

# **MED BEST Process in Jordan Country Report**

**Competitiveness Unit  
Ministry of Planning and International Cooperation**

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## **Introduction:**

The MED BEST<sup>1</sup> Initiative aims to encourage the exchange of good practices between the European Commission and each of the nine Mediterranean partners (Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Authority, Morocco, Syria and Tunisia), and improve policies to support enterprises in the Mediterranean region . This is to be accomplished by making an inventory of the measures implemented by each partner to stimulate entrepreneurship and competitiveness , and by identifying priority fields of action for enterprise policy. In this regard, the MED BEST Process covers five main areas with a particular focus on Small and Medium Sized Enterprises (SMEs). These include:

- 1) Simplification of Administrative Rules
- 2) Access to Finance and Taxation
- 3) Access to Information and Business Support Services
- 4) Access to Education and Training
- 5) Promotion of Research and Innovation

The following sections of the report at hand identify different measures and actions taken by various stakeholders in the economy to ensure favorable conditions for the business community in each of the abovementioned areas, as well as highlight issues that still need further attention and improvement. In this regard, a thorough consultation process was undergone with the main organizations and institutions mentioned in the report to attain and include their feedback, thereby ensuring the information in the report is as accurate as possible. It is also important to note that MED BEST is not simply another study, but a report that reflects the way Jordanian economic operators view enterprise policy in their country.

In view of the above, it is essential before continuing with the MED BEST country report for Jordan, to give a brief introduction about the prevalence of SMEs in the Jordanian economy, to emphasize the vital role they would have to play in stimulating entrepreneurship and competitiveness.

According to the latest published data of the Department of Statistics, the percentage of establishments employing four workers and less stood at 91.8%. Adding medium-scale establishments that employ 5-19 workers, the percentage of SMEs in Jordan rises to 98.5% employing around 64.2% of the workforce.

Clearly, such a large sector of the Jordanian economy requires special attention, especially in areas of capacity building and competitive ability. This need is exacerbated by Jordan's entry into several Free Trade Agreements. Although these Agreements present great opportunities for Jordanian enterprises to compete abroad and have actually resulted in significant progress being achieved in the trade area through reductions in tariff rates, they also pose threats for local SMEs in the services and manufacturing

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<sup>1</sup> The MED BEST initiative is a process that is complementary to the drafting of the Euro -Mediterranean Charter for Entrepreneurship.

sectors. Having to compete with international corporations on quality and price requires further investment in the human capital behind these SME's as well as research that is conducive to innovation. Ensuring that SMEs operate in a favorable business environment facilitating investment and growth, is also essential for the future prosperity of the Jordanian economy.

## I. Simplification of Administrative Rules

### Overview

Like all countries, Jordan has worked on simplifying the framework of conditions for doing business in the country, especially the administrative procedures relating to company registration, including legal, institutional, procedural, and information dissemination adjustments. Efforts have been made over the period of four years, to assess registration processes and the accompanied procedures in Jordan with the aim of reducing the bureaucratic barriers that face investors. The assessments identified specific areas of administrative concentration, and revisited many procedures that continue to constrain investment and business growth in Jordan. For example, the investor in the past had to go through numerous different departments and offices to register a company with 5 different forms and 37 required data fields, without any kind of process automation. In addition, pre-approvals from different governmental departments continuously impeded this process.

Moreover, according to the World Bank's "Doing Business" report for 2004, certain areas of the business climate in Jordan called for improvement. For starters, the actual time for closing a business was recorded as slightly above the regional and the OECD average as shown in table (1). Meanwhile, the actual cost of closing a business, as a percentage of estate, is better than the regional average. Additionally, the court's involvement in insolvency issues is lower than the regional average as Jordan ranked 33 in the Courts' Power Index, which is close to the OECD average of 36. In this regard, the Ministry of Industry and Trade created a committee to help solve commercial disputes before they reach the court, thereby allowing the parties involved more flexibility in settling their disputes, to save time and money.

**Table (1): Closing a Business According to the World Bank 'Doing Business Report'**

Indicator	Jordan	Regional Average	OECD Average
Actual time (in years)	4.3	3.7	1.8
Actual cost (% of estate)	8	13	7
Courts power index*	33	57	36

\*This index covers three main aspects; whether the court appoints and replaces the insolvency administrator with no restrictions imposed by law, whether the reports of the administrator are accessible only to the court and not creditors, and whether the court decides on the adoption of the rehabilitation plan. A lower value indicates less court involvement in the insolvency process, which reflects more flexibility to the insolvency process.

However, when examining the areas of liquidation and contract enforcement, according to the Jordanian Companies' Law, a public shareholding company shall be liquidated either voluntarily; by virtue of a decision adopted by its extraordinary General Assembly, or compulsorily; by virtue of a binding Court decision. The Company shall not be dissolved until the liquidation procedures are completed in accordance with the provisions of the Companies' Law. Moreover, the liquidation period should not exceed three years, except in exceptional cases that are taken into consideration by the Controller in the event of voluntary liquidation, and the Court in the event of mandatory liquidation. In brief, liquidation procedures are inline with international standards.

In terms of enforcing contracts, the ability of the system to enforce commercial contracts is instrumental in attracting investment to Jordan and increasing investor confidence in the legislative environment and the protection of investor rights. Table (2) indicates that the procedures for enforcing contracts are very favorable to investors. Although entrepreneurs have to go through 32 steps for enforcing a contractual agreement, which is higher than the regional and OECD countries' averages, the entire process is less time consuming (147 days), and less costly in terms of court and attorney fees (0.3% of Gross National Income (GNI) per capita). Moreover, the overall complexity of the process is similar to that of OECD countries, and is more efficient than the average for regional countries. While Jordan is doing relatively well in this regard, it could easily excel far above even developed world averages by a great deal by reducing the number of procedural steps involved, which will require legislative adjustments. Incidentally, the Ministry of Justice is currently engaging in a program which aims to review the entire legal system and court proceedings that may interrupt the efficiency of due process in the country, and train judges on issues related to the WTO agreement, international trade, new technologies, and investment issues. Moreover, a new scheme, as part of the program, has been adopted within the judicial system to manage claims, arbitration, and illegal interventions, and to computerize the courts and judicial departments.

**Table (2): Enforcing Contracts According to the World Bank 'Doing Business Report'**

Indicator	Jordan	Regional Average	OECD Average
Number of procedures	32	25	17
Duration (days)	147	297	233
Cost (% of GNI)	<b>0.3</b>	15.6	7.1
Procedural Complexity Index*	<b>49</b>	61	49

\* The index varies from 0 to 100. Higher values indicate more complexity in enforcing contracts.

In terms of labor market flexibility, the overall hiring and firing procedures in Jordan are more rigid than those in regional and OECD countries. (See table (3)). In the "Flexibility of Firing" index, Jordan differs significantly from other countries in both its grounds for firing, as well as firing procedures. Ultimately, this difference stems from the right to job security that is guaranteed in the Jordanian constitution. Jordanian law expressly establishes "fair grounds" for dismissal and for collective dismissals, and even the dismissal of a single employee. A third party must be contacted for notification and approval. In other countries this notification is unnecessary.

**Table (3): Hiring and Firing Workers According to the World Bank 'Doing Business Report'**

Indicator	Jordan	Regional Average	OECD Average
Flexibility of Hiring Index	<b>33</b>	42	49
Conditions of Employment Index	<b>82</b>	65	58
Flexibility of Firing Index	<b>64</b>	35	28
Employment Laws Index*	<b>60</b>	48	45

\* Each index assigns values between 0 and 100, with higher values representing more rigid regulations.

Within the law, an employment contract is not mandatory to hire an employee, but if such a contract exists, it will govern the employment relationship unless it contradicts or restricts the protection of rights of the employees as provided in the Labor Law. In an open-ended employment relationship, each party must give one month's notice on terminating this relationship. An employer may forgo this notice period by firing an

employee immediately, but in any lawsuit, the burden of proof is on the employer (rather than the employee) to show that termination was for a just cause as specified in the Law. This burden of proof is what makes Jordanian law more rigid than other countries. Several aspects of the Labor Law are in need of modernization. However, the basic issue remains that employment in Jordan is given as an express right in the constitution, placing the burden on employers rather than employees, which makes the laws slightly difficult to adjust.

Consequent to the situation at hand, Jordan has undertaken a wide range of actions to remedy these shortcomings, in which many administrative procedures have been expedited and gone into enforcement through certain government entities, specifically the Ministry of Industry and Trade (MIT), the Jordan Investment Board (JIB), and the Jordan Customs Department along with international development agencies.

### **Actions taken to Simplify the Administrative Procedures and Improve the Investment Environment in Jordan**

#### **Simplification of Company Registration Procedures; Ministry of Industry and Trade (MIT):**

The reform's results were reflected in significant physical and organizational changes in the Company Controller Directorate, which is the governmental body, within the MIT, responsible for registering companies. The most visible manifestation of this change was the creation of a single room staffed with the various officials involved in company registration, thereby allowing investors to complete all company registration activities in one space. The procedures have similarly been changed, with a new automated application processing system installed; the number of forms have been cut by 80% (from 5 forms to 1 form), and the 37 required data fields have been reduced to 7. According to government officials and an independent investigation, the total time involved was reduced from over two weeks to 30 minutes. Moreover, the company registration process relating to sole proprietorships, which includes most SMEs in Jordan, was reengineered, reducing the time needed for approving a sole proprietor registration significantly.

At present, the company registration process is automated and information and forms can be accessed over the Internet. While the Ministry anticipates accepting registration forms over the internet, the investor is still required to sign an application to make the registration legally binding and final since there is no official body in Jordan authorized to authenticate electronic signatures.

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#### **Facilitation of Investment Procedures; Jordan Investment Board (JIB):**

In a recent development to facilitate and ease investment procedures to overcome bureaucracy that might render Jordan unattractive to investors, a One Stop Service (OSS)

located at the Jordan Investment Board<sup>2</sup> (JIB), which is the governmental body responsible for promoting and facilitating investments in Jordan, was established. The OSS aims at providing licensing and registration services to new projects within 14 days, which is less than the MENA average of 50 days as well as the OECD average of 30 days as per the World Bank's "Doing Business" Report. It consists of nine representatives from different governmental bodies located at one central office, with authorization to issue approvals for businesses. The services offered by OSS include the following:

- Registration of projects according to the Companies' Law
- Issuance of preliminary licensing approvals for the start-up of projects
- Issuance of visas and permanent residency approvals for investors and the foreign labor needed for the project
- Follow-up services

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### **Simplification of Custom Procedures and Operations; Jordan's Customs Department:**

Customs Reform and Modernization seeks to promote international best practice activities aimed at enhancing the effectiveness and efficiency of customs operations in Jordan. Over the past three years, Jordan's Customs Department has made major strides in trade modernization.

The single most important step was the implementation of the Automated System for Customs Data (ASYCUDA) that operates at all key entry points. Goods entering Jordan are cleared in as little as one day, as opposed to weeks in the past. This basic declarations application is gradually being expanded through the introduction of the supplementary modules (transit, manifest, and under-bond) at all appropriate sites. As a precursor, Achievement of Market Friendly Initiatives and Results Program (AMIR)<sup>3</sup> is upgrading heritage components and ensuring Internet compatibility of the present Customs system. It is also working with the Customs Department on the development of a fully integrated tariff that would identify, in a single web-based document, all import, export and transit requirements for goods crossing Jordan's borders.

However, this system requires integration with other on-going customs activities related to risk management, intelligence, investigations and enforcement. It also requires the incorporation of the overall institutional trade structure relating to legislation and internal agency management, as well as its extension to other stakeholders such as the Ministry of Health, Ministry of Agriculture and the Jordan Institute of Standards and Metrology (JISM).

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<sup>2</sup> The Jordan Investment Board (JIB) was established in 1995 with a mandate of promoting domestic and foreign investment in Jordan, and assisting investors at all stages of the investment cycle. The JIB guarantees tax and customs incentives for investors under the Investment Law No. 68, 2003 .

<sup>3</sup> The AMIR Program is an innovative economic opportunity project funded by the United States Agency for International Development (USAID) implemented in partnership with the Jordanian private sector and government.

Another measure taken by the Customs Department; was the development of an organizational strategic plan, based on the United States ' model. Currently, it is implementing a three-year plan as part of stepping up efforts to improve entry procedures, the valuation process, and staff training. Moreover, Jordanian leaders have come to appreciate the importance of a modern customs service as a means of attracting investors, expanding trade, and increasing national revenues.

Finally, despite the progress the Customs Department achieved, like all customs administrations worldwide, it still faces significant challenges. Particular challenges as previously mentioned, encompass the application of effective risk management to minimize the risks from non-compliance while promoting international trade, and the risks from threats to international security. Nonetheless, the Department is working with technical experts to transform itself into an organization based on international best practices, as defined by the International Convention on the Simplification and Harmonization of Customs Procedures of the World Customs Organization (WCO).

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#### **Incentives for Governmental Entities to Simplify Administrative Rules through the Establishment of an Innovation Fund; Ministry of Administrative Development:**

Currently, the Ministry of Administrative Development is undertaking an initiative to encourage government agencies to develop and improve their service level, simplify their procedures, and boost their performance. The initiative focuses on establishing an innovation fund; an instrument aimed at promoting an improvement in the provision of services to citizens through administrative innovations, or through technical innovations. The innovation fund will support a number of small projects that will be proposed by governmental agencies, or governmental agencies in partnership with NGOs, or users' associations, which can be implemented rapidly. The proposed projects will be selected on a competitive basis, and once they have been implemented, their achievements and results will be evaluated and the best performing projects will be awarded.

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#### **Incentives for Government to Improve Performance and Services through the King Abdullah II Award for Distinguished Government Performance and Transparency:**

Jordan is the only Mediterranean country with excellence awards. The King Abdullah II Award for Distinguished Government Performance and Transparency is the highest prize for excellence in the public sector at the national level. Established by a Royal Decree issued on 4/9/2002, 5th award illustrates His Majesty's desire for sustainable, globally competitive public sector institutions.

Therefore, the award aims at enhancing the role of the public sector in the service of all sectors of the Jordanian society, as well as the investment community by disseminating awareness pertaining to the concepts of comprehensive management, quality and distinguished performance. It seeks to spur distinguished performance by government institutions and their employees by highlighting the exceptional efforts of public sector institutions and showcasing their accomplishments through the development of internal systems and services.

The award is supervised by a board of trustees chaired by his Royal Highness Prince Faisal bin Al-Husseini. The Royal patronage for the award gives it accountability. The members of the board are appointed by His Majesty (half of them are from private sector).

The main criteria of the award are also the three pillars of best practice in modern governance. These comprise government best practices that are citizen-centered, results-focused, and portray a transparent government. To gauge an institution's adoption of the abovementioned pillars, the institution is assessed in terms of leadership, people, knowledge, finance, and process. By reaching the best practice standard in these criteria, an institution can achieve and sustain a culture of excellence.

The award is presented in three categories: best ministry, best performing institution and best employee. The rules make it compulsory for all government institutions to participate in the competition by nominating employees. Candidates should demonstrate that their performance has genuinely benefited citizens, yielded positive results, upheld the principles of transparency and accountability, and served as an example to their colleagues.

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**Intellectual Property Protection in Jordan:**

As part of a comprehensive effort to support Jordan's membership in the WTO, the Government of Jordan reviewed its IPR laws and regulations to conform with, and adhere to, the standards and provisions of the WTO and its agents including but not limited to TRIPS and the Berne and the Patent Cooperation Treaty (PCT).

These changes prompted the International Intellectual

**Box (1): Intellectual Property Protection in Jordan**

Owing to the importance given to intellectual property rights in Jordan, the Jordanian legislator is supported by several laws and regulations including

- The Patent Law No. 32 of 1999 amended by the Temporary Law No. 71 of 2001 and Regulation No. 97 of 2001
- The Trademarks Law No. 33 of 1952 amended by Law No. 34 of 1999 and its Regulation No. 1 of 1952 amended by Regulation No. 37 of 2000
- The Protection of Layout-designs of Integrated Circuits Law No. 10 of 2000 and the Regulation of the Protection of Layout-designs of Integrated Circuits No. 93 of 2002
- The Industrial Designs and Models Law No. 14 of 2000 and the Regulation of Designs and Models No. 52 of 2002
- The Copyright Law No. 22 of 1992 amended in the years 1998, 1999, 2001 and lately amended by the Temporary Law No. 78 of 2003
- The Geographical Indications Law No. 8 of 2000
- The Law of Unfair Competition and Trade Secrets No. 15 of 2000

Property Association to remove Jordan from its watch list, a critical first step for building the country's credibility in IP issues. Jordan is now regarded as a regional leader in the enforcement of intellectual property laws.

Jordan was one of the first countries in the region to apply anti-piracy laws, and has gained a reputation of credibility in the field; copyright piracy in Jordan dropped by 67 per cent in 2001, compared to 63 per cent the previous year. Furthermore, according to official figures, 341 cases of copyright infringements have been referred to the judiciary this year involving pirating cassette tapes, video cassettes, PCs, CDs and books, among other items protected by the law.

With Jordan signing the Jordan-US Free Trade Agreement, it has committed to TRIPS-PLUS obligations and higher intellectual property protection levels.

### **Closing Remarks**

Although the OSS, if successful, will help businesses overcome numerous administrative and procedural obstacles, there are still sectors in the economy that do not benefit from the Investment Law (e.g. the trade sector), and therefore still suffer from excessively burdensome procedures. Hence, there is still a need to redesign and simplify procedures and their flow in a systematic and clear way on a wider scale to include such sectors.

## II. Access to Finance and Taxation

### Overview

Jordan has made solid progress in the monetary and financial sectors by implementing a comprehensive economic adjustment and reform program. The reforms have resulted in a well-developed financial sector; and financial depth in Jordan (measured either by the comprehensive financial development index or as broad money to GDP) is close to the highest in the MENA region. Notwithstanding this relatively high level of development for Jordan, the need for further financial deepening is still felt throughout the economy.

The percentage of SMEs in the Jordanian economy reaches 98.5%. Therefore the source of starting capital for businesses is often the owner's savings, personal credit cards, home equity loans and funds from friends and family. As a general trend, SMEs in developing countries struggle to access bank credits, as commercial banks are reluctant to provide loans to small firms. This is the case in Jordan mainly due to the following:

- § High risk of lending to SME projects;
- § Information asymmetry as a lack of clear financial history on the part of SMEs; and,
- § Loan application shortcomings as no adequate work plan is available.

As a result, banks in Jordan often require high collateral from SMEs as well as charge significantly higher interest rates than the SMEs' larger competitors on loans of the same type and maturity. Not surprisingly, this has led to the development of an SME culture that is unfamiliar with the financial sector, whereby SMEs are afraid of the banking environment and trust between both parties is absent. Hence, the prevalent situation limits and impedes the ability of Jordanian businesses to grow and expand.

### Facilitating Access to Finance in Jordan

#### Provision of Guarantees; Jordan Loan Guarantee Corporation (JLGC):

In light of the above stated obstacles, the Jordan Loan Guarantee Corporation (JLGC) tries to moderate the negative ramifications of what is considered the largest impediment faced by SMEs when accessing finance: the high perceived risk on the part of banks from lending to such firms thereby leading to high collateral requirements.

In line with its aim of supporting the activities of SMEs and export sectors, JLGC guarantees loans for SMEs, as a partial coverage of the loan risks, thereby enabling them to increase their participation in the economic and social development of the Kingdom.<sup>4</sup>

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<sup>4</sup> It is worth mentioning here that the coverage of loan risks is facilitated by the fact that JLGC was established by the Central Bank of Jordan, the banking system and by other public and private sector institutions. The Jordan Islamic Bank and the Arab International Islamic Bank are the only local commercial banks that are not shareholders in JLGC.

The guarantees given by JLGC can also be used to cover the risks involved in export credit.

JLGC tries to accommodate and cater for both the demand and the varying needs of the business community in Jordan, which are identified through the development of the tools and means required for the successful integration of the JLGC work with the local community. In this regard, JLGC introduced and improvised a wide range of new services and programmes to cater for market requirements and bankers' needs, such as the Personal Computer Guarantee Programme, the Housing Loan Guarantee Programme, and Land Purchase Loan Guarantee Programme.

The following table illustrates some of JLGC's 10 -year accomplishments:

	Number of Loans	Portfolio in JD	% to Total Portfolio	Number of Loans to Total Portfolio
SME Loans	3333	56,555,130	48.28	51.81
Housing Loans	2794	58,817,150	50.21	43.43
Personal Computer Loans	158	107,394	0.10	2.46
Land Purchase Loans	12	176,700	0.15	0.18
Rural Development Loans	136	1,478,400	1.26	2.12
<b>Total</b>	<b>6433</b>	<b>117,134,774</b>	<b>100</b>	<b>100</b>

It becomes apparent when analyzing the above table that JLGC has helped many SMEs obtain funds from banks using its guarantee. JLGC has issued almost 120 JD million worth of loan guarantees, which represents twelve times its capital. It also helped add about 17,000 job opportunities to the national economy. For example, the Housing Loan Guarantee Programme indirectly helps many SMEs by creating more work and jobs for those in the construction sector, such as painters, brick and block layers, blacksmiths, and truckers. The Housing Loan Guarantee Scheme (targeting medium -and lower-income citizens) has also assisted many Jordanians realize their dream of owning their own home, thus achieving a national policy target .

Moreover, JLGC began a partnership with EJADA (Euro -Jordanian Action for the Development of Enterprise) in July 2001 under the "Industrial Finance Program." JLGC was given the responsibility of running the financial aspect of the program thus eventually becoming the owner of the six million Euro fund, which is currently run under separate accounts in return for guarantee fees. Furthermore, the Jordan Loan Guarantee Corporation, the Ministry of Planning and International Cooperation and the Central Bank of Jordan signed a memorandum of understanding through which the Ministry will establish a one million JD loan guarantee fund in order to increase JLGC's capabilities in issuing guarantees to small businesses all over the Kingdom with the assistance of the Enterprise Productivity Centre (EPC) field officer.

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### **Favorable Interest Rates; Industrial Development Bank (IDB):**

As part of the on-going efforts to facilitate access to finance for firms traditionally bypassed by commercial banks, the Industrial Development Bank (IDB) tries to address two major bottlenecks faced by such firms. The first is the lack of low interest financing, while the second is the lack of financing needed for technical services, such as conducting feasibility studies, hiring consultants, and achieving international certification. For this reason, the IDB tries to provide the following while retaining a stronger focus on higher-risk sectors than the JLCG:

- Grants to facilitate international certification, such as ISO - 9000, HACCP
- Loans at lower interest rates than commercial banks
- Grants for technical assistance in the form of financing sector studies and feasibility and consultancy studies, or facilitating the provision of consultants

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In 2003, the IDB had given 81 loans, to projects undertaken in the industrial and tourism sectors. The loans amounted to a total of JD12.7 million, of which the industrial sector received 76.1%, while the tourism sector received 23.9%.

### **Microenterprise Initiative (MEI)/ Achievement of Market Friendly Initiatives and Results Program (AMIR):**

Similar to SMEs, micro-enterprises are also not well-served by the banking sector. For this reason, operations such as AMIR's Microenterprise Initiative (MEI) are deemed essential.

The United States for International Development's (USAID) economic development program AMIR aims to promote economic growth and prosperity in Jordan by developing a more favorable environment for businesses and investment, part of which is establishing a sustainable microfinance industry in Jordan through commercial banks and NGOs, based on internationally accepted "best practices" of micro financing institutions. (See Box 1) Therefore, the MEI provides technical assistance and grants to help build sustainable microfinance institutions that provide access to credit to small and

#### **Box (1): The MEI Component of the AMIR Program**

The Program includes:

##### **a) The First Formal Microfinance Training Program in the Region**

AMIR works in partnership with Jordan's Institute of Banking Studies. Using an Arabic language curriculum, managers and loan officers from institutions committed to establishing sustainable microfinance lending programs will undergo intensive 2-week training in areas including operational and financial management, loan portfolio management, marketing and management information systems. This permanent training program will play a key role in meeting the current and future needs of the domestic and regional microfinance lending community, helping to ensure the awareness and application of international best practices in this field.

##### **b) Policy Reform to Support Microfinance:**

This involves working with the Jordanian government to help create a policy and legal framework that is conducive to the development of a sustainable microfinance industry in helping to reform laws relating to the security of moveable assets; expediting legal proceedings relating to small claims; and evaluating the feasibility of establishing a private sector, nationwide credit bureau that will help commercial banks and sustainable microfinance lending institutions accurately evaluate the credit worthiness of all prospective clients.

micro enterprises that would not otherwise have access to loans from the traditional banking sector.

In April 1999, USAID's AMIR awarded nearly JD6 million to three Jordanian Microfinance Institutions (MFIs) who provide loans to small and micro entrepreneurs. Grant agreements provided these institutions with operating and loan capital. Additional funding was provided for technical assistance, training, and capacity building needs. Recipients were the Microfund for Women Ahli Microfinancing Corporation and the Jordan Micro Credit Company. Additionally, joined by the Middle East Micro Credit Company, formed under a USAID grant for the Community Housing Finance (CHF) these four MFIs received grants totalling \$4.2 million to create the Wholesale Funding Facility which provided an innovative solution to build the bridge to commercial access of funds. Under this facility, the MFIs established relationships with banks and secured additional loan capital on a commercial basis .

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As of May 2004, these institutions have served over 63,000 clients issuing more than 146,577 loans totalling over JD 55,502,868.50.

It is also worth mentioning that the AMIR Microenterprise Initiative has done significant work in assisting and promoting micro and small enterprise (MSEs) growth through increased access to, and the improved application of, Business Development Services (BDS).

## **Taxation**

Tax and customs are contentious issues in Jordan, although much has improved in the customs' operations in recent years. (See tables (1) and (2)) The taxation system and customs, to a lesser extent, are both areas where the interaction between the public and private sectors gives rise to substantial frictions and leads to severe inefficiencies for both parties. Therefore, especially in the area of taxation, there is always room for improvement.

There are several types of taxation in Jordan that affect both companies and individuals. The main ones are corporate income tax, personal income tax, sales tax, and property tax.

All public shareholding companies, for-profit cooperative societies, limited liability companies, share partnerships, limited partnerships, and foreign companies and their branches must pay tax on income derived in Jordan, with the tax rate depending on the activity. However, as an incentive provided by the Jordanian government, several activities are exempt from income tax. Corporate tax rates fall into three bands as follows:

- § 15%: mining, industry, transportation, construction contracts, hospitals;
- § 30%: financial services, including banks and financial institutions; and

§ 25%: all other companies, including insurance companies, telecommunications, trade, services, foreign exchange dealers, and others.

**Table 1: IMD Taxation-Related Indicators**

IMD 2003 Indicators	Rank out of 29
Collected total tax revenue	2
Effective personal income tax rate	2
Effective personal income tax	1
Average corporate tax rate on profit	6
To what extent do real personal taxes discourage people from working or seeking advancement	8
Collected corporate taxes	4
To what extent do real corporate taxes discourage entrepreneurial activity	14
Collected capital and property taxes	7
Collected indirect tax revenues	5
To what extent is tax evasion a common practice in the economy	19

\* Source: *World Competitiveness Yearbook, Institute for Management Development, 2003*

**Table 2: GCR Taxation-Related Indicators**

GCR 2003-2004 Indicators	Rank out of 102
Efficiency of tax system	20
Irregular payments in tax collection	35

\* Source: *Global Competitiveness Report, World Economic Forum, 2003-2004.*

Furthermore, Jordan provides certain types of tax holidays for new investors under the Investment Promotion Law of 1995/2000. These vary according to designated areas of the country. In Development Area A, which includes most of the capital Amman and its vicinity, a 25% exemption from Income and Social Services Taxes applies for industrial companies. In Development Area B, which includes Irbid and Zarqa Governorates, the exemption is 50%. In Development Area C, which includes the rest of the country, the exemption is 75%.

In addition to the tax incentives offered by the Jordan Investment Board (JIB), a 100% tax holiday over any two-year period is granted to the companies investing in any facility operated by the Jordan Industrial Estates Corporation (JIEC) or any industrial estate which is also designated as a Qualifying Industrial Zone (QIZ). The JIEC is a fully autonomous administration offering facilities such as customs clearance within the estate, civil defense, bonded warehouses, commercial banks, gas stations, and vocational training centers. Under the Jordan Industrial Estates Corporation Law Number 59 of 1985, companies located within an industrial estate and are approved for incentives under the Investment Law, are also eligible for full relief from the General Sales Tax on imports of plant machinery and equipment. The companies are also eligible for a two year exemption from the social services tax, a total exemption from buildings and land tax, and an exemption from or reductions on most municipality fees.

## **Closing Remarks**

Although there are various programs in place to address the aforementioned challenges when accessing finance, the need for them far outstrips the supply. Companies can access consulting services through programs such as EJADA and AMIR (elaborated on in the Access to Information and Business Support Services chapter), but only a very limited number of firms are benefiting. To summarize, access to finance is not in optimal condition in Jordan; trust between SMEs and the financial sector must be established and the overall financial system must be revised in order to revitalize the ability of businesses to take out loans with ease and invest, especially the regulatory framework and judicial system, credit requirements, the high collateral demanded by banks, and information asymmetry. Possible suggestions that could help ease access to finance include less collateral, and making greater allowances for start ups and entrepreneurs through the establishment of seed capital and venture capital. (Venture capital operations are further discussed in the 'Promotion of Research and Innovation' chapter)

Finally, it is essential to examine the current tax regime in Jordan despite Jordan's favorable results in world renowned reports, due to the excessive tax burden experienced as expressed by the business community in Jordan. Specifically the prevalent tax policy, tax administration, tax enforcement, and the revenue effects of changes to the tax system, should be examined. In all likelihood, changes to the tax regime would produce additional revenue for the Ministry of Finance while simultaneously simplifying the system and reducing the level of acrimony associated with paying taxes in Jordan.

### III. Access to Information and Business Support Services

#### Overview

Given the increased challenges faced by SMEs in Jordan as a result of globalization and trade liberalization, in conjunction with their limited resources for expansion, building capacities, and upgrading purposes in general, more and more SMEs are seeking membership in their respective sector's association(s), due to the myriad services offered to their members. Such services include access to, and dissemination of, information, increased lobbying power when dealing with the government, marketing and promotion, and linking local producers with buyers and potential clients to name a few.

Furthermore, a number of organizations arose in Jordan with the aim of offering SMEs all the business support services necessary for sustaining their operations and increasing their competitiveness. In many ways, the existing networks of BSOs in Jordan complement each other. For example, some were established to facilitate access to the US market, while others focus on facilitating access to the EU market, both of which are the main potential export markets for Jordanian businesses. In addition, some target already existing income generating establishments, while others aim to create income generation projects in rural areas in the Kingdom as part of regional development.

Following is a detailed account of the main business services providers in Jordan.

#### Business Associations as Providers of Business Support Services

Over the past several years, His Majesty King Abdullah II has been calling for sectoral driven strategies and actions. For this reason, the government has been strongly encouraging and supporting the founding of business associations as official bodies representing and lobbying for the interests of SMEs in various sectors.

Today, there are many business associations in Jordan. Among them are the Jordanian American Business Association (JABA), the Amman World Trade Center (AWTC), the Information Technology Association of Jordan (Int@j), the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances (JAPM), the Jordan Garments Association & Textile Export Association (JGATE), the Jordan

##### Box (1): Key Sector-specific Business Associations in Jordan:

- § **JAPM** is a voluntary non-profit association dedicated to develop the Jordanian pharmaceutical industry into world class competitive standards. It strives to develop affordable pharmaceutical care solutions and enable Jordanian pharmaceutical companies to be global players.
- § **Int@j** is a voluntary non-profit, private organization whose mission is to effectively represent, promote and advance the Jordanian software and IT services industry in the global market- the association is a strong lobbying voice for the industry, and the government has reacted positively allowing plenty of opportunity for change in legislation and marketing policies.
- § **JEPAFV** is a not-for-profit organization. Its mission is to promote top quality exports of fresh produce and cut flowers from Jordan. The Association aims to provide a vehicle for the horticultural private sector in Jordan to organize its common activities and promote common goals.
- § **JOSTONE** is committed towards ensuring an ethical and lucrative sustainable Stone Industry. It aims to accomplish significant and sustainable number of exports, launch and establish JOSTONE as a healthy and a strong association, support Jordanian Stone and Marble firms to enhance their readiness to Export, and identify new market opportunities.
- § **JGATE** aims to engage in advocating, promoting, cooperating and in some cases, managing with stakeholders sector related issues to fulfill its vision and mission of turning Jordan's garment sector into a world class fashion industry, and ensuring a better quality of life for all stakeholders especially the Jordanian worker.

Exporters and Producers Association for Fruit and Vegetables (JEPAFV), the Jordan Stone and Marble Exporters Association (JOSTONE), and the Jordan Forum for Business and Professional Women, to name a few. Box (1) outlines the aims of these key associations in the Jordanian economy.

The government works closely with many of the associations on increasing their sectors' competitiveness to enhance the growth performance of the Jordanian economy. However, when looking specifically at measures to strengthen such associations, AMIR comes to mind.

### **Strengthening Business Associations in Jordan; AMIR :**

A mandate to strengthen business associations is central to the fulfilment of AMIR's objectives. USAID and AMIR have fielded various consultants to work with six participating business associations to perform organizational diagnostic reviews and assist in the preparation of three year strategic plans for the associations. Some of this work was conducted through AMIR's partner the Center for International Private Enterprise (CIPE). The major areas of emphasis included management, advocacy, membership development, human resource development and training, as well as stakeholder management, public relations and communication , and trade development.

Another goal of the project was to help nurture an informal alliance of Jordanian Business Associations to further promote a strong private sector. These include over 26 associations that have benefited from the AMIR program. Donations to the associations in terms of office and computer equipment totalled nearly \$200,000, in addition to grants totalling \$900,000 over the next three years to help participating associations implement work plans and increase membership.

AMIR has already begun to help develop the professional staff at several Jordanian business associations through training programs as well as a Certified Association Executive program; the first of its kind in the Middle East .

AMIR is also quite active in promoting Jordanian -US trade. AMIR has supported the creation of the TIJARA Coalition, a public-private partnership with the aim of enhancing trade and investment flows between Jordan and the United States. TIJARA is comprised of 26 business associations and government agencies working to achieve their mutual goal.

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### **Business Support Organizations (BSOs)**

#### **Utilizing National resources to Improve SMEs' competitiveness; National Fund for Enterprise Support (NAFES):**

The NAFES program is a joint effort between Jordan and Japan developed to provide small and medium enterprises with support to access consulting and training services by

local expertise. The support of NAFES covers the areas of business planning, management and financial systems development, marketing research and strategy development, feasibility studies, human resource development, and other productivity improvement related activities. NAFES support is available to productive private sector enterprises that add value to the national economy. Following the definition of SMEs adopted by the Ministry of Industry and Trade, the support is available to companies employing between 5 and 100 staff. To address issues of national concern, priority is given to enterprises located outside Greater Amman, and those owned or operated by women.

In 2002, NAFES approved support to 44 Projects out of 117 applications for support in various areas. (See table 1). The total value of support granted by NAFES amounted to JD 212,000. The operating mechanism of NAFES has been well received by the private sector in Jordan, resulting in continuously increased demand from SMEs. At the end of 2003 the governments of Jordan and Japan both agreed to double the fund allocated to NAFES operations. Up to the date of this report NAFES has received more than 350 applications for support, approved support for more than 160 projects with a total value of 1.2 Million JD.

**Table (1):** Projects Approved for support by NAFES - 2002

Type of Service	Number of Projects approved by NAFES
Human Resource Development	4
Developing Financial and Management Systems	4
Developing Cost Accounting Systems	1
Developing Distribution Systems and Maintenance	1
Adopting International Standards and Lab Accreditation	8
Training (in general)	15
Specialized Training for SMEs	3
Consultancy pertaining to Information Technology (IT)	2
Market Studies	2
Feasibility Studies and Business Planning	4
<b>Total</b>	<b>44</b>

What distinguishes NAFES from other BSOs is that it aims at upgrading the capacities and increasing the outreach of local business services providers in Jordan. This is accomplished by dealing exclusively with local consultants; it connects SMEs requiring consultancy support with local consultants who can address their business problems, whilst also providing the bulk of the financial support required to contract the local business services providers. Furthermore, it is worthwhile mentioning that NAFES has its own comprehensive monitoring mechanism whereby the performance of the contracted consultant is evaluated throughout the service provision process and is thus compensated accordingly. NAFES also evaluates the performance of the SME 6 months and one year after the service has been provided to assure that actual performance gains were attained from the delivered services.

NAFES' own unique organizational structure is another distinguishing factor helping it achieve its objectives in terms of facilitating access for support; NAFES has an

independent management base that is authorized to evaluate applications, enter into contractual arrangements, and release support funding. Moreover, unlike other support programs, NAFES applies a direct evaluation procedure for BSOs services that avoids the tendering process. This is done to avoid a common problem in Jordan known as “lowest best bid”, which often results in sacrificing quality for price. Instead, the beneficiary SME has the right to choose the consultancy service provider, and the required services are negotiated directly with NAFES management based on pre-set approved fees.

Finally, NAFES also monitors and evaluates its own performance through a Supervisory Board consisting of both public and private representatives. The Board utilizes the services of an international audit firm to implement cyclical operational and financial audits on NAFES management.

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### **Facilitating Access to the EU Market; Direct Support to SMEs Component/EJADA:**

The Euro Jordanian Action for Development of Enterprise program (EJADA) is a major 40 million Euro intervention by the EU designed to support new and existing SMEs in Jordan in order to facilitate penetration and access to the EU market.

Amongst its programs is the Direct Support to SMEs component, which addresses the competitiveness of the private sector while focusing on SME businesses in the manufacturing and service sectors that have growth and export potential. Tailored technical assistance is provided to SMEs and business support organizations through a range of programs, including cluster development, export promotion, sector studies and international benchmarking. The main activities of the Component are outlined in box (2).

In a relatively short time span the Direct Support to SMEs Component under the Business Upgrading sub-component has completed/ in the process of completing 25 implementation contracts for Business Support Upgrading. The Component has

- Box (2): Main activities of the Direct Support to SMEs Component**
- 1) **Provision of Technical Advice to Existing and Start-up SMEs:** This is offered by a task force of 6 Jordanian experts and two senior EU business consultants who initially conduct a two to four day diagnostic study of a company to identify weaknesses and opportunities. This is followed by one or more expert implementation assistance activities, mostly involving international experts, which aim to address problem areas and improve the company’s competitiveness. EJADA makes no charge for the initial diagnosis and pays for most of the cost of the implementation studies.
  - 2) **Assistance to SME Business Support Organizations:** Such organizations wishing to introduce value-added services to their SME members are provided with technical assistance and grants towards the cost of development plans and subject to appropriate criteria.
  - 3) **Training, Studies and Awareness Seminars:** The objectives of this component are to create and build awareness, amongst senior and middle managers of SMEs, of key business and management techniques and tools for growing businesses in the 21st century.
  - 4) **Support to New Businesses:** The range of technical assistance provided by EJADA to existing businesses is also available to start-up enterprises. In addition support is provided to selected business incubator units associated with universities or business support organizations meeting defined criteria.
  - 5) **The European Information Correspondence Centre (EICC):** The EICC supports one of the basic missions of EJADA-preparing Jordan for the Euro-Mediterranean Free Market. The EICC-Jordan is a one-stop-shop for European Union market enquiries on standards and regulations and is a member of the European Info Centres (EIC) Network; a network of 260 offices across 37 European and Mediterranean countries, geared towards exchange of information, experiences and examples of best practices. For the EICC website and registration [www.eicc.jo].

also provided its beneficiaries with training

courses in general management and marketing, initially targeting senior management personnel. The courses carried out so far include Strategic Market Segmentation , Management Development, Leadership and Executive Management, Balanced Scorecard, and International Payments and Contracting. Courses designed for specific business activities and industrial sectors include Marketing for Start-ups, Approaching Banks, Good Manufacturing Practices (GMP) in the Pharmaceutical Industry , GMP in the Olive Oil Industry , and Hazard Analysis and Critical Control Point ( HACCP) Awareness in the Olive Oil Industry. Other courses to provide training in more basic skills for other levels of personnel include Telephone Communication Skills , and Customer Services Skills.

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### **Facilitating Access to the US Market; Jordan US Business Partnership (JUSBP):**

The Jordan-United States Business Partnership (JUSBP) is an economic development program managed by the International Executive Service Corps (IESC) and funded by the United States Agency for International Development (USAID). Established in 1999, JUSBP provides financial assistance to private businesses in Jordan, focusing on Small and Medium-Sized Enterprises (SME's).

The program is coordinated with its Jordanian counterpart, the Industrial Development Directorate (IDD) at the Ministry of Industry and Trade (MIT). Since its inception, JUSBP has been instrumental in providing technical assistance to MIT/IDD with regard to trade development, quality standards programs, industrial training, and employment initiatives. Under the patronage of His Majesty King Abdullah II, JUSBP has initiated and supports the King Abdullah II Award for Excellence, the first program of its kind in the region to encourage international quality standards.

Designed to provide assistance to Jordanian companies, JUSBP conducts most of its work at the "firm level" to improve the business capabilities of client enterprises. This involves direct support for improvements in management, marketing, technology, production methods, quality assurance, financial management, and human resources, among other priorities.

A major thrust of JUSBP is to improve the ability of Jordanian companies to compete in international markets through expanded trade opportunities. As a US assistance program, JUSBP emphasizes trade with the United States, particularly advantages that are available under the Jordan-United States Free Trade Agreement. JUSBP addresses these export priorities through the Export Fast Track Activity Program, EFTAP.

The Global Trade and Technology Network (GTN), is also housed at JUSBP, offering a network of trade specialists to help companies with international trade transactions.

JUSBP works in most economic sectors with private business associations that seek to develop the commercial interests of Jordan. The program provides assistance to these

associations for business development, training, member services, trade enhancement, and networking with global associations and industry groups.

JUSBP also established a comprehensive industrial and human resources training program with both private and public sector constituents, and offers a unique Internship Program “Maharat” for Jordanian university graduates. Other JUSBP initiatives include, Faculty-to-Factory, Increasing the Competitiveness of Jordanian Women Owned Businesses, Certified Manager Program and the Certified Trade Advisors.

JUSBP is a field activity under IESC, a non-profit United States Private Volunteer Organization (PVO) headquartered in Washington, DC, USA. IESC maintains a worldwide database of more than 11,000 volunteers. Many of them are senior retired executives, called Volunteer Experts (VE’s). Others are active young volunteers, including successful members of the “GeekCorps” a group of IT and software technicians, entrepreneurs, and innovators. JUSBP brings these VE’s to Jordan to work directly with client enterprises or business associations. The program also utilizes local consultants and international consultants for Jordan assignments, often bringing consortium activities together for technical assistance, training, and trade development.

JUSBP's Major Accomplishments are summarized as follows:

To date, JUSBP has assisted more than 500 clients with more than 1,500 services, and has increased exports from client companies globally by \$270m including \$33m exports specifically to the US. JUSBP also helped create or save over 4,950 employment opportunities and assisted seven NGOs.

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**Regional Development; Enterprise Productivity Centers (EPCs) IRADA:**

A network of EPCs was established under the umbrella of the Enhanced Productivity Program (EPP) and is currently being operated by the Ministry of Planning and International Cooperation. A total of 22 centers for EPCs have been established to cover all 12 Jordanian governorates, and a Central Support Unit has also been established to offer specialist technical and financial advice, as well as provide guidance on accessing financial support. The plan envisages supporting the development of 400 new and existing SMEs. Local private sector contractors are awarded the contract to operate an EPC on a cost plus fee contract basis.

An evaluation of IRADA’s performance was undergone in 2003. The evaluation revealed that the program, through the services it offers, actively contributed to the establishment/ expansion of almost 312 projects (51%), which helped provide 750 employment opportunities, while the remaining 289 projects benefited from other

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services that did not bear a direct effect on their establishment/ expansion. Finally, the evaluation also indicated that almost 93% of the projects have the ability to sustain their operations.

### **Future Umbrella of BSOs in Jordan; Jordan Upgrading and Modernization Programme (JUMP):**

The Jordan Upgrading and Modernization Programme (JUMP) was very recently introduced in response to the various challenges facing the Jordanian economy particularly SMEs. The war in Iraq alone, severely affected around 400 Jordanian enterprises that were dependant on the Iraqi market. Furthermore, existing programmes such as EJADA, JUSBP and NAFES, while very beneficial, will simply not cover 2,500 companies that need upgrading over the next 5 years, not neglecting the fact that existing programmes will expire within a relatively short time scale thereby exacerbating the problem of insufficient and unstable flow of funding and available technical assistance.

JUMP aims to enhance the competitiveness of Jordanian industries both locally and internationally through targeting industrial upgrading. This is to be accomplished by adopting a long-term strategic approach on a scale not envisaged before in Jordan. In this regard, JUMP is to handle the entire upgrading process for any given company as one whole package. This entails assessing the client company to determine its needs and identify the obstacles it faces, and subsequently construct a real diagnostic and upgrading plan. JUMP will then proceed with the implementation of the plan while also partially covering the costs involved.

It is worth mentioning here that the extent of cost coverage by JUMP may vary according to whether or not the client company is located within or outside greater Amman. Furthermore, to fulfil its aim, JUMP focuses on outsourcing while giving priority to national expertise when available, and unlike other donor incentives, JUMP allows support for the purchase of fixed assets necessary for expansion or equipment technology upgrading.

Although this may seem ambitious in terms of scale, JUMP's approach in industrial upgrading is enabled and facilitated by its structure as a provider of both technical and financial assistance. JUMP was established as the umbrella for all programs targeting industrial upgrading. Hence, it is to lead the process of rehabilitating the role of the industrial sector in Jordan. Consequently, it allows for coordination and integration with other donor programmes throughout the upgrading process, as well as the mobilization of funds from other sources targeting industrial upgrading, especially from the EU. Currently, JUMP has JD5 million from the Social and Economic Transformation Program (SETP), and 5 million Euros from the EU.

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Finally, although JUMP is still in the recruitment phase and finalizing the business and process plan, it is expected to upgrade 30-40 companies during its first year of operation,

which will start by the end of 2004. Some of the anticipated impact of JUMP includes building the capabilities and capacities of SMEs, benchmarking and adopting best international practices, opening new markets for SMEs, and building national institutional capacity and expertise.

### **Incentives for Businesses to Improve Performance and Service Quality through the King Abdullah II Award for Excellence:**

The King Abdullah II Award for Excellence is the highest level of quality recognition in Jordan. The Award is developed and administered by the Industrial Development Directorate (IDD) at the Ministry of Industry and Trade (MIT) and the Quality, Standards, and Business Enabling Services component at the Jordan -United States Business Partnership (JUSBP), funded by the United States Agency for International Development (USAID).

The Award aims at enhancing the competitiveness of Jordanian businesses by promoting quality awareness and performance excellence, recognizing quality and business achievements of Jordanian companies, and publicizing these companies' successful performances.

The Award is given once every two years in each of the following categories: <sup>5</sup>

- § Large manufacturing organizations or their sub -units
- § Large service organizations or their sub -units
- § Small or medium size manufacturing organizations (Less than or equal to 50 employees)
- § Small or medium size service organizations (Less than or equal to 100 employees)
- § Agriculture and agricultural marketing organizations.

Each applicant benefits from the Award criteria (Leadership, Strategic Planning, Resource Management, Process Management and Results), which is considered a guideline for performance excellence. They motivate organizations to take a deep look at their business practices, employees, and customer relationships in an objective and measurable way through self-assessment.

Furthermore, each applicant gains an outside perspective on its organization by members of the Board of Examiners. The results of this review are distilled in a feedback report, outlining strengths and opportunities for improvements based on the Award criteria. Feedback reports could be used by the organizations as part of their strategic planning processes to focus on their customers and to improve productivity, as well as to help energize and guide their organizational improvement programs.

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<sup>5</sup> The competition is not open to public sector companies, tobacco manufacturers, alcohol producers and firms that manufacture military equipment.

Award recipients receive the trophy of the King Abdullah II Award for Excellence, which is presented at a special ceremony in Amman. The winners will be recognized as national and international role models, and may publicize and advertise their Award.

## IV. Access to Education and Training

### Overview

Jordan has one of the highest population growth rates in the world at 3.5% annually. As such, Jordan is moving towards becoming an increasingly youthful society with 50% of its population between the ages of 10 -24 and over 1.5 million students in schools. There is a high adult literacy rate, increasing from 47% in 1970 to 90.3% in 2003. Youth literacy rates are at 99.3% and secondary school enrollment is at 76%. Moreover, Jordan will have universal primary education by the year 2015.

Jordan boasts a relatively high rate of university enrollment, which is constantly over -demanded (with 1 out of 25 Jordanians in tertiary education). Higher education in Jordan has expanded to include 8 public universities and 13 private universities. 55% of all university students are female. There are nearly 60 community colleges and 35 vocational training centers.

The most prominent problem remains that there is no dialogue between the private sector and the educational sector. This has led to shortcomings on a number of issues. Primarily, there is a mismatch between what is taught in the educational and vocational training institutions, and what is required by the market. This has materialized not only in an oversupply of certain professions, and undersupply of others, but also in an insufficient focus on soft-skills, including work-ethic, communication, and character building initiatives such as extra-curricular activities in educational institutes, or entrepreneurship and management courses.

The low student knowledge of the private sector is also attributable to the minimal number of internships and apprenticeships that are available in private firms, as well as the lack of follow-up of students in educational and training institutes when they graduate and enter the workforce to monitor progress; meaning there is no feedback loop.

The lack of systematic, formal and widespread ranking and accreditation systems for higher education also impede the necessity schools may feel to improve programs. Moreover, private sector involvement in the accreditation programs that do exist is minimal.

Within private firms themselves, there are also several issues that retard human resource development. The high rates of turnover and brain drain lead firms to believe that formal training for their employees is not worthwhile. Corporate governance issues relating to human resource management are also underdeveloped such as low incentive -based pay options within firms that discourage employees from performing well. Moreover in the recruitment stage clear job descriptions and hiring policies do not exist, an oversight which both confuses market demand monitoring, as well as places obstacles in the development of clear career paths for employees.

## **Programs for Human Resource Development**

### **Education for an Entrepreneurial Society; Jordan Education Initiative (JEI):**

Traditionally, the Jordanian educational system was seen to "excessively emphasize public employment and develop unrealistic job expectations" (*Higher Education Development Study*). An entrepreneurial spirit, to prepare students to become "job creators" was not built into school curricula .

The Jordan Education Initiative, formally launched in June 2003 at the Extraordinary Meeting of the World Economic Forum at the Dead Sea, aims to overcome this shortcoming. The initiative's specific objectives are:

- 1) To improve the learning process in Jordan through private-public partnerships to help ensure that education is a catalyst for, social and economic development.
- 2) To build a model of efficient private-public partnerships that will accelerate educational reform in developing countries. This involves unleashing the innovation of teachers and students, and demonstrating the effective use of information and communications technology in the learning process.
- 3) To build the capacity of the local information technology industry for the development of innovative learning solutions in partnership with world-class firms.
- 4) To leverage the power of government commitment and corporate citizenship for fuelling reform that can be exported and replicated in other countries.

The JEI is transforming public education through technology in 100 public schools in Jordan known as "Discovery Schools " by introducing new interactive curricula to "enable the act of discovery" and the skills necessary to succeed in a knowledge economy amongst students. The reform will impact 50,000 students and 2,300 teachers. So far approximately 150 teachers have been trained on the use of technology and e -curricula.

The Jordan Education Initiative also extends to include lifelong learning policies. In leveraging re-usability of global learning content, this track supports the Jordanian Government's vision of building a knowledge economy by providing lifelong learning opportunities to Jordanian small to medium -sized enterprises (SMEs). The goal is the creation of a learning objects library in partnership with global firms and making those learning resources available to young entrepreneurs and communities across Jordan.

Achievements of this program so far have included the contribution of corporate e-learning content from Siemens and DHL. A partnership has also been formed between DHL and Jordan's Young Entrepreneurs Association for the implementation of a study aimed at identifying skill requirements needed to enhance SME competitiveness.

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The ongoing needs and challenges of this program include technology assessment aimed at enabling access of e-learning content by Jordanian businesses; and contribution of additional corporate e-learning content for the SME learning objects library.

### **Bridging the Digital Divide; Knowledge Stations (KS):**

While the Discovery Schools aim to bring a new learning experience to public schools, an educational gap, or digital divide in Jordan still exists. This gap is aggravated by the rural-urban divide as well as unequal income levels. The most disenfranchised populations in Jordan tend to be women, and underprivileged and underserved children, laborers, and farmers.

88 Jordan IT centers, or what are termed Knowledge Stations (KS), have been established throughout Jordan, with plans to increase to 100. One of the primary purposes of the KS's is to facilitate access to information, which spreads awareness of new technologies and their benefits, such as community and self-development.

The centers also effectively serve as community centers, with two primary roles; first as training centers in information technology and social programs, and second, as walk-in centers providing services such as internet, fax machine usage and photocopiers. However, the role of the KS's is beginning to expand, underscoring the relevance of community-based activities and integration of local communities in the planning process that aid in the financial sustainability of the centers, and of the populations around them. The KS's have in the past acted as central hubs for incubating new community businesses, and by enhancing their capacities to utilize ICT, Jordan's rural populations will begin to adopt ICT as a tool that allows them to thrive, both economically and socially.

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### **Teaching Entrepreneurship; INJAZ:**

While rural communities represent one population cohort requiring support in entrepreneurship, teenagers and young adults represent another. Starting in March 1999, INJAZ is a national program that aims to develop and build on the Jordanian youth's capabilities and facilitate their entrance to the labor market, either as employees or as qualified job creators. INJAZ covers the age range 14 -22. INJAZ is modeled on the "Junior Achievement" Program, which started in the United States in 1919 and whose objective was to help youth cope with the new industrial economy and demands for workforce preparation and entrepreneurship.

INJAZ is run by a Board of Directors with representatives from the various economic sectors. The program is sustained by people from the private sector who volunteer to give classes and support the institution. There are currently 7 curricula that INJAZ has available to be taught in schools, and 3 curricula that are taught at the university level.

These courses are taught by trained volunteers, and are given to more than 800 university students from 14 Jordanian universities, and to 90 schools in the various operational locations. INJAZ currently operates in six of the Kingdom's 12 governorates offering services to about 16,000 benefiting students.

INJAZ also includes programs to build the institutional capacity of organizations that relate to youth development. This includes educational programs focusing on training and communication skills, information gathering, planning and administering small scale projects, managing emergencies, and empowering youth for community development.

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### **Promoting Entrepreneurship; Young Entrepreneurs Association (YEA):**

Similar to INJAZ in its objectives, the Young Entrepreneurs Association is a non-profit membership based organization, established in November 1998. The age focus is a little older than that targeted by INJAZ. The services offered are geared towards starting a business and playing a leadership role in supporting young entrepreneurs. The YEA's objectives are:

- (1) To enhance the entrepreneurial spirit among Jordanians
- (2) To increase the number of outstanding entrepreneurs
- (3) To enhance, through rules and regulation, a business environment for startups and expanding businesses
- (4) To increase the number of Jordanians adopting globally competitive practices

The Association includes mentorship projects, and strives to help connect young entrepreneurs with venture capital funds or financing. The YEA has been involved in the organization of many seminars, workshops and lectures that have influenced a large number of young Jordanians.

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### **Cooperation with the Private Sector; University of Jordan – Faculty of Engineering and Technology:**

In addition to addressing entrepreneurship, other initiatives such as the University of Jordan's Faculty of Engineering and Technology have worked to create programs that bring together participants from the industry with university representatives.

The Faculty of Engineering and Technology was established in February 1975. The main objectives of the faculty are:

- (1) To help generate the Engineering support vital to the development of industrial sector activities in Jordan.

- (2) To encourage research, particularly at the MSc. level, addressing local industrial problems with the objective of improving productivity and quality of products.
- (3) To offer technical short-term training and consultancy to public and private institutions in several different engineering areas.

The Faculty aims to strengthen academic -industrial linkages through:

- (i) **The Engineering Partnership Council with Industry:** The goal of establishing this partnership council is to bridge the gap between the expectations of industry and the academic sector. The council attracts 15 members from private sector enterprises to brainstorm ideas, proposals and new joint research projects.
- (ii) **Faculty-for-Factory Program:** The goal of this program is to assist the Faculty of Engineering and Technology members in encouraging the development and expansion of SMEs. The program provides incentives to attract leading practitioners to develop and support such enterprises. The faculty members are expected to develop, define and conduct recognized practical projects that have development potential related to the needs of these enterprises. Fortunately, this program is widespread over many universities and departments and has become a national project in which many Jordanian universities are now participating. The faculty has participated in several successful research and development, and human resource development workshops.
- (iii) **Innovation Groups Project:** This project is a first step in a long journey to establishing an academic culture that supports innovation. The project is based on collecting a group of faculty members and students from different disciplines to work on designing and manufacturing a device, machine, product, or equipment for industry that serves as a good learning experience for the participants as well as helping to satisfy the needs of Jordanian companies. This form of cooperation is an outstanding opportunity for academia to collaborate with industry on issues related to engineering projects and help make systemic changes in the field of engineering education.

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**Closing Remarks**

While many initiatives in Jordan do exist, they tend to be limited in their scope and effect. Educational reforms are slowly becoming more widely infiltrated into Jordanian learning institutions. The two largest problems do however remain the absence of institutionalized dialogue (whether through joint accreditation systems, internships, or traditional communication channels such as workshops and joint seminars) between the academic and private sectors leading to a mismatch between educational outputs and market demand. Moreover, within private companies themselves the development of

corporate governance as it relates to human resource development is still severely underdeveloped, and much work is required to help bring Jordanian firms up -to-date with modern management techniques that will best capitalize on employees.

## V. Promotion of Research and Innovation

### Overview

The following section is a brief, yet comprehensive, description of the present situation of R&D and innovation in Jordan, focusing on three main areas - namely R&D infrastructure, R&D finance, and R&D output - and the obstacles faced in each.

In the area of R&D infrastructure, Jordan has high adult and youth literacy rates, and a tertiary enrolment rate in science, mathematics and engineering that is higher than that of Japan. However, the number of Jordanians involved in pure R&D activities is considered low (3 per 1000 working force) and lagging behind countries such as Kuwait (8), Egypt (6) and Turkey (7).

Other forms of infrastructure supporting R&D, such as equipment and facilities for Jordanian researchers, are made available through the government, universities and private sector. The Government supports scientific research primarily through the Higher Council for Science and Technology (HCST), which offers support to manufacturers and researchers through its affiliated centers (e.g. NAFES), governmental institutions and universities. As for Jordanian Universities; there are 8 public universities and 14 private universities constituting an essential element in the R&D infrastructure through their available facilities, equipment and 5696 academic staff members. Research facilities provided by the private sector are mainly concentrated in large companies such as the Potash and Phosphate companies and in certain sectors such as the pharmaceutical industry. Nonetheless, according to Jordan's GCR results in indicators such as the quality of scientific research institutions indicator (46/102), the currently existing R&D centers and facilities, in addition to the present information and communication infrastructure, still do not meet the expectations of the private sector, nor the needs of the country.

When examining the area of R&D finance, it is evident that Jordan's expenditure on R&D is comparatively low by international standards not exceeding 0.36% of GDP and constituting only one third of the set standard of R&D expenditure in developing countries as a percentage of GDP. Furthermore, almost all spending is made by the government through its direct support to the governmental research centers and research conducted through public universities. The private sector on the other hand, contributes no more than 4% to the current R&D expenditure rate.

Nevertheless, finance for R&D purposes is unavailable especially in the form of venture capital, which is an important source of finance used in the formation and expansion of small innovative companies. Currently, about three private companies are working in this field with limited resources and tight budgets.

When examining the third aspect of R&D in Jordan pertaining to research output, it becomes apparent that the scarcity of innovative R&D projects impedes Jordan's ability to produce patents, which only amounted to 0.19 utility patents per million population in

2002 in contrast to Israel's figure (165.08) for the same year. This state of present R&D ineffectiveness in Jordan can be attributed to many reasons:

- Research in universities that is linked to the Kingdom's social and economic problems is lacking.
- Jordanian universities are confused about their role in a knowledge-based economy.
- There is a mismatch between the expectations of academia and SME owners, and vice versa, in terms of funding, tasks and results.
- There are weak linkages between academic institutions and businesses.
- Jordanian manufacturers still tend to focus on commodities rather than on new personalized better quality products.

In conclusion, an innovation culture is lacking among individuals and firms in Jordan. Firms do not recognize the positive impacts of R&D in enhancing competitiveness. Financial institutions are still reluctant to provide loans for R&D purposes, and venture capital availability is still low. Linkages between universities and businesses are weak and although Jordan is rich in terms of its human capital, brain drain is proof of the country's weakness in recognizing the potential and capabilities of its researchers and scientists.

### **Measures to promote R&D in Jordan**

#### **Science & Technology Policy; Higher Council for Science and Technology (HCST):**

The Higher Council for Science and Technology (HCST) was first established in 1987. Its main objective is to build a scientific and technological base, and guide and develop it for the purpose of achieving economic, social, and cultural development in the Kingdom. Furthermore, the HCST has been given the authority to ratify the general policy of science and technology in the Kingdom by defining its priorities, drawing up the programs and plans arising thereafter as well as following up on their implementation and evaluation. In this regard, a Science and Technology (S&T) policy was first established under the HCST in 1995 in cooperation with all stakeholders (i.e. representatives of the science and technology community from government, academic and research institutions and the private sector), and focusing on four main components namely; R&D, technologies, human resources and information. Since the 'Promotion of Research and Innovation,' is the focus of this section, the R&D component in the policy will now be examined in more detail.

The R&D component policy aims at relying on scientific research and development as a cornerstone of developmental sector activity, and activating, directing and intensifying R&D towards technical and administrative problem solving, and towards having a greater contribution to the gross national income. As such, various supporting tools and approaches were used to facilitate this process and achieve the desired outcome:

- 1) **R&D budget:** An R&D budget was allocated for HCST (on average JD 250 thousand per annum) from the general budget, available for use in different fields, by universities, research institutions, with some exceptions to supporting institutions such as governmental entities. The grant's amount over the period 1994-2001 exceeded JD3.4 million, and spread out as follows:

**Table (1): R&D Project Grant Development given by Broad Sector in thousand JDs**

Year	Manufacturing and Energy and Mineral Resources	Infrastructure	Agriculture, Water and Environment	Total
1993	96.5	56.4	32.3	185.2
1994	41.0	69.9	28.0	138.9
1995	48.6	97.5	158.5	304.6
1996	280.0	180.0	625.0	1085.0
1997	86.0	113.0	37.0	236
1998	-	-	-	-
1999	-	74.2	319.1	393.3
2000	181.0	163.0	298.3	642.3
2001	87.0	102.5	202.0	391.5
2002	820.1	856.5	1700.0	3376.6

**Table (2): R&D Project amount in universities and research centers 1996 -2001 thousand JDs**

	Manufacturing and Energy and Mineral Resources	Infrastructure	Agriculture, Water and Environment	Total
Research Centers	661	2992.3	1500.1	5153.4
Universities	846.5	1584.3	2474.7	4905.5
Total	1507.5	4576.6	3974.8	10058.9

The first jump in the budget was for JD1.1 million allocated for Natural/Land Resources projects. The Second jump was for JD900 thousand allocated for the newly adopted R&D plan for 2004-2006.

- 2) **Industrial Research Fund (IRF):** The fund was established in 1994 using resources provided mainly by the Ministry of Planning, and International Cooperation and HCST, to support industrial companies experiencing technical problems as well as promoting university-SME linkages thereby bridging existing gaps between industry and academia. Grants of up to JD30,000 are available or 75% of the total project cost. About 260 SMEs have been supported so far. The management committee of the Fund is headed by the Minister of Planning and International Cooperation with private sector representation through the Chamber of Industry.
- 3) **International cooperation:** This encompasses upgrading Jordanian research abilities and know-how through increased cooperation with international institutions for

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joint research purposes. For example, an agreement was signed between Germany and Jordan to conduct joint research, whereby the German counterpart committed to support the research through all needed equipment, machinery, etc. while local financing for the project was provided by the HCST. However, the most recent projects include EUROMEDANet in cooperation with the EC, and InfoDev, which is a World Bank project that aims to promote the use of ICT in entrepreneurship development and business incubation.

In addition to the different tools and measures described above to promote research and innovation in Jordan, two survey sweeps were conducted (in 1998 and in 2003) to determine and assess Jordan's S&T requirements and potential. The results of these surveys were used as a basis for the S&T policy for 2004-2006. Given HCST's constant focus on applied and practical research, and commercialization, the new S&T policy is expected to further delineate and enhance the role of HCST in encouraging and boosting R&D and innovation in Jordan through increased involvement on HCST's part in managing and running all projects.

Currently, there are four mega industry projects: Geothermal Energy, Oil Shale Retorting, Polymers, and Medicinal Plants. Each project has its own team of researchers and supporting staff, operating under one common steering committee, part of which is HCST. The role of the steering committee is to solve any problems the projects may face through direct and immediate action, and monitor the progress of the projects. The Committee is also given the authority to modify project tracks. The importance of the presence of representatives from HCST on the steering committee helps minimize the excessive bureaucracy of universities, which researchers tend to suffer from often. Furthermore, the accumulation of knowledge of HCST, as a direct consequence of its representation on the committee, will help it strengthen its ties with good researchers for future projects, and more importantly will heighten the ability of HCST to market the projects intelligently.

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### Legislative and Policy Measures:

Private sector R&D is also encouraged through policy instruments used to address the obstacle of limited R&D finance. A 1% levy on public shareholding firms is utilized whereby such firms are required to invest 1% of their net profits in "in-house" R&D or in the development of their human resources. Monitoring and implementation of the levy is the responsibility of the Scientific

**Box (1): Allocation of 1% of the Profits to Support Scientific Research and Vocational Training**

**The Companies Law No. (22) for 1997 and its amendments:**  
**Article (188):** "A Public Shareholding Company should allocate not less than 1% of its annual net profits to be spent for supporting scientific research and vocational training in it, and to spend this allocated reserve, or any part thereof, on scientific research and training. If this amount or a portion thereof is not spent within the three years of each deduction, the balance should be deposited into a special fund to be set up in accordance with a regulation issued for that purpose. The regulation shall specify the method and basis of payment, provided that it shall not be extend beyond the intended purpose of this Law."

**Scientific Research and Vocational Training Fund Regulation No. (66) for 1998:**  
**Article (4(a)):** "Public Shareholding companies are required, in accordance with the Companies Law in force, to transfer the scientific research and vocational training allocation amounting to 1% of its net profits to the Fund if same or any remaining part thereof is not spent during any year of the three years following the year during which that allocation was deducted form its profits."

Research and Vocational Training Fund, which was established in the Ministry of Industry and Trade. (See Box 1)

The Fund aims to support scientific research and vocational training, offer monetary support to scientific research projects, development, studies and technical consultation to the Jordanian industry, help overcome technical problems facing companies in the development of their industries and products while enabling some to improve their competitive abilities, and cooperate with local and Arab institutes, and international and global organizations so as to coordinate in the field of scientific research.

### **Promotion of Innovation in Jordan through Incubators**

The incubator movement in Jordan was a natural response to the lack of depth in the SME sector. Interest in incubators initially arose as a possible strategy that could exploit Jordan's national investment in education, especially technical education (engineering, sciences, medicine etc.), and address the crux issue of the low technology levels in the enterprise sector as a whole and the relatively small number of SMEs utilizing modern technologies. In brief, it is a means to help identify and promote the creation of economic value (through developing technologies) based on knowledge.

There are currently only two incubators operational in Jordan; the Jordan Forum for Business and Professional Women Incubator and the ICT incubator at the Royal Scientific Society (RSS) under the umbrella of the HCST. There are also two other incubators at Al-Yarmouk University that are still not operational. In addition, EJADA is currently working on establishing two types of incubators to facilitate the work of entrepreneurs and improve the economy; these are elaborated on in more detail below.

#### **HCST ICT Incubator:**

The HCST initiative to establish the HCST ICT Business Incubator stems from the belief that incubators offer a great added value for Jordan, as resources supporting start-ups and early-stage companies are scarce, and entrepreneurs with experience in developing technology businesses from scratch are rare.

In line with its objectives, outlined below, and its framework of activities, the HCST has identified business incubators, and in particular Information and Communication Technology (ICT) business incubators, as a key mechanism to support technological innovation and activity in the country by providing a conducive environment of support and facilities for technology start-ups and SMEs.

The HCST ICT Business Incubator aims at providing the needed catalyst to fuel the entrepreneurial process that is pivotal to Jordan's economic development. The specific objectives of the incubator include:

- Expanding the talent/entrepreneurial pool by developing a culture conducive to innovation.

- Improving managerial, technical and business know how by providing proper consultancy services for start up companies.
- Increasing the chances of success for small businesses.
- Creating jobs and enhancing productivity.
- Encouraging capital investments in these start -ups by presenting and graduating qualified start-ups with proven business models and higher odds of success.

The four main pillars of the incubator’s ability to grow successful companies are:

- The incubator as a sustainable entity with a clear plan, funding resources and governance structure.
- The incubator team, including its stakeholders, strategic partners, operational partners, the board of directors and the incubator’s management and staff.
- The facility which will house the incubator.
- The incubator’s ability to facilitate fund raising for successful member companies.

The key elements of the incubator’s operating strategy are:

- Successfully identify member companies with the high growth and success potential.
- Provide strategic guidance and operational support to member companies .
- Promote collaboration among member companies .
- Successful graduation and facilitation of fund raising for member companies.

Realizing that the population of incubator companies will include companies with diversified needs, and in order to successfully connect the aforementioned resource factors to member companies, several types of logistical, strategic, and operational services plans are developed to meet the needs of each member company.

Key to the incubator’s success in developing the right strategy is its understanding of potential member companies' deficiencies. Most entrepreneurs launching new ventures have shortcomings with respect to the resources and talents necessary for success such as forming a properly guided management team, business plan, and upgrading skills , product or service development devising a sound sales and marketing strategy (market position), as well as raising/ sustaining cash flow. Understanding these deficiencies is instrumental to developing the proper services portfolio.

In brief, through proper strategic business advice, operational technical support, and the provision of an ideal logistical environment and networking, the incubator contributes to increasing the odds of success amongst its member companies and thus contributes to the growth and development of Jordan’s ICT start-up community.

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### **Business Incubator Program supported by EJADA:**

A problem often reported is that Jordanian manufacturing SMEs strongly resist introducing new and advanced technologies even when they are clearly necessary. One reason is that the inter-enterprise networks that typically diffuse new technologies remain quite underdeveloped in Jordan, largely because individualism is deeply rooted in the Jordanian social psyche. As a result, many SMEs still remain unaware of relevant international and local technologies that might significantly improve their business prospects, and which government departments and educational institutions (universities and research bodies) work hard to embed within the overall economic structure. Jordanian SMEs therefore claim that they have little need for qualified technical staff that might help to utilize such technologies in their business. Hence, the concept of a Business Incubator Program arose to address two major issues facing the Jordanian economy; the problem of unemployment and the urgent need to promote a higher level of technology development, diffusion and transfer. In this regard, EJADA is providing the services of an international expert to each incubator, as well as paying part of the costs of fitting out and equipping the incubators' premises. EJADA's contribution is at least half of the total costs in the first year.

The Program adopts two main approaches in supporting new and emerging SMEs:

#### **1) Technology-Based Incubator, also known as the Agro-Industry Business Incubator:**

Established in the Faculty of Agriculture at the University of Jordan, the Agro-Industry Business Incubator aims to increase the competitiveness of the agro-industry by making available the know-how and laboratory facilities of the Faculty of Agriculture to support the creation of better quality products and services. The incubator will exploit the high level of technical skills, excellent facilities, international contacts and highly qualified individuals present at the university, and will strengthen the university's ability to transfer technology. It will bring the university into closer contact with the private sector and uncover opportunities and better ways of working jointly. The incubator will use technology to create sustainable jobs and competitive enterprises, thus enhancing export potential and paving the way for a more prosperous way of life for Jordanians.

#### **2) Employment-Based Incubator, also known as the Engineering Employment and Industrial Upgrading (EE&IU) Incubator:**

The incubator's mission is to provide the best environment for the commercial development of engineering-focused ideas, deliver sustainable employment and increase the extent of upgrading in Jordan's industrial base. A key feature of the incubator is

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to provide services to help the incubatees develop their ideas. Technical services are provided by the RSS and incubatees can access the full facilities of its various departments. Should it be required, an expert engineer may be assigned to the project to provide ongoing support. Business services are delivered by the incubator's staff and comprise business planning, marketing research, financial modeling and business development.

Supported by EJADA, the EE&IU Incubator is a joint venture between the Royal Scientific Society (RSS), the Jordanian Engineers Association (JEA) and the Amman Chamber of Industry (ACI).

Given that it is situated within the RSS, the incubator provides newly refurbished office accommodation, in the early stages, to accommodate 6 incubation units. Future plans aim, by mid-2005, to expand the space and provide an additional 11 incubation units.

In light of the fact that the Business Incubator Program is still new, its impact will hopefully materialize by the end of this year.

### **Closing Remarks**

Research and development is a competitive tool which requires a competitive mindset in the business community. Thus far, the needed mindset is not present, or at least not as prevalent as desired. The potential role of R&D in the economy is not well understood, thereby leading to the marginalization of R&D activities. Consequently, the existing level of innovation in Jordan does not reflect the true national potential.

Venture capital, if used effectively, can be a tool to increase local innovation by assisting entrepreneurs with the necessary support to launch new value-creating realities. Hence, more attention should be directed towards the establishment of venture capital funds particularly for seed and start-up stages since the existing R&D funds are insufficient, and HCST usually only funds existing companies.

To further boost R&D activities in Jordan, it is essential to train the academic staff to work with industry, adopt applied research as the main criteria for giving tenure to professors, and optimize the usage of equipments available at universities.