, yet there is a clear connection where the former may indirectly influences the latter i.e. as you know, monetary policy responsible for exchange rate growth, stability and economic environment adjustment. Whereas, fiscal policy assesses country's public debt and, Government budget, Government revenue and Government expenditure (including capital expenditure) and fiscal space (that give flexibility to the Government in its spending decisions i.e. the Government financial well-being).

Jordan's social security system is managed by the Social Security Corporation, where the system relies mostly on the contribution from both the employers and the employees. According to the new Social Security Law, 19.5% of the total salary of each employee should be delivered on monthly basis to the Social Security Corporation. This percentage is handled by both employer and employee, 12.75% and 6.75%, respectively. Also, the system also relies on investments made by Social Security Investment Unit, which is the investment arm of Social Security Corporation.

The business structure in Jordan is divided into the three above mentioned categories. Perhaps corporate sector and SMEs (including start-ups) are more in terms of business volume than family run business. In addition the confidence in these two particular types of business structure categories is more noticeable from third parties including lenders and investors.

Jordan successfully attracts almost 6% of the investment flow to the United Nation Economic Commission for Western Asia region ranking 4th behind KSA, UAE and Egypt. FDI to GDP reached more than 40% during the past 10 years. Main sectors that currently attract foreign corporate investment are Banking and Financial Services, Real Estate and Construction, Industry (Manufacturing and Mining), Tourism and Infrastructure.

The Construction and Real Estate sectors is witnessing growth (maybe not like the massive growth between 2003 and 2008) due to the influx of Syrian refugees into the country and excess cash from the Arab Gulf Countries. Tourism has also been booming since 2000 following the Government's strategy to improve the sector. Aqaba and Amman have been the main destinations for tourism investment; however, 'Ajloun' was launched in 2008 as a special zone for tourism and is expected to attract more investments in the near future.

As for the industrial sector, foreign investments have been mainly directed to manufacturing especially in the Textiles and Apparels industry due to the QIZ (Qualified Industrial Zones) agreement signed with the US and Israel. The QIZ's export 95% of its products to the US to clients such as GAP, Calvin Klein, Victoria's Secret and others.

In light of the new developments in Oil Shale reserves, Uranium and Silica, it is expected that more corporate investments will be directed towards the mining sectors in the future.

As for the Infrastructure sector, they are mainly being conducted under Public- Private Partnership (PPP). There are few projects that have implemented on the PPP model, the most important one is Queen Alai Intentional Airport Expansion and Operation Project. This model is excellent for Jordan and perhaps needs some experience from countries of more credentials. Other sectors such as health care, pharmaceuticals and renewable energy

are also expected to attract new corporate investment in the coming years.

SMEs and Start-ups

Although Jordan supports the model of SMEs, it has been conducting such support into a diligent and focused manner and thus has become selective in terms of market and sector. That said, Jordan sees itself in the domain of ICT in which the string of successes in its ICT sector has prompted the country to be a hub of SMEs and start up within this domain.

Jordan's ICT sector has grown from turning over barely \$100m in 1999 to more than \$2.5 billion nowadays, or 12% of gross domestic product. Jordan's 2020 vision, with its clear ICT component makes Jordan one of the few countries to have actually measured ICT benefits with an ongoing implementation plan. The sector represented 14.3 per cent of the GDP in 2008, making it one of the largest single contributors to the economy with around 90,000 new positions being created between 1999 and 2013. The government's priorities for the sectors is to integrate the ICT sector with other fields, increase the awareness on how ICT can play a greater role in boosting revenues and encourage e-content creation and e-commerce practices. In terms of policies and regulations, the ICT sector operates in liberalized market conditions. Intellectual property and copyright laws are in force. As for enabling platforms, the new King Hussein Business Park has attracted more investments in the ICT

sector mainly in the areas of IT outsourcing, business process outsourcing and localization services.

During World Economic Forum's "Global Information Technology Report 2009-10" ranked Jordan 44th out of 133 countries on its networked readiness index for ICT development, however, weighing the Jordanian ICT sector in its entirety would arguably position it much higher. Jordan has a highly skilled human capital that occupies tens of thousands of jobs in the ICT sector in Jordan and the region. With a steady flow of 7,000 ICT graduates annually, Jordan has a higher proportion of university graduates in technological fields than any other country in the region. Jordanian IT companies such as Maktoob, ShooFee TV and Jeeran had huge investments from international IT giants such as 'Intel' and 'Yahoo'. In addition, Microsoft, Hewlett-Packard' and 'Yahoo' opened regional (Middle East & North Africa) offices in Jordan as a first step towards major investments in Jordan and the region. Companies such as Sisco System, Oracle, Sun Micro Systems, HP, and Motorola already have presences in Jordan. Taking these factors into consideration indicates a brighter future for the Jordanian ICT sector.

It is very interesting to share some details of success story of one of ICT start-up companies. The King Abdullah II Fund for Development and Int@j (Jordanian Information Technology Association) funded ICT related entrepreneurs. The fund was transformed into a registered company called Oasis

500 to be in charge of this fund. Oasis 500 is a type of accelerator that offers funding and incubation, offering several programs starting with training courses for entrepreneurs with IT related ideas. In a training program could start take a quota of around 100 entrepreneurs for several rounds every year (anyone with an IT related idea), where at the end of each program Oasis 500 chooses 10 ideas to invest in with an average of 10,000 Jordanian Dinars per idea and provide incubation (offices) for a period of 2 months. If the start-up is qualified there will be additional investment of an average of 50,000 USD. Oasis 500 also tries to bring an umbrella for all the angel networks in Jordan so that start-ups can more easily pitch to them. So an additional capital investment can go from 100,000 to 500,000 USD depending on the company or deal at hand.

According to the Doing Business Report 2013 published by the World Bank and the IFC, Jordan ranked on the 4th place on the ease of doing business in the Middle East and North Africa. The cost for doing business in the Jordan is comparatively lower than that incurred in many other economies of the region.

Starting business in the domain of company incorporation is a simple process. Whether 100% Jordanian ownership or 50-50% Jordanian/foreign ownership (or a majority for the former), the requirements are straight forward and the procedures to incorporate the company need around 7 working days. The only exception with regard to the above 50-50% Jordanian/foreign partnership

that each party should inject capital of not less than 50,000 JD (around \$70,000). However, in the event of a major shareholding with the foreign ownership (i.e. 51% and more), incorporating a company requires a ministers cabinet resolution. Although this may sound complicated, it would be assumed that it is not a bureaucratic but rather a timing consuming. The duration varies from party to another, depending on the contact at the prime ministry level, but overall it is anticipated to one month time maximum.

Starting business from professional and practical perspectives not a question to answer, as the practice says it is a case-by-case situation. However, maybe in this context we share with you how the overall operation of companies in Jordan. We strongly believe that it is essential to understand the custom of Jordan both before starting and while you are operating the business. In general, Jordanians prefer a face-to-face mode of contact. This is due to cultural and regional custom as well as a lack of confidence in the confidentiality of anything transmitted over modern networks, in most cases.

One more concern would be the unclear link between the cost of the service versus the expected income of this service. Perhaps, it is likely a trial and error approach rather than an efficient cost benefit analysis. As you know very well, Jordan has limited natural resources, a huge budget deficit, an increasing public debt (79.1% of GDP), high inflation rate (5.9%) and finally a shortage in money

supply due to the global financial crisis formerly and what so called the Arab Spring currently. This means that careful spending of money is a very important factor, especially at this stage. Careful weighing cost against income is a standard procedure within the Jordanian Government.

On the other hand, Jordan is proud of its skilled domestic workforce / human capital. This important element remains amongst the most competitive in the Middle East and North Africa. Jordan's work force consists of skilled, educated and well-trained individuals. The workforce has the qualities to catapult investment prospects to new heights and increase Jordan's profitability if utilised correctly. Jordan has a young population of 5.9 million, 70% of which are under the age of 30. It enjoys a yearly population growth rate of 2.3%, literacy rates are among the highest in the Middle East & the world (rising from 89.9% in 2004 to 94% in 2013). Over 200,000 students are enrolled across Jordan universities and 20,000 Jordanians are earning degrees abroad every year. The Kingdom also has 60 vocational training centres. These centres graduate over 10,000 skilled technicians annually. Hence, the Jordanian human capital is young, well-educated and English-literate. It is an ideal workforce for incoming and existing businesses and potential investment ventures.

Moving forward with its prudent macroeconomic policy and its commitment to introducing further reform, Jordan has liberalized the economy,

streamlining business practices across all sectors. Putting investment on top of its agenda, Jordan has attracted innovation and capital. Entities were created and laws have been developed to attract FDI's to Jordan (Jordan Investment Board, Investment Promotion Law, Special Economic Zones, QIZ's etc...). Jordan's economy has seen a significant and sustained boom and has developed into one that is productive, innovative and knowledge-based. Indeed, during the past 10 years, tens of billions of US\$ of worth of FDI's entered Jordan (FDI to GDP currently = 40%).

When it comes to practice, the regulations and Government procedures support setting up businesses. This is streamlined by the 'One Stop Shop' (OSS), which is equally offered to Jordanian and non-Jordanian. The distinctive one window approach is aimed at making the experience in registering and licensing the business hassle free. It offers a full service assistance package that gets a business up and running in Jordan. One window services and streamlined regulations are also applied within designated 'Development Areas', the Aqaba Special Economic Zone and Industrial Estates. It should be mentioned though that some Government internal inefficiencies still exist as a practice and needs to be further empowered to play its intended role more efficiently and effectively.

II. RESEARCH VISION

The specific objectives of this research are as follows:

- To analyse in-depth the most significant challenges to SMEs in Jordan.
- To review recent work pertaining to factors that drive or motivate the of SMEs;
- To develop a deeper understanding of the current situation of SME in Jordan, particularly the specific measures aimed at addressing the top challenges identified; and
- To develop competent and diligent suggestions to improve the status of SMEs in Jordan, particularly related regulatory frameworks in relation to access to finance.

The above objectives should go in line with our constructive dialogue that JYES led with SMEs and between SMEs and governmental related bodies on their needs and proposed solutions to inform on-going policy programme and support provision.

This research is considered a stepping stone to develop, in cooperation with KAS, on how to help SMEs flourishing and playing a better role in the Jordanian economic development.

It is unfortunate to highlight that we started the research with an obstacle – a stone on the way of SMEs development – which is the definition of SMEs issued 12th of Sep 2015 by the government, biasing the amount of employees and registered capital as follows:

- Handcrafts: 1-9 permanent workers with a registered capital less than 30,000 JD
- Small enterprise: 10-49 permanent workers. With a registered capital above 30,000 JD
- Medium enterprise: 50-249 permanent workers. With a registered capital above 30,000 JD
- Large enterprises: more than 250 permanent workers and a registered capital above 30,000 JD

CHALLENGES TO SMES' GROWTH IN JORDAN

As specified by the National Agenda 2006-2015, challenges facing SMMEs in Jordan are:

- Administrative hurdles and system inefficiencies delaying the creation of start-ups and discouraging investment;
- Failures of the financial system to meet the needs of SMMEs (e.g. low response of commercial banks, limited venture capital) leaving few entrepreneurs with external financing options;
- An unfavourable taxation structure hindering development of private companies;
- High transportation infrastructure costs and electricity tariffs;
- Non-competitive ICT end-use access costs, limiting productivity gains;
- Quality of the workforce;
- Uneven and insufficient government support; and
- Limited funding and ineffective coordination of institutions and programmes that provide financial support and business development services.

From our studies we deem that challenges that SMEs' growth face in the Jordanian markets fall into two categories, Internal Obstacles and Exterior Obstacles:

Limited internal resources

SMEs have very limited internal resources (human capital included) in addition to management skills, and access to technology; most SMEs are focusing on the production of traditional, low value-added goods or services of modest quality. The majority of SMEs do not have quality control systems; as well the investment in technology to develop their business is very low.

Cost of doing business

The cost of doing business can be high for many SMEs in Jordan. The tax system in Jordan and the newly produced law whereby companies with a capital of 20,000JD should appoint legal counsel, both are resulting an additional cost to appoint tax and legal expertise. Also, SMEs with dependency on patents to gain early advantage in the markets may not be able to protect its intellectual property due to the high cost of intellectual property registration in Jordan.

Difficulty when working with government

SMEs can be unprepared to working with governments which can result in lost bids as well as project delays. Also, working with government clients can be slow, and a slow pace can crimp cash flow.

Lack to access to finance

Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. As firms start expanding, external sources become more important and their availability can determine the firms' growth possibilities. External finance is positively and significantly associated with productivity. In Jordan, access to finance for SMEs is a challenging obstacle, this is due to various reasons, we list the important ones:

- Lack of reliable collateral
- Lack of reliable guarantors
- Lack of track record
- Lack of awareness of financing barriers
- Lack of business management and skills
- High interest rate VS. SMEs business feasibility
- No proper communication with lenders
- Lender's risk management and concern of loan default
- Lender's requirements of financing
- Lender's confidence in SMEs business

SMEs' company incorporation status

The vast majority of SMEs' incorporation status in Jordan is not limited liability, diffusing the momentum of SMEs to borrow money from financial institutions.

Lack to the source of market information

Difficulty in obtaining information about market opportunities, in some cases, this is because of confidentiality, in some others, because of transparency or private property. The lack of data hinders SMEs' development and growth.

Lack of credibility and reputation

SMEs face a serious challenge to signal that they are credible trustworthy players in their industry and offer high-quality products and services.

Demand uncertainty

In a market like Jordan, demand is growing at a rapid but unpredictable pace. Customers in these markets are wary of committing to a variable (per unit) pricing scheme because, given the unpredictability of demand, it is hard for SMEs to have the proper tool to estimate demand relatively accurately for this pricing scheme to be profitable.

These challenges affecting negatively SMEs, as well the survival and growth opportunities of current entrepreneurs. In addition to all of that, the high cost of energy, current regulation on foreign labour and high taxes are main factors for many failed SMEs.

OVERCOMING THE CHALLENGES

Jordanian policy makers and economic developers should strengthen ongoing efforts at removing these resilient challenges that face SMEs, mainly limitations in finance, access to market knowledge and limitation in internal capacity resources. Serious attention should be given to the organised private sector-led model of SME support provision. For example, the network of organised private sector such like Chamber of Commerce could have greater involvement in designing and providing SME empowerment.

Intensifying government responsiveness to SMEs' Challenges

The quality of responsiveness of the government has a significant impact on transparency and the ease of doing business of SMEs. Government's responsiveness toward SMEs is necessary to assess challenges, to identify policy and to determine lead roles, targets and prioritization. Analysis of the tools and options available, and the potential impact and cost-effectiveness of each, should be conducted before selecting and implementing policy reforms and interventions. Further work is needed on impact assessment techniques for SMEs Finance policies and interventions. It is not arguable that the government provides various support programme to SMEs, however, the persisting low user-level perceptions of such support programs call for the

modelling of the process of introducing specific support programs after the new product development framework. This typically requires different but iterative levels of idea generation and multi-stage screening and evaluations, and centrally involves the target user and other key stakeholders. That said, government should pay serious attention of the following points with regards to its SMEs support provision:

- Identification, realisation and of top SMEs' challenges;
- Measurement of responsiveness to SMEs' support provision;
- Measurement of perceptions of SMEs' support provision;
- Enhancement of the acceptability and reachability of SMEs' support provision
- Comparison of support provision with regional and international best practice;
- Identification of actions to enhance awareness and perceived usefulness of support provision.

On the other hand, the governments should emphasize improving data availability and investing in regular collection and dissemination of reliable financial inclusion data. The focus of these data-related investments will vary by country, but overall recommended measures to improve the current data landscape on SME.

Improvement in access to finance

Developed regulation

Regulators play a key role in the design and implementation of an enabling environment for SME finance, which includes providing the legal and regulatory framework in support of SME access to finance, and can also include interventions promoting SME finance, and the collection and analysis of data on financial inclusion. Although the government of Jordan reduced reserve requirements to lower interest rate for SMEs, it could be urged that the government can design more tools to make finance more affordable to SMEs. In this context we suggest the following:

Requiring local banks to set up branches in rural areas;

- Requiring banks to lend SMEs in certain sectors;
- Through regulatory framework, arranging alternative finance products to SMEs;
- Balancing between protecting lenders to ensure secured financial transactions and assessing SMEs for lenders' funding, this could be by using SMEs' present and future movable assets as collateral instead of buildings and lands;
- Enhancing the financial infrastructure by introducing developed financials regimes like credit rating, collateral and insolvency systems;
- Creating competitive marketplace for SME finance that should include financial institutions as well as non-financial institutional providers.

Capacity building

It is important that the government provide Capacity-building for SMEs to improve their skills and capability, for example enhancing their creditworthiness, credit guarantee schemes, state banks and funds, and supply chain finance linked to public procurement and payments.

Link knowledge creation with venture creation

Turning raw ideas into market-ready enterprises takes more than R&D spending, especially when a country like Jordan is still building its innovation strengths. New ideas must be linked to enterprises that deploy them and education should be aligned with industry needs. Link small and large enterprises to promote the growth and success of SMEs and revitalize large corporations through partnerships with innovative SMEs. When a business becomes a corporate supplier, it can experience significant growth. Corporate sales enhance a firm's reputation; one corporate contract leads to others. Large companies also push SMEs to develop new features, spurring more innovation. From our studies, we found that start-ups that become dominant players have strong early-stage relationships with established companies. All the above is not an easy task to be applied; it requires lots of work on the infrastructure of Jordanian platform of innovation. We provide the following suggestions that we deem it would strengthen the ideas-to-market chain, maximizing successful outcomes.

Knowledge-creation Centers

R&D increasingly depends on collaboration between companies and universities, but the interests of the parties are not always well aligned. Too often, academic research doesn't produce useful innovation. The key to their success is strong industry ties and networks connecting faculty,

entrepreneurs, and funders. Alternatively, research should be treated as a public asset. Jordanian Universities therefore should apply a collaboration approach to provide their researchers access to state-of-the-art computational infrastructure and anchors an innovation district that will attract other businesses.

Incubators

Incubators link new businesses to strategic partners and capital sources, their performance improves dramatically and they create jobs that remain in the host region. Jordanian government, local economic development department and universities should take the lead in sponsoring incubators with a specific focus on targeted industries such as food processing, medical technologies, software development, renewable energy and environmental endeavours. According to The National Business Incubation Association, in the United States, ventures supported by incubators generated an estimated 415,000 full-time jobs, 71,000 part-time jobs, and \$23.7 billion in annual revenue in 2013.

Innovation Zones

Small adjustments to local district laws, which often prevent mixed-use residential/work spaces could create an innovation zone linking science, start-ups, and the community, therefore have a dramatic effects on new-business formation. Jordanian government by applying this approach will enhance seamless platforms connecting innovation and entrepreneurship.

Easing the bid process

Bid procedures at large companies are considered in many contexts a complicated process for SMEs and thus cut out those qualified one from the procurement cycle, making it difficult for SMEs to break into corporate supply chains. The biggest obstacle is getting information – about which people to pitch at a large company and what they need. Even once they're in the door, most SMEs don't receive advice or technical assistance. Most also experience problems with slow sales cycles, slow payments, and price pressure. One basic way to improve this situation is to simplify the process by which SMEs bid for business. This could be by

developing a prototype in supplier connection, a web portal that allows small firms to apply to be vendors offering them one door to reducing the administrative burden on both sides. Large companies could give smaller suppliers access to internal training programs and online tools; help them break into global export markets by making introductions or offering them temporary space in international offices; or include them in purchasing and insurance pools, lowering their costs and allowing them to invest in innovation and new jobs. Benefits could flow the other way as well. For large companies as it could lower costs, raise performance, and simplify logistics.

CONCLUSION

Until now, the government's efforts to develop the SME sector have not been guided by a coherent national SME policy framework and there is no central mechanism inside government for designing and monitoring the development of an inclusive SME policy. Policies affecting development of SMEs are embedded in other policy frameworks, such as the National Microfinance Strategy, the National Employment Strategy 2011-2020, the Industrial Policy 2010-2015, the National Innovation Unemployment rates (rising to 14% in 2013), and an all-time high budget deficit, therefore SMEs must be supported and empowered as the main long term solution for several problems, and domestic enterprises must be able to compete on an international level with the products imported into the market from other countries and the export opportunities presented by Free Trade Agreements (FTAs).

That said, a national campaign led by corporations, business associations, universities, public officials and legislatures could help SMEs grow. National leaders across sectors should be linked to develop national strategies and produce scalable models that build on local assets and attract regional assets as in many cases regional collaboration can accomplish things that are difficult to achieve at the national level.

Leaders should encourage policy makers to direct resources toward links that fill gaps in the SMEs platform and move ideas into use, strengthens SMEs that create jobs and educates people to be job-ready. This is good for the economy and society.