

# JORDAN Human Development Report 2011



## Small Businesses and Human Development

# *Jordan Human Development Report*

## *Jordan Small Businesses and Human Development*

*Amman, 2011*

**Ministry of Planning and International Cooperation  
United Nations Development Programme**



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***Design and layout*** : Minutes Advertising and Design

***Photographs*** : Digital Scope

***Printing*** : Rafid Print



## ***FOREWORD***

The will and drive of the Jordanian people to achieve development, in a country that is rich with talent and enabling institutions, has been the collective vision of His Majesty the King and the Government of Jordan in the 21st century. Under the guidance of His Majesty King Abdullah II, we are constantly working on reform, not for reform's sake, but to achieve sustainable development whereby the people of Jordan have the capacity and means to pursue a dignified and meaningful life filled with aspirations, achievements, and successes. We will continue to empower stakeholders, and promote innovation supporting policies in a framework of meritocracy, transparency, accountability and democracy.

In the development process it is the mindset of stakeholders, not natural endowments, that drives success. We are also cognizant that realizing a competitive mindset is never spontaneous; but a process that is guided by fully recognizing and benchmarking our starting point and the achievements of others. It is an amalgamation of best practices and local intrinsic experience as citizens.

The Government of Jordan has for long embraced the principle that development, although driven by a leadership that moves in tandem with its people, is achieved only when all partners share a vision, take up responsibilities, drive processes and together achieve results.

We strive to make Jordan a country where entrepreneurship, flourishing within a framework of human empowerment and expanded opportunities, is the driving force for sustainable development; a process where the public and private sectors partner with civil society to form a virtuous cycle of continuous improvement.

Jordan Human Development Report, 2011 focuses on micro, small and medium enterprises and their role in human development of Jordan. In this respect, the report comes as an honest assessment of the current situation, and a call to a way forward toward sustainable development.

Invariably, the right path is not the easy one. For Jordan to rank among the most developed nations, a status that rightfully befits the will and aspirations of Jordanians, the road the Government of Jordan has to take is uphill, a road toward sustainable development. By joining hands, our journey will not only be shorter but also more delightful.

*Jaafar Abed Hassan*  
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***Funded by:***

*The United States Agency for International Development (USAID)*



*United Nations Development Programme*



*The process of producing the Jordan Human Development Report 2011*

<i>Event</i>	<i>No. Participants</i>	<i>No. Organizations</i>
Quality Requirements and Minimum Standards of National Human Development Reports Workshop (1 Day)	26	12
Human Development Calculations, indices and indicators (1 Day)	21	9
Third National Human Development Report: Discussion of Content (1 Day)	26	18
Third National Human Development Report: Government and NGOs Focus Group	20	13
Third National Human Development Report: MSMEs focus Group (Amman)	7	5
Third National Human Development Report: MSMEs focus Group (Zarqa)	12	11
Third National Human Development Report: MSMEs focus Group (Madaba)	10	10
Third National Human Development Report: MSMEs focus Group (Irbid)	8	8
Third National Human Development Report: MSMEs focus Group (Jerash)	6	5
Third National Human Development Report: MSMEs focus Group (Ajloun)	11	11
Third National Human Development Report: MSMEs focus Group (Tafieleh)	7	7
Third National Human Development Report: MSMEs focus Group (Kerak)	8	8
Third National Human Development Report: MSMEs focus Group (Maan)	7	7
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Sincere thanks are also extended to the 1,500 MSMEs. Their contributions enabled the report team to produce the insightful findings and results regarding MSMEs

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*Acronyms*

ACC	Anti-Corruption Commission
APEC	Asia Pacific Economic Cooperatio
CAWTAR	Center for Arab Women for Training and Research
CDP	Cluster Development Program
CEED	Center for Early Education and Development
CER	Corporate Economic Responsibility
CEO	Chief Executive Office
CIDA	Canadian International Development Agency
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DEF	Development and Employment Fund
DOL	U.S. Department of Labor
DOS	Department of Statistics
EC	European Commission
ETF	European Training Foundation
FDI	Foreign Direct Investment
GCR	Global Competitiveness Report
GDI	Gender-related Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
HDI	Human Development Index
HDR	Human Development Report
HPI	Human Poverty Index
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
ISO	International Organization for Standardization
JEDCO	Jordan Enterprise Development Corporation
JIC	Jordan Innovation Centers
JLGC	Jordan Loan Guarantees Corporation
JOHUD	Jordan Hashemite Fund for Human Development
LDC	Least Developed Countries
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MFI	Micro Finance Institute
MOE	Ministry of Education
MPI	Multidimensional Poverty Index
MSME	Micro, Small, and Medium Enterprises
NFWBO	National Foundation for Women Business Owners
NGO	Non Governmental Organization
NHDR	National Human Development Report
OECD	Organization for Economic Co-operation and Development
PPP	Purchasing Power Parity
QIZ	Qualified Industrial Zone

R&D	Research and Development
RFA	Regulatory Flexibility Act
SBA	Small Business Administration
SBREFA	Small Business Regulatory Enforcement Fairness Act
SDC	Swiss Agency for Development and Cooperation
SME	Small, and Medium Enterprises
SSBF	Survey of Small Business Finances
SSC	Social Security Corporation
TFP	Total Factor Productivity
TIMSS	Trends in International Mathematics and Science Study
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Program
UNEP	United Nation Environmental Program
UNICEF	United Nation Children’s Fund
UNIDO	United Nations Industrial Development Organization
UNV	United Nations Volunteers
USD	United States Dollars
VTC	Vocational Training Center
WBG	World Bank Group

## Executive Summary

The Jordan Human Development Report (HDR), 2011 explores the role of Small and Medium-enterprises, (SMEs, definition outlined below) as an agent for sustainable human development in Jordan. It analyzes SMEs and their contribution to human development using four key central pillars of human development, namely: economic growth that is equitable and pro-poor, social progress, participation and empowerment through micro finance, and environmental sustainability.

The report findings are based on extensive research, a survey of 1,500 firms and focus groups discussions conducted across the governorates of Jordan. About 29% of the surveys went to Amman, with 16% going to Irbid and 15% to Zarqa. In addition, 113 enterprises, of 1-4 employees, who had received micro finance, were surveyed to establish the role of micro finance in empowering the poor. A number of human development indices at national and governorate level were developed specifically for this Report. The following sets out some of the key findings

### *Jordan's Human Development Index (HDI)*

A Human Development Index (HDI) for Jordan was developed using national data. The index measures a country's average achievements in three basic aspects of human development: longevity, knowledge, and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio; and standard of living by GDP per capita (PPP US\$).

In addition, HDIs were calculated, at the governorates' level for this HDR based on data produced by the Department of Statistics, (DOS). The HDI was determined as 0.802, where Amman ranked on the top of the list with a HDI of 0.802 and Mafraq came last with HDI of 0.729. As for the life expectancy Balqa ranked the best among governorates with an index of 0.804, while Mafraq came the last on the list with an index of 0.718. In adult

literacy Amman had the highest index of 0.946, and Mafraq was the lowest with an index of 0.848. As for gross enrolment in education Tafileh and Ajlun ranked the best with an index of 0.96, and 0.95 respectively, while Aqba had the lowest index of 0.781. As for education attainment Amman had an index of 0.93 being first, and Mafraq came the last with an index of 0.85. GDP index showed that Amman had the highest rank with an index of 0.697, while Madaba and Mafraq had the lowest rank with 0.61, and 0.616 index values respectively.

The 2010 HDI value in the global Human Development report puts Jordan at 0.681—in the high human development category—positioning the country at 82 out of 169 countries, and 8th among the 17 Arab countries for whom an HDI has been developed. The difference in values is related to data sources for the global report. This Report used the official DOS data. According to the global reports, between 1980 and 2010, Jordan's HDI value increased from 0.509 to 0.681, an increase of 34 per cent or average annual increase of about 1.0 per cent. With such an increase Jordan is ranked 32 in terms of HDI improvement based on deviation from fit, which measures progress in comparison to the average progress of countries with a similar initial HDI level.

### *The Human Poverty Index*

The Human Poverty Index (HPI-1), which measures human deprivations in the same three aspects of human development as the HDI (longevity, knowledge and a decent standard of living) has a value of 6.6%, giving Jordan, a rank of 29th among 135 countries for which the index has been calculated. In terms of HPI-1, Jordan according to the global Human Development report went from 9.8% in 1997 to 6.6% in 2009, thus, showing an overall improvement. In the 2010 global Human Development Report, a new indicator, the 'Multidimensional Poverty Index' was developed, and was valued at 0.010 for Jordan, placing it 42nd among 169 countries for which the index has been calculated. According to the index, the percentage of Jordanians with a severe



deprivation in at least one aspect of education, health or living standards amounts to 10.6%, 11.9%, and 0.2% respectively. Overall, 2.7% of the population suffers from multidimensional poverty, at an intensity of 35.5%.

*Gender Inequality Index*

The new Gender Inequality Index (GII) introduced in the global 2010 Human Development Report reflects women’s disadvantages in three dimensions—reproductive health, empowerment, and economic activity. Reproductive health is measured by maternal mortality and adolescent fertility rates; empowerment is measured by the share of parliamentary seats held by each gender and attainment at secondary and higher education by each gender; and economic activity is measured by the labor market participation rate for each gender. The GII replaces the previous Gender-related Development Index GDI, and Gender Empowerment Measure GEM. The GII shows the loss

DOS data. The result gave a GDI of 0.743, where Amman had a GDI of 0.768 (the highest) and Mafraq was the last on the list with a GDI of 0.700.

*Definition of SME*

For the purposes of this report it was decided to define small enterprises as those with less than 20 employees, and medium enterprises as those with between 20 to 99 employees. However, to bring greater precision to the analysis these numbers were further broken down into brackets. The brackets are: 1-4, 5-19, 20-49, 50-99 which are in compliance with the Department of Statistics classifications, see Table A.

The private sector in Jordan is made up of large firms with 196,945 employees, and SMEs with 431,609 employees. SMEs represent 60% of the total private sector and 37% of total employed in Jordan.

**Table A: The Breakdown of the Private Sector**

<i>Private Sector in Jordan</i>					
<i>Categories (# of employees)</i>		<i># of Employees</i>			<i># of Enterprises</i>
		<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Small	1 - 4	235113	211650	23463	131276
	5 - 19	105718	87725	17993	13085
Medium	20 - 49	54677	42776	11902	1830
	50 - 99	36101	28969	7133	516
Total Small and Medium	<b>1-99</b>	<b>431609</b>	<b>371120</b>	<b>60491</b>	<b>146707</b>
Large	<b>100 +</b>	<b>196945</b>	<b>144788</b>	<b>52157</b>	<b>620</b>
Total SMEs and Large		<b>628554</b>	<b>515908</b>	<b>112648</b>	<b>147327</b>

Source: Employment survey, DOS, 2008

in human development due to inequality between female and male achievements in the three GII dimensions. The result is a GII value for Jordan of 0.616 ranking it 76 out of 138 countries based on 2008 data. This was also calculated using the DOS data and produced the same results as the global report.

A GDI was calculated for each governorate for this report based on 2008 national

Most Jordanian SMEs work within the formal sector and are registered, as specific by law. Formal SMEs play a vital role in job generation . A sizeable percentage of self-employed firms are in the unregistered (informal) sector (that is, firms that deliver lawfully permitted services and products without being legally registered). There are 146,707 SMEs registered enterprises in the Kingdom.

Out of 1,342,816 labor force in Jordan, 1,172,701 are employed, of which 452,180 work in the public sector and 716,752 in the private, as set out in Table B. The government employs half of all employed women, along with one third of all employed men.

creation, with the average number of employees per enterprise increasing from 1.41 employees per firm in 2000, up to 2.66 employees per firm in 2007, although their share in total employment decreased from 72% in 2000 to 65% in the year 2007.

**Table B: Jordanian Labour Force (15 yrs and above)**

	<i>Male</i>	<i>%</i>	<i>Female</i>	<i>%</i>	<i>Total</i>	<i>%</i>
Government / Public	361387	36.4	90793	50.2	452180	38.6
Private	628361	63.3	88391	48.9	716752	61.1
International agencies	2242	0.2	1527	0.8	3769	0.3
Total employed	991990	100.0	180711	100.0	1172701	100.0
Total Unemployed	111916	65.8	58199	34.2	170115	100.0
Total Labor Force	1103906	82.0	238910	18.0	1342816	100.0

Source: Employment survey, DOS, 2008

### *SMEs and Job Creation*

Jordan HDR findings indicate that the contribution of SMEs to job creation in Jordan between 2000 and 2007 was impressive, whereby employment in formal enterprises increased by almost 18% to reach 425 thousand workers, up from 361 thousand in 2000. Small new businesses were the largest single contributor to job creation during 2000-2007, employing 1-4 employees per firm and creating almost 20 thousand new jobs. Regarding continuing businesses, most new jobs came from large firms employing 100 or more employees. These firms were the largest contributor of all the segments; they introduced almost 71.5 thousand new jobs between 2000 and 2007. Within the employment category several trends can be observed.

- First: The growing significance of large companies in terms of overall employment, with the average number of employees per enterprise increasing from 2.66 employees per firm to 4.05 employees per firm between 2000 and 2007.
- Second: The growing significance of large firms as job creators, in which their share increased from 21.6% of the workforce in the year 2000 up to 28.6% of the workforce in 2007.
- Third: The growing importance of the small enterprise segment in job

- Fourth: The reduction in the average employment size from 70.4 to 69.1 employees per enterprise in those companies that employ between 50 and 99 employees. However, the share of these enterprises in total employment remained stagnant at 6.4% during this time period.

One can, therefore, summarise that during the period, more jobs were created by larger enterprises. The phenomenon can be related to the following:

- The country's minimization of trade barriers, through the signing of many trade agreements, especially the QIZs, which impacted the size of companies, especially in the textile sector. In the QIZs many large garment firms, especially from the Far East, came to Jordan to take advantage of exporting their products to the US tax and quota free. However, it should be that even though the number of employees of these firms may be large, the level of investment in machinery and equipment is usually very little in comparison with other industries, especially since most firms conduct only three rudimentary operations (cutting, sewing, and ironing).
- The expansion of investment in some large industries, due to the privatization process and the inflow of FDI during the period 2005-2007, and the impact of investment promotion

efforts, which by their very nature targeted larger investments.

- The expansion of investments in the telecommunications sector, which entailed the opening of large companies with large investments.
- The high tax rates and the cumbersome registration procedures at the first five years of the decade limited the ability of smaller firms to enter the market or grow, thus making the Jordanian SME sector less dynamic.

One of the factors that distort job creation is the employment of non-Jordanians. The foreign labor force in Jordan, which stands at 260 thousand or 24.3% relative to a total of 1,172,701 is evidently large. However, only 1.9% of these foreign workers are university graduates, which implies that the majority of foreign workers are employed in low skill jobs. Almost half of business owners (at 46%) stated in the Survey that they employed foreigners due to a lack of available Jordanian labor that is willing to perform certain tasks. Also, 23% of owners felt that foreign employees had better work ethics. Within SMEs, only 12% of workers are non-Jordanian on average.

Agriculture employment is dominated by non-Jordanians due to rural-urban migration, the unfavorable working environment, and low wages, thus making the sector unattractive to Jordanian employees. Therefore, only 38% of paid employees in this sector are Jordanians.

#### *Women in the Workforce*

Women in the MENA region, on average, constitute 28% of the total workforce, the lowest globally and much lower than the 43% average found in other developing nations. Female participation rate in the labor force in Jordan is only 15%. Overall, the unemployment rate in Jordan of women is 25.4% while it is 9.6% for men. In education alone, there were 89,512 teachers in the 2007/2008 school year in Jordan, of whom 57,793 (or 64.6%) were women. Women with degrees have an unemployment rate that is almost three times as high as that of men with degrees. Approximately 55%

of unemployed women hold a Bachelor's degree.

The majority of SMEs employees are male (with 4.28 times more male employees than female employees, who are lower than the national average). Specifically, medium-sized companies, employing 50-99 employees, have a greater tendency to hire female employees, as opposed to smaller companies.

While the public sector represents the main employer of females, its ability to absorb increasing numbers of employees is declining. In 2008, according to the Department of Statistics, Jordan was able to create almost 64 thousand new jobs out of which the public sector was able to absorb only 41.4%, with almost 82.5% being occupied by males.

These trends highlight two main issues: the first is that women are leaning heavily towards an already saturated public sector; the second is that within the public sector they face a glass ceiling - males occupy the top posts. Therefore, much remains to be remedied by SMEs and the private sector in general, to fill this gap, especially if the trends in the public sector persist. Furthermore, reforms are most likely to attempt to decrease the size of the workforce in the public sector; it is not infeasible that the majority of those released will be women.

#### *SMEs Contribution to Economic Growth*

It is widely viewed that entrepreneurship is one of the most pertinent drivers of economic growth. However, in developing countries, where statistics are usually unreliable or simply not available, determining the size of the SMEs sector is more difficult, particularly since the size of the informal economy is usually greater in developing countries than in developed countries. Notwithstanding, it is recognized that the contribution of SMEs in developing countries ranges between 50% to 70% of GDP.

In a review of 76 nations, it was shown that the role of SMEs in GDP generation and national income is quite significant

with just over half of GDP being generated by SMEs in developed nations, 39% is generated in middle-income nations and only 16% in developing nations. The same review focused on examining the distributive contributions of SMEs within national economic growth towards bridging the gap between rich and poor. Most empirical data indicates that in most cases, economic development increases the incomes of those families at the bottom of the income distribution pyramid. Hence, growth is generally viewed as 'good' for the poor. However, in order to be 'pro-poor,' growth must proportionately help the poor, as opposed to the rich. UNDP research has found that in comparing a 1% increase in economic redistribution with a 1% increase in economic growth, the former was seven times more effective in cutting infant mortality. Therefore, the equality of growth is a key factor in tackling poverty (being pro-poor).

It is clear that the SMEs sector is not the largest contributor to government taxes in Jordan. Currently, the available data shows that almost half of SMEs fall below the JD 5,000 income bracket, per year and therefore are placed below the thresholds where sales tax and income tax are mandatory, see Table C.

place by Zarqa and third place by Irbid.

*SMEs Sector Distribution and Evolution*

SMEs in Jordan engage in various economic activities, including trade, services, manufacturing, and agriculture. Trade and services are the most dominant activities, accounting for 85% of SMEs activities in 2006. The trading sector is almost entirely composed of SMEs, employing almost 92.7% of the employees. The wide range of SMEs found in the trade sector is a reflection of their provision of services at the local level. Serving localized markets, where customer demands are known and limited, allows for an easy entry, labor-based approach, focusing more on small scale personal finances. On the other hand, SMEs do not play the same role in the manufacturing sector, where the level of technology and investments needed increases dramatically. However, some SMEs in Amman, Zarqa, Irbid, Madaba and Aqaba are beginning to shift away from trading activities, and lean towards more value-added activities in the manufacturing and services sectors.

The Survey showed that the typical global life cycle of companies, starts as small and grows from small into medium (and

*Table C: Income Bracket per Size of Enterprise*

Income Bracket (JDs)	Number of Enterprises				
	From 1-4	From 5-19	From 20-49	From 50-99	100 and more
<5000	76,456	1,523	93	32	18
5000-10000	32,400	1,803	81	14	7
10001-20000	15,010	1,785	121	13	12
20001-40000	6,494	1,198	110	26	11
40001-60000	2,853	849	165	24	12
60001-100000	1,587	883	221	45	48
>100000	785	958	607	331	448
Total	135,585	8,999	1,398	485	556
>100000 as % of total enterprises	<b>0.6%</b>	<b>10.6%</b>	<b>43.4%</b>	<b>68.2%</b>	<b>80.6%</b>

Source: Establishments Survey, DOS, 2006

There are disparities in the income generated by SMEs across the country. The greatest income levels are generated in Amman, followed at a distant second

then large firms), does not take place in Jordan. In general, small companies are unable to mature and attain the minimal required production size. New entrants

are usually small, with weak average productivity levels, and greater exit rates, than large companies.

Governorates with concentrations of very small firms, are unable to grow into medium sized firms due to an under developed business environment. Therefore, a vicious cycle is created whereby small firms that start in the less economically advanced governorates tend not to grow. Consequently, the existence of medium sized firms in some of the Jordanian governorates was crucial for their economic growth, especially if the governorates are less developed than the major three governorates (Amman, Zarqa and Irbid).

According to the Survey, the SMEs do not invest heavily in the technologies that may bring unique added value to economic performance. Of the surveyed companies, over half use computers in their operations, but less (approximately one third) use internet, e-mails, etc. This low level of technology utilization affected their value position, where only 17% of the surveyed companies introduced new products/services to the market, and where only 1% of companies surveyed have a patent. Only 2% of SMEs surveyed followed quality control procedures that are in compliance with the ISO international quality certification system. Indeed, the majority of SMEs (84%) do not have any system in place for quality control of their products or services.

#### *SMEs Contribution to Exports and Local Markets*

When looking at the contribution of SMEs to Jordanian exports, official statistics are unavailable, just as they are for SME contribution to taxes and GDP. Survey results, indicated that only 4% of the surveyed companies are exporters, which is most likely due to the fact that SMEs in Jordan mainly offer products and services designed to meet local needs and at costs affordable to the local market (usually people within the same governorate). Most of the goods and services provided by the SMEs are sold within the governorate; some are sold outside the governorate but inside Jordan, with a

minority of the SMEs products/services being exported.

Within the exporting SMEs, operations were mainly active in the industrial sector and the agriculture sector. From the Survey, it is evident that 10% of the manufacturing SMEs, export while 9% of the agricultural SMEs export. Trade and Service SMEs have an even smaller export potential, with only 2% exporting.

Almost a quarter of Jordanian SMEs receive over 40% of their inputs from their own governorates. This can be attributed to several major factors. The cost of searching for alternative inputs is relatively high for smaller companies. In addition, under-developed infrastructure and comparatively high transportation costs make local buying the reasonable business choice. Furthermore, most of these companies are located in large cities including Amman, Zarqa and Irbid, where more established economic support activities exist in the immediate environment. Most of the products/services Jordanian SMEs are delivering are sold to end customers (78% of SMEs sell 100% of their production/services to end consumers).

#### *Innovation and Networking*

Unfortunately, in Jordan, the national innovation system is weak. Jordan ranked particularly poorly in the Global Competitiveness Report (GCR) measure of Company Spending on Research and Development (R&D) coming in 108th out of 133 nations.

The collaboration between SMEs in Jordan is not emphasized within the business culture, where 78% of all the enterprises surveyed are not members of any type of professional association. Also, networks via buying and selling groups, (in terms of collective efforts to respond to large orders), are minimal with a majority of SMEs (86%) never having gone into such a relationship with other SMEs, or a group of SMEs.

### *Geographical distribution of SMEs*

The majority of SMEs in Jordan favor Amman, Aqaba and Zarqa. These three governorates capture over 80% of the nation's SMEs; just over 80% of the country's employment; and over 70% of the nation's population, in less than one-third of the country's geographic area.

The SMEs density (enterprises per 1,000 people) is significantly lower than the average in lower middle income countries, and is almost half of that of higher income countries. Amman, Irbid and Zarqa the governorates with the greatest concentration of economic activity also demonstrated the best performers in human development indicators. The survey also showed that Aqaba and Balqa who have a high number of medium enterprises follow the pattern mentioned above. It is interesting to note that that the illiteracy rates in these governorates are among the lowest in Jordan, amounting to 13.2% for Aqaba and 13.6% for Balqa, significantly higher results than were achieved for the rest of Jordan. The unemployment rates in these two governorates were the lowest in Jordan, except for Amman. The number of vocational training apprentices in these two governorates is higher than any other governorates in Jordan, with the exception of Amman.

### *SMEs Contribution to Social Progress*

The contribution of SMEs to social progress is even more difficult to assess than economic growth. The components of social progress represent an aspect of society where the government plays a major role, through the proper allocation of public resources, emphasis on equity in policy enactment and greater expenditures on education, health and infrastructure. Isolating the impact of SMEs on social progress is, thus difficult. Furthermore, it has to take into consideration the impact of several other aspects, whether positive or adverse on social development. Moreover, difficulty lies in the selection of benchmarks; for example, SMEs could endow a poorer community with significantly more perceptible benefits than a more affluent community .

Notwithstanding those limitations, SMEs, through the generation of work opportunities and the availability of goods and services, and in the absence of large firms, have a direct positive link to the prosperity and welfare of individuals, owners and employees, and their immediate or extended families. They also have a positive impact on the immediate community through the development of the individuals directly involved in the economic activities and the growth in economic activity they are likely to spur. It is through this link that SMEs have a major role in satisfying the individual, through offering a set of conditions that affect both quality of life and overall well-being.

Since SMEs are likely to offer income opportunities and windows for socialization, as well as self-esteem, the sets of benefits offered by the work opportunities created by SMEs, are thus, considered necessary for quality of life indicators. However, not all jobs improve the welfare or well-being of individuals equally. Issues that are important include: standards of employment, wages, gender recognition, discrimination in the workplace, opportunities for lifelong learning, working time, the work-life balance, work hazard and physical risks. Also, from the owners' point of view, factors beyond the actual income generated from the enterprise, include: the degree of control over one's life; self-realization; independence; social standing; and leadership within the household/tribe/community.

This Report probes the role of SMEs in facilitating social progress as a result of improvements in employment and income. Employment, along with the terms and conditions of that employment, is the main connection between output growth and poverty alleviation, including distributionary aspects and the sustainability, or permanence, of this growth. The role of SMEs in employment generation encompasses one of their most significant impacts in contributing to economic, and indeed human, development. Employment generation is the fundamental first step in raising income levels and combating widespread poverty.

### *Wages in SMEs*

Within employment, wages is one of the most important aspects of reward or compensation. The share of salaries, as a percentage of GDP, is one of the indicators used to measure distribution of income, thus equity, within a given economy. In Jordan, accumulated salaries do not exceed 40% of GDP. The remaining 60% of GDP is obtained from profits, rents, interest and the income of self-employed individuals.

There is no universal dataset capable of revealing the differences in wages offered by large companies compared to SMEs. Evidence worldwide suggests that the level of compensation in SMEs is also comparatively low, with figures approximately 70% to 80% of the national average. There is also substantial sector variations, whereby in large proportions SMEs are concentrated in low-paying sectors.

In Jordan, data showing the difference, in terms of wages, between large companies and SMEs is not readily available. However, evidence from focus groups, in Jordan, asserts that wages and salaries in SMEs are consistently less than in larger companies. In order to overcome this data shortage, the Report looked at SME wages, relative to the country's specified minimum wage, as the absolute minimum amount of monetary compensation any firm must pay its employees. In Jordan, the minimum wage in 2009 was 150 JD/month; claimed by many not to be a 'livable wage.' For example, the poverty line in Jordan per individual is set at JD 556 annually or JD 46 monthly. For a family of six (the average household size in Jordan is 5.7 persons) including, two parents and four children, this would imply that the family would need to earn at least JD 276 per month in order to subsist at the poverty line. Therefore, for a single income household, the minimum wage of JD 150 is less than the necessary subsistence expenditure.

Nationally, 68% of employed males receive a monthly income of less than JD 200, while 5% and 2.6% of employed males and females, respectively, receive

a monthly income of JD 500 or more. However, the Survey found that SMEs employers stated that just under three quarters of employees were paid salaries that were above the minimum wage, while 27% were paid amounts that were less than the minimum wage.

It is necessary to note that, according to human rights' organizations, the main sources of violations of elementary labor rights in Jordan, including paying a wage lower than the minimum wage, take place not in the nation's SMEs, but in the nation's Qualifying Industrial Zones (QIZs), which are considered 'large' enterprises, especially amongst migrant workers. One thing that should be noted is that in 2009, firms within the QIZs were exempt from the minimum wage implementation by the Jordanian government.

Another area where wages are lower is the informal sector in Jordan. Most of the workers in the informal sector are self-employed. Only 0.7% of the workers in the informal sector earn more than JD 1,000 a month, while the vast majority (more than 90%) earn less than JD 500/month. One study emphasized that the vast majority of workers in this sector earned a wage that ranged between JD 100 to JD 150 monthly (under or at the minimum wage). The informal sector attracts groups that would not have been allowed to work legally, such as underage persons, illegal immigrants, and those unable to find formal employment opportunities.

The Survey showed that about 72% of SMEs employees are on permanent contracts with the remainder on temporary contracts, as opposed to the global rate of one third. Jordanian SMEs employ half the rate of day workers, compared to larger firms. Jordanian SMEs offer a stable source of employment, even compared to international standards. However, lower wages and the absence of social security in SMEs enterprises makes them vulnerable and therefore less advantageous from a 'well-being' perspective.

*Men and Women Jobs and Wages*

When considering the gender aspect, women fare worse all-round, not just on the SME scale but also at the national level. The monthly salary of males working in the public and private sectors averaged JD 238, while females working in the public and private sectors averaged JD 211, which shows that females earn on average 88% of male wages. Both the private and public sectors are legally required to maintain equality between genders; in practice, gender-based discrimination exists in both sectors. In the public sector most managerial positions favor men. Furthermore, women have to earn higher degrees than men to gain access to the same positions and benefits. Bonuses and promotions are skewed based on perceptions that males are considered the major breadwinner in the household and are therefore more deserving. In the private sector discrimination is more prevalent and preference in employment is skewed towards males.

Given that females working in the public sector are more educated than males on average, the discrimination in earnings becomes more apparent. The Report shows the distribution of males and females according to monthly wages. More females than males are likely to be employed, in the "Less than JD100" category, which is also true in the JD 200-299 monthly wage category. This is explained by the fact that females are more willing than males to accept jobs that pay less than minimum wage (possibly because of apparent discrimination or due to the given social norm of considering females as secondary wage earners). Furthermore, women are more likely than men to be found in the JD 200-299 wage-group, which usually consist of entry level administrative/desk jobs or teaching jobs, both viewed traditionally as acceptable female jobs. A larger proportion of males are found to be employed in the higher wage categories compared to females, whereas the wage distribution of females is more heavily concentrated in lower segments.

SMEs fare better than the rest of the economy as far as gender-based wage

discrimination. Comparing the wages of male and female workers, males in the Report earn higher wages at higher employment positions (males earn 23% more than women in management positions), compared to 46% for all Jordanian firms with the greatest discrimination within the managerial posts, where male workers on average have higher wages than female workers; females only exceed male salaries in blue-collar jobs.

Clearly, despite significant advances in the education of female labor in Jordan (relative to male labor), gender differences in wage levels remain noticeable. Apparently, there are other characteristics that the Jordanian labor market takes into consideration, since even with their more advanced education levels; women earn less than men with the same level of education. These characteristics include issues such as the ability of men to work longer hours due to their ability to stay outside of their home longer. Women form a larger percentage of employees in medium size enterprises than in small enterprises (often taking on less-physical jobs). Women prefer to work closer to home. Female workers are more likely to stay within their governorates than their male counterparts, with 90% of females employed within their own governorates compared to 71% of men.

Some families will often not allow their daughters and wives to work in the private sector unless it is a completely female environment, or a family-owned business or they personally know the business owner. For example, according to the Report SME Survey, conducted by the team, almost one quarter of managers found that their main problem with female employees is their families' refusal to let them work.

The trend of employability of women has meant that more women are finding employment in low level, low salary, low skill jobs. SMEs have shed a slightly different light on this, tending to promote women to higher positions more easily. Looking at the positions of women with SMEs one finds a relatively even distribution in



terms of management, although a slightly higher percentage of males (at 15%) being in management positions, compared to females (at 13%).

Regarding business owners who experienced certain issues with female employees, survey findings show that 31% of those surveyed believed that female employees were incapable of performing the same amount of tasks as their male counterparts, while 20% were concerned with the inability of women to work late hours, and 13% cited problems arising from vacations and personal days, due to family matters.

#### *Incentives within SMEs*

The Report shows that in addition to better gender equity in terms of wages, SMEs offer additional incentives to their employees. These include 46% offer free meals, 35% offer transportation, and 39% offer social security. Incentive packages are an important aspect of compensation, along with wages. National statistics from the Social Security Corporation show that from the 146707 SMEs registered in the Kingdom, only 14,616, less than 10% of total SMEs, are registered in the Social Security Corporation. The low figure also shows that most of the companies in Jordan are very small enterprises, which employ less than five employees, and highlights the fact that small firms cannot afford simple benefits including social security as the company contribution would add 11% to its wage bill. Firms are legally obligated to register with the Social Security Corporation as they increase in size to above the five employee threshold.

#### *Level of Qualifications of Employee*

The Report shows that companies with staff of 50- 99 had the highest number of staff with Primary level education at 32% , followed by secondary at 27% and BA at 26% with only 1% with MA while the number for companies with staff of 1-5 had Primary at 18%, secondary 31% and BA 19% and 1% with MA. The trend reveals that medium-sized enterprises are more likely than small enterprises to

employ university graduates. In general, SMEs in Jordan do not favor highly educated workers. The Survey shows that 14% of male SME employees had a diploma, 17% had a BA, and 29% had a secondary school education. However, 46% of female employees had a BA, 19% had a diploma, and 16% had a secondary school education. Also, 10% of women, and 9% of men, had vocational training. In terms of SME owners' educational levels, 79% of these owners held secondary school degrees, or above. However, 42% of SME owners held Bachelor's degrees or above.

Regarding workers who received a secondary school education, one third of employers were highly satisfied, and 14% were not satisfied at all with the quality of work shown by these employees. Of these employees, 47% needed improvement mostly in their technical skills, 34% in their personal skills, and 17% in their work ethics. The most positive results, however, came from employees who graduated with a higher diploma. Almost two thirds of employers were satisfied with these employees, and their greatest weaknesses were their technical skills (at over half of employees), personal skills (at 26% of employees) and work ethics (at 17% of employees). Thus, not only do graduates with higher diplomas provide the most satisfied employers, but they have the lowest number of employees who have work ethic related problems.

It is evident that SMEs offer opportunities to alleviate unemployment amongst less educated groups, thus positively affecting their well-being. However, lower wages and the absence of social security in these enterprises makes them less advantageous from a 'well-being' perspective.

#### *SME Training and Government Support*

In Jordan, the most significant obstacles with regard to training employees in SMEs, as discussed during the focus groups, are the: high costs in absolute and relative terms; replacement problems (someone to do the work) while an employee is on training; difficulties in finding appropriate trainers or courses; and

the possibility of losing the employee to another employer once trained. The latter is very true in cases of general training, whereby the employee becomes attractive to other employers and can use her skills at a higher pay with the new employer. Some employers, therefore, find it cheaper to employ skilled employees who have been well trained already, than having to provide training for their current employees.

It is inferred, therefore, that while SMEs are good providers of jobs, they do not sufficiently provide activities that fulfill training needs, nor do they upgrade knowledge levels of their employees.

#### *SMEs and Women Owners*

In Jordan, females own about 5.3% of all businesses, compared to the 94.7% of businesses owned by men. The number of self employed women (including companies with only one worker) is also relatively weak, with only 4.2% of self-employed Jordanians being women. This trend is lower than global averages which place female business owners at about 25-33% of total entrepreneurship worldwide. Men principally start an SME for increased income and self-esteem, while women start an SME for a variety of reasons, such as family responsibilities and flexibility.

The majority of female-owned enterprises in Jordan are very small enterprises, employing 5 people or less, hence their relatively limited contribution towards total employment. The Survey showed that 88% of female owned enterprises that start with five employees or less remain at this size, while only 77% of male enterprises do not grow beyond five employees. A study by the International Finance Corporation (IFC) and the Center of Arab Women for Training and Research (CAWTAR) in 2007, analyzing female owned enterprises in the MENA region, confirms this finding, showing that the average size of the female run enterprise in Jordan is 7.5 employees.

Furthermore, female entrepreneurs in Jordan tend to pursue business in a limited

number of sectors, where women are traditionally economically active. The vast majority of female entrepreneurs operates in the retail and service sectors (representing almost 91% of female enterprises in Jordan). In many instances, traditional crafts such as knitting and sewing, carpet weaving and silver making, play an important role in female business activities. However, some engage in manufacturing activities such as food processing. In the informal sector, the focus seems to be on beautification services and sewing

Female SMEs owners are more likely to employ females. The Survey showed that in female-owned companies, there are almost 1.84 female employees for every male employee, while male owned enterprises have 3.11 males for every female employed. Females are also more likely to own smaller businesses. This allows them to have more flexible working hours, be close to home and have their mothers care for their children. Almost 73% of Jordanian women managing a business are married, with 70% of them having more than one child at home.

According to the Survey, 82% of female Jordanian business owners thought that their life was positively affected by owning their business, due to a variety of factors including increased income, control over one's life, a better position within the family and an improved family-life balance. The remainder found that their life had been negatively affected, due to being away from their children and greater responsibilities both in family and work life.

The Survey, showed that 71% of women owned businesses earn JD 10,000 or less, compared to 60% of male owned enterprises. Only 24% of female owned enterprises saw revenue growth, as opposed to 28% of male owned enterprises.

In summary, the engagement of women in entrepreneurial activity is making an important contribution to the overall level of entrepreneurial activity in the economy, as well as contributing to aggregate capital, skills and experience.

### *Ownership of SMEs*

The majority of SMEs are sole proprietorships. Of the surveyed companies, 80% were sole proprietorships, with only 7% of entrepreneurs owning limited liability companies. It is important to note, however, that these percentages may change drastically, given that the minimum level of capital, needed to register a limited liability company, was reduced in 2009, from JD 30,000 to JD 1,000. Most SMEs are owned and run by the same person. Most of these enterprises, at the start up stage, were composed of only the owner. Currently, 76% of them have at least two employees. The majority of business owners fell into the following age groups: 21-30, 31-35, 36-40, 41-45 and 46-50 years old, accounting for 16%, 13%, 18%, 15%, and 15% of the owners, respectively, with 77% of employers between 21-50 years of age.

### *Youth and SMEs*

There is some evidence that SMEs are encouraging youth employment. For example, smaller firms have a greater tendency to employ both young individuals, and those without diplomas. The Survey showed that approximately 23% of surveyed SMEs employees are between 19-25 years of age, a more encouraging figure than the national average of 20.4% of 15 to 24 year olds, (according to the Department of Statistics). Only a small minority of young people start their own firms, due to the typical young person's need to continue his/her education. Young SMEs owners (between 15 to 25 years of age) account for 5% of SME owners. This number is on par with other regions, such as in Latin America, where young company owners (between the ages of 16 and 24) account for 8.2% of entrepreneurs. Most young business owners fail in their ventures due to business growth barriers requiring high levels of investment for expansion. In addition, some lack the vocational and entrepreneurial skills – or even the networks required for growth.

While entrepreneurship amongst the young may in fact create an alternative to unemployment, the struggles a young

entrepreneur faces, and the likelihood of failure, are high enough to make such choice undesirable.

### *SMEs Contribution to Empowerment*

The report analyses the link between SMEs and empowerment or lack thereof, with a specific focus on the two issues of employment, as a tool for empowerment, and the capacity of SMEs to enhance the position of women within the workforce and home. Women often play multiple roles, beyond earning income for the household, such as domestic services, community assistance and family caretakers. Women face many challenges, which undermine their full participation in the community.

The survey showed that owning an SME enables entrepreneurs to significantly increase expenditures on large items, such as the purchase of a land or home. In some cases, the ability to buy a home increased 4 times as much as before the opening of the business. The ability to save also increased fourfold due to the opening of a business. Entrepreneurs who opened their own business increased their assets, in terms of home and land ownership, by 21% and 20%, respectively; as well as upgrading to homes of better quality, for example, the number of entrepreneurs owning a villa increased from 53% (before owning a business) to 60% (after owning a business). Also, many more own their home (77% as opposed to 62%).

Female entrepreneurship has played an important role in changing public attitudes towards women. They have gained more respect inside their families, as they were considered more reliable, productive members of the family, for contributing to the family's income, according to the Survey. The addition income offered many advantages, for example many owners of SMEs bought public insurance, and joined representative organizations such as the Chambers of Trade and Industry. SMEs have no doubt empowered women and youth in terms of employment, societal esteem and acceptance. However, much remains to be done.

### *The Role of Micro Finance in SMEs*

This chapter of the report starts with outlining the growth of microfinance institutions in Jordan, followed by a focus on the role of micro finance in empowering the poor, using survey data, targeting the smallest bracket of enterprise (1-4 employees) who received micro finances (113). This bracket will be called a micro enterprise. It is recognized that many SMEs in general have also benefited from micro finance in Jordan

#### *Microfinance in Jordan*

Microfinance has grown to become a dynamic sector in Jordan. During the last ten years, the number of operating institutions grew to 11 institutions, with such institutions spread over private Microfinance Institutions (MFIs), Non-Governmental Organizations and governmental MFIs. The private MFIs play a vital role in providing financial services (mainly loans) to SMEs in Jordan.

The main institutions, with a strong financial background and dominating the Jordanian market, are: Tamweelcom/Jordan Micro-Credit Company, Ahli Micro-financing Company, Micro-Fund for Women, National Microfinance Bank, FINCA and the Middle East Micro Credit Company. These institutions are to be found across the governmental, non-profit and private sectors.

A study developed by the Social Solidarity Coordination Commission in Jordan, in 2008, showed that microfinance institutions have served almost 116,000 customers with loans amounting to almost JD 85 million. The study shows, in comparison, that in 1999 micro-finance loans in Jordan were offered to almost one thousand people, with a loan amount of almost JD 4.4 million. Jordan has 4.5% of the active borrowers in the MENA region, and 9% of the loan portfolio. Jordan is also the largest loan portfolio of the MENA microfinance sector, after Morocco and Egypt.

The Jordanian microfinance market is considered one of the most efficient

regionally, showing an operating expense ratio, compared to a loan portfolio ratio, of 17%. Though the sector has gone through a series of reforms, many issues still need to be addressed: other services outside of credit, such as micro-insurance, are almost non-existent; deposits amounted to about 5% of outstanding loans; and microfinance institutions still depend, to some extent, on external funding. MFIs are often considered to have burdensome application procedures (that are often as complicated as regular banks), which often acts as a deterrent to applicants.

In addition to MFIs, some Ministries in Jordan are targeting the poor, with no interest loans or grants, in order to lift them out of their positions of vulnerability. The Ministry of Social Development has the productive families program, which targets some of the families taking repeated support funds from the National Aid Fund, (NAF) with no-interest loans, and by offering grace periods of up to one year. During the grace period, the NAF support continues to the family, in order to make sure that the project is functioning properly.

The Ministry of Agriculture provides grants through livestock projects to families in the poverty pockets, in order to engage them in income generating activities. However, these interventions are limited as the budget available for such projects is usually not sufficient to reach a sizable percentage of the poor.

#### *Interest Rates*

Interest rates are typically greater in microfinance firms, as opposed to commercial banks. The Micro-Enterprise Survey conducted by the team in 2009, showed that the majority of loans charged interest rates of 16-20% annually, quite high compared to conventional loan interest rates. Interest rate percentages vary, with governmental institutions charging lower rates than private sector institutions. The majority of microfinance firms charge between 16-20% interest rates. However, despite the high interest rates, 79% of loan takers were comfortable working with the agency they had selected.

### *Micro Enterprises and Micro Finance*

The majority of employees get paid around minimum wage level. About 91% of these employees receive between 100-200 JDs/month. The surveys revealed that most of the enterprises fail to generate over JD 20 thousand in their annual income. Other challenges that were reported by micro-enterprise owners, included: difficulty in dealing with project documents and records, difficulty in creating networks; and the low quality of products/services due to unqualified workers. Other reported challenges included bad management, being busy with other family matters, health issues, licensing issues, financing and the limited availability of products due to a lack of cash.

The very poor typically are unable to obtain any formal loans, as they do not possess collateral, nor can they join a borrowing group. Even with moderate improvements, interest rates on micro-finance loans are still excessive, as opposed to commercial banks. Rates are also excessive, compared to the return on investment rates of projects typically found in rural areas, such as trading and husbandry. This is understandable, as no microfinance institution declared that it is in their mission statements to serve the poorest of the poor.

From the total number of projects receiving financing from micro-credit institutions, women implemented almost 86% of them. Although the amount obtained from loans by women is less than the amount received by men, women still collected approximately 51% of the loans. Most of the loans were given to urban citizens in the four largest governorates, including Amman, Zarqa, Irbid and Balqa.

Results of a recent Planet Finance study indicate that the average age of a micro-finance client is a 37 year old, married female, with less than a high school education. To expose the importance of micro-finance, results indicate that it sometimes provides the only external source of finance for the economically active poor in Jordan. 55% of those sampled in the Planet Finance study state that their MFI is their main source of finance, and that it

has huge impacts to improving quality of life – especially for longer term users.

### *Benefits of Micro Finance*

The survey results showed that the ability of the enterprise owners to access both private and public health insurance increased. Microfinance can have an important role in the creation of sufficient income for the poor by empowering them to start productive micro-enterprises. Women reported increased decision-making roles, where these women felt that they had a more authoritative voice in solving family issues. It showed that owning a micro-firm significantly improved the lives of the owners and helped them to join the professional associations, labor unions and the chambers of trade and industry.

Female entrepreneurs (who received micro finance) faced problems at the start-up phase, where almost 45% of the women surveyed faced problems with their families, while 35% faced problems with finding proper child care. However, once past these stumbling blocks, the positive impacts on the human development of these women are significant. Female business owners surveyed (roughly 70%) also reported overwhelmingly positive experiences in terms of their positions in society. Those with negative experiences complained of additional responsibilities and of being away from their children for long hours.

Participating in a micro-enterprises and accessing micro finance, is not sufficient on its own to impact on human development, it needs be considered in conjunction with human capital (obtained through education) and democratic capital (obtained through representative democracy), to help the poor escape poverty.

### *SMEs and Sustainable Development*

While individually SMEs have relatively minor social, environmental and financial impacts, cumulatively their impact is major. The SME sector has gained recognition for contributing to an economy yet SMEs are increasingly being criticized

for being highly resistant to voluntarily improving in their performance in these areas, behaving reactively rather than proactively. Lack of resources to mobilize best practices in terms of production and waste management places an undue burden on the small production units. Small firms, with their limited manpower and revenue, and weaker ownership structures, are less likely to adopt sustainability practices, since such practices are less likely to be geared towards them.

#### *SMEs and protecting the Environment*

According to the Report SMEs recognize environmental protection as one of the pillars of sustainable development with 78% of SMEs view the environment and its protection as very important. While it is evident that the vast majority of respondents are concerned about the environment, it is not a simple task for these respondents to convert their concern into positive actions. SMEs usually lack the financial resources and the knowledge of how to implement environmentally friendly practices. In the survey, only 14% of the SMEs have adopted environmentally friendly policies, and of those who did:

- 31% use recycling (6% of total SMEs)
- 19% use renewable energy (3% of total SMEs)
- 42% have an energy savings plan (8% of total SMEs)

The two major issues impacting the behavior of SME owners are:

- (I) Funding: Only 18% of those surveyed state they can provide the necessary funding for the implementation of environmental protection policies.
- (II) Awareness of Local and Global Environmental Standards: According to survey results, only 32% of business owners are aware of local and international standards regarding environmental policies, which underscore the significance of awareness campaigns and proper access to information.

Searching for economically sustainable solutions to environmental issues is a challenge. SMEs are unlikely to adopt expensive environmental saving technologies due to the marginal profits that SMEs have, so there is little room for additional expenses, even if some environmental gains will be achieved.

Although the SMEs' Survey has shown 78% of respondents viewing environment protection as vital, it is highly unlikely that SMEs in Jordan can turn this conviction into positive action. Therefore, as SMEs grow, more environmental awareness, monitoring and enforcement programs will be needed to ensure environmental sustainability.

#### *SMEs and Voluntary Corporate Citizenship*

The **UN Global Compact** is a voluntary corporate citizenship initiative that engages business enterprises with civil society, labor organizations, governments, academic bodies and institutions and other stakeholders, in order to address areas of sustainability development. According to the UN Global Compact, there are 29 organizations in total participating in the Global Compact Initiative in Jordan. All the Jordanian companies who joined the UN Global Compact during the years 2009 and 2010 are SMEs. This indicates that more and more SMEs in Jordan have the willingness to invest in more CSR practices, in order to have better environmental and social impacts.

Currently, volunteerism is spreading in Jordan, helping to foster inclusion among some marginalized groups, especially those living in poverty pockets, as well as the young. Use of external volunteers is becoming more common, especially the US Peace Corps, the European Voluntary Service and others. However, the number of volunteers involved is still relatively small, the Peace Corps for example (one of the larger organizations in terms of its Jordan presence) at present having a total of 30 volunteers in the country, with all volunteers to date since the beginning of its activities over 20 years ago being around 420.

According to the Survey, almost six tenths of Jordanian SMEs are engaged in some form of socially responsible activity, in favor of their local communities. The activities range from support for sport and cultural activities, in the form of donations or sponsorships, to employees volunteering in local schools, or in the form partnerships with non-profit organizations.

By joining the UN Global Compact, more and more SMEs in Jordan are demonstrating the willingness to invest in more Corporate Social Responsibility activities aimed at better environmental and social impacts. However, Jordan's SMEs are yet to enter into the market as players. For this reason, policy and institutional efforts must focus on germinating their interest and capturing their potential.

### *Recommendations*

To enhance the effectiveness of SMEs, as agents of human development, certain issues must be addressed. The Jordanian government took significant steps to improve the efficiency with which companies interact with the government, including reducing the number of offices needed to register a company, to one, as well as introducing online payment of tax revenues and the establishment of a commercial court. In addition, the government reduced the registered capital required to form a limited liability company from JD 30,000 to JD 1,000. These have helped greatly. However, much remains to be done. In light of the findings above, the Report concludes with the following key recommendations:

*Institutional Coordination:* Increased coordination among the different institutions serving the sector is required, to ensure an efficient allocation of resources. Many institutions play the same role as others and cooperate in serving the same targeted group or sector. A national strategy and action plan should be developed to set and define the role of each stakeholder, in the development process, linking the different stakeholders in order to increase the level of cooperation amongst them, when serving SMEs. The

strategy shall also define applicable KPIs to measure the success and sustainability of the initiatives and programs serving the sector. Most importantly, stakeholders should ensure that the activities of all stakeholders are geared towards human development, and are sustainable.

*Exports:* While the Report did show that SMEs do have a smaller export potential than large firms, their export potential is nonetheless significant. The government should encourage the growth of SMEs in exporting, promote the growth of professional associations among entrepreneurs, the adoption of quality assurance standards, as well as cooperation among SMEs, in order to further increase their export potential.

*Cluster Groups:* The government could also encourage SME value chains and cluster groups, by improving the logistics situation of Jordanian SMEs and organizing purchasing groups. Promote the benefits of linking with other firms whether horizontally or vertically. Cluster associations will improve strategy; create innovation, through learning from best practices that could lead to higher-end employment opportunities. Adopt measures to strengthen linkages among SMEs within the geographic boundaries of their clusters and among clusters to develop further specialization and competitiveness, which will lead to higher wages and welfare. Create value-chain through the arrangements of buyer groups, along with providing incentives for participating firms, through programs such as the Cluster Development Program, in India. Encourage the specialization and clustering of SMEs in order to produce greater value added products that are also exportable beyond the localities of current firms. Invest in R&D via innovation grants.

*Quality standard:* Create programs to ensure that SME products pass a certain standard of quality, thus increasing their potential for exporting. These programs would include training on quality control and export regulations. However, care must be taken that these initiatives do not simply regulate, but also assist in garnering compliance by SMEs of the required standards. Therefore, they should

be coupled with technical assistance that promotes, among other things, the enhancement of SMEs market access to developed and stable export markets.

*Government Monitoring:* Increase the Ministry of Labor inspectors' visits to follow up its implementation through site visits to employers' sites, in order to assess the working conditions and the fair implementation of the provisions of the law. Provide training in human rights and their violations is necessary.

*Tax Law:* Review the new tax law that was proposed in 2009 to promote progressive taxation, in order to further equality and social justice. An independent tax bracket for SMEs, could be considered.

*Local Development:* Expand the current support mechanisms at the regional level to ensure that SMEs located in the poorer governorates do not migrate into the more developed governorates. The government could provide SMEs with incentives, to encourage employee training.

*Informal Sector:* The government should make a considerable effort to move firms out of the informal sector, into the formal sector, thus allowing SMEs to take advantage of the benefits of the formal sector. Activities could include making the registering of a business much easier, by minimizing the costs and time required to register, streamline and minimize the methods for obtaining credit, so that entrepreneurs will have a source for their start-up capital. Review taxes, procedures for filing for bankruptcy, and labor/union issues. Consider lowering the minimum capital requirements, by allowing some businesses to operate from homes, especially those owned and run by women.

*Increase minimum wage:* Increase the minimum wage.

*Appropriate training:* Increase investment in training for SMEs employees, by supporting on the job training, subsidized training, and initiatives such as "centers of excellence". Focus on providing sponsored training and education matched to market needs, as well as focusing on

promoting the concept of entrepreneurship within the educational curricula. Invest in vocational training centers, as employee skill levels improve significantly after receiving specialized and relevant vocational training.

*Female entrepreneurship:* Increase funds, loans and programs that encourage investment in SMEs, in order to create a more equitable distribution of income, especially amongst women. Female entrepreneurship should be encouraged and dedicated funds for this purpose coupled with significant improvements in training (enhancing analytical, communication, and team working skills, along with more relevant and specific technical/vocational training), and the removal of geographic impediments to employment.

*Guest Labor policy:* Review the current guest labor policy.

*Retain employees:* Support SMEs to find and retain competent employees through incentives to SME employees that may include tax rebates, increased training potential, and encouragement of benefits such as social security (as less than 10% of SMEs offer their employees social security). Sponsor career fairs.

*Youth empowerment:* Provide more advanced mentorship and support structures than currently exist. Incentive schemes, tax holidays, and seed capital can help youth owned startups. Consider part-time youth employment and encourage enterprises to partake in the drive through funding (partial or full) of on-the-job training; information dissemination of employment opportunities; transport pooling. Design schemes to bus workers from several areas to several factories, whereby the pooling firms save on fuel and youth can access distant job sites.

*Micro-enterprise and micro finance* Increase support to micro-enterprises, as an attempt to help disadvantaged people attain their independence through training, grants and low interest loans with a quota of loans for the poorest sectors of the population. Reduce the legal obligations, paperwork and bureaucracy inherent in establishing a micro-enterprise. Invest in Jordan's 'poverty pockets,' so that the investments target those most in need.



*Venture Capital:* External equity financing does not have a real tradition in the SME sector in Jordan. Since Jordanian SMEs are generally family businesses that have not historically been open to external equity financing and transparent books, tools such as Venture Capital (VC) are required to address this issue. More venture capital funds are needed in Jordan with a focus on women and youth entrepreneurs, with a focus on micro-capital.

*Protect the Environment:* Provide training programs for SMEs to learn the importance of the environment, and methods to preserve it. Support the costs associated with environmentally friendly production methods.

*Energy Costs:* The rapid and sharp rise in electrical energy prices in Jordan is affecting the competitiveness of Jordanian products. Energy costs are becoming increasingly critical for the industrial sector in general and the SMEs in particular. There are still too many industrial strategies that are not energy efficient. An increase in best practices, regarding electrical energy savings, is needed, and SMEs need to adopt practical solutions to lower their energy bills. This, however, will require significant capital outlays that may not be available to SMEs and would divert resources from those required for viably competitive products. In order not to penalize adopters among SMEs of best practice methodologies, incentives (tax holidays or subsidies) should be provided by the government. This will also free up resources for the betterment of SME production in other areas and enable a greater impact of SMEs on human development in Jordan.

*Chapter I: Introduction*  
*Human Development*  
*through Enterprise*



## 1.1 Human Development through Expanded Choices

*“The purpose of development is to offer people more options. One of their options is access to income – not as an end in itself but as a means to acquiring human well-being.”*

William Draper III,  
“Human Development Report”, 1990

Almost two decades after the first human development report was formally presented in 1990, the simple concept of enhancing people’s options as a means for improving their lives still holds true. Very simply, human development stems from the concept of helping people live longer, healthier and more creative lives, by helping them expand the options available to them.

The concept of *Human Development* diverges sharply from the more traditional notion that income alone is a measure of development.

Comprehensive human development does not end with access to income - considered merely a tool for achieving a healthier, longer and more creative life. This is an idea that goes back as far as Aristotle in his Book Nicomachean Ethics on Happiness when he warned that “Wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else.”

While creating wealth is certainly an essential part of any human being’s needs, human development expands the concept to include the establishment of environments in which individuals are able to advance to their utmost potential and lead productive, creative lives that are commensurate with their needs and desires. A favored statement by King Hussein of Jordan throughout his lifetime *‘The human being is our most valuable asset’* - individuals and communities are the true wealth of nations.<sup>1</sup>

Starting in 1990, the Human Development Reports have used the idea of expanded choices that people have to lead

lives that they value as a way of defining development framed by Amartya Sen in his capability approach (see Box 1.1).

### Box 1.1 Capabilities Approach to Human Development

Introduced by Nobel Laureate Amartya Sen in the 1980s, the Capabilities Approach brings together a range of ideas that were insufficiently addressed in traditional approaches to development economics. The Capabilities Approach highlights substantive freedoms, such as the ability to live a long life, take part in economic dealings, or contribute to political action - substantive freedoms that people treasure, rather than simple utility or income maximizing.

Sen’s approach goes beyond an analysis of how human beings truly function, to concentrate on their capability to function in significant ways if they so wish; capability to function is viewed as a practical choice. Accordingly, the approach infuses rights and claims into basic economic theory. Under this approach, poverty can be thought of as capability deprivation. The Capabilities Approach represents the theoretical basis of human development.

This approach looks at achieving human development through expanding the ability of an individual to pursue different options within expanded opportunities.

Expanding choices is about developing human capabilities. These capabilities are the range of what people ‘can do’ or ‘be in life.’ The most basic building block of human development is the capability to lead a healthy and long life, to have access to the knowledge and resources required for a decent living standard, and to be able to participate fully in one’s community.

Without these essential capabilities being in place, most choices and opportunities will simply not be available. Central

to expanding capabilities and realizing rights is human freedom. Without being free, we will not have the ability to exercise independent choices, nor to participate in the decision-making processes that affect us the most.<sup>2</sup>

Human Development Reports have developed the capabilities approach into a comprehensive human development paradigm that now guides public decision-making in many fields, such as poverty reduction, sustainable growth, gender equality, governance, and globalization.<sup>3</sup>

When discussing the human development paradigm, especially regarding a developing nation, such as Jordan, it is vital to understand that poverty is perhaps the greatest threat to human development, at least in most developing economies. The threat becomes even greater when we view poverty as a state of deficiency in economic, political and social assets, as well as personal skills. Economic assets include land, livestock, housing and financial capital that provide basis of generating income and production, either now or in the future. Personal assets include skills, talents and health. Social and political assets include access to information and communication, ability to develop social

#### Box 1.2 Role of MSMEs

The former director of UNIDO's Small Enterprise branch, Wilfried Luetkenhorst, drawing on research by Harvard's Institute for International Development summarizes the role of business enterprises as follows: "In economic and industrial development, a critically important role is played by micro, small and medium enterprises which, on average, make up over 90% of enterprises and account for 50% to 60% of employment – in particular in the developing world."

and political rights and the existence of dignity, confidence and self-esteem<sup>4</sup>

Poverty weakens and often defeats those socio-political processes that are targeted towards ensuring human dignity. There-

fore, if the goal of realizing human development is to be achieved, the main challenge will be to reduce poverty.

## 1.2 The 2011 Jordan Human Development Report

### Theme and Definition

The 2011 Human Development Report examines one of the most direct tools to expanding economic assets, as a means to combating poverty and expanding choices towards human development – the economic enterprise. These enterprises are manifested in both the formal and informal sectors, as sole proprietorships, and limited liability companies; across economic sectors and geographic locations.

The Report integrates economic enterprises, units of economic organization or systematic, purposeful activity, within the constructs of the human development paradigm to delineate the linkages between business activity and human development in Jordan. These economic units are operated as Micro, Small, or Medium-sized Enterprises (MSMEs); while there is no universally accepted definition of MSMEs, there are generally accepted traits. According to the Council of Ministers Decision on 20/9/2005, Micro Enterprises are defined as those with 1-9 employees, or a registered capital of less than JD 30,000; Small Enterprises have 10-49 employees and a registered capital that is greater than JD 30,000; Medium Enterprises are those with 50-249 employees and a registered capital of more than JD 30,000; and Large Enterprises have 250 plus employees and a registered capital of more than JD 30,000.

For the purposes of this report a Technical Committee made up of relevant experts from across Jordan defined small enterprises as those with less than 20 employees, and medium enterprises as those with between 20 to 99 employees. Micro-enterprises were defined for the purposes of this Report as enterprises that benefited from micro-finance initiatives; with focus on the 1 - 4 bracket (see Box 1.3 for greater details).

Micro, small, and medium-sized enterprises are the most prevalent active economic force globally and in the Arab World today, with 90% of the regional economy dependent on MSMEs.<sup>5</sup>

Public policy in Jordan, as in most countries, aims to support and enhance the development of the MSME sector, given that MSMEs create jobs, produce significant portions of the value-added in the economy and provide affordable goods and services to large segments of lower and middle income populations.

Examples of such support include both national and donor funded efforts. One example of such targeted national support is the efforts of the Jordan Enterprise Development Corporation (JEDCO), alongside National Fund for Enterprise Support (NAFES), Tatweer and many others.<sup>6</sup>

JEDCO, which directly falls under the purview of the Ministry of Industry and Trade – another active player in the development and growth of MSMEs – seeks to promote the culture and actions of innovative entrepreneurship, facilitate the creation of pipeline and innovative businesses via special start-ups and incubation support activities implemented with other public and private sector hosts under the national umbrella of the Jordan Innovation Centers Network (JICs). JEDCO also seeks to upgrade small and medium enterprises through direct technical and financial support, facilitate access to finance and provide various tools in that field, in addition to the provision of policy interventions, which aim to enhance the competitiveness of these enterprises. The Ministry of Industry and Trade, (including its independent organizations, such as the Industrial Estates Corporation), provides many additional activities whether in terms of legislation or in terms of actual support to MSMEs.

The theme of this Report is to examine the premise that MSMEs, as agents of economic growth, are also agents for human development. The Report analyzes the impact of MSMEs on economic growth, equity, the rights of politically

and economically disadvantaged groups, the environment, the rights of women, and other rights and capabilities noted, and explores whether MSMEs can enhance the role of the free market in poverty alleviation in Jordan. Of equal, if not

### Box 1.3 MSME Definitio

A focus group was held on November 10th, 2009 regarding SME definitions, to be used within the HDR Participants from the Reading Committee, as well as parties involved with the MSMEs work, exchanged ideas and thoughts regarding this issue. The following was agreed upon as a definition to be used in the HDR:

To define the micro-enterprise sector as the benefici ries of micro-credit institutions, and to analyze them separately, with focus on 1-4 bracket.

To utilize a unified definitio for the different sectors, including industry, trade and services as the basis for the analysis, if the number of employees within this parameter does not differ from the different sectors.

To utilize the number of employees as the basis for the SME analysis due to the availability of data sources.

To utilize the following brackets of enterprises in the analysis in order to define their specific characteristics and growth drivers in order to have more precise conclusions and policy recommendation. These brackets are: 1-4, 5-19, 20-49, 50-99, and they are in compliance with the Department of Statistics' classification which will ease access to any data regarding the enterprises falling within these brackets.

To "Label" the enterprises from 1-19 employees as small and the enterprises from 20-99 as medium, as we can observe a difference of trends for these 2 categories.

more, importance, the Report will provide a framework and recommendations for enhancing the role of MSMEs as partners in the human development of Jordan.

### 1.3 Examining the Links between MSMEs and Human Development

The approach of the Report revolves around the fundamental pillars that are central to human development, including:<sup>7</sup> Economic Growth that is equitable and Pro-Poor, Social Progress, Participation and empowerment through micro-finance, and Environmental Sustainability. The four pillars are depicted in Figure 1.1.

### 1.4 The Pillars of Human Development

Within the model, presented in Figure 1.1 it is vital that the definition of human development, as far as definitions are concerned, remains flexible, and ‘open-ended.’ The dimensions of human development are as numerous as people’s choices. Moreover, the “Main parameters of human development can evolve over time and vary both across and within countries.”<sup>8</sup> For the purposes of this Report, the following pillars are to be utilized:<sup>9</sup>

- a) Economic Growth that is Equitable and Pro-Poor
- b) Social Progress
- c) Participation and empowerment through micro-finance
- d) Environmental Sustainability

Crosscutting each of the four pillars are MSME support programs and social safety nets.<sup>10</sup>

Each of the pillars is addressed in detail below.

**a) Economic Growth that is Equitable and Pro-poor:** This pillar deals with the extent to which MSMEs bring about sustainable economic growth, examining whether MSMEs are indeed efficient in their exploitation and allocation of resources. Economic growth is defined simply as increased output; although it provides a backbone through increased wealth

across a nation, increased output alone is not sufficient. Human development requires growth that is also equitable, and pro-poor. This sort of growth is inclusive in that it helps to distribute the allocation of resources to every part of society. In order to be ‘pro-poor,’ growth must proportionately benefit the poor more than the rich<sup>11</sup>.

The analysis of the Report within this pillar focuses on examining the distributional aspects of the contributions of MSMEs, within national economic growth, towards bridging the gap between rich and poor.

**b) Social Progress:** This pillar probes the role of MSMEs in facilitating increased access to education, minimizing hunger and ensuring adequate health services for all. Social progress manifests as a result of improvements in employment, income, education and health services. This is important as employment, along with the terms and conditions of that employment, is the bridge between increased output and poverty alleviation, including the distributional aspects, sustainability and permanence of this growth.<sup>12</sup>

“Human development, as an approach, is concerned with what I take to be the basic development idea: namely, advancing the richness of human life, rather than the richness of the economy in which human beings live, which is only a part of it.”

*Amartya Sen*

**c) Participation and empowerment through micro-finance** This pillar underscores the role, or lack thereof, of MSMEs in increasing the democratic rights and inclusion of citizens, and empowering the disadvantaged, particularly in areas related to gender rights, civic rights, cultural autonomy, and democracy.

**d) Environmental Sustainability:** This pillar reflects on inter-generational (and intra-generational) sustainability, and regards MSMEs as stewards, in protecting resources and the stabilizing the balance between economic prosperity and environmental sustainability. This pillar also reflects on the coming generations' economic and environmental needs and challenges.

### 1.5 The Participatory Approach of the Report:

The production of the Report entailed detailed secondary research examining the various aspects of the progress of human development in Jordan, which included desk research on health, educational, political, social and environmental progress. This was coupled with an extensive review of the literature on MSMEs and their role in human development.

Primary research was conducted for this project via survey, expert interviews and focus groups. Approximately 1,500 MSME owners across Jordan (enterprises containing between 1 to 99 employees) were surveyed. The survey contained both multiple choice and open-ended questions. Additionally, 113 micro-enterprise owners were surveyed. Micro-enterprises were defined for the purposes of this Report as enterprises that benefited from micro-finance initiatives

As such, the Report MSME Survey was more detailed than the micro-enterprise survey and explored a wider variety of issues affecting owners of enterprises.

Utilizing the DOS Establishments Census to guide sample representation, the survey was distributed across Jordan's governorates, economic sectors, and enterprises of various sizes. About 29% of the surveys went to Amman, with 16% going to Irbid and 15% to Zarqa.

#### Box 1.4 Pro-Poor Growth

The UNDP International Poverty Centre uses the definition, "Growth is pro-poor when the incomes of the poor rise proportionately more than the incomes of the non-poor".

Another definition views 'pro-poor growth' as any increase in GDP that reduces poverty, which due to its broadness, Entails that most cases of growth can be considered pro-poor. Other definitions add that, in order to qualify as 'pro-poor' growth, such growth should also reduce inequality alongside poverty.

#### Box 1.5 Participation Definition

Participation is "The process of sharing in the decisions which affect one's life and the life of the community in which one lives". According to UNICEF, it is "The fundamental right of citizenship and the means by which democracies should be measured."

This participation is both a cause of, and consequence of, freedom, the ability to gather with others to make one's voice heard; the ability to say what one wants without fear of recrimination; and to live one's life without any control, so long as it corresponds to human rights. The UN High Commissioner's Office considers participation to be one of the key foundations of human rights and development, going far beyond mere discussion, but actually fostering a consciousness which enables individuals and communities to organize, and to act.

Sources: Hart, R. "Children's Participation, From Tokenism to Citizenship," UNICEF, March 1992, and UNOHCHR, "Frequently Asked Questions on a Human Rights-Based Approach to Development Cooperation," New York and Geneva, UN Publications, Office of the United Nations High Commissioner for Human Rights, 2006

Figure 1.1 MSMEs and the Four Pillars of Human Development





Box 1.6 Survey Sample Methodology

**Sample design:** To achieve the purpose of this survey a stratified single stage sample was applied.

**Stratification** Each governorate is considered an independent stratum. Furthermore, the number of employees and the economic activity of the firm were taken into consideration in sample allocation, and the drawing of the sample, in order to provide implicit stratification and a well distributed sample among different economic activities and firms with varying numbers of employees.

<i>Governorate</i>	<i>Sample Size</i>	<i>Economic Activity</i>	<i>Number of Sampling Units</i>
Amman	435	Mining and Quarrying	72
Balqa	73	Manufacturing	166
Zarqa	222	Construction	53
Madaba	66	Wholesale and Retail Trade	752
Irbid	242	Hotels and Restaurants	58
Mafraq	66	Transport, Storage and Communication	57
Jerash	66	Financial Intermediation	67
Ajloun	66	Real estate, renting and business activities	75
Kerak	66	Education	75
Tafle	66	Health and Social Work	48
Ma'an	66	Other community, social and personal service activities	77
Aqaba	66		
<b>Total</b>	<b>1,499</b>	<b>Total</b>	<b>1,500</b>

<i>Employee Class</i>	<i>Number of Sampling Units</i>
From 1-4	1,207
From 5-19	178
From 20-49	59
From 50-99	56
<b>Total</b>	<b>1,500</b>

**Reliability:** This sample will provide results with a sample error of not more than 10%, for the main characteristics at the governorate level, employee class level and economic activity level.

**Sample size:** To provide reliable data at the suggested domains the estimated sample size was 1,500 observations. The minimum number of observations at governorate level is 66, the number of observations at the economic activity level is about 60 and the number of observation at each number of employees class is about 60.

**Sample allocation:** The sampling units are allocated among the governorates, economic activities and employee classes, using a proportional allocation method, with some adjustments, in order to provide reliable results for the required domains.

**Weighting the results:** This sample is a self weighting design, at the domain level. However, weighing such results is required, before aggregation of the data at national level, also the adjustments of weight in each stratum is required in order to take into consideration the non-response rate and other field problems. The final weights are calculated, after taking into consideration non-response rates and failed interviews.

Consequently, statistically significant results emerged at a 90% confidence level in each governorate; the survey itself covered a wide variety of issues. The survey addressed basic issues as general information about the businesses and their owners, such as personal income, revenue generated and reason for starting a business. It also covered such issues as the source of their start-up capital, impediments to starting/running one's own business, and whether owning a business changed the owner's quality of life. The survey included an overview of employee data, such as educational levels, union memberships, and whether the employees had temporary or permanent contracts.

While surveys typically allow one to obtain data over a wide sample range, they are often inhibited by their use of multiple choice questions, thus not allowing for 'in-depth' questioning. To mitigate such a possible shortcoming, focus groups were organized by the Report's research team. The focus groups covered three key sectors of the population: the community, micro-enterprises, and SMEs themselves. Each focus group targeted between 10-15 attendees; with a balanced membership of male and female participants representing a range of age groups. The three types of focus groups are detailed below:

1. Community focus groups discussed how MSMEs affect local surroundings, and how local communities encourage or discourage MSMEs. These focus groups included residents from local communities, representatives of NGOs and the development organizations which operate within these communities (Jordan River Foundation, Irada, micro-credit organizations, etc.). One community focus group was held per governorate.
2. The micro-enterprise focus group focused on how the lives of the individual owners and their families and communities have improved or worsened after the business opened, and what they believe the link to be between micro-enterprises and development.

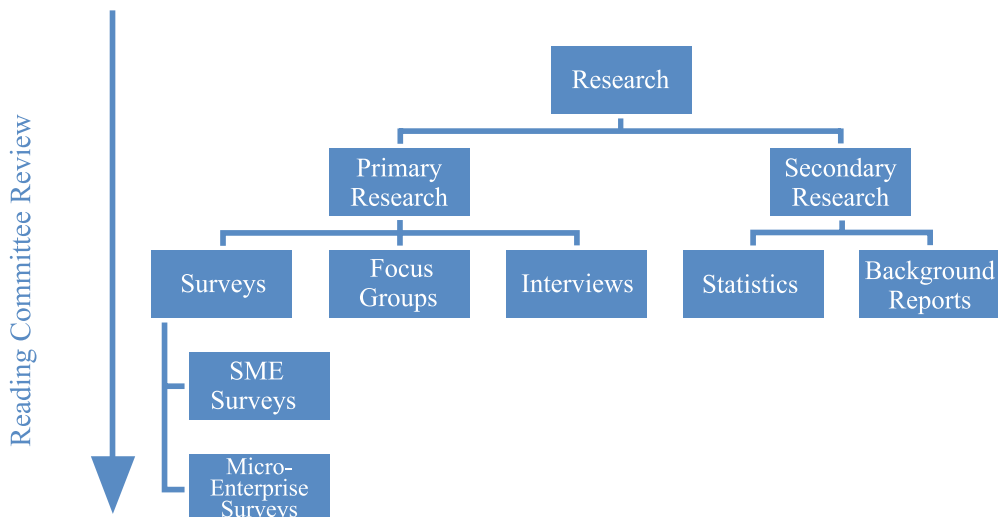
3. SME focus groups examined, as in the case of micro-enterprises, how the lives of the individual owners and their families and communities have been impacted, and what they believed the link to be between SMEs and development. One community focus group was held per governorate.

In summary, discussions with SME and micro-enterprise owners centered on the impact of owning the business on the MSME owner's life, and if there was any connection between owning MSMEs and human development. Meetings with the local community representatives centered on the various impacts MSMEs have on their respective communities. In addition, expert interviews were held with a variety of stakeholders from the public, private and NGO sectors to brainstorm ideas and qualify or explain results.

Each stage of this report was reviewed in conjunction with the Reading Committee, peer reviewers, governmental and non-governmental organizations, and the MSME sector, to ensure accuracy, as well as a unity of vision and purpose. In addition to this primary research, the report utilized a wide variety of secondary materials as well. The Report looked at a variety of local and international reports to help further delineate the potential of MSMEs in human development, including DOS statistics regarding local firms and occupations, as well as previous UNDP reports.

Figure 1.2 presents a pictorial view of the research methodology of the team participating in the development of the Report. As shown below, the Reading Committee was engaged at all the stages of Report development.

Figure 1.2 Research Methodology of the Team



### 1.6 Literature Review

Investigation into the research, on the role of MSMEs in enhancing the four pillars of human development cited by the MSME Report, has shown that controversy as to the role of MSMEs is apparent, thus, the literature on the role of MSMEs in human development is mixed. Where some research determines that MSMEs contribute positively to development, other studies mitigate such findings and assert that large firms play a greater role in human development than MSMEs. Additionally, MSMEs in developed countries contribute more towards development than their counterparts in developing countries. However, there is a growing view that MSMEs in developing countries can provide greater contributions if the socio-economic and political environment is supportive and nourishing. In other words, MSMEs can play a larger role in human development, provided that the cross-cutting institutional framework is conducive to their growth.

Human development is about empowerment and the enhancement of capabilities. As human development has become the center of attention in the past three decades, focus has also shifted toward the role of MSMEs in empowerment and capacity building. Hence, there is a wealth of research on both concepts,

with some significant contributions toward properly addressing the possible linkages between them.

#### Box 1.7 High Impact MSMEs

Carl Schramm, CEO of the US-based Kauffman Foundation, argues that MSMEs contribute significantly to the economy, through high impact businesses, which create value and stimulate growth in other businesses, that is, positive externalities. However, it should also be noted that these high impact MSMEs are not generated out of normal economic activity. They will only exist when governments nurture and encourage entrepreneurs. His arguments go so far as to say that MSMEs have pulled countries out of economic slumps.

Schramm in his 2004 paper on “Building Entrepreneurial Economies,” looks at companies that were created from the Massachusetts Institute of Technology which, in total, would currently make up the world’s 24th largest GDP. While this scenario might be unrealistic for developing nations, Schramm argues that “Economic growth can be achieved simply by establishing the conditions that enable entrepreneurs to flourish.

While split on the topic, past efforts on investigating the link between human development and MSMEs have had several shortcomings. In-depth studies by major institutions have focused primarily on establishing the link between MSMEs and economic growth and poverty reduction. Moreover, studies concentrate on limited aspects of human development, handling equitable growth, social progress, participation and freedom, and environmental sustainability as independent pillars. None examine them comprehensively.

The literature is also heavily concentrated within developed economies, due to the micro-level data available through time-series datasets.

The studies reveal interesting background data that may help guide methods of investigation. It is clear from the literature that a detailed micro-level survey will be required to generate the statistical data needed to analyze and classify MSMEs and their relationship with human development.

Nonetheless, there are interesting arguments for both perspectives of the relationship between MSMEs and development presented in the literature, which is examined below.

### *1.7 The Arguments for and Against*

Supporters of MSMEs believe that these enterprises have an enormous potential to “Eradicate poverty through profits”<sup>13</sup> and “Enable dignity and choice through markets.”<sup>14</sup> A UNIDO study showed that MSMEs enhance the niche or small markets within which they operate, and offer supporting productive capacities to their markets. Box 1.7 shows that MSMEs can be a significant economic driving force. MSMEs can also minimize social resentment by filling-in development gaps, and increasing the distribution of economic benefits to a wider range of people.<sup>15</sup>

Critics of policy emphasis on MSMEs, however, doubt the accuracy of using company size as a cause of economic advancement. For example, natural resources may contribute to a nation’s competitive advantage by large firms exhibiting economies of scale (for example, steel). Other nations may contain natural resources and human capabilities, which offer technological superiority. Thus, the concentrations of MSMEs across nations may be a consequence of variations in physical and human capital resources. Taking this into account, certain purely pro-MSME actions might adversely alter firm size and in some cases lower economic efficiency.<sup>16</sup>

Studies analyzing cross-country data have shown that the percentage of MSMEs in an economy has not been definitively correlated with economic growth. Nations with highly varying numbers of small and large enterprises are found to be equally competitive with similar results, regarding productivity and economic growth. Job creation follows an equally distorted pattern. In some of the least developed nations, microenterprises in rural areas employ significant percentages of the workforce and offer the lion’s share of paid employment for poor populations. However, much of the conducted micro-economic research undermines the possibility that MSMEs are especially effective job generators, especially if the overall net impacts (job creation minus loss) are factored in.<sup>17</sup>

With the literature split, the role of this Report will be to bring clarification to the situation in Jordan.

### **1.8 A Brief Preview of the Report Contents**

The Report is composed of several Chapters, following the aforementioned pillars of Human Development:

- Chapter II, Jordan’s Human Development Progress, examines the progress Jordan made in human development, over the past few decades, with specific references made to Human Development Indicators and Millennium Development Goals. The chapter also examines the areas Jordan needs to focus on, if it is to continue its advancements in human development.
- Chapter III, MSMEs and Equitable and Inclusive Growth, examines the nature of MSMEs, as well as their contributions to Jordanian economic growth and employment, as well as the nature of the economic growth and employment generated, including who benefits from these changes, and how equitable are these changes.
- Chapter IV, MSMEs and Social Progress, examines the working environment within an MSME, as well as the changes experienced by both employers and employees, including but not limited to wages, education, working conditions and turnover.
- Chapter V, MSMEs and Empowerment, discusses the impact of MSMEs on empowering women and youth, as owners and employees.
- Chapter VI, The Role of Microfinance in Empowering the Less Advantaged, continues examining the role of micro-enterprises in increasing the participation of disenfranchised groups in economic, social and political life through taking a closer look at micro-finance as a tool for empowering the poor through income generating micro-businesses.
- Chapter VII, MSMEs and Sustainable Development, examines environmental sustainability through an analysis of the impact of MSMEs on the environment, social norms, culture, and corporate social responsibility.
- Chapter VIII, The Way Forward, summarizes the results of the report, as well as offering policy recommendations affecting the role of MSMEs in human development. The recommendations include short, medium and long term targets and prioritized objectives, addressing the needs of specific marginalized groups and the ways and means to alleviate poverty, expand empowerment and improve freedom of choice.

A gender mainstreaming approach will be used in all the various chapters of the Report. The challenges and opportunities will also be highlighted and linked to specific policy recommendations in each chapter.

### **1.9 Conclusions**

This Report explores the link between MSMEs and human development. For example, it queries: do MSMEs improve income distribution; are parents who are owners of MSMEs better able to educate their children; do MSMEs help promote technological advancements as well as a greater concern and responsibility regarding the environment? Other questions include: whether owning MSMEs gives owners a greater knowledge and use of political rights; whether owners, particularly women, feel their living standards have improved and that they consequently have more control over their lives; do women have more time with their children, more knowledge and skills? Does an increased number of MSMEs operating in the nation lead to greater economic growth? Do the employment and profit opportunities offered by MSMEs improve national equity? The Third Jordan Human Development Report takes a multi-tiered approach to try to answer these questions.

Enabling MSMEs to work within a framework that mitigates unnecessary risks and rewards creativity, innovation and risk taking, is essential for the emergence of a dynamic, efficient and ambitious generation of enterprises and entrepreneurs that, accordingly, become catalysts for change. However, for positive change, which may manifest itself as economic growth, to be sustainable, it has to be well integrated and framed within the overall human development paradigm. Otherwise, growth is not sustainable and development will not be achieved.

The Report offers practical examples through meeting MSME owners, community members, and governmental and non-governmental organizations throughout the Kingdom. Their stories enable a better understanding of the effects of micro, small and medium-sized enterprises on the drive for human development. The Report shares the successes – and failures – of the MSME sector within the Kingdom, and explores avenues to enhance the role of MSMEs in human development in Jordan. Many of the recommendations presented within the report will prove applicable across the developing world, although it is intended to support policy making within Jordan, in the context of human development.

Consequently, Jordan Human Development Report, 2011, underscores the UNDP concept of human development and investigates whether and how MSMEs in Jordan may support development that “Not only generates growth but distributes its benefits equitably... regenerates the environment rather than destroys it...empowers people rather than marginalizes them...gives priority to the poor enlarging their choices and opportunities and provides for their participation in decisions affecting them...development [that is] pro-poor, pro-nature, pro-women and pro-children.”<sup>20</sup> The analysis of the Report, based upon field research and findings, also stipulates specific policies to improve the welfare of not only MSMEs in Jordan, but also their role in contributing towards human development in Jordan. The approach and research can be extended to other countries, developed and developing.

## *Chapter II: Jordan's Human Development Progress*



## ***2.1 Measuring Human Development in Jordan***

The Human Development Index (HDI) and other indices have been used as benchmarks for progress in human development. From the launch of the HDI in 1990, human development has most commonly been measured through the use of the Index in addition to other composite indices, including the Gender-related Development Index (GDI), Gender Empowerment Measure (GEM), and Multidimensional Poverty Index (MPI).<sup>18</sup> However, these composite indices offer a macro view on some of the vital matters regarding human development.

A more accurate description of a country's level of human development necessitates analysis of human development indicators at the micro-level and information that is often not available or quantifiable, into indices. Therefore, the analysis herein integrates primary data - obtained through field visits, focus groups, surveys and interviews – and secondary data in order to bridge the qualitative and micro/macro gaps, and thus, provide a more comprehensive understanding of the dimensions of human development in Jordan.

It should be noted that, only after one analyzes Jordan's current position, in light of human development (measured, in part, by Jordan's progress in attaining the Millennium Development Goals), that one can understand how the growth of MSMEs can impact the nation's human development. Thus, this chapter will analyze Jordan's current position within human development, and it will be in further chapters, that this report will analyze the role of MSMEs in the growth of human development, in detail.

## ***2.2 Jordan's Performance according to the Development Indices***

As a point of departure, the Report examines Jordan's performance according to the globally recognized development indices. Wherever possible, comparisons are made to facilitate benchmarking for the reader, not only globally, but with comparable economies, particularly those within the Arab world.

## ***2.3 Human Development Index***

The HDI combines the weighted indicators of life expectancy at birth, literacy, educational levels, and GDP per person. Jordan, when compared to other nations around the world, is considered a country in the high range of human development.

Jordan's HDI level in 2010 measured at 0.681, thus placing it 82nd (1 being the best rank) out of 169 nations worldwide and 8th among the 17 Arab countries for whom an HDI has been developed. Table 2.1 shows the ranking of Arab countries according to the HDI. The last column in the Table ranks the Arab countries within the Arab world.



Table 2.1 HDI Levels across the Arab World, 2010

Country	HDI Value	HDI Rank	HDI Rank in the Arab World
Algeria	0.677	84	9
Bahrain	0.801	39	3
Djibouti	0.402	147	14
Egypt	0.62	101	10
Jordan	0.681	82	8
Kuwait	0.771	47	4
Libya	0.755	53	5
Morocco	0.567	114	12
Qatar	0.803	38	2
Saudi Arabia	0.752	55	6
Sudan	0.379	154	15
Syria	0.589	111	11
Tunisia	0.683	81	7
UAE	0.815	32	1
Yemen	0.439	133	13

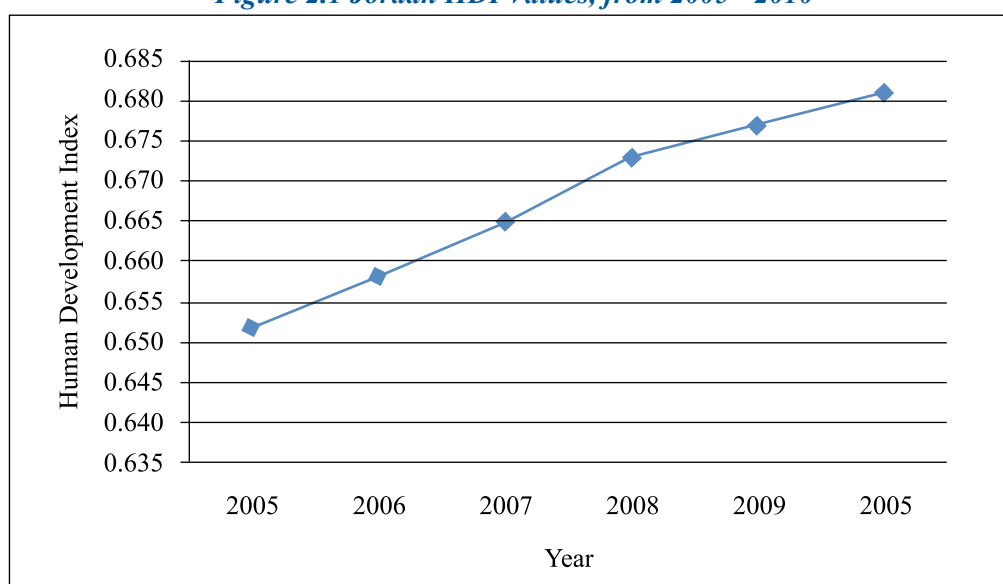
Source: Human Development Report, United Nations Development Programme, 2010

\*Please note that figures for Oman and Lebanon were not available for the 2010 Human Development Report.

Specifically, the Kingdom has a life expectancy rate of 73.1 years; an adult literacy rate of 92.2%; combined primary, secondary, and tertiary enrolment of 73.4%; and JD 4,226 (USD 5,956) PPP in 2010 GDP per capita.<sup>19</sup> The two indicators that most highly affect Jordan's current performance regarding the basic Human Development Index are 'GDP per capita', considered low, as Jordan ranks 92<sup>nd</sup> among countries in this indicator; and the 'life expectancy at birth', where Jordan receives a rank of 79<sup>th</sup> out of 194 countries worldwide.

While Jordan's rank between 2005 and 2010 remained midrange at 82<sup>nd</sup>, the Kingdom is progressing year-on-year in its overall index. Note that as of 2010 Jordan was ranked 8<sup>th</sup> among 17 Arab nations in terms of HDI. Since Jordan is an importer, not an exporter of fossil fuels, when the oil exporting Arab countries are removed from the comparison, Jordan's rank jumps to second place, after Tunisia.

Figure 2.1 Jordan HDI Values, from 2005 - 2010



Source: "Human Development Report," United Nations Development Programme, 2010, and "Jordan, Country Profile of Human Development Indicators," UNDP, Retrieved from <http://hdrstats.undp.org/en/countries/profiles/JOR.html>, on February 23, 2011

\*Please note that this figure uses the newly formulated definition of HDI, first used in the 2010 World Human Development Report, and calculates all years retroactively, using this formula.

### 2.4 Human Poverty Index (HPI)

The HPI-1<sup>20</sup> value of 6.6% for Jordan, ranks 29<sup>th</sup> among 135 countries for which the index has been calculated. In terms of HPI-1, Jordan went from 9.8% in 1997 to 6.1% in 2006; and 6.6% in 2009.

and living standards) was valued at 0.01 for Jordan ('zero' being the best possible figure, 'one' being the worst possible figure), and the nation ranks 42<sup>nd</sup> among 169 countries for which the index has been calculated.<sup>21</sup>

According to this index, the percentage of Jordanians with a severe deprivation in at

**Table 2.2 Human Poverty Index-1 (1997 – 2009)**

Measure	1997	2002	2006	2009
HPI-1 value	9.8	7.4	6.1	6.6
Probability of not living past 40	7.1	5.5	6.4	5.3
Adult Illiteracy Rate	12.8	10.3	7.3	8.9
Population without access to clean water	2	2	2	2
Underweight children (below 5 years old)	9	4.4	4	4

Source: "Human Development Report," United Nations Development Programme, 1997, 2002, 2006, 2009

In 2006, Jordan ranked, respectively, 33<sup>rd</sup>, 36<sup>th</sup>, 7<sup>th</sup>, and 26<sup>th</sup>, for probability of not surviving past 40 years of age, adult illiteracy, people without access to clean water, and underweight children. These (with the exception of the "underweight children", which remained the same) fell in the 2009 index to 44<sup>th</sup>, 64<sup>th</sup>, 31<sup>st</sup>, and 26<sup>th</sup>. However, on the positive side, between 1997 and 2006, those without a means of obtaining health care decreased from 7.1% to 6.4%. Furthermore, the percentage of underweight infants dropped from 9% to 4% a decrease of more than half, due primarily to increasing public investment in these respective fields. Table 2.2 summarizes the rank according to the HPI-1 between 1997 and 2009.

### 2.5 Multidimensional Poverty Index

For the 2010 Global Human Development Report, a new indicator, the 'Multidimensional Poverty Index' was developed, taking into account a more expansive, detailed and accurate definition of poverty, over the old Human Poverty Index. The Multidimensional Poverty Index (measuring the percentage of people living in poverty and the intensity of their poverty in a range of indicators, including education health

least one aspect of education, health or living standards amounts to 10.6%, 11.9%, 0.2% respectively. Overall, 2.7% of the population suffers from multidimensional poverty, at an intensity of 35.5%.<sup>22</sup>

### 2.6 Gender-related Development Index (GDI)

The Human Development Report of 1995 detailed two new methods of studying human development that underscored development in the welfare of women, the Gender Development Index (GDI) and the Gender Empowerment Measure (GEM).

The first of these measures, the Gender-related Development Index (GDI), gauges achievement in the same basic capabilities as the HDI, but takes note of inequality in human development between women and men. The more the gender 'gap' in human development, the weaker a country's GDI, relative to its HDI, will be.

The GDI focuses on the gender equality aspects of the human development index. Jordan had a rating of 0.760 in 2008, dropping to 0.743 in 2009 and 0.616 in 2010.<sup>23</sup>

Out of the 169 countries rated by GDI, 75 countries achieved better scores than Jordan in 2010.

### **2.7 Gender Empowerment Measure (GEM)**

The GEM examines the achievements of women, in the economic and political arenas (in specific, the extent to which women can influence decision making in these arenas). The three areas that reflect the greatest need for development in Arab countries are women's rights and women empowerment, and knowledge and freedom; which make the GEM especially important.<sup>24</sup> While the GDI measures human capabilities, the GEM attempts to make use of those capabilities, in order to increase one's opportunities in life.

Jordan has shown improvements in the GEM in recent years. The GEM rose from 0.22 in 1995 to 0.297 in 2002. In 2009, Jordan's rank was 96 out of 109 nations. However, more needs to be done. The 2007 ratio of female to male earnings was 0.19; quite a low figure, since a ratio of '1; would indicate absolute equality. The number of women in administrative government roles increased from 4.6% to 9.9% during the 1995 to 2002 period, showing that considerably more progress is being made in this area.

The Gender Empowerment Measure, however, is, as is the case with most macro-measures, somewhat lacking. Many leading and managerial contributions that women make to institutions are ignored, such as the percentage of female heads of trade unions, NGOs, labor organizations, entrepreneurs, and managers of micro-enterprises. In this Report, such a shortcoming will be addressed by including these women and their stories in the qualitative analysis.

### **2.8 Jordan's MDGs**

The Millennium Development Goals (MDGs), outlined by the United Nations in 2001, form a basis for actionable targets requiring initiatives for change. The MDGs, and their targets, represent the minimum human development achievements needed to significantly improve the quality of life of the intended targets of these goals. They also aim to put people at the centre of the development agenda and promote a multidisciplinary approach to development. The MDGs aim to minimize poverty and child mortality, while improving education, maternal well-being, gender equality and environmental sustainability.

Set to be achieved by the year 2015, the MDGs, as a whole, can be met only if all stakeholders cooperate efficiently and in a coordinated manner. Developing nations aim to govern better, via economic growth and increased transparency, as well as to invest in their citizens by offering better and greater coverage of health care and educational services. Rich countries aim to support them, via aid, debt relief, and more equitable trade. Thus, the MDGs launched a global partnership that grew out of commitments by countries and targets set during the world summits of the 1990s.

Efforts from all Jordanian stakeholders need to be invested in a collaborative and coherent framework in order to achieve these goals. In addition to coordinated efforts and agendas aimed at achieving the MDGs, Jordan, a recipient of significant aid from donor countries and organizations, needs the stakeholders to work in tandem. Therefore, the following analysis is an overview of the progress of Jordan towards achieving the Millennium Development Goals.

The MDGs are examined here to give a background to the development context in Jordan.

**2.9 Goal 1) Eradicate Extreme Poverty and Hunger:**



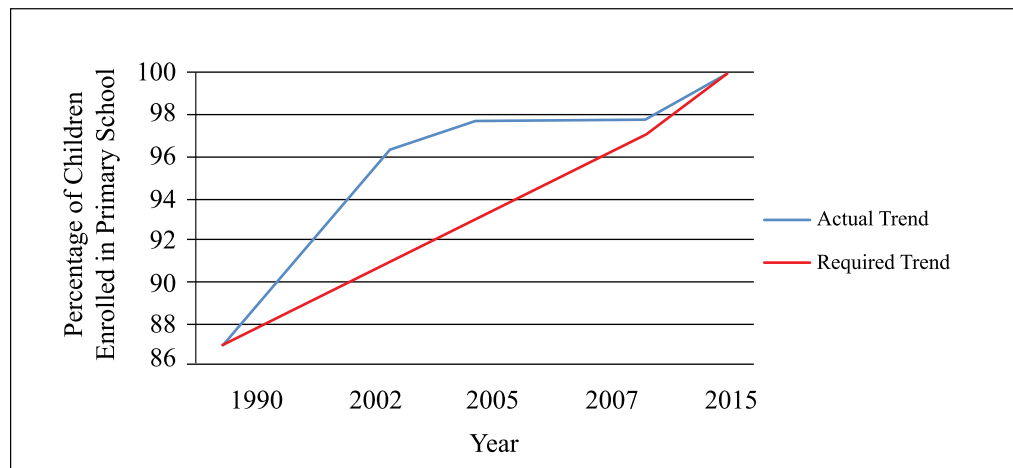
Efforts to halve the proportion of people in Jordan whose income is less than JD 0.71 (USD 1) a day, for the 1990 to 2015 period, are continuing to make headway. In fact, Jordan has exceeded its goal by reducing the proportion of the population living on less than JD 0.71 (USD 1) per day from 6.9% of the population in 1990, as compared to 0.754% of

**2.10 Goal 2) Achieve Universal Primary Education:**



Jordan's achievement in children's enrolment levels including boys and girls is remarkable. Primary school is free and obligatory for all Jordanian children. Jordan's laudable net enrolment rate of 86.7% in 1991 rose to 97.6% in 2009. This is shown in Figure 2.2, which also indicates that in 2009, the actual trend was in tandem with expectations.

**Figure 2.2 Jordan Primary School Enrolment (1990 – 2009 Actual, 2009 – 2015 Projected)**



Source: "Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010," Ministry of Planning and International Cooperation, UN in Jordan, 2010

the population in 2008. However, Jordan's recent economic growth (6.9% annually during 2005-2009 on average in real GDP), while bringing tangible benefits, did not result in as great a drop in poverty as had been hoped. While absolute poverty decreased, wealth distribution has yet to see a more positive trend. With the gap between rich and poor increasing, rather than falling, the concept of equity within Jordanian society seems to be, for now, unrealized.

Average annual family incomes grew from JD 4,732 (USD 6,665) in 2000 to JD 6,606 (USD 9,304) in 2009,<sup>25</sup> an increase of 39.6%, while the Consumer Price Index (CPI) rose from 83.5 in 2000 to 118.5 in 2009, an increase of 35%, indicating an increase of 4.6% in the real income of households during the period.

The growth of enrollment rates is reflected in declining illiteracy rates (among those aged 15 to 24 years of age), which dropped from 2.6% (3.5% of women and 1.8% of men) between 1989/1990 to 0.9% in 2008. It should be noted that, among those aged 15 years and over (not just aged 15 to 24 years of age), there was a 7.2% illiteracy rate (3.7% among men and 10.8% among women), as of 2009.<sup>26</sup>

Table 2.3 shows illiteracy rates across the 12 governorates in Jordan for those aged 15 to 24 years old. Note that the highest illiteracy rates (among 15 to 24 year olds) are in Ma'an (1.8%) and Mafraq (1.8%), two areas that have the highest incidence of poverty.

**Table 2.3 Illiteracy Numbers and Rates across Jordan’s Governorates for Jordanians aged 15 to 24 Years Old, 2010**

<i>Governorate</i>	<i>Male Illiteracy as Percentage of Total Males</i>	<i>Female Illiteracy as Percentage of Total Females</i>	<i>Total as Percentage of Total Population</i>
Amman	1.1	0.8	0.9
Balqa	0.7	0.6	0.7
Zarqa	1.0	0.5	0.8
Madaba	0.7	0.3	0.5
Irbid	1.0	0.8	0.9
Mafrq	1.9	1.7	1.8
Jerash	1.4	1.0	1.2
Ajloun	0.7	0.9	0.8
Karak	0.9	2.0	1.5
Tafle	0.7	0.6	0.7
Ma’an	1.9	1.8	1.8
Aqaba	1.7	0.9	1.7

Source: “Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010,” Ministry of Planning and International Cooperation, UN in Jordan, 2010

Despite the overall positive trend in school enrollment, questions have been raised about the quality of learning Jordanian students receive. Educational materials provide curricula which prove to be weak in analytical terms. Rather, the curriculum emphasizes, to a great degree, memorization and rote; curricula presentation and content does not prepare students for the challenges and issues faced in the modern world. Most schools do not distinguish between average students and those with special needs. Furthermore, limited facilities mean that many schools are split into half-day shifts to meet demand, thereby decreasing the number of hours that students spend at school.<sup>27</sup> However, according to official sources, the trend of half-day shifts is decreasing as more schools are being built.<sup>28</sup>

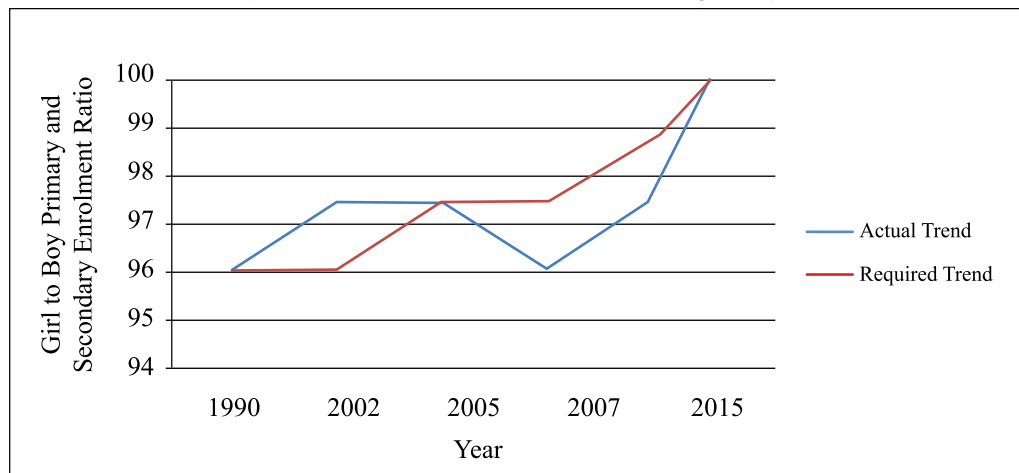
At the university level however, Jordan’s rated quality of teaching and learning opportunities in the field of education are “generally strong”.<sup>29</sup> In other fields, however, the vast majority of universities’ academic standards were ‘satisfactory’ (70%), a minority were deemed to be ‘good’ (21.7%) and the remainder were unsatisfactory.<sup>30</sup>

**2.11 Goal 3) Promote Gender Equality and Empowerment of Women:**



The growth of female participation in the educational system is apparent across Jordan, which all but eradicates gender disparity in primary and secondary education. The ratio of girls to boys in school enrolment, at all levels, went from 96% to 97% between 1992 and 2010<sup>31</sup>; thus implying that Jordan should be able to fully meet this goal by 2015, as is shown in Figure 2.3.

**Figure 2.3 Jordanian Girl-to-Boy Enrolment Ratio, Primary and Secondary Combined (1990 – 2010 Actual, 2010 – 2015 Projected)**



Source: "Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010," Ministry of Planning and International Cooperation, UN in Jordan, 2010

It is interesting to note that in 2008, for secondary and intermediate diplomas, there were more women enrolled than men; although, more men had Bachelor's degrees and above than women.

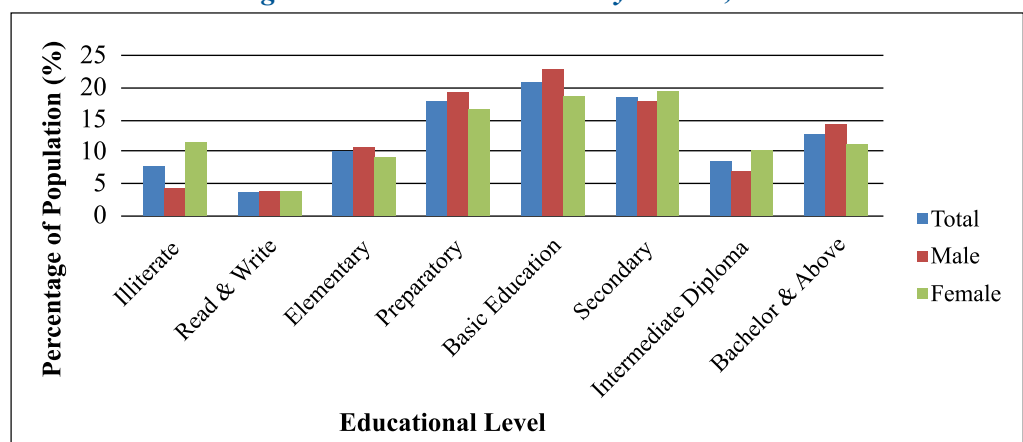
Figure 2.4 illustrates this point, showing that while there is a significantly larger percentage of illiterate females than males, in fact, the proportion of females in higher educational levels is still strong. The small and medium-sized enterprises include over 90% of all enterprises in Jordan. However, female entrepreneurs make up 3.9% of Jordanian entrepreneurs. This is quite low by global standards (which are 25% to 33%, varying

with how female entrepreneurship is calculated).<sup>32</sup> This is further aggravated by the participation ratio which is 64.8% for males, and 14.9% for females.<sup>33</sup>

A female employee is likely to have three years greater experience over her male counterpart in Jordan.<sup>34</sup> Furthermore, women account for approximately one fifth of professional association members, centering around stereotypical female positions.

Teaching, nursing and pharmaceutical care account for the greatest percentage of positions, held by women.

**Figure 2.4 Educational Level by Gender, 2008**



Source: Department of Statistics, "Jordan in Figures," 2008

\*Note: 'Read and Write,' refers to those who can only read and write, without formal education

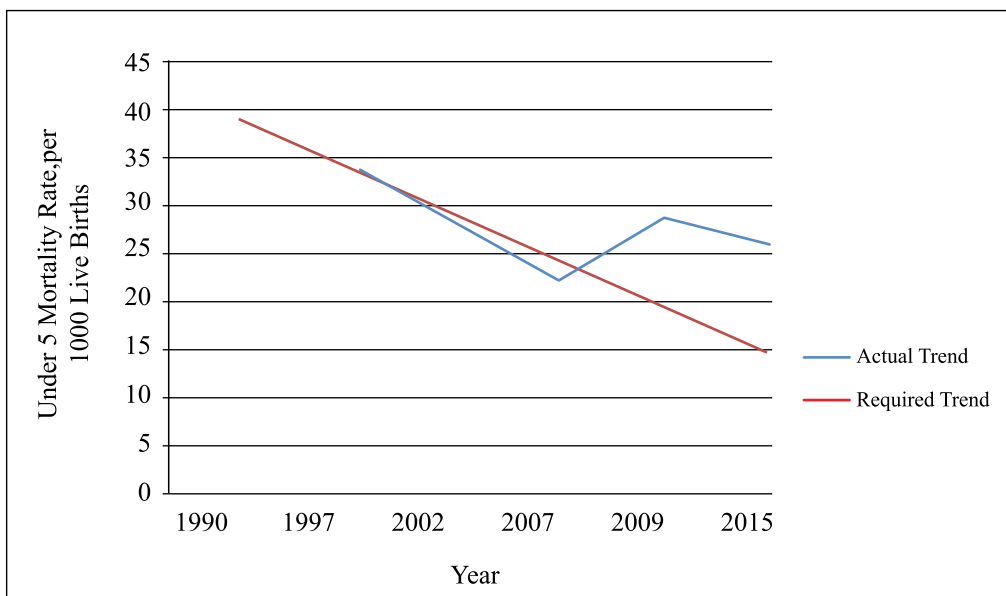
**2.12 Goal 4) Reduce Child Mortality:**



Regarding child mortality, the Jordanian MDG is to reduce child mortality of those less than 5 years old by 67% between 1990 and 2015. In 2008, approximately 99% of births in Jordan were attended to by a specialist.<sup>35</sup> Also, approximately 103% of children were immunized against measles in 2009 (the fact that the percentage is over 100% is due to the fact that many non-Jordanian children, principally Iraqi children, have also been immunized).<sup>36</sup> Figure 2.5 shows the percentage under 5 mortality rate realized for 1990 – 2009 and estimated

years old dropped by 28.2% within the same period (from 39 deaths per 1000 live births to 28 deaths per 1000 live births).<sup>38</sup> The continuing improving mortality rates can be attributed to increased vaccination levels. Iodine deficiency has also been reduced, from 38% to 33% between 1994 and 2000; new laws ensure that salt has iodine, flour has iron and vitamin A is given at schools. Again, one important issue is regional disparity; while Amman has relatively low infant mortality rates, the North, South and rural areas all show increased rates of mortality.<sup>39</sup> Also, many of these infant deaths occur in the first month after birth (neonatal mortality), at a rate of 14 deaths per 1000 births in

**Figure 2.5 Under 5 Mortality Rate, per 1,000 Live Births (1990 – 2009 Actual, 2009 – 2015 Projected)**



Source: “Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010,” Ministry of Planning and International Cooperation, UN in Jordan, 2010

for 2009 onwards. Jordan appears to be underachieving on this front, as shown by the sharp jump in under 5 mortality, between 2007 and 2009.

2007.<sup>40</sup> Hence, particular attention must be given to this vital period in the infant’s life.

The government has attempted to combat infant mortality by funding mother/child centers, promoting inoculation among children against deadly diseases such as measles, tetanus and hepatitis, and promoting disease awareness campaigns. The infant mortality rate dropped by roughly 32.4% for the time period 1990-2009 (from 34 deaths per 1000 live births to 23 deaths per 1000 live births<sup>37</sup>), and the mortality rate of children beneath 5

**2.13 Goal 5) Improve Maternal Health:**



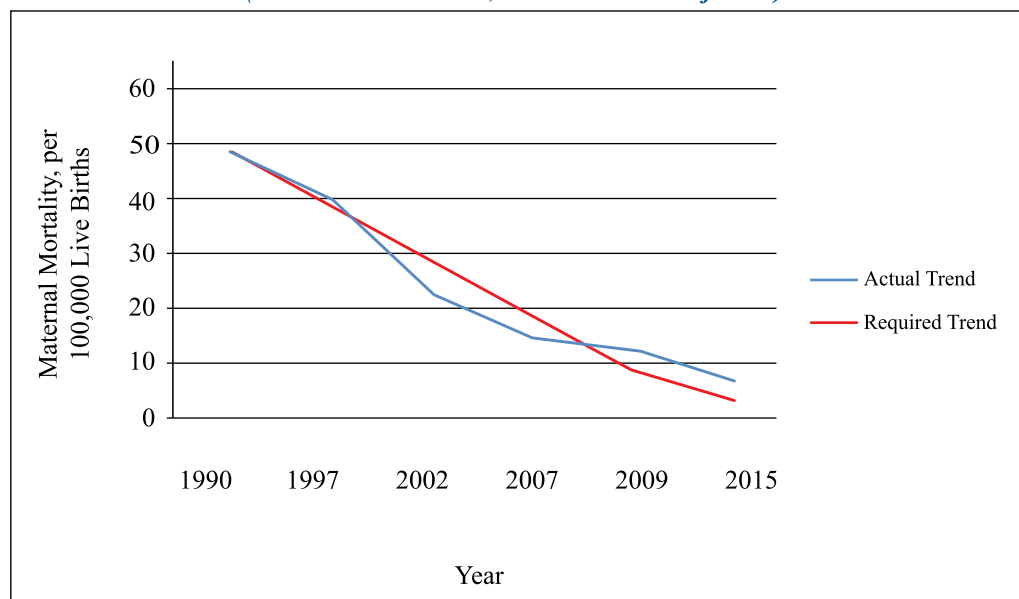
On the maternal health side, the score is mixed. The number of women who die due to child birth has decreased from 48 deaths per 100,000 births to 19 deaths per 100,000 births between 1990 and 2009. The number of women who

received medical counseling during pregnancy, however, increased from 87% to 99% between 1990 and 2009 and contraceptive use (among 15-49 year old women) increased from 40.2% to 59.3% between 1990 and 2009.<sup>41</sup> Figure 2.6 shows that Jordan is in fact not achieving its goals on this front, with the number of maternal deaths not falling in sufficient numbers.

or reversed the spread of HIV/AIDS, tuberculosis, and other fatal diseases in the country. The tuberculosis rate in Jordan was roughly halved between 1990 and 2009, from 14 per 1000 persons to 6 per 1000 persons in 2009.<sup>44</sup>

In 1959, Jordan initiated a program to eliminate malaria in the country; a result that was achieved by 1970. Up until the beginning of the 21<sup>st</sup> century, there were

**Figure 2.6 Maternal Mortality per 100,000 Births (1990 – 2009 Actual, 2009 – 2015 Projected)**



Source: "Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010," Ministry of Planning and International Cooperation, UN in Jordan, 2010

**2.14 Goal 6) Combat HIV/AIDS, Malaria, and other Diseases:**



The spread of HIV/AIDS in Jordan is limited. Jordan has a relatively low prevalence of AIDS, with the majority of AIDS occurring among foreigners, and two-thirds of AIDS cases occurring between 20 and 39 year olds.<sup>42</sup>

The WHO reports that there is a strong possibility that this number is underestimated given the prejudices many individuals have in the country regarding those infected with HIV/AIDS (which deters test taking). Between 1986 to the present period (early 2011), there have been 713 cases of HIV/AIDS, of whom less than one third have been Jordanian.<sup>43</sup> By 2015, Jordan is expected to have halted and/

no reported cases of malaria in the country; however, starting in the 21<sup>st</sup> century Jordan experienced a sudden surge in reported cases of malaria (124 cases in 2001).

While the vast majority of new cases of malaria detected in Jordan are imported,<sup>45</sup> the Malaria Eradication Project has increased promotions and education in those areas of Jordan most likely to suffer from the disease.<sup>46</sup> This has been successful, amongst non-nationals from 2002 to 2009; the incidence per 100,000 individuals decreased from 2.9 in 2002 to 0.8 in 2009.<sup>47</sup>



2.15 Goal 7) Ensure Environmental Sustainability



In terms of water resources and availability, Jordan is the third weakest nation, in the world. The current water consumption, per person, annually, is 133 cubic meters.

In an attempt to meet the nation’s increasing demand for water, extensive drilling for under-ground waster sources has taken place. This in turn has resulted in rising levels of salinity, in underground water reserves, as well as diminishing water levels and growing pumping costs. Approximately two thirds of the nation’s water supplies go towards agriculture, even though agriculture is responsible for les than 4% of the nation’s GDP.

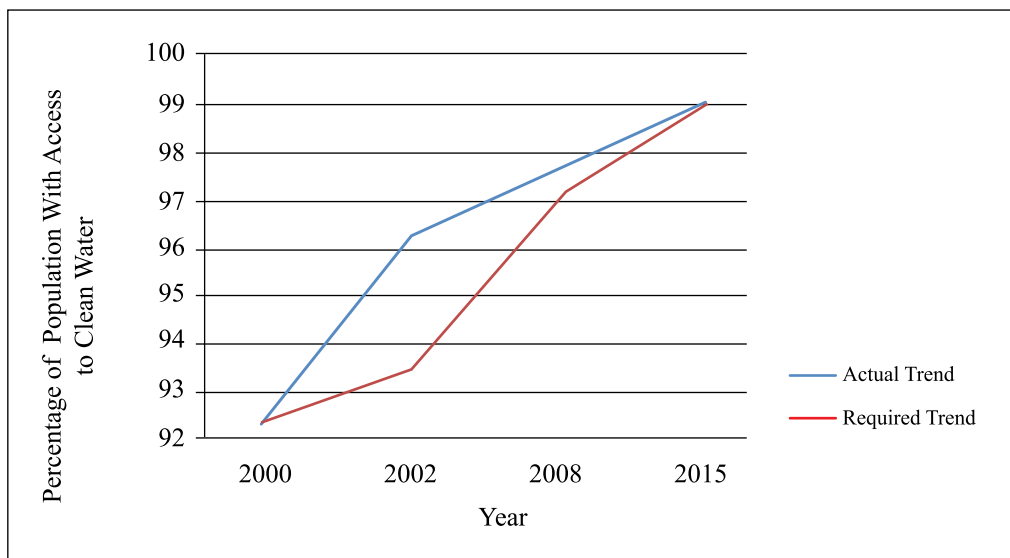
The nation’s water demand was approximately 1.5 million cubic meters in 2007, or 267 cubic meters, per person, annually (as the populaiton of Jordan

desalination (at 10 million cubic meters annually) and perhaps most significantly, the over-usage of renewable aquifers. By the year 2020, the nation is expected to contain 7.8 million individuals. This, plus the increased economic activitysuch a surge will brinf, will require the usage of almost 1.7 million cubic meters.

The Ministry of Water and Irrigation is examining national regulations, regarding underground water usage, in order to minimize the strain on the nation’s water resources. The Ministry plans to spend USD 7 billion over the next quarter century, searching for new sources of water, and methods to protect existing sources of water.

Jordan’s 10 main reservoirs hold 110 million cubic meters of water (roughly one third full), but require approximately 140 million cubic meters minimum during the summer months. Jordan obtains most of its water from rainfall during the winter months. The water deficit has exceeded 500 million cubic meters in recent years,

Figure 2.7 Percentage of Jordan with Access to Clean Water, (1990 – 2009 Actual, 2009 – 2015 Projected)

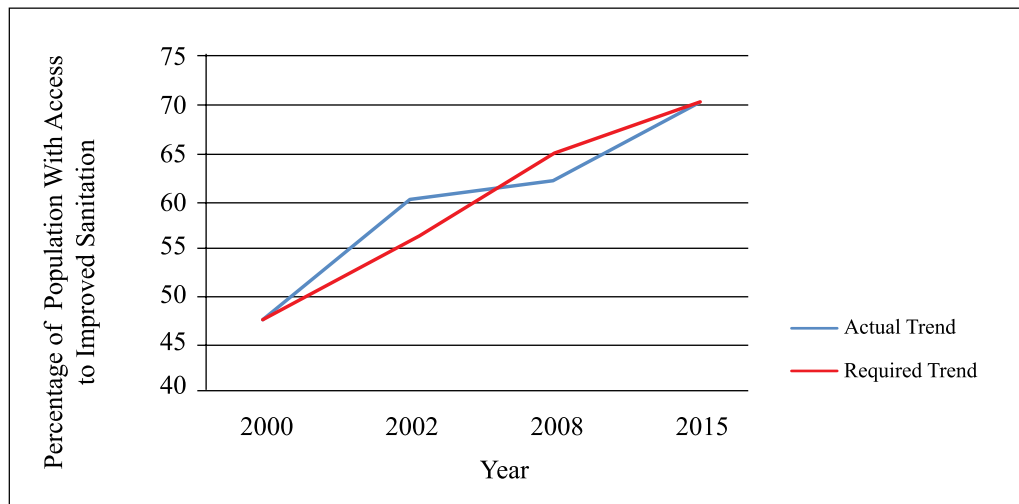


Source: “Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010,” Ministry of Planning and International Cooperation, UN in Jordan, 2010

in 2007 was 5.7 million individuals). The annual national water deficit, of 552 million cubic meters, is partially met through the usage of aquifers (at 90 million cubic meters annually), even though these aquifers are non-renewable,

and will most likely continue to grow annually. There is a deficit of almost one third in drinking water, and a deficit of approximately 50% in irrigation.<sup>48</sup>

**Figure 2.8 Percentage of Jordanians with Access to Improved Sanitation, (1990 – 2008 Actual, 2008 – 2015 Projected)**



Source: "Keeping the Promise and Achieving Aspirations, Second National Millennium Development Goals Report, Jordan, 2010," Ministry of Planning and International Cooperation, UN in Jordan, 2010

It should be noted, that for the average individual in Jordan, his/her annual consumption of water, per capita, does not exceed 150 m<sup>3</sup> annually, whereas the global average for water consumption is 1000 m<sup>3</sup> per individual, annually.<sup>49</sup>

On the other hand, Jordan is making progressive achievements in developing its sanitary infrastructure. The proportion of the population with a connection to a sewage network increased from 48% in 2001 to 62.2% in 2008.<sup>50</sup>

### 2.16 Goal 8) Developing a Global Partnership for Development



Economic openness and global partnerships have remained strong on the government agenda. With free trade agreements giving Jordanians access to over 1.1 billion consumers, and international trade and tourism figures growing annually.

In 2010, approximately JD 401.7 million (USD 567.8 million) was offered to the government in Jordan in terms of foreign grants. The Central Government was offered JD 500.3 million (USD 700 million) worth of foreign grants in 2005, increasing to JD 718.3 million (USD 1 billion) in 2008, dropping to JD 333 million (USD 470 million) in

2009, due to the global financial crisis.<sup>51</sup> This shows that Jordan's international partnerships have been improving steadily up to the financial crisis, and that with the dissipation of the crisis, Jordan's international relations should improve again.

### 2.17 Human Development in Jordan: The Challenge

The following section is a brief summary of the main development issues facing Jordan, such as gender inequality, disenfranchisement, corruption, and food security.

**Rural-to-Urban Migration:** Rural-to-urban migration has become a core fact of life in Jordan. The percentage of citizens living in urban areas almost doubled from 40% to 72% between 1952 and 2004.<sup>52</sup> By 2009, the percentage of citizens living in urban areas grew to 82.6%.<sup>53</sup> This is due to rural-to-urban migration and the fact that immigrants usually prefer to immigrate to cities rather than rural areas. Combined, the three largest cities (Amman, Zarqa and Irbid) make up 71.4% of the Jordanian population as of 2009. However, rising rural-to-urban migration leads to increasing pressure on housing, basic amenities, increasing demand for food (leading to inflation) and rising inequalities in living standards,

**Table 2.4 Change in Expenditures in Food Items, in Jordanian Households, 2006 to 2008**

<i>Item</i>	<i>2006 (JD)</i>	<i>2008 (JD)</i>	<i>Change in Expenditure (%)</i>
Cereals and Cereal Products	286.1	408.5	42.8
Meats and Poultry	592.9	840.8	41.8
Fish	60.5	76.1	25.8
Dairy Products and Eggs	291.2	404.9	39.0
Oils and Fats	128	187.8	46.7
Fruits	156.7	174.5	11.4
Vegetables	263.7	316.2	19.9
Dry and Canned Legumes	36.1	46.5	28.8
Spices and Food Add Ups	62.7	73.1	16.6
Nuts	46.8	51.9	10.9
Sugar, Confect and Honey	194.8	195	0.1
Tea, Coffee and Cacao	103.8	124.4	19.8
Other Food Items	172.7	180.1	4.3
Beverages	89.7	126.3	40.8
<b>Total</b>	<b>2,485.7</b>	<b>3,205.9</b>	<b>29.0</b>

Source: Department of Statistics, Household Income and Expenditure Survey, 2006 and 2008

both within the country, and within urban centers themselves.

From 2006 to 2008, Jordanians spent 29% more on food, while their expenditure on housing increased by 4.6%, and transportation expenditures increased by 21.7%. Although, it should be noted that spending on medical care declined by 20.9%, and spending on education dropped by 17.2%. Expenditure growth hit a 13.2% mark.<sup>54</sup>

The real income of households decreased by 10.4% between 2002 and 2008. Average household spending rose from JD 6,205 (USD 8,760) in 2002<sup>55</sup> to JD 8,520 (USD 12,000) in 2008<sup>56</sup>, an increase of 37.3%; hence, growth in family spending exceeded income growth by 12.2% (22.3% increase in average family annual income less the 37.3% increase in spending). To cover the income-expenditure gap, the poor have had to either borrow or sell existing assets, such as land and family heirlooms, in order to survive - an indication of the further deterioration of the meager wealth of the poor and the widening gap in wealth between rich and poor.

While it is noted that families may have under reported earnings and over reported expenditures, causing some of the disparity between income and spending, it is important to note that even if this explanation holds true, the gap between spending and income has been rising since 2002, which indicates a deterioration in the spending power of households relative to income.

The average Jordanian households spend JD 8,520 (USD 12,000) annually. One quarter of this is spent on housing related expenditures; 37.6% is spent on food items and 5% on education.

**Corruption:** Jordan has been making significant progress in reducing corruption. Jordan was ranked 47th out of 180 nations on Transparency International's Corruption Index (TCI) in 2008, up from 53<sup>rd</sup> in 2007.<sup>57</sup>

However, Jordan dropped to 49<sup>th</sup> out of 180 nations in 2009. Within the TCI, the Kingdom ranked fourth among the 18 countries listed within the Middle East region.

In 2009 the Kingdom's first independent body for pursuing government members believed to be involved in corruption was sworn in - the Anti-Corruption Commission (ACC). In late 2009, the ACC Chief Commissioner cited graft, *wasta* (favoritism), ignoring regulations, and services being provided to favored individuals, among the most pervasive forms of corruption in the nation. The commission drafted a "National Anti-Corruption Strategy for the years 2008-2012," to resolve the problem.<sup>58</sup>

**High Budget Deficit** The high budget deficit is one of the most significant and growing problems facing the government of Jordan.<sup>59</sup> The 2009 budget deficit of the central government (not including independent government organizations and other non-central government allocations) reached JD 1 billion (over USD 1.4 billion) or 5.1% of nominal GDP for 2010. From an analysis of the budget presented by the Central Bank of Jordan, if foreign grants are removed, the 2010 deficit rises to JD 1.4 billion (USD 2 billion) or 7.1% of the nominal GDP.<sup>60</sup>

**High Government Dependency on Grants and Aid:** One of the most pertinent problems relating to government management of financial resources is the strong government dependency on grants and aid.<sup>61</sup> Since the early 1950s Jordan has been receiving foreign aid in the form of grants or loans, the majority of which goes directly towards balancing the budget. Jordan received JD 4.4 billion (USD 6.2 billion) in aid (specifically grants) during 2003-2010, an average of JD 629 million (USD 885 million) per year, or JD 125.8 (USD 177) per person per year, assuming an average annual population size of five million during the period.<sup>62</sup> This situation changed in 2009 as preliminary data revealed that public revenues were down by JD 567.5 million (USD 800 million) to stand at JD 4.52 billion (USD 6.4 billion) (25.3% of GDP). This decline was a result of a decrease in domestic revenues and foreign grants by 4.2% and 53.6%, respectively. In addition, the relative importance of foreign grants to domestic revenues declined by 8.4% in comparison with the preceding year, standing at 8% in

2009.<sup>63</sup> This situation improved slightly in 2010, when revenues rose to JD 4.66 billion, yet there still remains JD 431.9 million below 2008 levels.<sup>64</sup>

**Water Shortages:** Scarcity of water is another major impediment of growth, for both large companies and MSMEs. Should the Disi and the Red Dead projects be implemented, the nation's water capacity will increase from 130m cubic meters to 240m cubic meters by 2020. Note that implementation of the

Disi project has already commenced. The current concerns, however, are to increase conservation rates and water purification; approximately half of the nation's water is wasted and an equal percentage of households are not joined to a sewage disposal system.<sup>65</sup>

The Disi Water Conveyance Project is an extensive project, designed to shift water from the Disi aquifer (near the Saudi Arabian border). The Red-Dead Canal, if completed, would shift water from the Red Sea to the Dead Sea and thus supplying Jordan and Israel, via desalination. Currently a feasibility study by the World Bank is being conducted to determine the viability of the project.

Notwithstanding water shortages, Jordan is also making progressive achievements in developing sanitary infrastructure. The percentage of households with a connection to a sewage network increased from 48% in 1990 to 65% in 2007, an increase of 17%.<sup>66</sup>

**Majority of Government Budget is allocated to Current Expenditures:**<sup>67</sup>

Of the government's current expenditures in 2010, 6.2% was dedicated to providing subsidies (including food, oil, goods and emergencies).<sup>68</sup> The lion's share of the government budget goes to current expenditures, and the magnitude of this ineffectiveness can be seen whereby 80% of government spending goes to pay salaries and retirement benefits; a mere 10% on capital expenditures, and the rest for debt servicing.<sup>69</sup> Note that according to the Monthly Statistical Bulletin of the Central Bank of Jordan, current expenditures make up 83.3% of total

expenditures.<sup>70</sup> However, as pointed out in the Jordan National Agenda, current expenditures comprise approximately 70% of capital expenditures also, which brings the percentage of government expenditures that is allocated to current expenditures to 90%. The fiscal inflexibility in the government budget remains an insurmountable challenge.

**High Taxes in Terms of Number of Brackets and Focus:** The current taxation system is regressive, on the whole, as sales tax proceeds comprise the majority of tax revenues. Jordan is among a few countries where the sales tax is higher than the income tax, which is progressive under the current income tax law; currently, the sales tax is 16%<sup>71</sup> while the highest income tax bracket is only 12%<sup>72</sup>. Consequently, a heavy burden is placed on those in the lower income levels, who spend the majority of their salaries on day-to-day living expenses. In addition, the amount of taxes and fees have increased over the years

**Low Food Security:** Jordan is making significant progress with regards to preventing hunger. However, in terms of food security, only 30% of suitable agricultural land is currently cultivated. Storage capacity in governmental sector silos is very limited. Government purchasing methods are based on spot purchase agreements, thus, increasing vulnerability to commodity price fluctuations. In light of current economic trends there exists a “Possible food crisis<sup>73</sup>”.

**Impact of the Global Financial Crisis Effects:** The financial crisis of 2008 did not impact Jordan to the extent of other nations: GDP grew in real terms by 7.6% in 2008 following a growth of 8.5% in 2007. However, while Jordan may have fared better than many other nations, the impact of the Global Financial Crisis was still significant. The banking sector curtailed private credit; even though in 2009 the Central bank of Jordan took numerous steps to combat the threat of recession, primarily by lowering the compulsory amounts of reserves held

by banks (to 8% as of December 2009) and the discount rate (to 4.75%, as of December 2009), Jordanian banks did not follow suit. Consequently, Jordan’s real GDP, which had grown between 2006 and 2008 by roughly 8% per annum, plunged in 2009, to 2.3% in real terms even with a negative inflation rate.<sup>74</sup> Further, Jordan’s current account went from a deficit of JD 1.2 billion (USD 1.7) in 2006 to a deficit of JD 797 million (USD 1.1 billion) in 2009 as economic activity decreased.<sup>75</sup>

According to the Third Issue of the “Jordan Stability of the Financial Sector Report,” (2009), published by the Central Bank<sup>76</sup>, 56% of the deposits received by private banks went to government treasury notes (loans to the government) during 2009. Furthermore, an additional 36% of the deposits in 2009 went into deposits with the Central Bank of Jordan (CBJ). That is, 92% of the deposits in 2009 were directed towards government borrowing, and the private sector received the remainder. Furthermore, as deposits grew in 2009, credit did not grow proportionately; the overall credit to deposits ratio decreased from 71.4% in 2008 to 67.1% by the middle of 2009. Overall, the money supply (M2), which grew by 17.3% in 2008, grew by 9.3% in 2009, the lowest growth rate in M2 during 2006-2009.

**Income Distribution:** The poverty line in Jordan is set at JD 680 (USD 960) per individual annually. Approximately 13.3% of the population lived beneath the poverty line in 2008.<sup>77</sup> Family size figures predominantly when looking at the composition of those living beneath the line. In 2008, in the poor category, the average family size was 7.6 people, while in the non-poor segment, it averaged 4.2 people.

The Household Income and Expenditure Survey of 2008 indicated that to survive, a citizen needed JD 32 (USD 45) monthly to spend on essential non-food products and JD 24 (USD 34) for food, which is slightly over JD 56 (USD 79) per person per month. In other words for a family of 5.4 (the national average), a minimum of

approximately JD 306 (USD 432) in family income would be required per month if they were to remain above the poverty line, a figure that is barely twice the current minimum wage of JD 150 (USD 212). Even with two members of the household working for minimum wage, the household will still be living under the poverty line, signifying that the most vulnerable employees are not paid a livable wage.

**Income Inequality:** One of the main areas of concern regarding poverty in Jordan is income inequality. The richest 20% of households accounted for 35% of total household expenditures in 2006. The share of the poorest 10% of households was about 3.4% of total household expenditures in 2008. The share of the richest 10% of households was 29.5% of total household expenditures in 2008, up from 25.1% in 2002.<sup>78</sup>

The 2010 DOS Jordan Poverty Report revealed that 57% of individuals surviving below the official poverty line were to be found in the most densely populated locations within Jordan: Amman, Irbid and Zarqa. In terms of real income, between 2006 and 2008 real income

dropped in Jordan by 0.9%.<sup>79</sup> For the poorest quartile, the real income dropped by 8.5%, accompanied by a drop of only 0.8% for the richest quartile. In short, the poor became poorer.

**Consumption Patterns:** Average family spending on foodstuff increased by 29.0%, while the food price index increased by 28.9% during 2006-2008<sup>80</sup>; thus, the majority of the increase in spending was due to inflation. Table 2.4 shows changes in the average family consumption of vegetables, meat and poultry, cereals, fruits, dairy products and eggs during 2006-2008, which decreased by 20%, 42%, 39%, 11%, and 43%, respectively.<sup>81</sup>

Concomitantly, spending on fuel and electricity, transport and telecom, and education increased by 71.3%, 46.4% and 39.2%, respectively. In other words, families have had to allocate increased funds to cover their urgent needs for fuel, transport and telecom on the account of basic foodstuffs.

The reallocation away from necessary

Table 2.5 Poverty Statistics in Jordan

Governorate	Population below poverty line (%)	Proportion of poor population out of total poor population in Jordan (%)	Average Annual income (JD)
Amman	8.3	24.6	1,681.6
Balqa	19.7	8.7	1,078.2
Zarqa	11.2	11.7	1,149.1
Madaba	14.9	2.6	999.6
Irbid	14.7	20.5	1,143.6
Mafraq	31.9	11.9	1,034.5
Jerash	20.3	4.6	1,165.1
Ajloun	13.3	2.3	1,184.4
Karak	17.1	5.5	1,233.3
Tafle	21.1	2.2	1,078.1
Ma'an	24.2	3.4	1,113.5
Aqaba	11.8	2	1,294.5
Jordan	<b>13.3</b>	<b>100</b>	<b>1,350.5</b>

Source: Department of Statistics, Jordan Poverty Report, July 2010

food items has a significant impact on the health and welfare of the future generations of Jordanians - Jordan's greatest asset and foremost challenge. This is especially apparent with the need for greater expenditure on education; an enabler for a better future.

The higher the proportion of spending required by families on education, the lower its accessibility. Spending on education reached 7% of total household spending, in 2006; however, in 2008, spending on education decreased to 5.1% of household spending.<sup>82</sup>

### **2.18 Geographical Context**

Jordan's various governorates reflect differing development contexts. This is especially apparent when examining poverty indicators, which range from 8.3% in Amman to 31.9% in Mafraq as shown in Table 2.5:

### **2.19 Conclusions**

- Jordan has continually improved its measurable indices of human development. While the challenges to Jordan in its quest to achieve greater levels of human development run deep, so does the Kingdom's potential for progress.
- Government policy has centered on the provision and growth of medical care and educational services, and gives special notice to poverty and unemployment programs. However, expenditures on basic social services have reached an estimated 17% of the overall national budget in 2010.<sup>83</sup> Spending on the military is still heavier than spending on both health and education combined in Jordan.<sup>84</sup> For example, 35.9% of current expenditures in 2010 were spent on the military.<sup>85</sup>

- The position of women in Jordan has grown at various rates during the past half century. Today, 14.9% of Jordanian women are employed in the workforce.<sup>86</sup> Improvements have been significant regarding women's ability to ascertain education and medical care, with their shares in terms of life expectancy and educational achievement being nearly equally distributed. However, the gain in economic and political participation and in some legal rights has lagged behind.
- Jordan's economy remains highly sensitive to external forces, and is highly connected to regional political and socio-economic trends. Today, that sensitivity extends to global conditions as evidenced by the inflation caused by rising imported commodity prices.
- In spite of remarkable accomplishments, the country continues to face a number of challenges. Most significant are its limited water resources, fiscal inflexibility, foreign debt, the weak participation of women in the labor market, income inequality, the relative lack of political participation, the enduring negative impact of the financial crisis, possible food insecurity, poverty and unemployment.

# *Chapter III: MSMEs and Equitable and Inclusive Growth*





### 3.1 Introduction

The economist Amartya Sen explains that furthering human development consists of “Advancing the richness of human life, rather than the richness of the economy in which human beings live, which is only a part of it.” That is, human development does not concentrate primarily on economic development. It is not only about improving living standards, but about improving security, community and prosperity.

The idea of promoting development through MSME growth dates back a quarter of a century.

The central thesis emphasizes that poverty can be alleviated through private sector investment, in conjunction with NGOs and multilateral institutions. However, in the early 1990’s the general perception of this issue shifted to emphasize the ideas of minimizing corruption, and enhancing education and public policy.

Thus, the attention given towards promoting MSMEs waned, and it was only recently that the idea of combining the two theories was promoted. Thus, equal attention is given to MSME generation (to accelerate economic growth and improve social issues) and to improve the private sector environment in general. In other words, promoting MSMEs will help achieve both economic and social development, with a greater potential to reduce poverty through employment, given that the business environment is also improved.<sup>87</sup>

Under the initiative of the World Bank Group, a database was created in 2003, which currently includes data covering MSMEs in 76 nations, analyzing how the levels of MSMEs impact the levels of poverty through employment and income generation. In addition, it analyses the impacts of the informal sector on MSMEs. The WBG analysis specifies three developments related to MSME sector growth (CEED Report):

1. Vibrant and expanding MSME sectors characterize growing

economies, and indeed the very concept of economic development, as there is a causal link between MSMEs and income poverty reduction.

2. As MSMEs expand and mature, job creation and pro-poor hiring practices result in income growth, which reduces income poverty.

3. The legislative and economic environment for MSME growth is vital for the acceleration of poverty minimization.

According to another World Bank study analyzing productivity, ownership and the investment climate and making use of an econometric analysis of productivity in 55 countries of which half are transition economies, private ownership (a proxy for entrepreneurship) is an equal, or more important, determinant of productivity, over and above other components of an investment climate.<sup>88</sup>

Productivity and private investments that lead to wealth creation are important features of human development. However, one must keep in mind that, “Global wealth has almost doubled since 1990, but nearly half the world’s population still subsists on less than USD 2 per day.<sup>89</sup>” Therefore, poverty remains a major challenge.

While productivity and investment are important, one must recognize that these measures are not ends in themselves. Poverty alleviation needs an economic growth that is sustainable, inclusive and which can reach the majority of the population. This growth should aim to improve the performance and sustainability of local entrepreneurs, as well as providing them with the opportunity to master their destinies.

Growth, therefore, is not an end in itself, but rather a means to achieve other important objectives for individuals, households and societies. Equitable growth can reduce the possibility of individuals falling into poverty. It also creates the resources to support health care, education, and (given the right policy frameworks and policies)

could expand the choices of individuals. Therefore, growth is a necessary precondition for broader development, enlarging the scope of individuals in their productivity and creativity.

This part of the report addresses the relationship between MSMEs and inclusive, equitable, growth, by examining the role which MSMEs play in spurring economic growth, as well as their role in promoting such an inclusive and equitable economic growth. The chapter will tackle the characteristics of MSMEs in Jordan, including MSMEs in the formal and informal sectors, the contribution of MSMEs to GDP, their contributions to employment, taxes, exports, the sophistication of Jordanian business enterprises, and the impact of MSMEs on the associated backward and forward linkages. Also, the chapter covers the issue of equitable growth, discussing the geographical coverage, and concentration, of MSMEs.

It will also examine pro-poor growth conditions and the role of MSMEs in the expansion of the middle class.

### 3.2 MSMEs: The Definition

#### MSMEs Define

While there is no universally accepted definition of Micro, Small, and Medium Enterprises, there are generally accepted traits; the number of employees in an organization cannot exceed a certain amount (in some countries the limit is 100 employees, in others, 250 employees),

as well as the fact that they should have limited levels of revenue and assets. The Multilateral Investment Guarantee Agency and the International Finance Corporation both classify MSMEs as organizations with fewer than 300 employees, owning less than USD 15 million in assets, and earning less than 15 million USD annually.<sup>90</sup>

#### Box 3.1 HM King Abdullah II

“Common challenges: economic growth, environmental issues, resource needs. To improve living conditions, from desert communities to overwhelmed, urbanizing cities; to raise incomes and create expanding opportunity; to empower youth and give them the confidence they need, if they are to be stakeholders in peace and progress. And more.”

*His Majesty King Abdullah II, Fourth Petra Conference of Nobel Laureates, 2008*

#### Standard Definitions of MSMEs across MENA

Definitions of MSMEs vary across the MENA countries in terms of the size of workforce. A sample of definitions from MENA countries is given in Table 3.1.

Consequently, for the purposes of preparing the Third National Human Development Report, the report team in consensus with stakeholder

Table 3.1 Standard Definitions of MSMEs across MEN

	Micro	Small	Medium
Egypt	1 to 4 employees	5 to 14 employees	15 to 49 employees
Lebanon	1 to 9 employees	10 to 49 employees	50 to 99 employees
Oman	1 to 5 employees	6 to 20 employees	21 to 100 employees
Jordan	1 to 4 employees	5 to 19 employees	20 to 99 employees*
UAE	1 to 9 employees	10 to 49 employees	50 to 499 employees
Tunisia	1 to 9 employees	11 to 49 employees	50 to 99 employees

Source: MSMEs Database, World Bank, January 2007, taken from Dababneh, R, and Tukan, F, “Booklet of Standardized MSME Definitions,” USAID, August 2007

\* Department of Statistics

organizations<sup>91</sup>, concluded that the best way to approach the research is to address MSMEs as all enterprises which have less than 100 employees. Also, it was viewed that the research team should separate micro-enterprises from SMEs as all the enterprises that access micro-credit as their primary source of funding.

### 3.3 The Characteristics of the Jordanian MSMEs

The private economy in Jordan is almost entirely comprised of MSMEs, which represent almost 99.6% of all firms outside the agricultural sector. Most Jordanian MSMEs work within the formal sector and are registered, as specified by law. However, a sizeable percentage of self-employed firms are in the unregistered (informal) sector (that is, firms that deliver lawfully permitted services and products without registering with the proper authorities).

Accurate statistics on the informal sector are not available, given the difficulties in assessing the registration status of the firms in this sector. It has been estimated by the World Bank that the size of the informal economy (economic activities that are not properly registered and regulated, therefore, not taxed) in Jordan amount to 19.4% of national GNP.<sup>92</sup> While data on formal enterprises can be drawn from the Department of Statistics, estimates regarding informal sector employment are still pre-mature. However, some studies estimate informal sector employment at approximately 25% of the labor force.<sup>93</sup>

In terms of employment, formal MSMEs play a vital role in job generation, as they employ almost 71.4% of the private sector's employment and almost 49.4% of all the employment opportunities in the country's private and public sectors. Figure 3.1 shows the proportional contribution of formal MSMEs to the number of registered establishments and employment opportunities in Jordan.

In terms of production, MSMEs in Jordan engage in various economic activities, including trade, services, manufacturing, and agriculture. Trade and services are

the most dominant activities, accounting for 85% of MSME activities in 2006. The trading sector is almost entirely composed of MSMEs, employing almost 92.7% of the employees in the sector. The wide range of MSMEs found in the trade sector is a reflection of their provision of services at the local level. Serving localized markets, where customer demands are known and limited, allows for an easy entry, labor-based approach, focusing more on small scale personal finances. On the other hand, MSMEs do not play the same role in the manufacturing sector, where the level of technology and investments needed increases dramatically. Figure 3.2 shows the presence of MSMEs across the four sectors.

#### Box 3.2 Informal Sector, Define

“The informal sector is defined as a part of the economy that results in the production of legal goods and/or services (legally tradable and non-criminal), however, the enterprise in which it is produced is not legal (not registered, and does not pay taxes).” It could also be a firm in which products are being made legally (that is, it is registered, paying taxes), but does not offer social benefits for its workers and/or managers. “They, therefore, cannot borrow or use their collateral and success to leverage future expansion, thus remaining small.”

Source: Al-Budirate, A. 2008. “Jordanian Experience in Measuring Employment in the Informal Sector,” Department of Statistics, Jordan, World Bank. 2000. “The importance of MSMEs in Developing Economies,” World Bank Report

Regarding the characteristics of MSME owners, the following characteristics are exhibited:<sup>94</sup>

- Ownership: The majority of MSMEs are sole proprietorships. Of the surveyed companies, 80% of them were sole proprietorships, with only 7% of entrepreneurs owning limited liability companies. It is important to

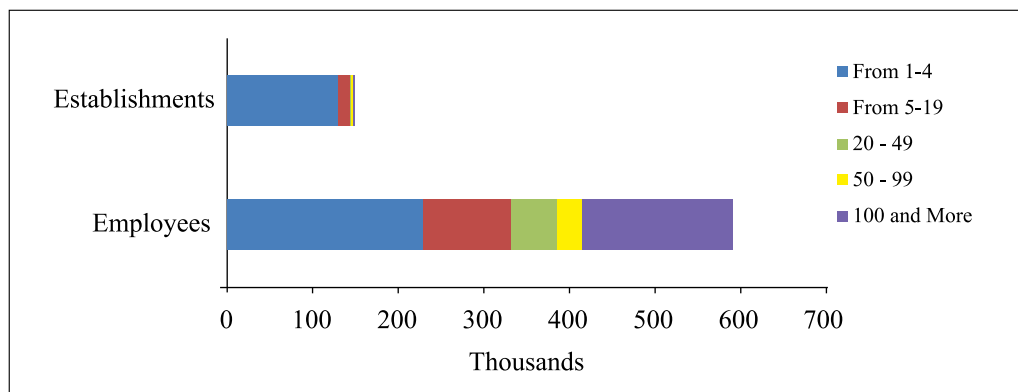
note, however, that these percentages may change drastically, given that the minimum level of capital, needed to register a limited liability company, was reduced in 2009, from JD 30,000 to JD 1,000.

– Management Style: Most MSMEs are owned and run by the same person. Most of these enterprises, at the start up stage, were composed of only the

owner. Currently, 76% of them have at least two employees.

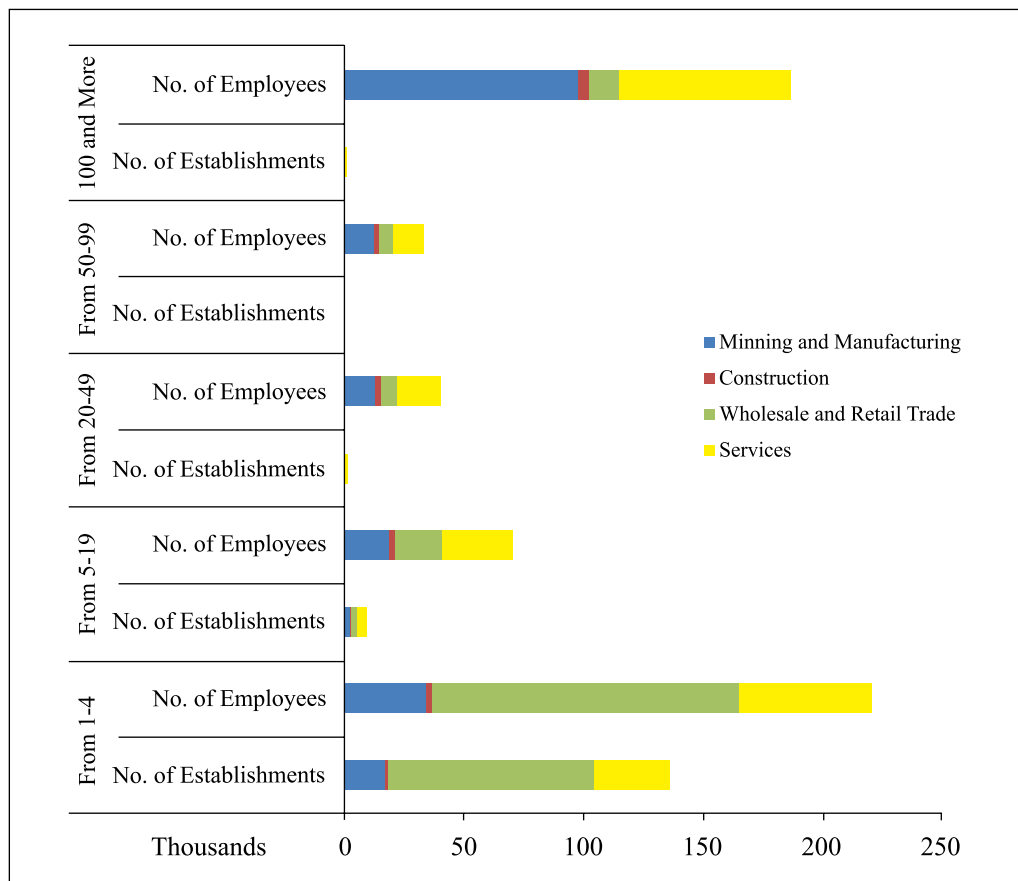
– Educational Attainment: In terms of MSME owners’ educational levels, 79% of these owners held secondary school degrees, or above. However, 42% of MSME owners held Bachelor’s degrees or above.

**Figure 3.1 Proportion Contributions of MSMEs to number of Establishments and Employees**



Source: Establishments Census, Department of Statistics, 2006

**Figure 3.2 Dominance of MSMEs Including Number of Employees and Establishments by Sector**



Source: Establishments Census, Department of Statistics, 2006

– Age Structure: In terms of age, the majority of business owners fell into the following age groups: 21-30, 31-35, 36-40, 41-45 and 46-50 years old, accounting for 16%, 13%, 18%, 15%, and 15% of the owners, respectively. With 77% of employers between 21-50 years of age, most MSME owners can be classified middle-aged and below.

### 3.4 Literature Review

It is widely viewed that entrepreneurship is one of the most pertinent drivers of economic growth.<sup>95</sup> However, in developing countries, where statistics are usually unreliable or simply not available, determining the size of the MSME sector is more difficult, particularly since the size of the informal economy is usually greater in developing countries than in developed countries. Notwithstanding, it is recognized that the contribution of MSMEs in developing countries ranges between 50% to 70% of GDP.<sup>96</sup>

A cross-country analysis of MSMEs<sup>97</sup> found that there is a strong connection between the relative strength of the MSME sector and economic development. In a review of 76 nations, it was shown that the role of MSMEs in GDP generation and national income is quite significant – with just over half of GDP being generated by MSMEs in developed nations, 39% in medium-income nations and only 16% in developing nations. Even when accounting for numerous growth factors (such as the surrounding business environment, entry and exit barriers, ensuring property rights, and firm legislative environment), there was a significant connection between economic development and the extent of the MSME sector.

Broad empirical evidence highlighting the importance of MSMEs includes the facts that<sup>98</sup>:

- MSMEs are where many entrepreneurs and future large companies start.
- MSMEs tend to use medium-sophistication technology at the level of

factor endowment ratios in most developing countries.

- A successful developing country example - Taiwan, is built on a dynamic MSME sector. Taiwan has remarkable growth and minor levels of inequality, by the standards of similar economies. The experience of Republic of Korea, another Asian Tiger and a relatively fast grower, shows that inequality decreases when the proportion of the MSME sector grows, as it did for some time after the mid-1970s in the Republic of Korea.
- Between the 1960s and 1970s, Colombia experienced rapid expansion in its manufacturing MSME sector along with a decline in urban inequality.

The literature, however, does not unequivocally support growth with regards to smaller firms<sup>99</sup>

Although research has found that smaller firms have higher levels of innovation in ‘high technology’ skill-intensive services within America,<sup>100</sup> other research indicates that having a greater number of large companies is correlated with more rapid innovation levels within Europe.<sup>101</sup>

In developing nations, technology transfers from foreign nations and reverse engineering motivate productivity growth, rather than size.<sup>102</sup>

However, other studies show that large exporting companies are usually the chief means through which technologies are obtained and implemented from foreign sources.<sup>103</sup>

MSMEs are, therefore, not a catchall for economic progress, and evidence from the literature is mixed as to their contribution. However, when MSMEs are supported and nourished they can be a vehicle for achieving economic growth and higher value-added as evidenced by the 76 country study.

The analysis of the Report focuses on examining the distributionary contributions

of MSMEs within national economic growth towards bridging the gap between rich and poor. Most empirical data indicates that in most cases, economic development increases the incomes of those families at the bottom of the income distribution pyramid.<sup>104</sup>

Hence, growth is generally viewed as 'good' for the poor. However, in order to be 'pro-poor,' growth must proportionately help the poor, as opposed to the rich.<sup>105</sup>

UNDP research has found that in comparing a 1% increase in economic redistribution with a 1% increase in economic growth, the former was seven times more effective in cutting infant mortality.<sup>106</sup>

Therefore, the equality of growth is a key factor in tackling poverty (being pro-poor).

According to the "World Development Report 2006, Equity and Development," overall, the incomes of the poor increase in tandem with mean incomes.

That is, the benefits of aggregate economic growth are, overall, are equally distributed.

So, while MSMEs may produce economic growth, without pro-human development policies, the growth may not be pro-poor. In fact, the "Equity and Development Report," goes on to note that approximately half the determinants in poverty reduction are explained by economic development, the other half must be accounted for by government programs that affect the distribution of income.

In addition to poverty, the other aspect directly affecting equitable growth is regional disparities. Outside of urban areas, there are drops in educational levels, employment opportunities, and access to services, due to a lack of economic activity in rural areas.<sup>107</sup>

Regional disparities are often characterized by exclusion and marginalization of ethnic groups and tribes (in addition to disparities in income). Certain parts of the literature determine that MSMEs are

a cause of exacerbating the geographical disparity of income and development, within an economy.<sup>108</sup> On the other hand, MSMEs have been seen as a vehicle to help control the urban-rural divide, a key aspect of equitable economic growth.<sup>109</sup>

On both these fronts, MSMEs will not be able to produce pro-poor and equitable growth without policies to foster human development. Joseph Stiglitz, former chief economist of the World Bank and Nobel Laureate, notes that poverty levels drop as economies grow, if and only if the government takes specific steps to ensure distribution is equitable.<sup>110</sup>

However, the impact of economic growth when government does not take special steps to ensure that the benefits of growth are equitable may, in fact, adversely affect lower-income groups.

### **3.5 MSMEs and Employment Creation in Jordan**

The contribution of MSMEs to job creation in Jordan between 2000 and 2007 was impressive, whereby employment in formal enterprises increased by almost 18% to reach 425 thousand workers, up from 361 thousand in 2000. The question of whether MSMEs are more important to job creation than large firms has been debated for a considerable amount of time. The cross-country evidence from developed and developing countries shows that job creation rates, within MSMEs, are higher than larger firms. However, job destruction rates are also higher.<sup>111</sup> It is essential to determine, therefore, whether these findings apply to Jordan

Small new businesses were the largest single contributor to job creation during 2000-2007, employing 1-4 employees per firm and creating almost 20 thousand new jobs. Regarding continuing businesses, most new jobs came from large firms employing 100 or more employees. These firms were the largest contributor of all the segments; they introduced almost 71.5 thousand new jobs between 2000 and 2007. This is shown in Figure 3.3.

Within the employment category several diverging trends can be observed:

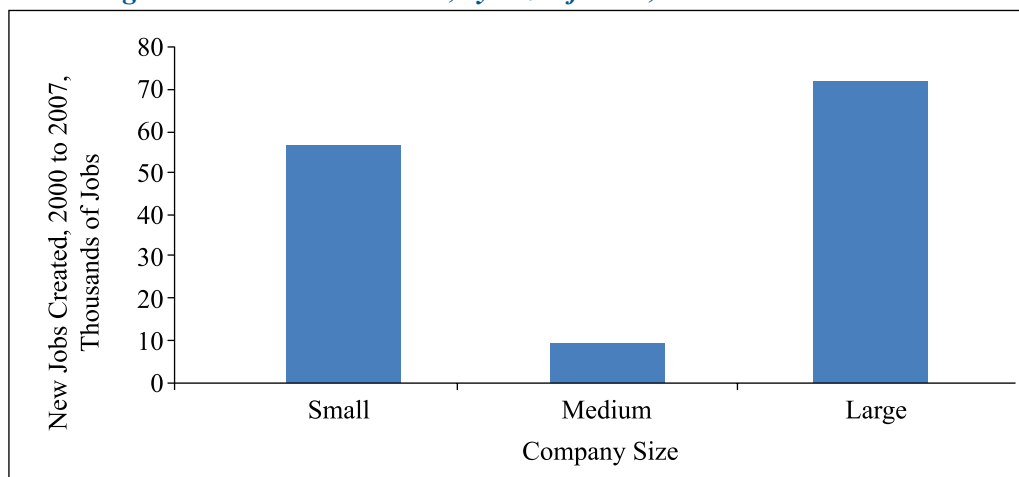
- First: The growing significance of large companies in terms of overall employment, with the average number of employees per enterprise increasing from 2.66 employees per firm to 4.05 employees per firm between 2000 and 2007.
- Second: The growing significance of large firms as job creators, in which their share increased from 21.6% of the workforce in the year 2000 up to 28.6% of the workforce in 2007.
- Third: The growing importance of the small enterprise segment in job creation, with the average number of employees per enterprise increasing from 1.41 employees per firm in 2000, up to 2.66 employees per firm in 2007, although their share in total employment decreased from 72% in 2000 to 65% in the year 2007.
- Fourth: The reduction in the importance of companies, which employ between 50 and 99 employees, where the average employment size per enterprise went down from 70.4 to 69.1 employees per enterprise. However, the share of these enterprises in total employment remained stagnant at 6.4% during this time period.

One can, therefore, surmise that, during the period, more jobs were created by larger enterprises. The phenomenon can be related to a number of social

implications, as will be discussed in detail later in the Report. Some of these implications include:

- The country's minimization of trade barriers, through the signing of many trade agreements, especially the QIZs, which impacted the size of companies, especially in the textile sector. In the QIZs many large garment firms, especially from the Far East, came to Jordan to take advantage of exporting their products to the US tax and quota free. However, it should be noted that even though the number of employees of these firms may be large, the level of investment in machinery and equipment is usually very little in comparison with other industries, especially since most firms conduct only three rudimentary operations (cutting, sewing, and ironing).
- The expansion of investment in some large industries, due to the privatization process and the inflow of Foreign Direct Investment during the period 2005-2007, and the impact of investment promotion efforts, which by their very nature targeted larger investments.
- The expansion of investments in the telecommunications sector, which entailed the opening of large companies with large investments.
- The high tax rates and the cumbersome registration procedures at the first five years of the decade which limited the ability of smaller firms to

Figure 3.3 New Jobs Created, by Size of Firm, between 2000 and 2007



Source: Establishments Census, Department of Statistics, 2006

enter the market or grow, thus making the Jordanian MSME sector less dynamic.

Neither large companies, nor MSMEs, were efficient in absorbing new entrants into the Jordanian work force. Jordan remains one of the Arab countries with the lowest employment rates for both genders (64.8% for men and only 14.9% for women), due to high population growth rates and fertility rates (at 3.7 children per woman), as well as the existence of foreign labor.<sup>112</sup>

One of the factors that distort job creation is the employment of non-Jordanians. The foreign labor force in Jordan, which stands at 260 thousand or 24.3% of a total workforce of 1,172,701 is evidently large. However, only 1.9% of these foreign workers are university graduates, which implies that the majority of foreign workers are employed in low skill jobs. Almost half of business owners (at 46%) stated in the Survey that they employed foreigners due to a lack of available Jordanian labor that is willing to perform certain tasks. Also, 23% of owners felt that foreign employees had better work ethics. Within MSMEs, only 12% of workers are non-Jordanian on average; roughly half the overall national average. Since MSMEs employ far less non-Jordanian individuals than the national average, it is the major companies who employ a far higher percentage of non-Jordanians.

The government remains the country's most significant employer, employing 46.6% of all employed women, along with over one quarter of all employed men. The number of female applicants for government jobs is much higher than the amount of male applicants. It has been suggested that among applicants, men are more frequently chosen, in the vast majority of positions.<sup>113</sup> However, it is also feasible that females prefer government employment due to lower working hours, increased job security, social acceptability and lower official discrimination. Therefore, demand by educated females for government jobs may be higher than that of educated males. Moreover, once employed there is evidence of almost

complete gender parity in terms of compensation packages.

Agricultural employment is dominated by non Jordanians due to rural - urban migration, the unfavorable working environment, and low wages, thus making the sector unattractive to Jordanian employees. Therefore, only 38% of paid employees in this sector are Jordanians.

### Box 3.3 Qualifying Industrial Zones

A Qualifying Industrial Zone is a free trade zone between Jordan, and the US, where Jordanian goods with some Israeli content can be exported duty and quota free to the US, with firms located there enjoying exemptions of income and sales tax.

A national commitment to education increased the number of available skilled workers, especially females, and caused a surplus of educated workers. Approximately 55% of unemployed women hold a Bachelor's Degree.

### 3.6 Women in the Workforce

Women in the MENA region, on average, constitute 28% of the total work force, the lowest globally and much lower than the 43% average found in other developing nations. However, while Jordan has better indicators in terms of education and health, than most of these countries, the percentage of Jordanian women in the labor force is even lower than that of the MENA regional average as shown in Figure 3.4.

A more detailed look at both male and female participation rates in the labor force is provided in Table 3.2. Note that women with bachelor's degrees face the lowest level of unemployment and inactivity among women in the labor market in Jordan; still, their employment is 60% of that of men in the same category. Furthermore, women with degrees have an unemployment rate that is almost three times as high as that of men with degrees.

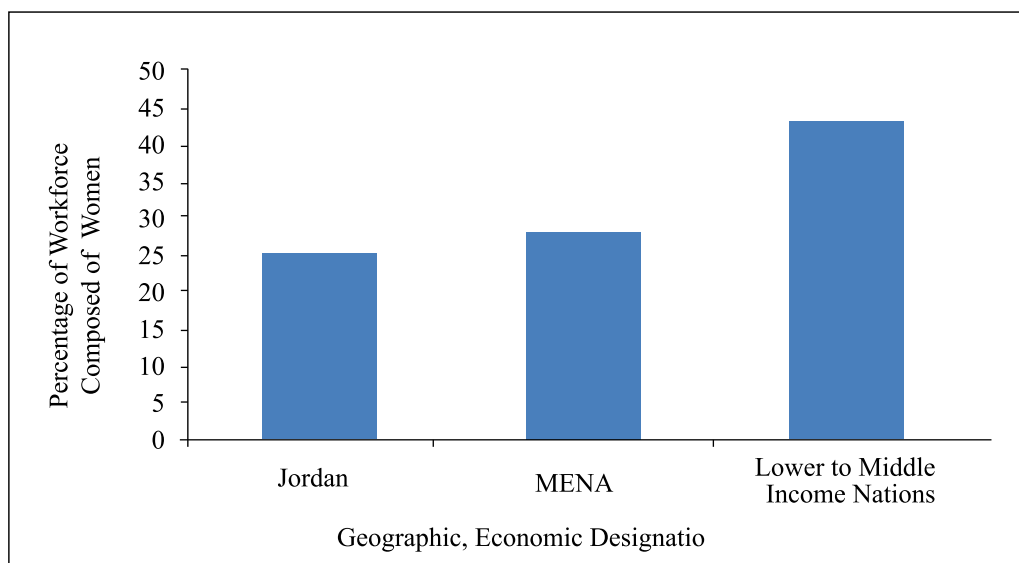


Overall however, the unemployment rate of women is 24.1% while it is 10.3% for men; and female participation rate in the labor force is only 14.9% while it is 64.8% for males.

When studying work force participation rates from 1950 to 2000, it becomes apparent that female participation in the Jordanian work force lingered slightly above 10% until the 1960s, growing to 18% in 1990 and then escalating to

flexible working hours, that are controlled by the female owner, geographical proximity of the place of work to her home, and the possibility of having children accompanying their mother, as well as visiting her at the place of work. Women are less likely to have their own wealth due, partially, to the prevailing inheritance law. For example, only 10.4% of women own real estate; males have the vast majority of agricultural land

**Figure 3.4 A Comparison of the Participation of Women in the Labor Force in Jordan, MENA and Lower Middle Income Countries**



Source: World Bank Global Development Finance (GDF) and World Development Indicators (WDI) central database 2003

27.8% in 2000. Young women from 15-29 are the most likely to be unemployed (82%).<sup>114</sup>

MSMEs however, provide a window that, if well utilized, will enhance the level of female participation in the labor force, as a result of several factors:

- 1. Female owners are more likely to employ females:** From the survey it was evident that in female companies, there are almost 1.84 female employees for every male employee, while male owned enterprises have 3.11 males for every female employed as shown in Figure 3.5.

Females are also more likely to own smaller businesses. For females, owning one's business provides, among other things, more

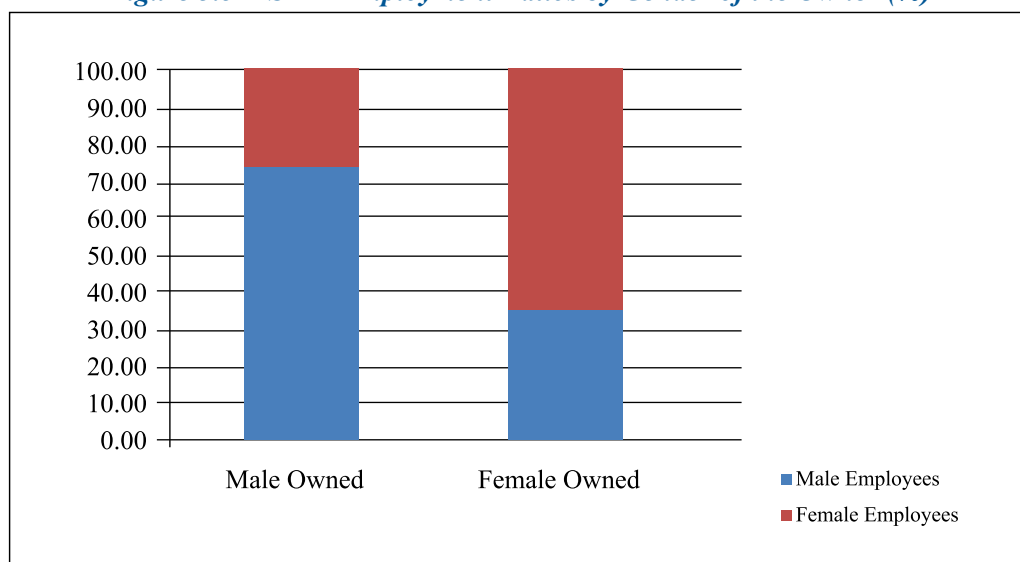
holdings, compared to a mere 2.7% of females being agricultural land holders. Women also own a small fraction of livestock and poultry holdings

Table 3.2 Labor market status of Jordanian population aged 15+ by gender and educational level (%) 2009

Educational Attainment	Economic Activity Status					
	Men			Women		
	Employed (%)	Inactive (%)	Unemployment Rate (%)	Employed (%)	Inactive (%)	Unemployment Rate (%)
Illiterate	22.8	74.4	10.9	1.4	98.5	4.3
Less than secondary	56.9	35.8	11.3	3.9	95.1	21.0
Secondary	46.4	49.6	7.9	5.8	92.5	22.0
Intermediate diploma	79.3	14.5	7.3	26.2	65.5	24.0
Bachelor's degree and above	76.6	14.5	10.4	47.5	35.9	25.9
<b>Total</b>	<b>58.14</b>	<b>35.24</b>	<b>10.3</b>	<b>11.3</b>	<b>85.1</b>	<b>24.1</b>

Source: Department of Statistics, "Employment and Unemployment Survey," 2009

Figure 3.5 MSME Employment Ratios by Gender of the Owner (%)



Source: Team Survey Analysis, 2010

2. **Medium sized companies are more likely to employ females:** Women form a larger percentage of employees in medium size enterprises than in small enterprises (often taking on less-physical jobs) Thus, investing in medium sized companies will not only generate more job openings, but will also generate openings in a sector that has the tendency to employ female workers.
3. **Women prefer to work closer to home:** In terms of where workers come from, female workers are more likely to stay within their governorates

than their male counterparts; 90% of females are employed within their own governorates compared to 71% of men. This has two consequences:

- a) Being close to their families allows women less independence in terms of family. This is evident especially in the younger generation of women (according to the focus groups). The concept of economic freedom and independence was relegated to family proximity.
- b) Opportunities closer to home may be limited in nature. Although many individuals have dreams of a professional future, the low-end type

of work available to them, within MSMEs located close to their homes, is limited.

4. Conservative families will often disallow their daughters and wives from working in the private sector unless it is a completely female environment, which is the situation in most female-owned enterprises.
5. Conservative families will also prevent their daughters and wives from working in the private sector, unless it is a family-owned business or they personally know the business owner. For example, according to the Report MSME Survey, conducted by the team, almost one quarter of managers found that their main problem with female employees is their families' refusal to let them work.

### ***3.7 MSMEs Contribution to GDP, Taxes and Exports***

According to the World Bank, The size and importance of the MSME sector varies from country to country, "The MSME sector generates only 15.6% of total GDP in the low-income countries compared to 39% in the middle-income countries and 51.5% in the high-income countries."<sup>115</sup> In OECD economies MSMEs account for over 95% of firms, produce 55% of GDP and generate the majority of new jobs. In Jordan however, the contribution of MSMEs to national GDP has remained somewhat unclear, especially in view of the multiplicity of definitions of MSMEs adopted by different institutions/ministries and the lack of information on them, as per the required format, in addition, of course, to the large, difficult to estimate informal sector. It is worth noting that informal operators, are often more vulnerable to external shocks and have less access to support services such as social security, credit, skills development/training and markets than formal sector workers due to their non-regulation.

Therefore, a characteristic of a vibrant economy is the share of formal MSMEs, as a percentage of the total number of enterprises. The informal economy that

remains outside the legal realm amounts to, approximately, one-fifth of GDP. Delaying the establishment of a business, through excessive bureaucracy and regulations, reduces government revenues from taxes on production, and encourages the creation of an informal economy. The less competitive the economy, the more likely that the contributions to the GDP, of formal MSMEs, will be reduced or less apparent. This leads to a vicious cycle whereby the competitiveness of the economy is further reduced, causing less participation from MSMEs, and so forth. It is imperative therefore that policies focus on enhancing the business environment for MSMEs, which will create instead a virtuous cycle.

From Table 3.3 <sup>116</sup>, which lists the biggest contributors to the central government's local revenues, according to official figures for the first six months of 2006, one finds that most of the revenues from income tax that the government receives is from only 500 enterprises, whereas the government receives JD 19 million from 705,000 employees, most of whom are employed in the public sector. It also receives just JD 34 million from the "individuals" category (including professionals).

It is clear that the MSME sector is not the largest contributor to government taxes in Jordan. The implication is that MSMEs, do not generate sufficient income, or produce informally which would prevent them from contributing tangibly to the government budget, thus reducing available expenditure for better health and educational facilities.

Currently, the available data shows that almost half of MSMEs fall below the JD 5,000 income bracket, and therefore are placed below the thresholds where sales tax and income tax are mandatory. These figures illustrate that MSMEs do not, in fact, offer a meaningful contribution to national economic development, unless they grow in size, and income. It is obvious from the data that as MSMEs grow, they become increasingly active in the economic development of the country. When looking at the contribution of MSMEs to Jordanian exports, official

statistics are unavailable, just as they are for MSME contribution to taxes and GDP. However, examining the performance of export guarantees to MSMEs, provided by the Jordan Loan Guarantees Corporation can offer an approximation. The JLGC provided guarantees to shipments that were estimated at approximately JD 87.2 million in 2008, compared to JD 54.8 million in 2007. This shows a significant

“I wanted to work with computers, and I know I have the talent. Instead I am making jam because that is the only work I can find next to my family. Maybe when I get married I will move to the city and do what I love.”

*Mais, Ajloun*

increase in MSME contributions to national exports, as the total level of exports recorded by the Central Bank of Jordan increased from JD 3.2 billion to JD 4.4 billion in the same period.

However, these statistics show that the contribution of the MSME sector to national exports is relatively low and, at best, does not exceed 5%. These figures are also reinforced by the survey results, which indicated that only 4% of the surveyed companies participate in export activities.

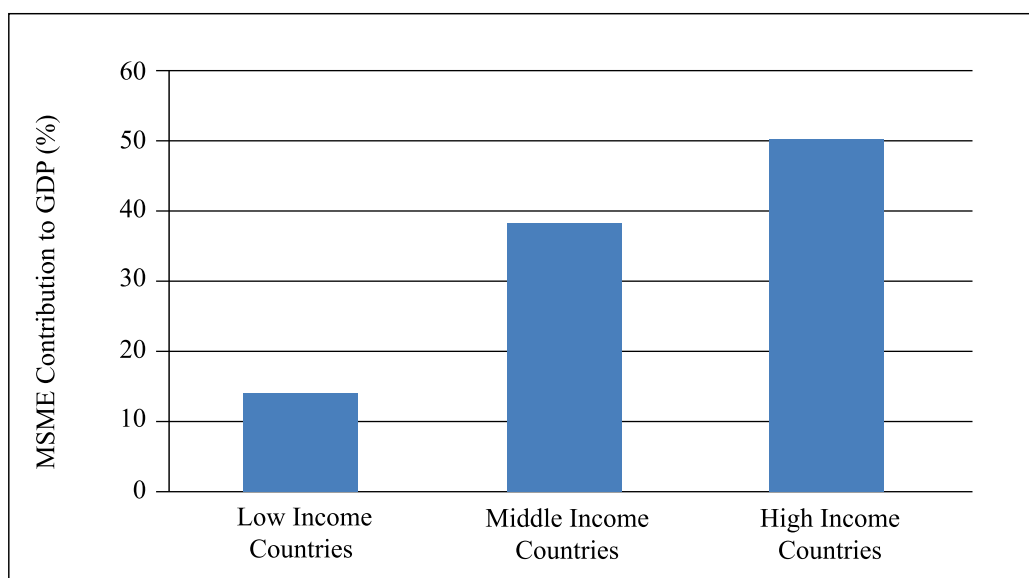
### 3.8 MSMEs and Equitable Economic Growth

Economic growth is not a goal in itself, but it is a vital step towards expanding human development. However, in order to fully exploit the possibilities for improved security and well-being that growth provides, this growth needs to be directed correctly. One important aspect of its management is to achieve a more equitable distribution of income and assets, created by economic growth.

The use of the human development paradigm, in judging economic growth, is to enable the analysis of the growth model from the perspective of all individuals, in order to place them at the center of the development process. By keeping this in mind, this report will examine Jordan’s economic growth rate during the past decade, review its enablers and investigate if this growth rate has achieved equity, or has failed to trickle down to more vulnerable communities and groups.

It is important to emphasize that a flourishing MSME sector, as many empirical studies argued, is a characteristic of a developed economy<sup>17</sup>. While MSMEs are a part of high growth, developed economies and nations, various analyses

**Figure 3.6 MSMEs Contribution to GDP (%)**



Source: World Bank

Table 3.3 Types of Taxes and Actual Collections per Economic Agent

Description of Tax	Number of Taxpayers	JD Million
<b>Income Tax and Profits</b>		<b>330.3</b>
Jordan Cement Company	1	7
Jordan Potash Company	1	4
Telecom Company	1	16
Zain	1	26
Wages and Payroll for professionals	705,000	19.7
Individuals (includes professionals)	-	34
Public Shareholding Companies	214	20
Other companies (limited liability, etc.)	60,000	30
Trade Companies	81,000	39
Banks and Financial Institutions	250	130
Other	all	4.6
<b>Tax on Foreign Trade</b>	<b>Industry and Trade</b>	147.8
<b>Additional Taxes</b>	<b>Industry, Trade, and Individuals</b>	19.5
<b>Non-tax Revenues (stamps and fees)</b>	<b>all</b>	515.2
<b>Sales Tax (70% of which is from only 500 companies)</b>	-	643.2
<b>Payments from Recovered Loans</b>	-	19.6
<b>Total</b>		<b>1676</b>

Source: General Government Finance Bulletin, Ministry of Finance, Vol. 8, No. 6, July 2006 and the Amman Stock Exchange Commission, the first half of 2006. All numbers in the table represent the numbers for the months from January to June 2006. They can be converted into annual figures by multiplying them by a factor of 1.4. However, to maintain accuracy, the figures remain unadjusted.

across nations do not intrinsically enforce the theory that MSMEs bear a direct impact on long-term economic growth. Also, the evidence confirms the fact that a more equitable society achieves better growth

rates. Nations with equitable growth and a high percentage of MSMEs, are more likely to enjoy social stability, as there will be no need for wealth redistribution in the future.<sup>118</sup> For most of the past decade economic

Table 3.4 Income Bracket per Size of Enterprise

Income Bracket (JDs)	Number of Enterprises				
	From 1-4	From 5-19	From 20-49	From 50-99	100 and more
<5000	76,456	1,523	93	32	18
5000-10000	32,400	1,803	81	14	7
10001-20000	15,010	1,785	121	13	12
20001-40000	6,494	1,198	110	26	11
40001-60000	2,853	849	165	24	12
60001-100000	1,587	883	221	45	48
>100000	785	958	607	331	448
Total	135,585	8,999	1,398	485	556
>100000 as % of total enterprises	0.6%	10.6%	43.4%	68.2%	80.6%

Source: Establishments Survey, DOS, 2006

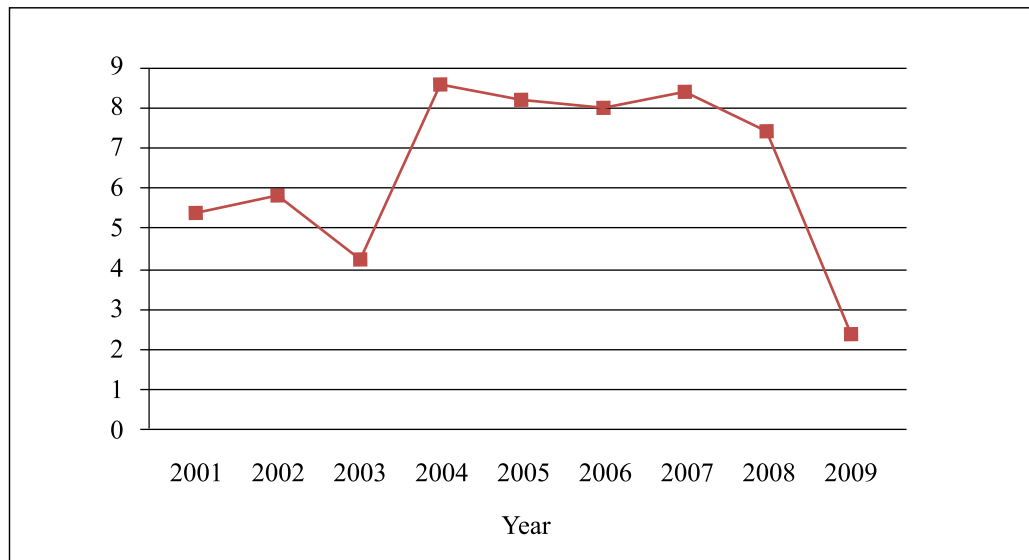
growth was above 5% in real terms; moreover, real economic growth was above 7% on average during 2004-2008<sup>119</sup> as shown in Figure 3.7. In spite of the high growth rates, unemployment ranged between 14.8% and 12.7%.<sup>120</sup> Furthermore, poverty remained above 14% for the most part, reaching a low of 13.3% in 2008, due to an exceptionally high level of government support that year.<sup>121</sup> Most of the support, however, was a one-time occurrence that is not likely to be repeated. The growth achieved very little, with regards to diminishing inequality. Using the Gini coefficient as a measure of inequality (where a '0' result implies perfect equality and '1' result implies maximum inequality from one

The quality of life associated with being 'middle-class' stimulates aspirations for social mobility.<sup>123</sup>

The Middle Class is broadly defined by several key characteristics<sup>124</sup>:

- The necessary education to find well paid employment in a competitive global economy;
- Financial assets to ensure a safety net in case of job loss or illness;
- Funds for a secure future and comfortable retirement, as well as supporting offspring with education and economic security;

Figure 3.7 Real GDP Growth Rate, 2001 to 2008



Source: CBJ, "Main Economic Indicators," Monthly Statistical Bulletin, 2001 to 2008

study published by the Center for Strategic Studies at the University of Jordan, it was revealed that there has only been a very slight improvement in the national distribution of income, from 0.379 in 1997 to 0.361 in 2002 to 0.355 in 2006.<sup>122</sup>

### 3.9 The Middle Class and Human Development

The middle class is the social and economic foundation of any country, as well as a key part of the engine that drives national prosperity. The middle class has the ability to deliver and provide skillful employees and consumer purchasing power, both vital for a strong economy.

- Incomes sufficient for the purchase or rent of quality housing and other essential living expenses, capped at about 30%;
- Quality healthcare for the entire family.

Very broadly the middle class has financial security, a family with a reasonable standard of living (healthcare and education), retires comfortably and has a solid future for the next generation.

The distribution of income among the upper, middle and lower classes in Jordan has not significantly shifted between 2002

and 2006, with only minor fluctuations in each sector of the population (as demonstrated in Figure 3.8). Furthermore, certain conditions are exacerbating the situation; if the current trends (minimizing social security and government assistance to the less fortunate, the fact that there are fewer jobs for more people and that the type of jobs offered either favor the non-Jordanians) are not reversed, inequality will rise.<sup>125</sup>

### 3.10 Role of MSMEs in Jordan's Economic Growth

MSMEs did not play an effective role in Jordanian economic growth patterns during the previous decade. In addition to the type of business environment which existed in Jordan during that period, the role of MSMEs has been weakened by many factors. Furthermore, the level of, and density of MSMEs, in Jordan, are not enough to spur equitable, economic growth. Jordanian MSME density (enterprises per 1,000 people) is significantly lower than the average in lower middle income countries, and is almost half of that of higher income countries.

From a purely geographic perspective, the growth of large enterprise in Jordan throughout the past decade was associated with increasing concentration in major Jordanian cities, especially Amman as shown in Table 3.6. Although the widespread growth of MSMEs in Jordan created many growth poles in small towns and rural areas, their density still favors Amman, Aqaba and Zarqa.

The total number of MSMEs per governorate is depicted in Figure 3.9. Note that that these three governorates hold: over 80% of the nation's MSMEs; just over 80% of the country's employment; and over 70% of the nation's population, in less than one-third of the country's geographic area.

Figure 3.8 Shift in the Share of Total Income among Jordanians



Source: Saif, I, Tabba, Y, "Economic Growth, Income Distribution and the Middle Class in Jordan (2002 – 2006)," June 2008, Center for Strategic Studies, Jordan University

*Table 3.5 MSMEs density in different country groups*

<i>Country Type</i>	<i>MSMEs Density (Enterprises per 1000 people)</i>
Higher Income	50
Upper Middle	40
Lower Middle	26
Jordan	25.03
Low Income	21

Source: IFC. 2006. Micro, Small and Medium Enterprises: A Collection of Published Data

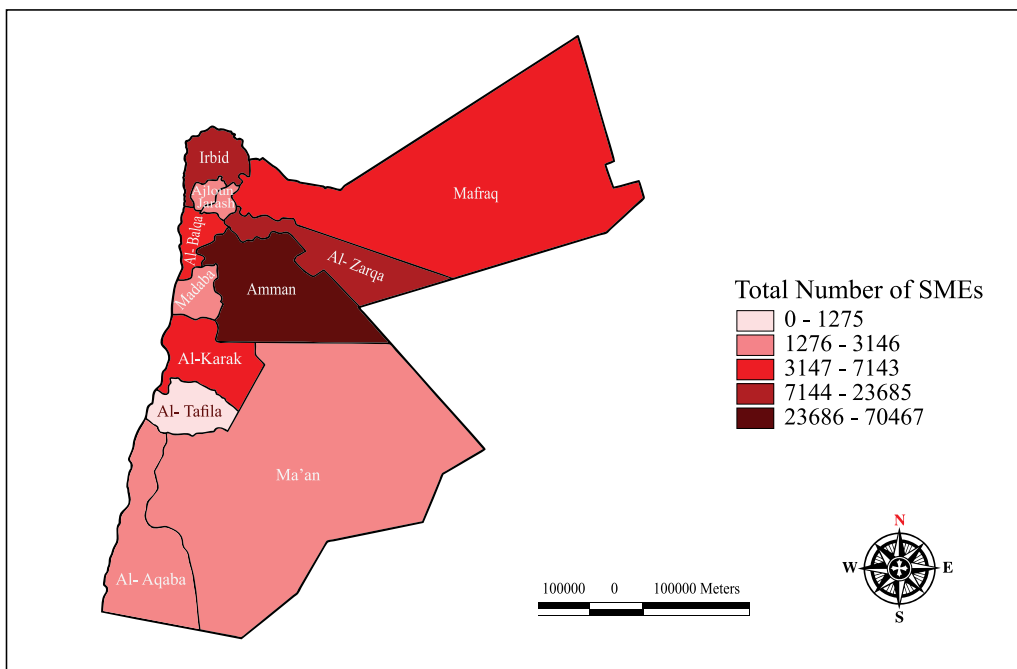
*Table 3.6 MSMEs Density in Different Jordanian Governorates*

<i>Governorate</i>	<i>Small Enterprises (1-49 Employees)</i>		<i>Medium Size Enterprises (50-99 Employees)</i>		<i>Large Enterprises (100 and More Employees)</i>	
	<i>No. of Establishments</i>	<i>Establishments per 1000 People</i>	<i>No. of Establishments</i>	<i>Establishments per 1000 People</i>	<i>No. of Establishments</i>	<i>Establishments per 1000 People</i>
Ajloun	2213	16.45	0	0.000	0	0.000
Amman	69662	30.75	381	0.168	424	0.187
Aqaba	3126	24.52	9	0.071	11	0.086
Balqa	7113	18.15	12	0.031	18	0.046
Irbid	23616	22.68	30	0.029	39	0.037
Jerash	2815	16.04	2	0.011	3	0.017
Kerak	4719	20.68	4	0.018	4	0.018
Ma'an	2262	20.34	2	0.018	2	0.018
Madaba	3123	21.35	5	0.034	4	0.027
Mafraq	4428	16.10	3	0.011	3	0.011
Tafiele	1273	15.54	1	0.012	1	0.012
Zarqa	21632	24.82	36	0.041	47	0.054
Total	145982	24.95	485	0.083	556	0.095

Source: Establishments Survey, DOS, 2006



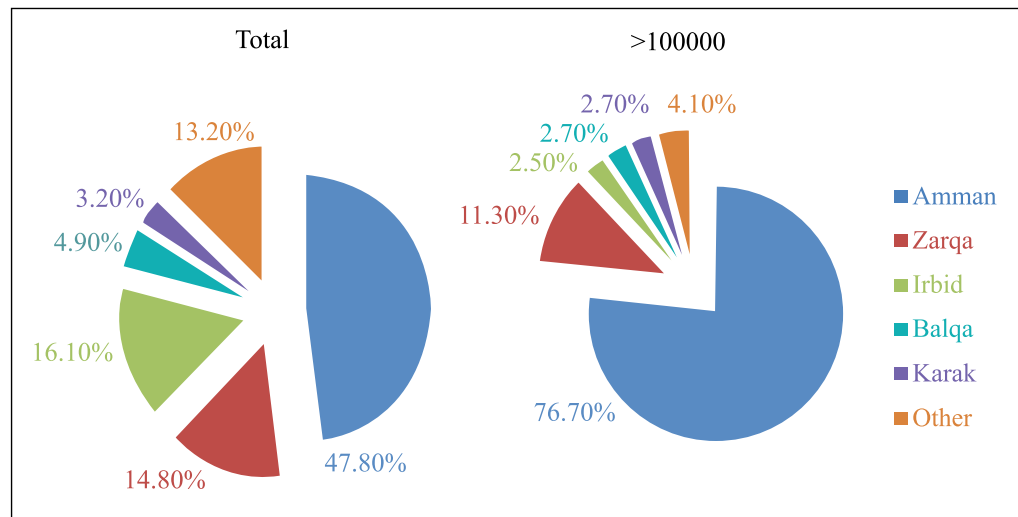
Figure 3.9 Numbers of MSMEs by Governorate



The disparity is highlighted even further when considering the share of employees in the different economic sectors, as well as MSMEs, in comparison to population levels. For example, Amman has almost double its share of employment when compared to its share of population. This may be due to the fact that many of these employees work in Amman and live in other governorates, due to the higher levels of economic activity in Amman, and the lower living costs outside the capital. However, given the persistent double digit unemployment rates and the shortage of adequate public transportation networks, one is likely to conclude that labor does not generally commute to Amman, while maintaining domicile in another governorate, which partially explains Jordan's structural unemployment.

The disparities are also apparent when considering the income generated by the MSMEs across the country, as shown in Figure 3.10. If the income generated is considered one parameter of the success of the enterprise, then based on the categories that DOS utilizes in the Establishment Census, one can determine the disparities in income generated as a result of MSME activity, across the governorates. The greatest income levels are generated in Amman, followed at a distant second place by Zarqa and third place by Irbid.

Figure 3.10 Governorate MSME Revenue Breakdown

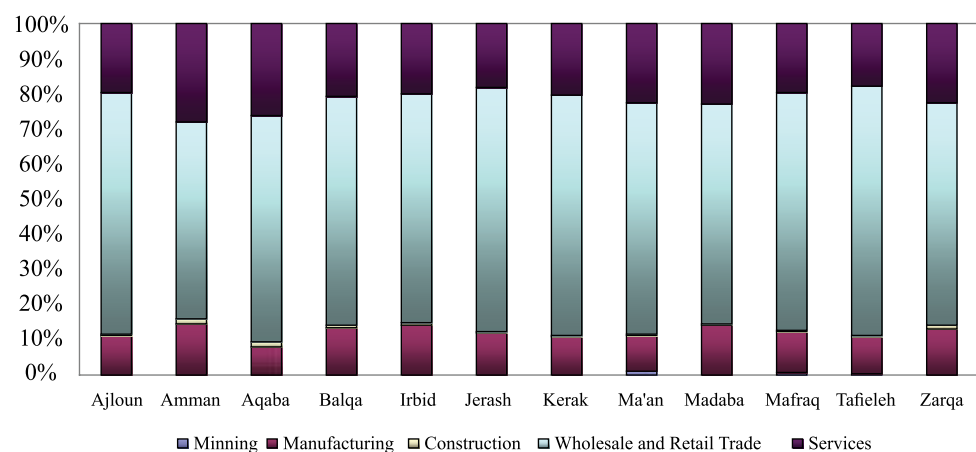


Source: DOS Establishments Survey, 2006

The income generated by MSMEs in the more developed regions is due to the fact that some of these MSMEs are operating in the more sophisticated productive sectors. Furthermore, such companies are more attracted to the developed regions because the infrastructure there is more advanced. MSMEs in Amman, Zarqa, Irbid, Madaba and Aqaba generally shift away from trading activities, and lean

Jordan, the usual life cycle of companies, in which companies typically start small when they are established and then grow from small into medium (and then large firms), does not seem to take place. Small companies are unable to mature and attain the minimal required production size. New entrants are usually small, with weak average productivity levels, and greater exit rates, than large companies.

Figure 3.11 Governorates and MSME Sector Breakdown



Source: DOS Establishments Survey, 2006

towards more value-added activities in the manufacturing and services sectors.

The low density of MSMEs in Jordan (across each governorate) was a characteristic of the poorly distributed growth achieved during the decade (a situation which worsened in each and every governorate except that of Ma'an).

The Report MSME Survey showed that in

One possible reason for this is brought forward by UNCTAD's "Least Developed Countries Review (2006)," which shows that labor productivity in medium and large-sized companies is greater than in small companies. Labor productivity in large companies is about 50%, close to four times greater than in small companies, although in more than half the cases examined, labor productivity in

medium-sized companies is greater than in large companies.<sup>126</sup> The higher productivity in the larger sized firms is due to the impact of greater investment in capital (machinery and man-made inputs), a more adequate intuitional set up and a better working environment including human resources policies and manuals, greater welfare packages and benefits.

In a proper overall business environment, firms are more likely to grow as they can access resources faster and more efficiently, than when the business environment is not business friendly. Hence, rapidly growing companies are seen as vital contributors to employment, competitiveness, research and development.<sup>127</sup>

In Jordan, regions with concentrations of very small firms, which are unable to grow into medium sized firms due to an under developed business environment, will experience relatively low growth rates. Therefore, a vicious cycle is created whereby small firms that start in the less economically advanced regions will not grow and neither will the regions. Consequently, the existence of medium sized firms in some of the Jordanian governorates was crucial for their economic growth, especially if the governorates are less developed than the major three governorates (Amman, Zarqa and Irbid); this also positively affected the performance of the poorer governorates in terms of human development.

In addition to Amman, Irbid and Zarqa (the governorates with the greatest concentration of economic activity and accordingly, the best performers in human development indicators), it was discovered that Aqaba and Balqa follow the pattern mentioned above. As a result of a number of factors outlined below, the growth of MSMEs improved the human development indicators of these regions. For example, the illiteracy rates in these regions are among the lowest in Jordan, amounting to 13.2% for Aqaba and 13.6% for Balqa, significantly higher results than were achieved for the rest of Jordan.<sup>128</sup>

The existence of middle sized enterprises

in these governorates created employment opportunities, thus reducing unemployment figures for both males and females. The unemployment indicators in these two governorates were the best in Jordan, except for Amman. Also, according to the Survey, the existence of growth oriented MSMEs increased awareness among citizens, regarding the importance of vocational training, as well as gaining a secondary education. Note that the number of vocational training apprentices in these two governorates is higher than any other governorates in Jordan, with the exception of Amman.

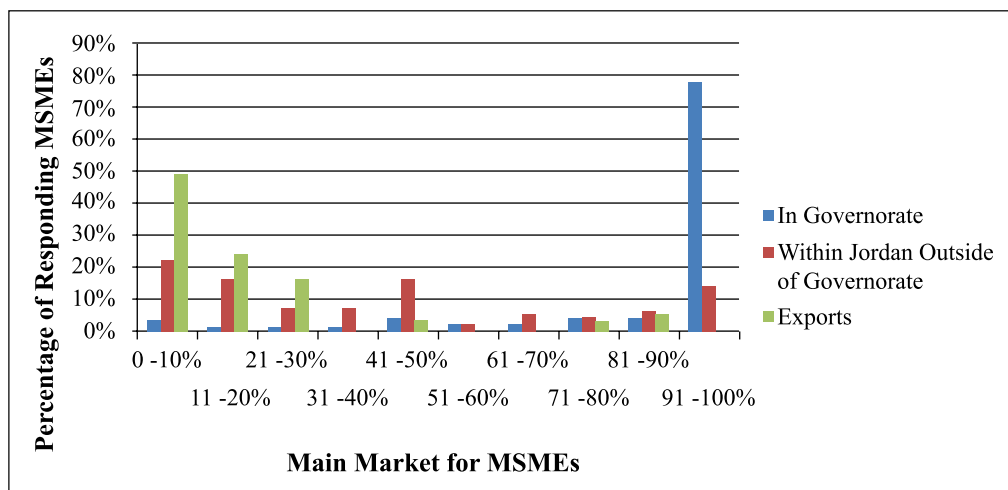
### *3.11 MSMEs and Exports*

When looking at the contribution of MSMEs to Jordanian exports, official statistics are unavailable, just as they are for MSME contribution to taxes and GDP. However, examining the performance of export guarantees, provided by the Jordan Loan Guarantees Corporation, regarding MSMEs, can offer an approximation.

The JLGC provided guarantees to shipments from MSMEs that were estimated at approximately JD 87.2 million in 2008, compared to JD 54.8 million in 2007. This shows a significant increase in MSME contributions to national exports, as the total level of exports recorded by the Central Bank of Jordan increased from JD 3.2 billion to JD 4.4 billion in the same period. However, these statistics show that the contribution of the MSME sector to national exports is relatively low and, at best, does not exceed 5%.

The figures are also reinforced by the Survey results, which indicated that only 4% of the surveyed companies are exporters, which is most likely due to the fact that MSMEs in Jordan mainly offer products and services designed to meet local needs and at costs affordable to the local market (usually people within the same governorate). As Figure 3.12 shows, most of the goods and services provided by the MSMEs are sold within the governorate; some are sold outside the governorate but inside Jordan, with a minority of the MSMEs products/services being

Figure 3.12 MSMEs Main Markets



Source: Report MSME Survey

exported.

Within the exporting MSMEs, operations were mainly active in the industrial sector and the agriculture sector. From the Survey (shown in Table 3.7), it is evident that 10% of the manufacturing MSMEs, export while 9% of the agricultural MSMEs export. Trade and Service

However, after this point, this proportion falls due to the fact that larger firm in Jordan are mostly service providers (utilities, banks, insurance companies) and have lower value-added, catering more to the local market.

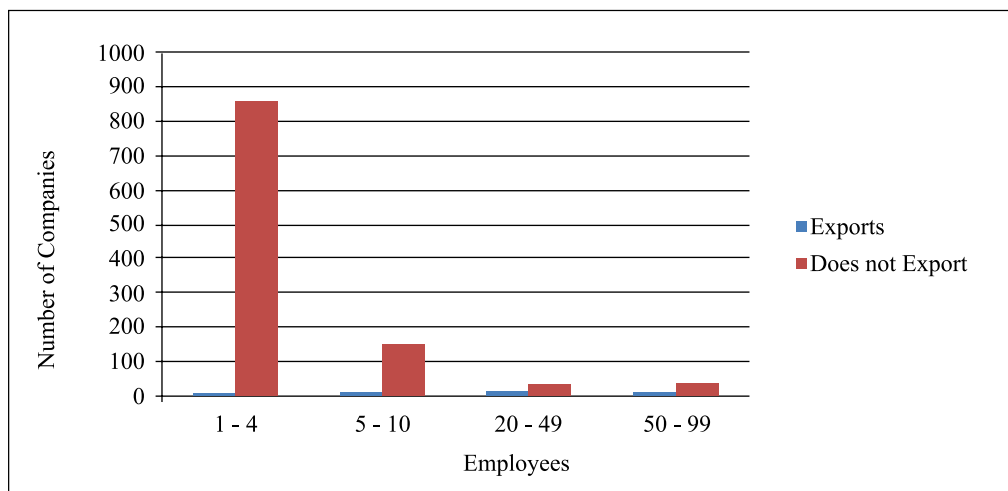
Table 3.7 MSMEs Tendency to Export

	Agriculture	Mining	Manufacturing	Retail and Wholesale	Construction	Financial Intermediation	Transport, Storage and Communications	Total
Exports	2	6	14	9	-	1	1	40
Percentage	9%	12%	10%	2%	0%	3%	6%	4%
Does not Export	20	46	131	576	47	29	15	1,082
Percentage	91%	88%	90%	98%	100%	97%	94%	96%

Source: Report MSME Survey, 2009

MSMEs have an even smaller export potential, with only 2% exporting. As shown in Figure 3.13, as firms grow, the proportion of sales that are exported also grows; the smaller the firm the more likely that its activities will be locally focused. Note that as the MSME starts to grow in size – up to an extent (20 to 49 employees) - the proportion of exports in sales rises and they become more export oriented, which also indicates they are contributing to Jordan’s competitiveness.

Figure 3.13 Exporting MSMEs against Non-Exporting MSMEs



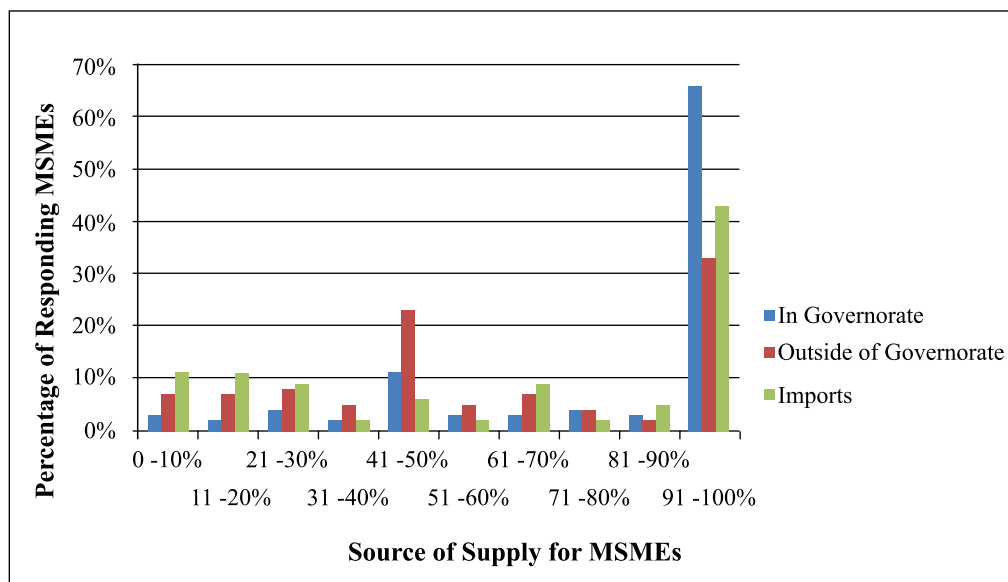
Source: Report MSME Survey

The localization of the markets of MSMEs also reflects the fact that they utilize local inputs. As shown in Figure 3.14, almost a quarter of Jordanian MSMEs receive over 40% of their inputs from their own governorates. This can be attributed to several major factors. The cost of searching for alternative inputs is relatively high for smaller companies. In

“It is very apparent that Jordan is experiencing a situation where it lacks Clusters and Value Chains: it has become conventional wisdom that the key problem for small companies is not their size but their isolation.”

Source: Luetkenhorst, W. 2001. “Some Reflections on Recent Trends and Best Practices,” UNIDO

Figure 3.14 Sources of Supply to MSMEs



Source: Report MSME Survey, 2010

addition, under-developed infrastructure and comparatively high transportation costs, make local buying the reasonable business choice. Furthermore, most of these companies are located in large cities including Amman, Zarqa and Irbid, where more established economic

support activities exist in the immediate environment.

### 3.12 Low Value-Added Prohibits MSME Expansion

The collaboration between MSMEs in Jordan is not emphasized within the business culture, where 78% of all the enterprises surveyed are not members of any type of professional association. Also, networks via buying and selling groups, (in terms of collective efforts to respond to large orders), are minimal with a majority of MSMEs (86%) never having gone into such a relationship with other MSMEs, or a group of MSMEs. The strength is generated not only from the individual components of each cluster but also from the strength of linkages that exist within the cluster. That is, to generate high value-added products firms have to specialize internally and rely on other firms in terms of highly specialized components and services within a cluster; unless such a relationship exists, the cluster becomes weak and value-added remains low. Strong clusters breed strong firms<sup>129</sup>

In well developed clusters, firms tend to cooperate with their competitors to garner scale and scope economies. In other words, several competitors may jointly opt to import a certain input to receive quantity discounts, and share the benefits. The savings are translated into lower prices and more efficiently produced outputs. On the other hand, firms that export the same product often work together in consortia in order to satisfy larger orders from foreign buyers. However, these forms of cooperation do not appear to exist amongst Jordanian MSMEs. From the MSMEs interviewed, 90% have never collaborated with another MSME in order to purchase or sell a large order.<sup>130</sup>

High-value added and quality products require the clustering of firms into strong and highly competitive clusters. Given the lack of strong and viable clusters in Jordan, MSMEs currently focus on producing average quality, low value added goods, with low prices and mediocre quality; the process of integrating them into larger industries has not yet commenced.

Most of the products/services Jordanian MSMEs are delivering are sold to end customers (78% of MSMEs sell 100% of their production/services to end consumers). Given that most products are sold locally, within the governorates, demand will most likely not be affected by global trends, therefore, consumer demand will be unsophisticated. Therefore, consumers do not place pressure on the companies to upgrade their level of quality. Consequently, only 2% of Report MSME Surveyed followed quality control procedures that are in compliance with the ISO international quality certification system. Indeed, the majority of MSMEs (84%) do not have any system in place for quality control of their products or services.

In developed and more advanced developing countries, MSMEs contributed the most towards innovation in immature, relatively un-concentrated industries (for e.g. ICT). This would appear to imply that they play an important role in applying new technologies to meet customer needs and in introducing new products. There is also evidence that small firms produce innovations with significantly higher productivity, i.e. more cost-effectively than large firms<sup>131</sup>

The locality of demand and supply, explains why Jordanian MSMEs show weak levels of innovation. In Jordan, the national innovation system is weak. Jordan ranked particularly poorly in the Global Competitiveness Report (GCR) measure of Company Spending on Research and Development (R&D) (coming in 108th out of 133 nations)<sup>132</sup>. As shown in Table 3.8, the GCR also highlighted the fact that Jordan did not register any utility patents during 2008 (a result far worse than many other countries with similar characteristics).<sup>133</sup>

*Table 3.8 Utility Patents per Country*

<i>Country</i>	<i>Utility Patents</i>
Taiwan	279.3
UAE	2.0
Oman	1.9
Saudi Arabia	1.2
Qatar	1.2
Tunisia	0.2
Jordan	0.0

Source: Global Competitiveness Report 2009/2010

According to the Survey, the MSME sector in Jordan does not invest heavily in the technologies that may bring unique added value to economic performance. Of the surveyed companies, over half use computers in their operations, but less (approximately one third) use internet, e-mails, etc.

This low level of technology utilization affected their value position, where only 17% of the surveyed companies introduced new products/services to the market, and where only 1% of companies surveyed have a patent.

*Table 3.9 MSMEs Technology Availability*

<i>Type of Technology</i>	<i>Available</i>
Computers	52%
Printer	37%
Fax	33%
Website	13%
E-mail	35%
Internet	33%

Source: Report MSME Survey, 2010

### Box 3.4 Innovation as a Mean for Success

Radwan Abu Tabbaneh is not a conventional man; nor is his company PALCO your typical enterprise. From humble beginnings Mr Tabbaneh worked tirelessly to succeed.

An ambitious and innovative man, Radwan is currently a partner at one of the most successful companies in the field of electronic boards in Jordan. But this journey was anything but easy; and Radwan struggled and overcame many obstacles before reaching his goal. Born to a hardworking family, Radwan did not begin life with any financial backing, and with no inheritance to speak of, had no capital to start his own company. Employment was his only option. Radwan graduated from university and began working with a company that assembles electronic boards based on a foreign technology, with a salary of JD400 monthly.

He labored night and day for two years, and was finally able to produce a new technology and register a patent at the Ministry of Industry and Trade. Then, he started to think of a way to commercialize this patent on a large scale. Unable to finance the business on his own or through a bank since he didn't have any assets, Radwan managed to find a partner who believed in his vision and product. With a modest capital, Radwan and his partner, established their own enterprise.

The innovation was accepted into the market, and though for the first year Radwan personally assembled the boards, the annual turnover of his company was JD30,000. Hard work pays. His company is currently the leader in its field and in exporting. The company has 20 employees with an annual turnover exceeding JD 1 million.

With his successful career and business, Radwan wanted to give back to his community (Al-Yarmouk Camp near Irbid). He is a member of the board of the Omar Ben Al-Khatab Association. In addition, with the returns from his business, Radwan, his friends and colleagues started the Afaq Association where they are currently educating orphans and the less fortunate in university. One of the students he personally supports graduated this year.

Having struggled to get to where he is today, Radwan's successful enterprise allowed him to live the life that he always imagined for himself, and strived to realize: a family, own house and car, and children attending the best schools in the country.

### 3.13 Conclusions

Considering all the above, arguably, strong and vibrant MSMEs can be a powerful and important conduit to economic gains. Competitive MSMEs are a necessary precondition for sustainable economic growth, that is, growth that can have a positive impact on human development.

MSMEs typically have a vital interest in the development of their environment. Being local, they utilize labor from the community for their operations and rely on it to do business. By spreading all over the country and reaching less advantaged regions, MSMEs offer an increasing source of income to local citizens. MSMEs in this sense are the tool by which the poor can have the choice to enter productive life, and eventually such tools will move beyond poverty alleviation, and help bring the poor into the middle-class.



In addition, MSMEs are seen to empower women, and are instrumental in developing a wide base of entrepreneurship, especially involving the less advantaged and deprived groups within the community, including the poor and females.

It is therefore important to promote the development of small and medium-sized enterprises that may decrease this disparity. Within the MSME pool, we have seen evidence that medium-sized enterprises are the actual vehicles for growth; however, the number of medium-sized firms is very limited. Smaller enterprises tend to be more conservative when exporting, and have lower innovation levels, as well as lower quality products.

Developing countries without substantial MSME sectors tend to have capital and income concentrated in larger firms. With the economy's capital stock almost completely consumed by the large firms, there is little remaining capital for the many workers not hired by large firms. MSMEs in Jordan currently focus on

producing low value added goods and the process of integrating them into clusters has not yet commenced. In Jordan, very small firms (which do not grow into medium sized firms), hamper the growth patterns of governorates, where such firms are concentrated. Furthermore, multinational corporations are looking all over the world for feeder industries and service providers, mostly MSMEs, to serve their projects. If they don't find them readily available in Jordan, the chances of integrating the Jordanian MSMEs into international value chains will be lost. This is especially compounded by the fact that Jordanian MSMEs are not experienced in creating buyer and supplier groups.

It is recommended, therefore that the business environment for MSMEs be improved through the following measures:

- Encouraging the specialization and clustering of MSMEs in order to produce greater value added products that are also exportable beyond the localities of current firms
- Expanding current support mechanisms at the regional level to ensure that MSMEs located in the poorer governorates do not migrate into the more developed governorates
- Adopting measures to strengthen linkages among MSMEs within the geographic boundaries of their clusters and among clusters to develop further specialization and competitiveness, which will lead to higher wages and welfare.
- Encouraging export potential, through the clustering of MSMEs in order to increase cooperation, along with the creation and support of professional associations, while also ensuring the adoption of quality assurance standards.
- Value-chain and cluster support, through the facilitation of logistics for MSMEs and the arrangement of buyer groups, along with providing incentives for participating firms, through programs such as the Cluster Development Program, in India.<sup>134</sup>
- Support research and development and innovation, through the creation of support funds or allowing firms to apply to receive support from the 1% research tax collected by the Ministry of Higher Education and Scientific Research.

## *Chapter IV: MSMEs and Social Progress*



#### **4.1 Introduction**

Focus in recent years has shifted from economic growth as an indicator of the quality of life, to a more comprehensive approach to development.<sup>135</sup> This has been inspired by the human rights agenda, which emphasizes the quality of life and standard of living, including all aspects of improvement and progress.

This more comprehensive approach conceptualizes, on the one hand the promotion of civil and political rights; and on the other, economic and social rights. A wide consensus on the recognition of both sets of rights is inextricably linked to a good standard of living, or better quality of life. Therefore, the development process has to be geared towards achieving human well being. As the former UNDP Official William Draper once said, “We are rediscovering the essential truth that people must be at the center of all development...the purpose of development is to offer people more options.”

Taking into account the literature developed over the past few decades, it seems unnecessary to point out that terms such as ‘development,’ ‘well-being,’ and ‘happiness’ are subjective, and highly open to interpretation. Furthermore, there is no officially agreed upon definition of progress that is valid for all people, for all time.<sup>136</sup> However, there are international initiatives attempting to find a universal consensus on this definition<sup>137</sup>

As mentioned in the previous Chapter, MSMEs are necessarily beneficial for economic growth, but not sufficient in themselves to create growth. Other factors must come into play in order for MSMEs to become growth drivers. Foremost among these factors are the institutional set up and a strategic approach along with a commitment to development as an overall framework, that guides policy and its execution.

The contribution of MSMEs to social progress is even more difficult to assess than economic growth. The components of social progress represent an aspect of society where the government plays a

major role, through the proper allocation of public resources, emphasis on equity in policy enactment and greater expenditures on education, health and infrastructure. Isolating the impact of MSMEs on social progress is, thus, difficult. Furthermore, it has to take into consideration the impact of several other aspects, whether positive or adverse on social development. Moreover, difficulty lies in the selection of benchmarks; for example, MSMEs could endow a poorer community with significantly more perceptible benefits than a more affluent community .

Notwithstanding those limitations, MSMEs, through the generation of work opportunities and the availability of goods and services, and in the absence of large firms, have a direct positive link to the prosperity and welfare of individuals, owners and employees, and their immediate or extended families. They also have a positive impact on the immediate community through the development of the individuals directly involved in the economic activities and the growth in economic activity they are likely to spur. It is through this link that MSMEs have a major role in satisfying the individual, through offering a set of conditions that will affect both quality of life and overall well-being.

Since MSMEs are likely to offer income opportunities and windows for socialization, as well as self-esteem, the sets of benefits offered by the work opportunities created by MSMEs, are, thus, considered necessary for quality of life indicators. However, not all jobs improve the welfare or well-being of individuals equally. Issues that are as, if not more, important include: standards of employment, wages, gender recognition, discrimination in the workplace, opportunities for lifelong learning, working time, the work-life balance, work hazard and physical risks. Also, from the owners’ point of view, factors beyond the actual income generated from the enterprise, include: the degree of control over one’s life; self-realization; independence; social standing; and leadership within the household/clan/community.

#### 4.2 Literature Review

This Report probes the role of MSMEs in facilitating increased access to education, minimizing hunger and ensuring adequate health services for all. Social progress manifests as a result of improvements in employment, income, education and health services.

Employment, along with the terms and conditions of that employment, is the main connection between output growth and poverty alleviation, including distributionary aspects and the sustainability, or permanence, of this growth.<sup>138</sup> A World Bank global survey, “Voices of the Poor,” summarized the views of some 60,000 people in 60 countries. It found that “Next to illness and injury, the scope for entrepreneurial activity and the availability of jobs is the most important factor determining the fate of poor people – for better or for worse.<sup>139</sup>” MSMEs are a large part of this employment generation and are estimated to account for between 30% and 70% of employment in most economies.<sup>140</sup>

The nature of the employment generated by MSMEs also ensures that they play a greater role in pushing for the equality of income distribution.<sup>141</sup> Certain empirical data reveals that nations with a high percentage of MSME industrial companies have indeed shown greater levels of equitable income distribution. MSMEs tend to advance a more egalitarian distribution of income than larger enterprises, as they are usually more labor-intensive, are dispersed in both urban and rural communities, and provide employment and salaries for disadvantaged laborers and employees, such as the unskilled, women with household obligations and the elderly.<sup>142</sup>

Moreover, recent studies determined that households that own firms are usually more financially secure than households which do not. Households owning firm have approximately twice as much income and almost seven times as much wealth as households that do not. This leads to higher discretionary income, with which to spend on health, education and other services. Moreover, self-employed businesses earn about 20% more income and typically own

three times as much wealth as households that do not own businesses.<sup>143</sup>

Studies tracking workforce development have found that MSMEs account for larger shares of employees receiving government aid and a higher number, and share, of employees with lower educational levels. This suggests that MSMEs do in fact contribute substantially to supporting those receiving welfare, but such a role is not sufficient in addressing their needs; without public assistance, they would not be able to continue to work. Phrased differently, MSMEs may contribute toward helping people make the transition from welfare to work.<sup>144</sup>

Evidence suggests that MSMEs do have significant impacts on social progress in terms of promoting employment, income, and therefore, education and health.<sup>145</sup> However, if MSMEs are to help, they must offer higher wages. Studies on the unemployed also find that attempts to increase entrepreneurship in fact raise incomes and provide cheaper methods of government as opposed to unemployment benefits, or other form of assistance. However, this support is only effective for that small sub-sector of the unemployed who are in fact highly motivated with work experience, and some possess level of assets.<sup>146</sup> As is evident, this stipulation will exclude those without (or with limited) assets, youth (such as high school graduates, who are unlikely to enter the workforce with significant experience), as well as those unemployed individuals who have become discouraged with looking for employment, after a prolonged period of unemployment. In this sense, the poor are twice disadvantaged, as they do not have the necessary means to start their own enterprise.

### **4.3 Employment, MSMEs, Wages and Incentives**

As stated above, the role of MSMEs in employment generation encompasses one of their most significant impacts in contributing to economic, and indeed human, development. Employment generation is the fundamental first step in raising income levels and combating widespread poverty.

Within employment, wages are one of the most important aspects of reward or compensation. The share of salaries, as a percentage of GDP, is one of the indicators used to measure distribution of income, thus equity, within a given economy.

In Jordan, accumulated salaries do not exceed 40% of GDP. The remaining 60% of GDP is obtained from profits, rents, interest and the income of self-employed individuals. Furthermore, the average salary estimated by the Social Security Corporation (SSC), of all companies subscribing their employees (companies of 5 employees or more in most cases), found that over one third of employees are in fact below the poverty line income.<sup>147</sup> This implies that in Jordan there are considerable numbers of 'working poor.'

There is no universal dataset capable of revealing the differences in wages offered by large companies compared to MSMEs. Evidence worldwide suggests that the level of compensation in MSMEs is also comparatively low, with figures approximately 70% to 80% of the national average. There is also substantial sector variation, whereby in large proportions MSMEs are concentrated in low-paying sectors.<sup>148 149</sup> For instance, in the US, managers working in businesses with more than 100 employees earn 27% more than managers at businesses with less than 25 employees.<sup>150</sup> In Jordan, data showing the differences, in terms of wages, between large companies and MSMEs is not readily available. However, evidence from focus groups, in Jordan, asserts that wages and salaries in MSMEs are consistently less than in larger companies. In order to overcome this data shortage, the analysis will be based on MSME wages, relative

to the country's specified minimum wage, as the absolute minimum amount of monetary compensation any firm must pay its employees.

In Jordan, the minimum wage in 2009 was 150 JD/month; claimed by many not to be a 'livable wage.' For example, the poverty line in Jordan per individual is set at JD 556 annually or JD 46 monthly.<sup>151</sup>

For a family of six (the average household size in Jordan is 5.7 persons) including, two parents and four children, this would imply that the family would need to earn at least JD 276 per month in order to subsist at the poverty line. Therefore, for a single income household, the minimum wage of JD 150 is less than the necessary subsistence expenditure.

Nationally, 68% of employed males receive a monthly income of less than JD 200, while 5% and 2.6% of employed males and females, respectively, receive a monthly income of JD 500 or more.

However, according to the Report's Report MSME Survey, employers stated that just under three quarters of employees were paid salaries that were above the minimum wage, while 27% were paid amounts that were less than the minimum wage.

It is necessary to note that, according to human rights' organizations, the main sources of violations of elementary labor rights in Jordan, including paying a wage lower than the minimum wage, take place not in the nation's MSMEs, but in the nation's Qualifying Industrial Zones (QIZs), which are considered 'large' enterprises, especially amongst migrant workers. One thing that should be noted is that in 2009, firms within the QIZs were exempt from the minimum wage implementation by the Jordanian government.

Another area where wages are lower is the informal sector in Jordan. Most of the workers in the informal sector are self-employed. Only 0.7% of the workers in the informal sector earn more than JD 1,000 a month, while the vast majority (more than 90%) earn less than JD

500/month. One study emphasized that the vast majority of workers in this sector earned a wage that ranged between JD 100 to JD 150 monthly (under or at the minimum wage).<sup>155</sup>

The informal sector attracts groups that would not have been allowed to work legally, such as underage persons, illegal immigrants, and those unable to find formal employment opportunities. The ramification is that with growth in the formal productive base and, consequently, the employment opportunities therein, the informal sector would shrink considerably.

When considering the gender aspect, women fare worse all-round, not just on the MSME scale but also at the national level. The monthly salary of males working in the public and private sectors averaged JD 238, while females working in the public and private sectors averaged JD 211, which shows that females earn on average 88% of male wages.

Both the private and public sectors are legally required to maintain equality between genders; in practice, gender-based discrimination exists in both sectors.

In the public sector most managerial positions favor men. Furthermore, women have to earn higher degrees than men to gain access to the same positions and benefits.

Bonuses and promotions are skewed based on perceptions that males are considered the major breadwinner in the household and are therefore more deserving. In the private sector discrimination is more prevalent and preference in

employment is definitely skewed towards males.

Given that females working in the public sector are more educated than males on average, the discrimination in earnings becomes more apparent.

Table 4.1 shows the distribution of males and females according to monthly wages; note that in the “Less than JD100” category, more females than males are likely to be employed, which is also true in the JD 200-299 monthly wage category.

This is explained by the fact that females are more willing than males to accept jobs that pay less than minimum wage (possibly because of apparent discrimination or due to the given social norm of considering females as secondary wage earners).

Furthermore, women are more likely than men to be found in the JD 200-299 wage-group, which usually consist of entry level administrative/desk jobs or teaching jobs, both viewed traditionally as acceptable female jobs.

A larger proportion of males are found to be employed in the higher wage categories compared to females, whereas the wage distribution of females is more heavily concentrated in lower segments.

*Table 4.1 Salary Difference, Male and Female*

<i>Monthly Wage</i>	<i>Male</i>	<i>Female</i>
Less than 100 JD	16.0	23.2
100-199	51.6	45.0
200-299	19.4	22.9
300-499	8.1	6.3
500+	4.9	2.6
Total	100.0	100.0

Source: DOS Employment Survey, 2007

Table 4.2 shows the ratio of women’s wages to men’s wages in the private and public sectors in Jordan as well as selected MENA countries. Notably, in the Jordanian public sector, women’s wages are higher on average than those of men; the reverse is true in the private sector. However, in both sectors women suffer discrimination, which if removed would require an adjustment of 13% of women’s wages in the public sector and 46% in the private sector. This also indicates that the public sector tends to apply more strict non-discriminatory policies than the private sector.

Figure 4.1 illustrates this point showing that the greatest discrimination is within managerial posts, where male workers on average have higher wages than female workers; females only exceed male salaries in blue-collar jobs.

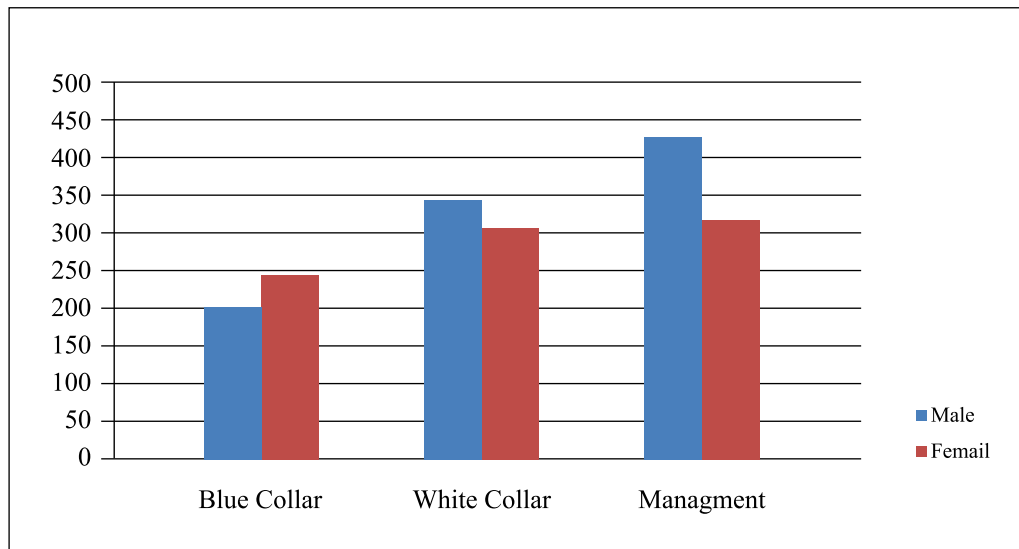
**Table 4.2 Gender Wage Differentials in Public and Private Sectors, Jordan and Select MENA Countries, 2000 (or most recent year)**

<i>Country and Sector</i>	<i>Ratio of Women’s Wages to Men’s Wages</i>	<i>Percentage Increase in Women’s Wages if Discrimination were Eliminated</i>
Djibouti, public	1.34	-26
Djibouti, private	0.87	13
Egypt, public (1998)	0.99	6
Egypt, private (1998)	0.77	26
Iran, public	1.95	-41
Iran, private	0.56	70
Jordan, public	1.07	13
<b>Jordan, private</b>	<b>0.73</b>	<b>46</b>
Morocco, public (1991)	0.92	21
Morocco, private (1991)	0.88	9
Tunisia, public	1.28	-7
Tunisia, private	0.78	16
West Bank & Gaza, public	1.02	8
West Bank & Gaza, private	0.53	87
Yemen, public	1.17	-4
Yemen, private	0.9	14

Source: “The Economic Advancement of Women in Jordan: A Country Gender Assessment”, Social and Economic Development Group, World Bank, 2005

MSMEs fare better than the rest of the economy as far as gender-based wage discrimination. Comparing the wages of male and female workers, males in the Report MSME Survey sample earn higher wages at higher employment positions (males earn 23% more than women in management positions, compared to 46% for all Jordanian firms).

Figure 4.1 Average Wages in JD by Job Category in MSMEs



Source: Report MSME Survey, 2010

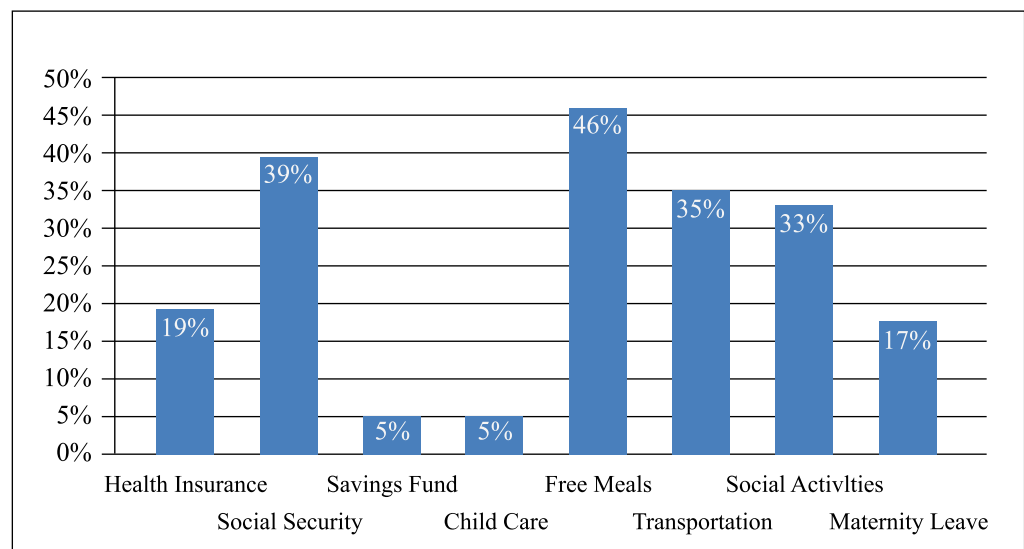
Clearly, despite significant advances in the education of female labor in Jordan (relative to male labor), gender differences in wage levels remain noticeable. Apparently, there are other characteristics that the Jordanian labor market takes into consideration, since even with their more advanced education levels; women earn less than men with the same level of education. These characteristics include issues such as the ability of men to work longer hours due to their ability to stay outside of their home longer.

Figure 4.2 shows that in addition to better gender equity in terms of wages, MSMEs offer additional incentives to their employees. From the Report MSME Surveyed, 46% offer free meals, 35%

offer transportation, and 39% offer social security.

Incentive packages are an important aspect of compensation, along with wages. National statistics from the Social Security Corporation show that from the 146,467 MSMEs registered in the Kingdom, only 14,616, less than 10% of total MSMEs, are registered in the Social Security Corporation. The low figure also shows that most of the companies in Jordan are very small enterprises, which employ less than five employees, and highlights the fact that small firms cannot afford simple benefits including social security as the company contribution would add 11% to its wage bill.

Figure 4.2 Incentives Offered in MSMEs



Source: Report MSME Survey Analysis, 2010



Firms are legally obligated to register with the Social Security Corporation as they increase in size to above the five employee threshold. The Report MSME Survey revealed that 3% of micro enterprises register their employees for social security.

The low-wage and low-incentive package that categorizes MSMEs, is related in part to the qualifications of the workers employed by these enterprises. Compared to other countries in the region, Jordan boasts a relatively high rate of university enrollment, at 67,800 students in 2008 (and a 58% enrollment rate of those of enrollment age in 2004), which con-

#### 4.4 Working Hours

When asked why males earn higher wages than females; employers had a variety of reasons. Amongst those most common was that males are able to work later, and often are able to do a wider variety of work than females. Nationally, women work about 12 hours per month less than men, (that is, males work about 244 hours per month while females work almost 232 hours per month).

The Jordanian labor law sets the maximum weekly working hours for both males and females at 48 hours (192 per month), any extra hours above the 48

**Table 4.3 Education and Very Small and Medium Sized Enterprises**

	50-99 Employees	1-5 Employees
Primary	32%	18%
Secondary	27%	31%
Diploma	11%	20%
BA	26%	19%
MA	1%	1%
PhD	0%	0%
Vocational	3%	11%

Source: Report MSME Survey Analysis, 2009

stantly exceeds university capacity. This is even more apparent among females, who collectively account for 48.5% of all university students. However, most of the MSME employees hold a secondary school degree or less as shown in Table 4.3.

The trend shown in Table 4.3 reveals that medium-sized enterprises are more likely than micro and small enterprises to employ university graduates. In general, MSMEs in Jordan do not favor highly educated workers. Furthermore, it is evident that MSMEs offer opportunities to alleviate unemployment amongst less educated groups, thus positively affecting their well-being. However, lower wages and the absence of social security in these enterprises makes them less advantageous from a 'well-being' perspective.

hours should be compensated. In Jordan both men and women work more than the maximum number of hours per week. When considering employment in the private sector alone, DOS Statistics state that the difference is 11 hours per month: men work 254 hours monthly and females work for 243 hours monthly.

There are many countries that have reported MSMEs requiring relatively long working hours, including Jordan, where 26% of worker turnover is due to longer working hours. While the formal sector shows relatively high working hours, the situation is even more exacerbated in the informal sector, where 34% of males, and 11% of females, work from 9-16 hours per day. Almost one third of the workers in this sector work periods of 10-12 months a year, while almost 16% work less than two months a year, thus showing the unstable nature of employment in this sector, as well as the income it brings.<sup>153</sup>

There are many studies that discuss the effect of extensive working hours on the individual's quality of life. The majority of the discussions mainly suggest that long working hours may generate negative results. Such results involve employees experiencing physical and mental health problems. Moreover, employees may find it difficult to balance their work with their family life; long work hours can create more work-family pressures resulting in poor relationships being created within the individual's family. Subsequently, this may affect the intellectual and emotional development of young members in the family adversely.<sup>154</sup>

Furthermore, there are many studies suggesting that long working hours can result in negative outcomes for the community. The literature's point of view indicates that long working hours can prevent communities from engaging in voluntary local activities, women from working fulltime, and partners from jointly participating in remunerated job efforts.<sup>155</sup>

#### **4.5 Higher Employee Turnover amongst MSMEs**

According to the DOS Employment Survey, 42,700 people quit their jobs in 2008 (or 2.8% of the workforce), of whom 82.9% were male; 29% of people who left their jobs did so due to work conditions, 18.2% for economic reasons, 16.4% for retirement reasons, and the remaining one third for a variety of other reasons.

In general, employees working in large companies stay in their jobs longer than employees working in small companies. The more incentives (such as benefits and rewards) offered by a firm, the more employees it will retain. If a firm provides benefits, the probability of an employee resigning is decreased by a quarter, and the probability that he/she will remain in their employment for an additional year increases by 14%.<sup>156</sup>

This higher turnover rate seems to confirm a higher level of employee dissatisfaction and insecurity in small firms. Due to the MSMEs' small size, larger numbers (some of whom are in the informal

sector) and remoteness of their locations, government supervision is reduced. Thus, MSME owners are allowed a greater degree of control over their employees, including circumventing some rules regarding work hours, wages and occupational safety. Considering that over half of MSMEs experience turnover of employees, while the average turnover rate of the nation is just 2.8%, it can be concluded that MSMEs are not as stable a source of employment, as large firms

#### **4.6 Training**

Training and increases in productivity and wages are strongly correlated. As an example, an increase of 10% to 15% in training in an industry in the UK would lead to an increase in value added per worker of 3%.<sup>157</sup> Typically, firms which invest significantly in the training of their staff will see the greatest results in terms of talent management.<sup>158</sup> In addition, a recent OECD survey found that investment in management training can lower the risk of MSME bankruptcy, by as much as 50%.<sup>159</sup>

The opportunity to train employees is widely accepted to be lower in MSMEs than in large corporations. This is possibly due to the resources of MSMEs being significantly lower, in terms of manpower and budgets. In OECD countries, evidence suggests that MSMEs with less than 100 workers spend less per employee on training than larger enterprises;<sup>160</sup> a situation that is amplified further in family owned MSMEs where training is provided at a lower rate than in non-family MSMEs.<sup>161</sup>

In Jordan, the most significant obstacles with regard to training employees in MSMEs, as discussed during the focus groups, are the: high costs in absolute and relative terms; replacement problems (someone to do the work) while an employee is on training; difficulties in finding appropriate trainers or courses; and the possibility of losing the employee to another employer once trained. The latter is very true in cases of general training, whereby the employee becomes attractive to other employers and can use her

skills at a higher pay with the new employer. Some employers, therefore, find it cheaper to employ skilled employees who have been well trained already, than having to provide training for their current employees.

It is inferred, therefore, that while MSMEs are good providers of jobs, they do not sufficiently provide activities that fulfill training needs, nor do they upgrade knowledge levels of their employees.

From a policy perspective, subsidizing the training needs of MSMEs would help improve value-added amongst MSMEs' employees and managers.<sup>162</sup>

#### 4.7 Owners

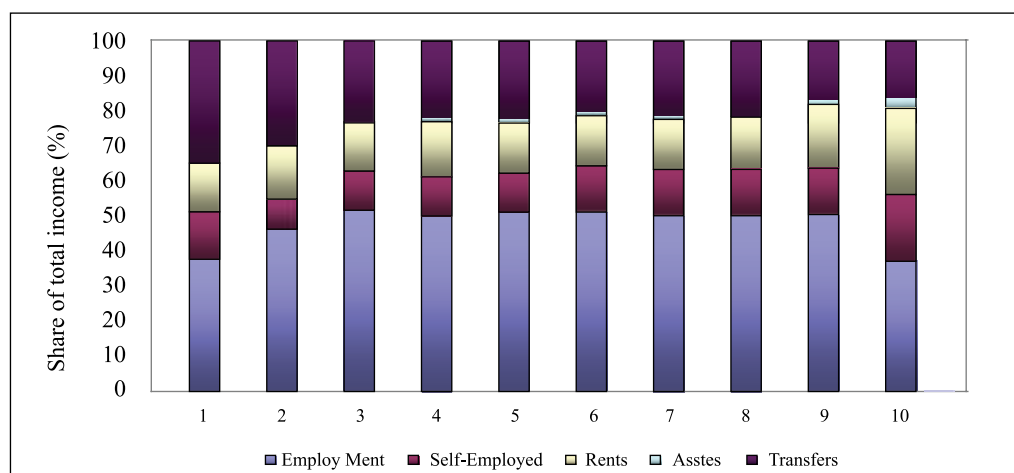
The data from the 2008 Jordanian Department of Statistics Household Income and Expenditure Survey showed that most self-employment activity is concentrated in either the poorest or the richest deciles.<sup>163</sup> That is, in areas of extreme poverty, self-employment is a means of combating poverty and joblessness; it is an outlet, a choice forced by necessity.

MSMEs showed a substantial increase in income after opening their businesses. Figure 4.4 shows that about 21% of the respondents to the Report MSME Survey relayed an increase of 91-100% in their incomes after opening their own business, while 94% of respondents stated that their incomes had increased by more than 10%.

The Survey data also showed that the income generated from opening an MSME increases in time. Most of the enterprises that remained in the market, shifted towards higher income brackets. As stated previously, increasing one's income is not a goal in itself, but only one method of increasing opportunities.

Also, with increased opportunities comes increased capabilities; the number of economic decisions one can make now increases, not only by offering more choices, but greater returns on one's investment and the possibility of growth. Figure 4.5 shows this continuity with larger numbers of MSMEs earning higher revenues today than they did when they started.

Figure 4.3 Sources of Income per Household, 2006



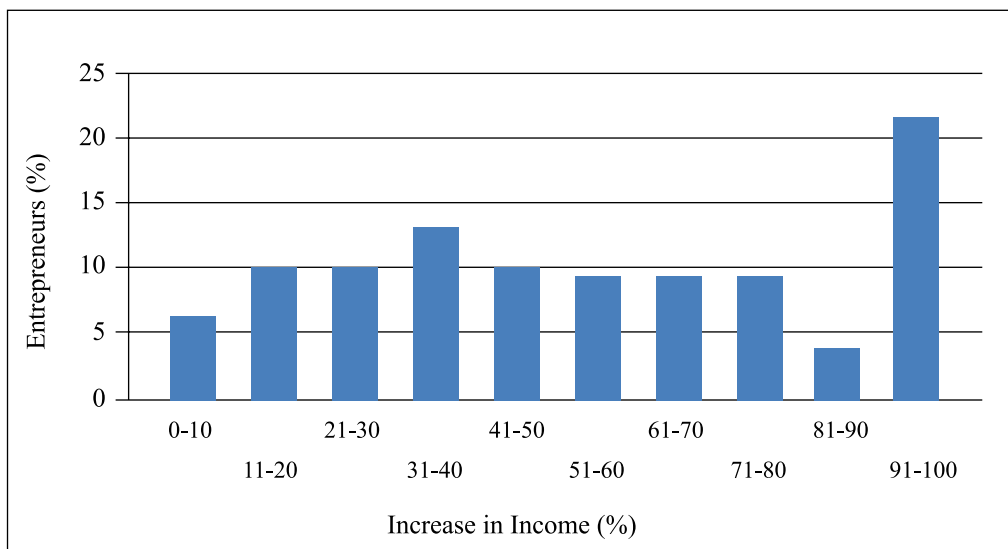
Source: Saif, I, Tabba, Y, "Economic Growth, Income Distribution and the Middle Class in Jordan (2002 – 2006)," June 2008, Center for Strategic Studies, University of Jordan

On the other hand, among the rich, it is more of a venue for boosting an already high income. Figure 4.3 shows the highest rates of self-employment at the two ends of the income spectrum.

In Jordan, the owners of successful

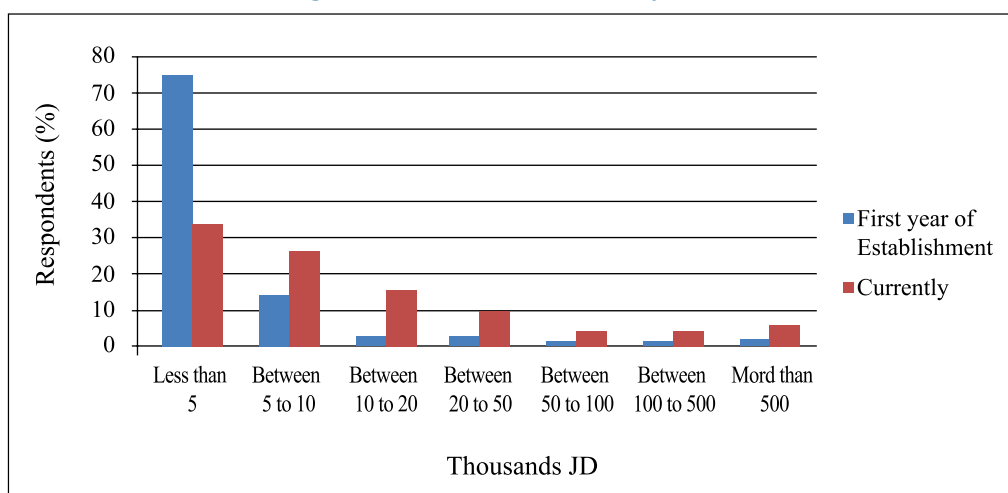
It is clear from Table 4.4 that owning an MSME enables entrepreneurs to significantly increase expenditures on large-ticket items, such as the purchase of a land or home. In some cases, the ability to buy a home increased 4 times as much

Figure 4.4 Increase in Income Results of Surveyed Entrepreneurs



Source: Report MSME Survey, 2010

Figure 4.5 Annual Revenues of MSMEs



Source: Report MSME Survey, 2010

as before the opening of the business. The ability to save also increased fourfold due to the opening of a business. Most importantly, the trend of selling assets to finance expenditures has been reversed.

As the quality of housing improves for MSME owners, more move into villas (60% compared to 53% before owning a business) as Table 4.5 shows. Also, many more own their home (77% as opposed to 62%).

Box 4.1 Hani Barakat's Story

Mr. Hani Fareed Barakat founded his own project and succeeded in earning income he estimated at JD 100,000 at the end of 2008. Mr. Barakat's story began when he started cutting back on his daily life expenses and saving from his monthly salary working as a lab technician in the Jordanian University Hospital. After graduating and receiving his bachelor's degree Mr. Barakat was able to open his own laboratory, which employed 3 employees at that time and later on expanded by employing 8 employees.

Hani later earned a master's degree in medical laboratories. He now boasts ownership of several cars, a family home, and a savings account. In addition, he was able to ensure a better quality of life for his family and children by providing them with better healthcare and a higher education from reputed universities. Things he says he "could never have done as an employee"

Table 4.4 MSME Owners' Expenditures before and after Opening their Own Business

Capital Expenditures	Comparison			
	Before		After	
	Yes (%)	No (%)	Yes (%)	No (%)
Buying Land	10	90	30	70
Selling Land	11	89	8	92
Buying a Home	15	85	36	64
Selling a Home	8	92	6	94
Buying Stocks and Bonds	5	95	14	86
Selling Stocks and Bonds	12	88	5	95
Buying Jewelry	19	81	42	58
Buying a Car	34	66	62	38
Buying Furniture	28	72	58	42
Savings in the Bank	24	76	50	50

Source: Report MSME Survey, 2010

**Table 4.5 Change in Housing for MSME Owners Before and After Opening their Business**

Type of Housing	Before (%)	After (%)
Apartment	46	39
Villa or stand alone home	53	60
Other	1	1
Renting	33	20
Owner	62	77
Telephone Network Available	57	61
Central Heating	21	30
Radiator	77	69
Wood	2	1

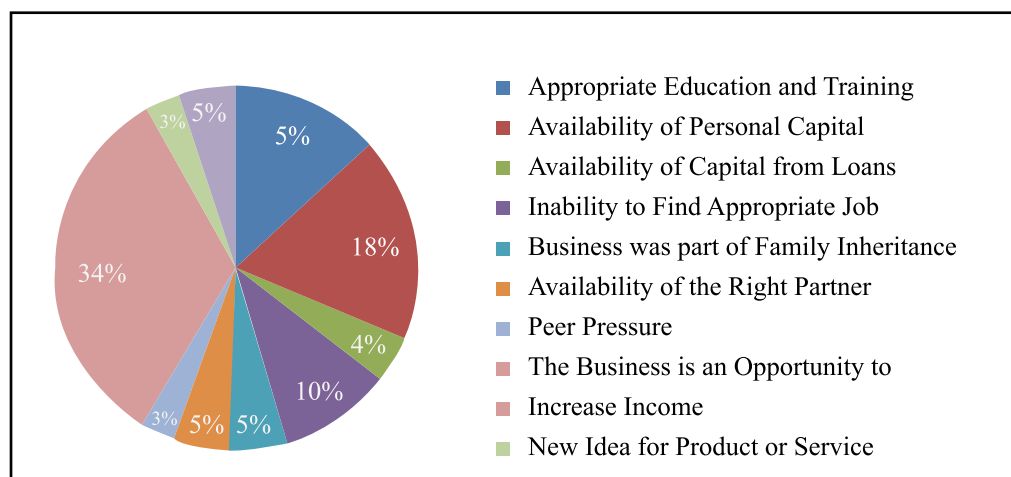
Source: Report MSME Survey, 2010

#### 4.8 Reasons for Starting MSME

Income while one of the main factors that drives entrepreneurs to open an MSME, is one amongst many – including self-esteem ownership of capital, having the right partner, and many others, as shown in Figure 4.6.

women experience more job satisfaction and flexibility than women employed in companies, but have more work-family conflicts and less family satisfaction<sup>165</sup>

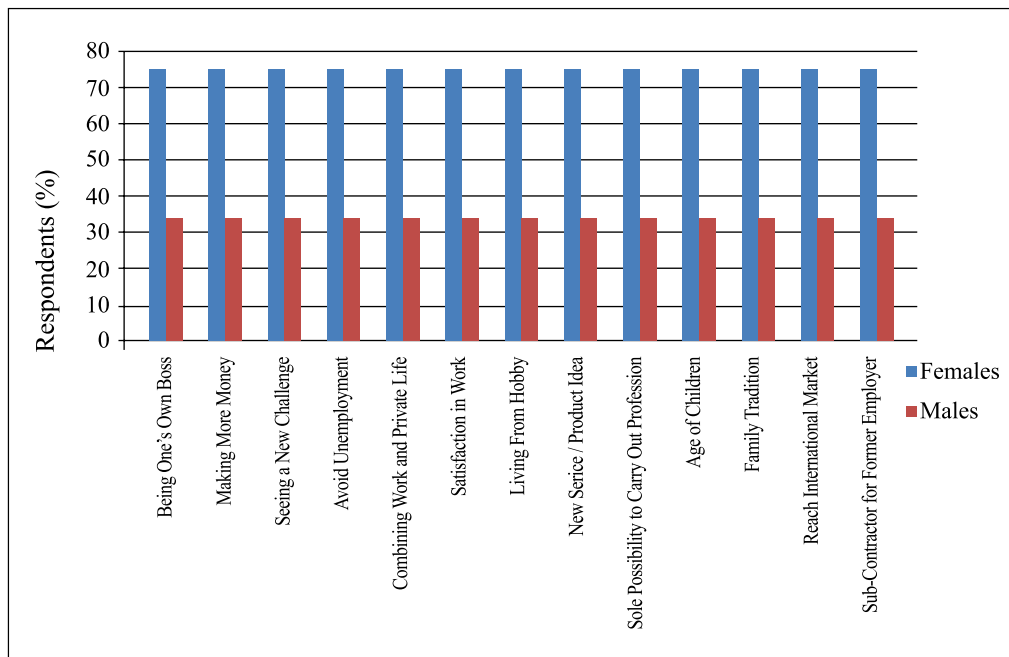
**Figure 4.6 Business Owners' Reasons for Starting an MSME**



Source: Report MSME Survey, 2010

The motivations for entering self employment are significantly different between genders. When examining the motivations for entering self employment, independence, increased income, and the nature of the employment are far less motivational factors among women than men as shown, in Figure 4.7. More women are driven by a desire to maintain their work and home lives.<sup>164</sup> In terms of job and family satisfaction, self employed

Figure 4.7 Male and Female’s Personal View about Self Employment



Source: Factors of Business Success Survey, 2005

The focus group findings show some of the motivations that may represent why women go into self-employment, including a family life dimension. Women invest in small businesses because “It provides an extent of control over ones’ life that is not available when employed”.<sup>166</sup>

One interviewee stated, “Cooking from home is an excellent source of extra income for our family. My husband works for the government, so anything extra from me, is great for us.”

For families where the head-of-household is employed full-time, operating a micro-business for the second partner is a low-opportunity cost option (provided there is someone to take care of dependents while the parents are working).

The business provides a secondary source of income to an already stable wage, and a secondary, rather than primary, means of support for the family. For this reason, one finds that micro enterprise owners often agree to work for less income than they would glean from an ordinary wage (thus offering them more control over their own lives, even though the wages are lower)

#### 4.9 Conclusions

It is clear that MSMEs are income generators for both owners and employees as large job creators. While MSMEs do enable owners to increase expenditures, only medium-sized enterprises seem to offer employees appropriate wages and incentives. Smaller companies tend to have lower wages and tend to offer lower quality jobs.

Establishing an MSME improves the quality of life for successful entrepreneurs. MSMEs allow owners not only to gain new means of shelter and security, such as homes and land, but also greater control over their own lives.

While men principally start an MSME for increased income and self esteem, women start MSMEs for a variety of reasons, such as family responsibilities and flexibility. Therefore, one way to increase self employment among women is to provide support to activities that enable women to deal effectively with their family responsibilities, such as investing in subsidized day care centers around the nation.

There are a number of steps the government could take to not only encourage the growth of these businesses, but to encourage social progress as well:

- Increasing the minimum wage; as was previously shown, a family with two dependents would need at least JD 34 more than the JD 150 minimum.
- Supporting funds, loans and programs that encourage investment in MSMEs, in order to create a more equitable distribution of income, especially amongst women.
- Increased investment in training for MSME employees, by supporting on the job training, subsidized training, and initiatives such as centers of excellence.
- Increase affirmative action for women: if discrimination is eliminated, women would earn 46% more in the private sector, and 13% more in the public sector.
- Support to help MSMEs find and retain competent employees: as MSMEs experience greater employee turnover than larger firms, the government may provide incentives to MSME employees that may include tax rebates, increased training potential, and encouragement of benefits such as social security (as less than 10% of MSMEs offer their employees social security). The government may also help sponsor career fairs, and help cater training to satisfy MSME demand for competent employees.



## *Chapter V: MSMEs and Empowerment*



### 5.1 Introduction

Empowerment is the gradual improvement of rights for the disenfranchised, those without a voice, or those with limited means of survival. This concept entails such issues as autonomy, participation in the policies shaping the lives of citizens, self-determination and the ability to organize for change.<sup>167</sup> It applies to all disadvantaged groups, including but not limited to, women, the poor, the disabled and ethnic minorities.<sup>168</sup> A focus on empowerment emphasizes that a definition of poverty, which while including low income groups, also accounts for the socially excluded along with those who lack access to power, a voice and security.<sup>169</sup> This chapter tests the impact that MSMEs have on different groups, encompassing all the dimensions of the concept of empowerment.

### 5.2 Literature Review

Linking MSMEs to empowerment underscores the role, or lack thereof, of these enterprises in increasing the democratic rights and inclusion of citizens, and empowering the disadvantaged, particularly in areas related to gender rights, civic rights, cultural autonomy, and democracy. The literature covers many aspects of empowerment, with a specific focus on the two issues of employment, as a tool for empowerment, and the capacity of MSMEs to enhance the position of women within the workforce and home.

In terms of employment, MSMEs tend to employ more constituents of disadvantaged economic groups, including women and youth.<sup>170</sup> One possible explanation for this trend is that disadvantaged groups and the MSMEs themselves have weak market power, thus limiting the terms and conditions these groups are offered in the marketplace. As such, only if such groups are employed on fair and equal grounds, can employment have a substantial impact on household income, in order to meet education and health needs. A discernible positive impact cannot be made if employment

is at relatively low wages and minimal benefits.

Women-owned or led businesses contribute to job creation for both genders. According to the National Foundation for Women Business Owners (NFWBO) in the United States, companies run by women provide a quarter of all private sector jobs. Furthermore, in Australia, the ratio is even higher at 1:2.<sup>171</sup> In the MENA region, regarding the average staff level per company, female-owned companies in Tunisia are the most prominent, employing, on average, 19.3 employees per company. Tunisia is followed by the female-owned companies in the UAE and Bahrain, employing 13.9 and 13.3 workers on average, respectively. Female-owned companies in Jordan contain, on average 6, staff members per company.<sup>172</sup>

Women, empowered through jobs and business ownership, create a multiplier effect at both the macro level and the micro level, affecting the welfare of the family.<sup>173</sup> The recent United Nations survey on the role of women in development concluded that causally, economic development is closely correlated to the development of women. In countries where women have advanced, economic growth has grown steadily as well. By contrast, countries which have been witness to low levels of economic growth have seen women's development decline.

Studies that span extended periods of time have shown that women's ability to obtain resources, such as education, employment, finance, property, and technology, have a more powerful effect on child well being, survival, and education, as opposed to putting these resources in men's hands. A UNIDO regional study on the impacts of employing women in manufacturing has shown, that women in paid employment have an improved quality of life, educational levels and life expectancy, with a diminishing fertility rates. The study concludes clearly that paid employment opportunities enable women to fight poverty.<sup>174</sup>

Moreover, reports based on alternative research confirm that women's access to resources has a positive impact on the welfare of their children.<sup>175</sup> Research has also shown that more women are driven by a sense of fulfillment and personal satisfaction, obtained from performing good work.<sup>176</sup>

Women's formal employment opportunities within export industries, particularly in developing countries, have had a minimal effect on other issues related to gender equality within these nations. Due to the fact that in developing countries such export industries tend to offer low-value added, labor intensive products, such as the garment industry. The effect on female life expectancy is marginal, and the minimization of maternal mortality remains the Millennium Development Goal on which the least success has been recorded.

There has been very low progress, regarding the levels of female representation at higher positions of economic power or in taking part in political affairs.<sup>177</sup> However, women's entrepreneurial activities go beyond simply providing economic necessities; such activities have positive social externalities for the women themselves and their communities.<sup>178</sup>

As for youth, research in the MENA region shows that unemployment rates are principally due to entrants into the labor market waiting and seeking employment. In most MENA countries, the percentage of young job seekers, out of the total unemployed population, is over 50%, climbing to 70% percent in Qatar, and 78% in Syria. In fact, youth unemployment (that is, unemployed individuals aged 15 to 24 years of age) rates surpass the percentage of youth in the labor force, in every MENA nation.

On the participation front, young men in the MENA region show the weakest economic participation rates globally (just over half, as opposed to 60% in the next closest area, South Asia). Young women in the MENA region also have the lowest participation rates globally, at 24% in 2003.

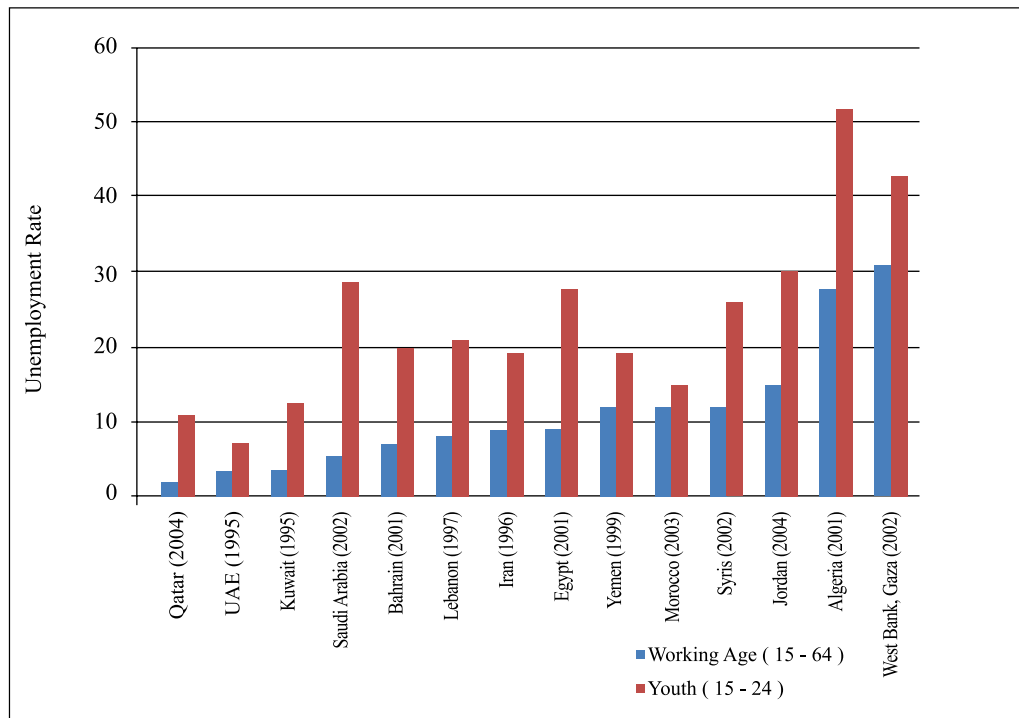
MSME development has been considered a primary tool for tackling low economic participation rates amongst a nation's youth,<sup>180</sup> both as owners (young entrepreneurs), as well as employees. International cases indicate that youth-owned MSMEs are the most likely to be innovating MSMEs.<sup>181</sup>

### *5.3 MSMEs and Female Empowerment*

Women have the potential to contribute significantly to economic activities globally. Moreover, women often play multiple roles, beyond earning income for the household, such as domestic services, community assistance and family care-takers.<sup>182</sup>

Women in the MENA region face many challenges, which undermine their full participation in the community. In the MENA region, this is more prominent. The region is ranked (according to a World Bank scale, seen in Figure 5.2), along with South Asia, at the bottom of the Gender Equality Index.

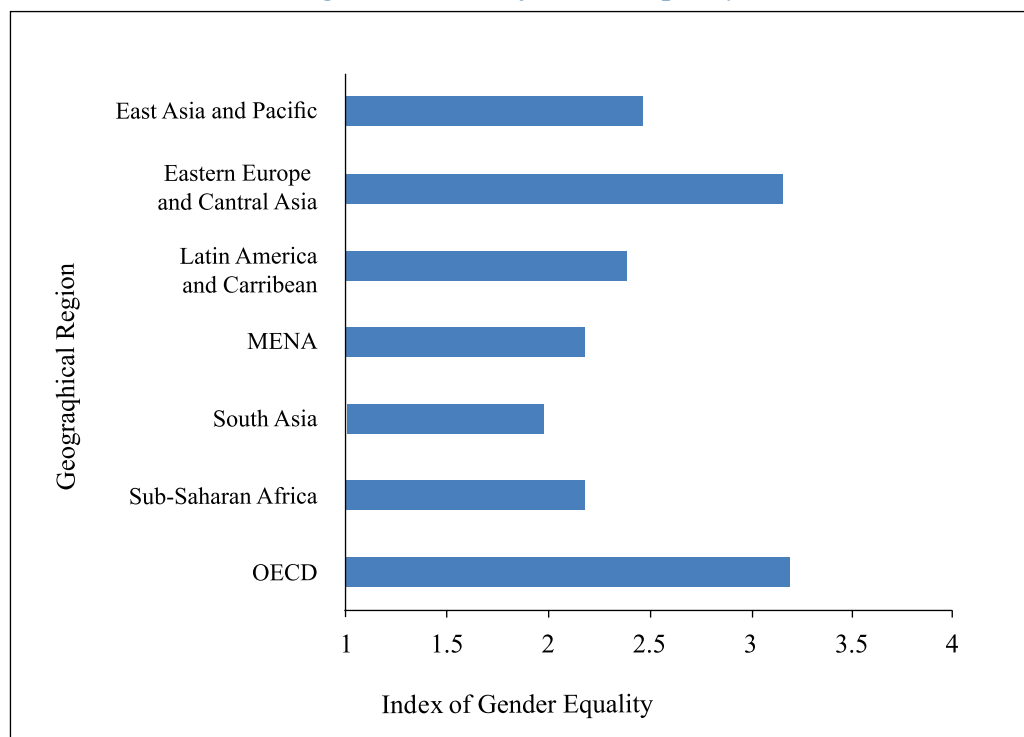
Figure 5.1 Ranking MENA Countries by Unemployment Rate<sup>179</sup>



Source: World Bank, 2001.

\*Please note that a result of 'one' indicates the lowest possible level of equality, while a result of 'four' indicates the highest possible level of equality.

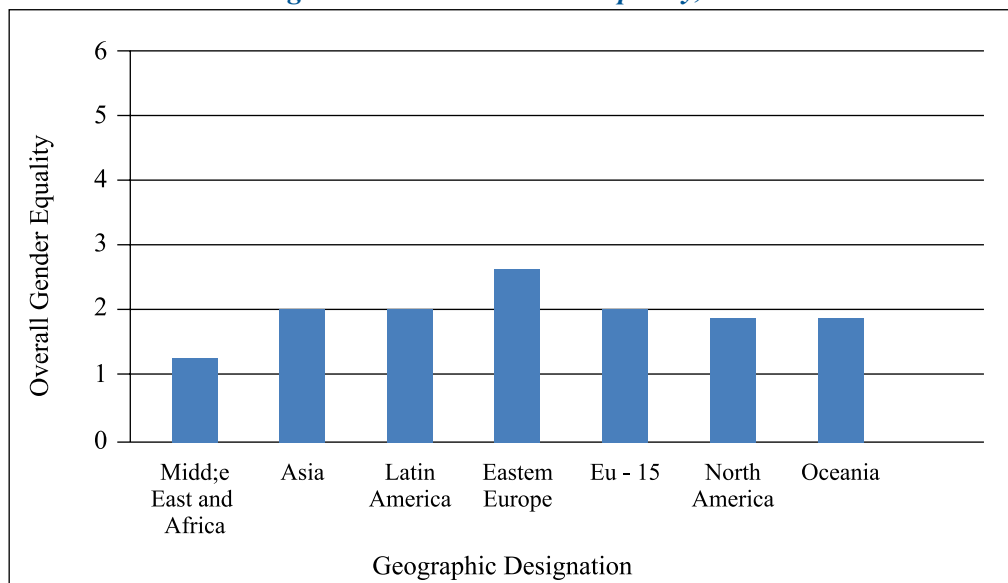
Figure 5.2 Index of Gender Equality



Source: World Bank, 2001.

\*Please note that a result of 'one' indicates the lowest possible level of equality, while a result of 'four' indicates the highest possible level of equality.

Figure 5.3 Overall Gender Equality, 2005



Source: World Economic Forum, *Measuring the Global Gender Gap*, 2005

#### 5.4 Gender Equality

In terms of overall gender equality, the MENA region is the lowest in the world, achieving a 3.4 rating, while the highest group achieved a 4.9 rating.<sup>183</sup> This gender inequality has caused tangible economic retardation. If a greater percentage of women in the Arab World were employed in the national labor force, GDP per capita (as an average of MENA countries) could have been 0.7% higher annually (achieving a growth rate of 2.6% instead of 1.9%).<sup>184</sup> Not only is gender equality a priority in terms of human development, it is also an economic necessity.

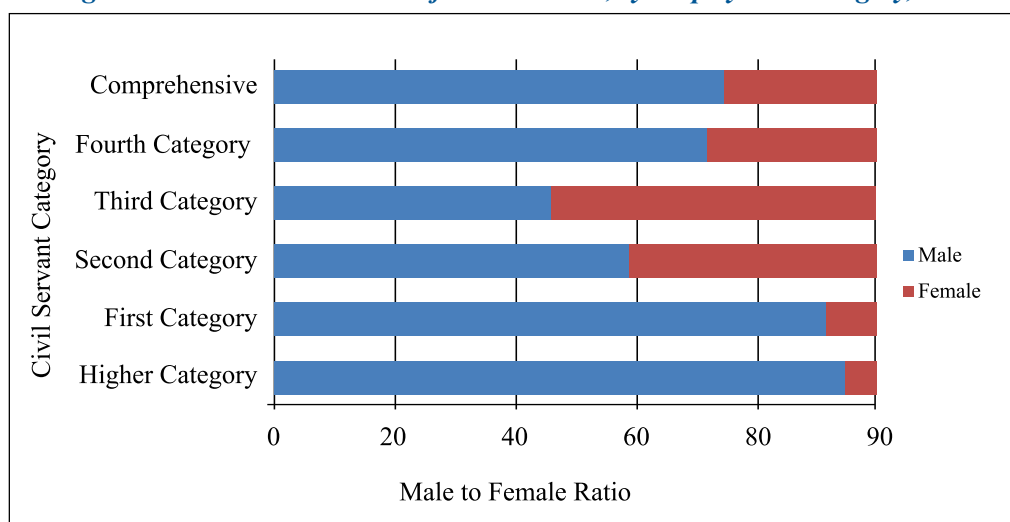
The Department of Statistics in Jordan, places female participation rates at around 15% (compared to 69% of men) - a considerably low figure given the MENA average of 28%, which also happens to be the lowest rate of any region in the world. A World Bank study clearly noted that compared to the region, given the rate of improvement in women's health and education, female employment rates should be higher in Jordan.<sup>185</sup> Regarding political power, measured by the share of seats held by women in the parliament, Jordan is in line with the MENA region's average of 6%. Nonetheless, this is a weaker result than the 16% average found in similar developing nations.<sup>186</sup>

Almost half of Jordanian female employment (46.6%) in 2007 could be found in the public sector (although only a little over one quarter of males were employed in this sector). This concentration of females in civil service is unlikely to lead to female empowerment, as few of these civil servants are able to reach higher ranking positions within the government (indicating significant vertical discrimination).<sup>187</sup>

As shown in Figure 5.4, males account for the bulk of public servants at top ranking levels, whereas the bulk of women are to be found in the middle levels. This indicates that when it comes to policies affecting the welfare of females, they have to rely on males, which does not always lead to optimal outcomes.

Note that men with monthly income levels that are below JD 100 amount to 5.4% of total male wage earners, compared to 10.2% for women. Within the range of 'Above JD 500,' the percentage of men is 8.1%, compared to 4.4% for women. Table 5.1 indicates the gender gap according to the monthly income from work and gender for the year 2007 and for employed Jordanians aged 15 and above.<sup>188</sup>

Figure 5.4 Gender Distribution of Civil Servants, by Employment Category, 2005



Source: Jordan CGA, World Bank, 2005

According to the Segregation Index (Duncan Index), a method to calculate the share of female (or male) employees who would have to alter their places of work in order to balance the occupational distribution of the two groups, Jordan's Duncan Index for the whole economy is 0.44, much higher than the average for MENA (0.34). In table 5.2 the Duncan Index is compiled for the various regions and countries.

In order to promote gender empowerment, investment in training, as well as other policy measures, should be taken in order to increase the number of professions women could participate in.<sup>189</sup> A high percentage of economically inactive women is alarming when women would prefer to work, but are compelled to stay at home.<sup>190</sup>

This horizontal segregation is prominent among females; in 2009, health and education, together, employed almost 53% of all employed Jordanian females.<sup>191</sup> However, in education alone, there were 89,512 teachers in the 2007/2008 school year in Jordan, of whom 57,793 (or 64.6%) were women.

While the public sector represents the main employer of females, its ability to absorb increasing numbers of employees is declining. In 2008, according to the a Department of Statistics,<sup>193</sup> Jordan was able to create almost 64 thousand new jobs out of which the public sector was able to absorb only 41.4%, with almost 82.5% being occupied by males. The number of applicants to the Civil Service Bureau increased from 62 thousand in 2005 to almost 203 thousand in 2009.<sup>194</sup>

Table 5.1 Percentage Distribution of Jordanian Employed Persons aged above 15 by monthly income categories from work (JD) and Sex, 2007

Monthly Income Category (JD)	Men (%)	Women (%)	Gender Gap	Gender Equity Index (%women divided by % of men)
Below 100	5.4	10.2	-4.8	1.9
100-199	41.2	36.8	4.4	0.9
200-299	33.4	38.1	-4.7	1.1
300-499	11.9	10.5	1.4	0.9
Above 500	8.1	4.4	3.7	0.5

Source: DOS, 2007

In 2009, 26% of these applicants were male and 74% female. These trends highlight two main issues: the first is that women are leaning heavily towards an already saturated public sector; the second is that within the public sector they face a glass ceiling - males occupy the top posts. Therefore, much remains to be remedied by MSMEs and the private sector in general, to fill this gap, especially if the trends in the public sector persist. Furthermore, reforms are most likely to attempt to decrease the size of the workforce in the public sector; it is not infeasible that the majority of those released will be women.

offers women up to 10 weeks of maternity leave).<sup>195</sup>

In Jordan, the majority of MSME employees are male (with 4.28 times more male employees than female employees, which is lower than the national average). This implies that MSMEs are actually more gender neutral, due to the more equal male to female employment ratio.

Specifically, medium-sized companies, employing 50-99 employees, have a greater tendency to hire female employees, as opposed to smaller companies. The share

**Table 5.2 Occupational Segregation in MENA and World Regions (as Measured by the Duncan Index)**

Country or Region	Duncan Index for Occupational Segregation
Djibouti	0.51
Egypt	0.46
Iran	0.22
<b>Jordan</b>	<b>0.44</b>
Lebanon	0.37
Morocco	0.13
Tunisia	0.19
West Bank and Gaza	0.42
Yemen	0.31
MENA Average	0.34
West Africa	0.23
East Asia and the Pacific	0.32
South Asia	0.20
Central and Eastern Europe	0.26
Rest of Europe	0.40
America	0.45

Source: "The Economic Advancement of Women in Jordan: A Country Gender Assessment," Social and Economic Development Group, World Bank, 2005

### 5.5 Women and the Private Sector

In the private sector, there are 5.6 times as many men as women working. Reasons for this discrimination include the higher costs associated with female employment, as a result of benefits granted to females, according to the Jordanian Labor Law, signed in 1996 (for example, this law

of female employment in medium sized companies amounts to 37%, against the 29.3% of female employment found in MSMEs employing 1-4 employees).<sup>196</sup>

There are several reasons as to why medium sized firms employ a greater percentage of females than small businesses. Medium-sized companies

have more complicated organizational structures, implying that they require such services as administrative support, in-house administrative assistants and accounting departments (that is, desk jobs are satisfied more proportionately by women than men).

**5.6 Gender disparities in work positions are less apparent in MSMEs**

The trend of employability of women has meant that more women are finding employment in low level, low salary, low

average female employee in Jordan will have approximately 12 years of education, as opposed to the 9 years of education a male will have in similar employment.<sup>197</sup>

Within MSMEs, at the management level, women are poorly represented. As Figure 5.6 makes clear, only 18% of management positions in the Jordanian private sector as a whole, are held by women. This reveals that the greatest levels of discrimination exist in primary industries and services.

**Table 5.3 Distribution of New Hires According to Sector and Gender, 2008**

Sector	Male	% from Total Males	Female	% from Total Females	Total	% from Total New Hires
	No.	%	No.	%	No.	%
Public Sector	22121	44.7	4698	30.7	26819	41.4
Formal Private Sector	25928	52.4	10194	66.6	36122	55.7
Informal Private Sector	1244	2.5	264	1.7	1507	2.3
NGOs	225	0.5	155	1.0	379	0.6
<b>Total</b>	<b>49518</b>	<b>100</b>	<b>15311</b>	<b>100</b>	<b>64827</b>	<b>100</b>

Source: DOS Employment Survey

skill jobs. MSMEs have shed a slightly different light on this, tending to promote women to higher positions more easily. Looking at the positions of women within MSMEs in Jordan from the results of the Report MSME Survey, shown in Figure 5.5, one finds a relatively even distribution in terms of management, although a slightly higher percentage of males (at 15%) are in management positions, compared to females (at 13%). This is less true, regarding the overall economy. The

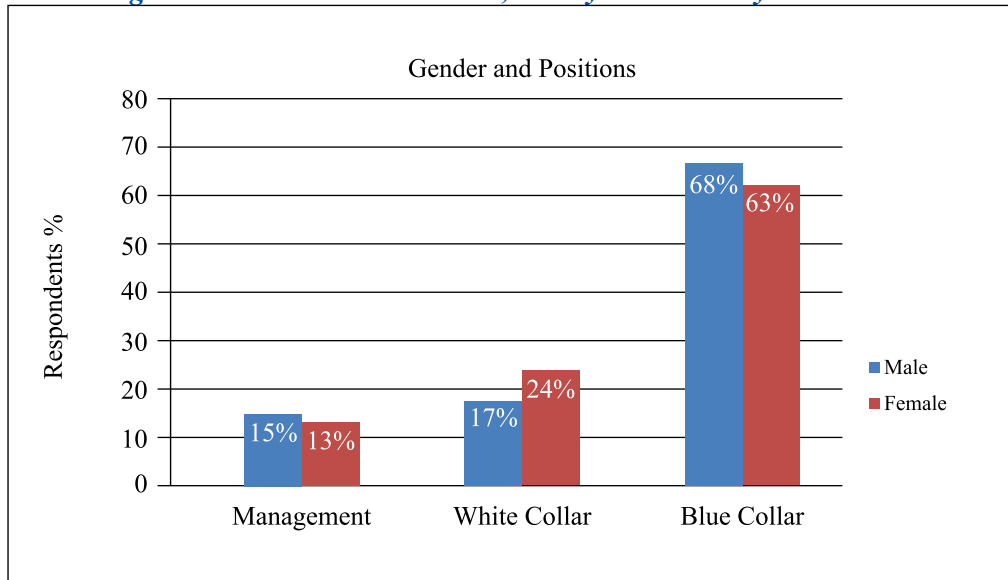
**Table 5.4 Distribution of Employees According to Gender in Jordanian MSMEs**

Number of Employees	Percentage of Male Employees	Percentage of Female Employees
1-4	63.0%	36.9%
50-99	52.3%	47.7%

Source: Report MSME Survey, 2010

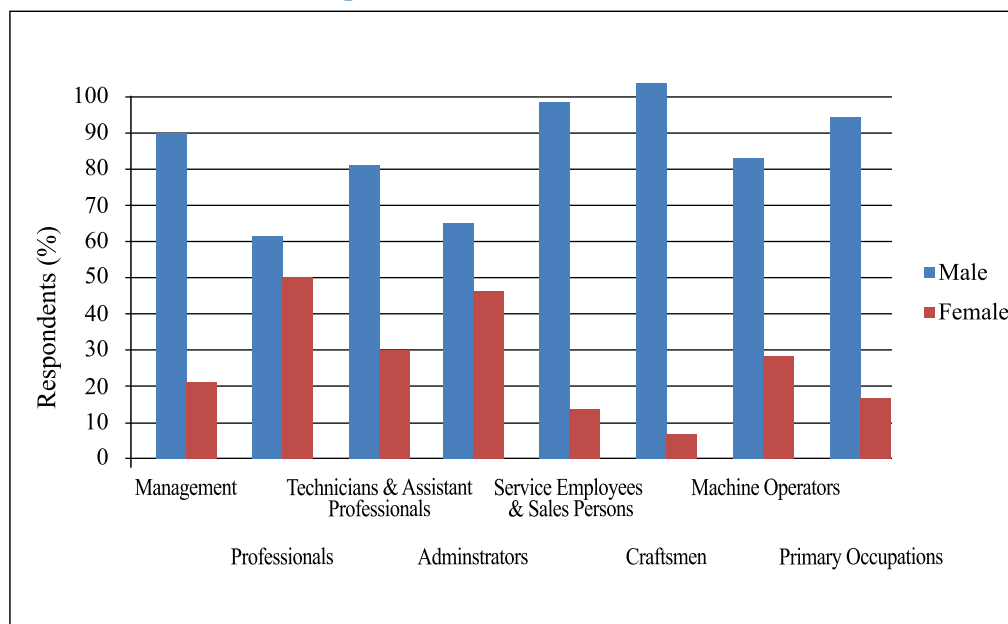


Figure 5.5 Gender and Positions, Survey conducted by NHDR team



Source: Report MSME Survey, 2010

Figure 5.6 Distribution of Females According to Occupation in the Private Sector, 2007



Source: Department of Statistics Employment Survey, 2007

Internationally, women working in middle management positions as professionals “Face glass ceilings on their way up to the executive level and, particularly, the power circles of top management.”<sup>198</sup> In cases where women have successfully gone on to ascend into higher levels, they had to overcome relatively more obstacles than men.<sup>199</sup>

Another reason for the slower ascension of females up the executive ladder, is due to differences in training. While an increasing number of women are receiving training and experience in their employment, allowing them to advance to higher levels of responsibility, the quality of this training differs significantly from that received by men. In fact, most employers favor training men over women, due to longer perceived employment periods for men; most employers are also more likely to send men to more expensive training.<sup>200</sup>

In the focus group discussions, it was apparent that female management positions tend to be found in executive positions relating to promotion, communication, production, human resources budget management and financing, while men possess the more authoritative and prestigious ranks of President, CEO and Chairman. This means that females can reach mid-management positions, with top management mostly reserved for males.

Consequently, compared to the overall economy, MSMEs represent a forum for greater opportunities, with higher proportions of females at the higher echelons of the institution.

### 5.7 Barriers to Female Participation in the Work Force

When MSME owners were questioned as to whether the employment of females caused any issues, or problems, within their company, only 43% replied that they did not. In addition, 41% of owners considered the problems caused by female employees to be ‘many.’ This is an especially important issue for MSMEs, as they represent the majority of businesses within the Jordanian economy. Without gender equality within these enterprises, disenfranchisement of women in the workplace will continue.

Generally, Jordanian employers do not hire females, based on the premise that, once a female is married, she will resign from her position, meaning that any investments in training her would be lost.<sup>201</sup> Indeed, it is estimated that only 7% of married women in Jordan are currently in paid employment.<sup>202</sup>

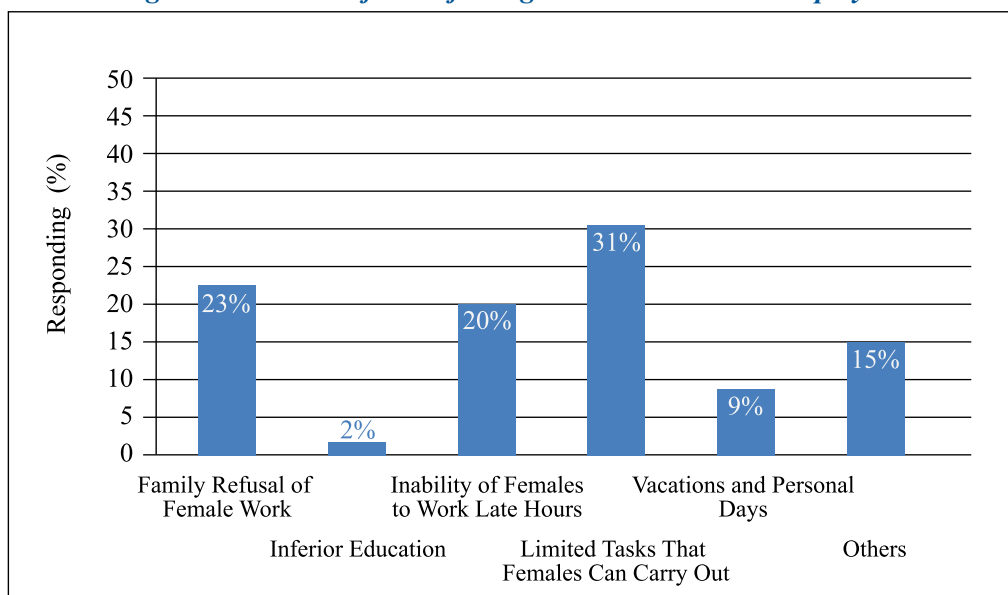
Regarding business owners who experienced certain issues with female employees, Figure 5.7 shows:

“I really prefer not to employ women. They can’t work late without their husband’s or parent’s permission and are always distracted by family problems and responsibilities.”

*Ahmad, Amman - Interviewee*

- 31% of those surveyed believed that female employees were incapable of performing the same amount of tasks as their male counterparts.
- 20% were concerned with the inability of women to work late hours
- 13% cited problems arising from vacations and personal days, due to family matters

Figure 5.7 Reasons for Preferring Male over Female Employees



Source: Report MSME Survey, 2010

\* In the above figure, 'certain tasks,' refers to such activities as heavy lifting, manual labor.  
Report MSME Survey

Within the focus groups, business owners commented that the aforementioned reasons created financial disincentives to hiring women, despite the fact that women earn lower wages on average. Business owners cited the shorter working hours of women, and extensive maternity leave.

### 5.8 Female-Led Entrepreneurship; Women Owned MSMEs

MSMEs offer women the opportunity to enter the economic cycle, both as employees and business owners. Globally, female owned MSMEs account for a growing share of new enterprises.<sup>203</sup>

While the figures from the developed world do not show complete equality with men in terms of ownership, they are still

considerably more advanced than MENA nations, including Jordan.<sup>204</sup> For example, American women own over one quarter of all firms outside the agricultural sector, amassing a yearly payroll of over USD 170 billion in 2002 alone.<sup>205</sup>

Whereas in Jordan, the economic participation of females in Jordan is composed mainly of wage earning employees, representing about 93% of all employed females above the age of 15.<sup>206</sup> However, MSME owners and self employed women account for only 6.5% of female employment, far below the proportion of males as owners (that is, 20.6% of employed males), as shown in Table 5.5.

Table 5.5 Gender Distribution According to Employment Status, 2008

Employment Status	Male (%)	Female (%)	Gender Gap
Paid Employee	82.5	17.5	65.0
Business Owner	94.7	5.3	89.4
Self Employed	95.8	4.2	91.6
Working for Family without pay	81.5	18.5	63
Non Paid Employee	69.2	30.8	38.4

Source: DOS Gender Indicators, 2008

In Jordan, females own about 5.3% of all businesses, compared to the 94.7% of businesses owned by men.<sup>207</sup>

The number of self employed women (including companies with only one worker) is also relatively weak, with only 4.2% of self employed Jordanians being women. Table 5.5 shows that in every position of employment, it is Jordanian men who, by far, dominate these positions, in each case making up at least 80% of the employees (the only position where women are a substantial minority is in non-paid employment).

The aforementioned data shows that Jordanian men are more likely to own firms, and be self employed, than females. This trend is lower than global averages which place female business owners at about 25-33% of total entrepreneurship worldwide.<sup>208</sup>

The gender gap in starting one's business, evidenced in Table 5.6, may in part be explained by the motivational differences between the genders.

Based on the Report MSME Survey, it appears that men are expected to be the breadwinners, and their primal motivation is an increase in income. Alternatively, women open a business to take advantage of their educational degrees (at 23% of female respondents). In other words, women are searching for greater professional satisfaction, or escaping the under-utilization of their talents and skills.

Furthermore, female entrepreneurs in Jordan tend to pursue business in a limited number of sectors, where women are traditionally economically active. The vast majority of female entrepreneurs operate in the retail and service sectors (representing almost 91% of female enterprises in Jordan).

**Table 5.6 Jordanian Employed Persons, Aged 15 years and above, by Current Employment Status and Gender**

Gender	Employment Status							
	Employed (%)		Employer (%)		Self Employed (%)		Unpaid Family Worker (%)	
	1999	2008	1999	2008	1999	2008	1999	2008
Male	77.1	82.4	8.8	7.5	11.8	9.2	2.4	0.7
Female	93.0	95.1	3.0	2	3.5	2	0.4	1.0

Source: For the 1999 figures, World Bank CGA Report, 2005, for the 2008 Analytical Report of the Employment and Unemployment Survey, 2008, DOS

Also, over the past decade, Jordanians from both genders preferred wage-employment over opening their own businesses, compared to global averages. The number of self employed males and females, and business owners, are diminishing, as is shown in Table 5.6. However, it should be noted – as was revealed throughout focus groups - that there is a significant possibility that Jordanians are pursuing wage-employment, as opposed to entrepreneurship, not due to preferences, but because of the lack of opportunities, and the high risk involved in starting up a company.

Female owned businesses that engage in manufacturing activities are often found in sectors dominated by women, for example, food processing or some branch of the clothing and textiles sector. In the informal sector, these trends still exist, and women usually place other women in stereotyped activities, including beautification services and sewing

In many instances, traditional crafts such as knitting and sewing, carpet weaving and silver making, play an important role in female business activities.<sup>209</sup> This pattern helps explain why female-owned businesses typically show weaker results in employment and sales, than male-owned businesses.

The majority of female-owned enterprises in Jordan are very small enterprises, employing 5 people or less, hence their relatively limited contribution towards total employment. The Report MSME Survey showed that 88% of female owned enterprises that start with five employees or less remain at this size, while only 77% of male enterprises do not grow beyond five employees. A study by the International Finance Corporation (IFC) and the Center of Arab Women for Training and Research (CAWTAR) in 2007, analyzing female owned enterprises in the MENA region, confirms this finding, showing that the average size of the female run enterprise in Jordan is 7.5 employees.<sup>210</sup>

When women do start their own firms, they are usually more likely to employ other women (as revealed by the survey conducted by the team,); increasing the number of female-owned MSMEs in Jordan could have a considerably positive effect on female job creation, thus reducing the gender gap in economic activity, and discrimination against women in the labor market. It should be noted that, as previously mentioned, a majority of female employment is in 'traditional' female roles, such as beauty salons and retail trade. Government subsidies towards these businesses, and investment in training, will be needed to diversify the types of businesses female entrepreneurs could lead.

### ***5.9 Female Owned Businesses: Barriers to Expansion***

In Jordan, according to the Report MSME Survey, 71% of women owned businesses earn JD 10,000 or less, compared to 60% of male owned enterprises. Also, female owned enterprises were less successful in terms of revenue growth, measured from the starting year onwards.

Only 24% of female owned enterprises saw revenue growth, as opposed to 28% of male owned enterprises. Almost 73% of Jordanian women managing a business are married, with 70% of them having more than one child at home.

On the other hand, the Survey revealed that more women, although starting from a lower base, were able to double their incomes after opening their own businesses. About 32% of the women surveyed stated that they doubled their incomes after opening their businesses, against 19% of their male counterparts. Men also had expenditures that were not family related; a small portion of men said that they devote some of their income to their travel expenditure and some hospitality related activities outside home.

### ***5.10 Cultural Norms and Female Entrepreneurship***

Female entrepreneurship has proven to play an important role in modernizing societies and changing public attitudes towards women; female entrepreneurs were more recognized within their societies, gaining more respect as productive members of society.

They also gained more respect inside their families, as they were considered more reliable, productive members of the family, for contributing to the family's income according to the Report MSME Survey, 2010, conducted by the team.

Therefore, it is of great importance to make better use of the economic potential of female entrepreneurs. Not only could supporting female MSMEs help bring about greater competition in the market, it could also diminish gender segregation in the workplace.

While a significant percentage of female entrepreneurs may be motivated by the desire to increase the household's revenue, (at first), the female entrepreneur's skills and ambitions will very likely mature, thus their desires may gradually shift to include recognition of their efforts.<sup>211</sup>

There are many ways in which culture can influence a woman's decision to become self-employed, including how valuable the local society considers female employment to be (thus encouraging a woman to become self employed), and how valuable her own family considers female employment to be (thus placing women in either stereotypical, or professional, roles).<sup>212</sup> These cultural aspects could also impact the female entrepreneurs' levels of responsibility, and any help they might obtain when starting up their own firm.<sup>213</sup>

According to the Report MSME Survey, 82% of female Jordanian business owners thought that their life was positively affected by owning their business, due to a variety of factors including increased income, control over one's life, a better position within the family and an improved family-life balance.

The remainder found that their life had been negatively affected, due to being away from their children and greater responsibilities both in family and work life.

In summary, in a situation where the

overall level of Jordanian entrepreneurship is at a very low level, the engagement of women in entrepreneurial activity is making an important contribution to the overall level of entrepreneurial activity in the economy, as well as contributing to aggregate capital, skills and experience.

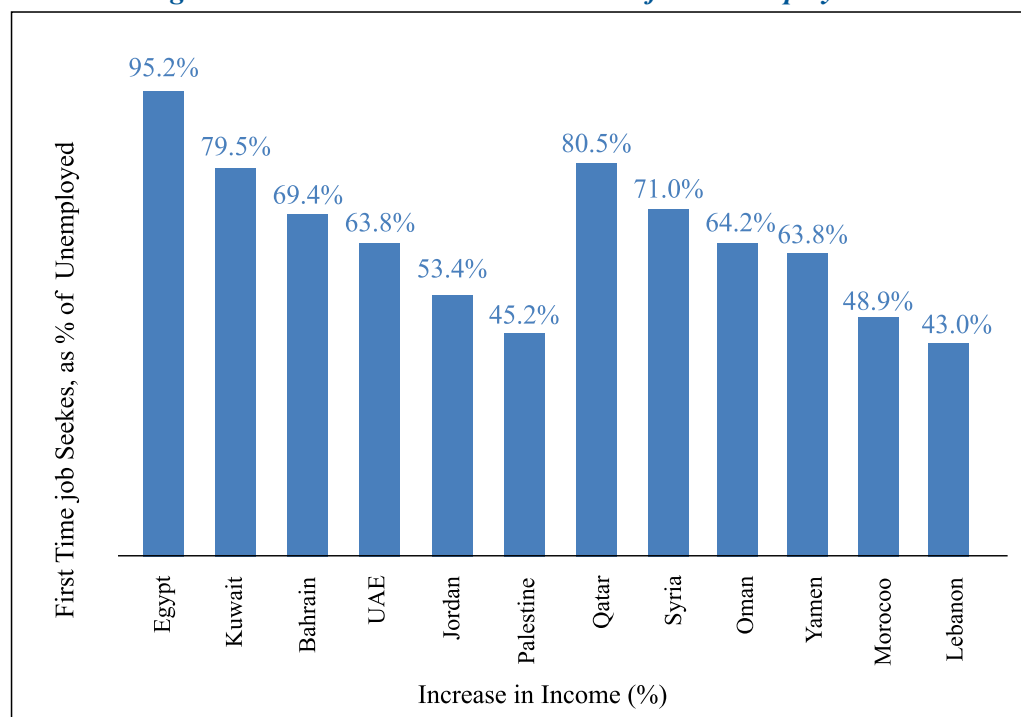
### 5.11 MSMEs and Youth Empowerment

A young population brings enthusiasm and creativity to the job market, along with many challenges. Since young people represent the opportunities and potential of the nation's economic future, their economic exclusion will result in long term harm. Entering employment from a young age will provide youth with the experiences and skills needed to contribute to society.<sup>214</sup>

The Jordanian population is considered a young one with almost 57% of the Jordanian population under the age of 30; out of the young population, almost 40% is considered economically active.

In Jordan, however, young people have long been underutilized.

Figure 5.8 First Time Job Seekers as % of the Unemployed



Source: Arab Youth Employment: Economic, Social and Institutional Exclusion and its Impact on Employment, ESCWA, 2009

For example, 48.8% of unemployed Jordanians are to be found in the 15 to 24 year old age bracket, as of 2009 .<sup>215</sup>

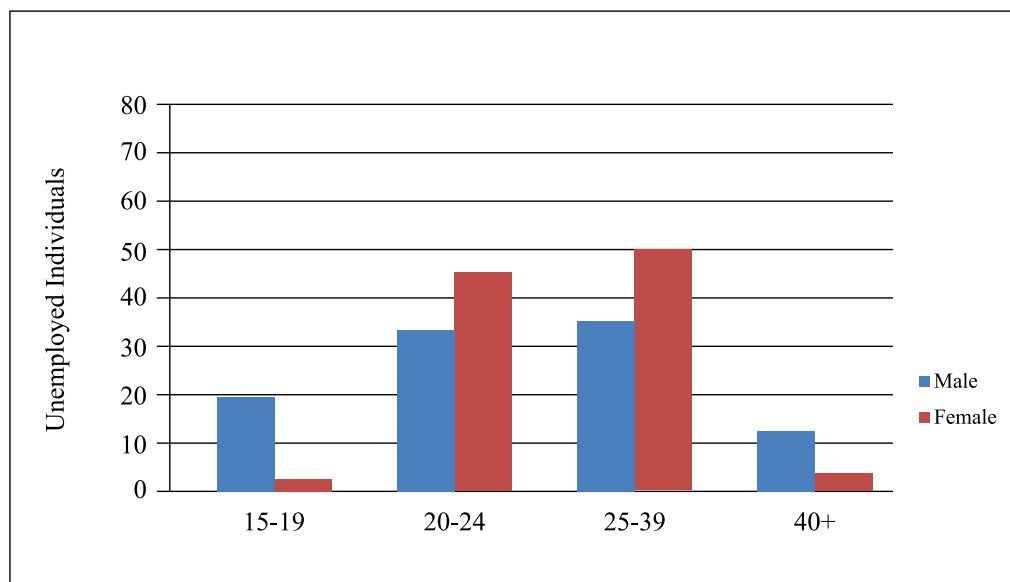
This indicates that being unable to complete their education will trap male youth in a vicious cycle of unemployment and poverty. As Figure

**Table 5.7 Labor Market Status of Jordanian Population**

Age Group	Men			Women		
	Employed (%)	Inactive (%)	Unemployment Rate (%)	Employed (%)	Inactive (%)	Unemployment Rate (%)
15-19	15.2	78	30.9	0.7	98.8	38.1
20-24	54.4	32.5	19.5	12.1	77.4	46.4
25-39	86.6	6.3	7.5	19.9	74.8	21.2
40-54	76.7	18.8	5.5	12	87.3	15.7
55-64	43.6	54.2	4.8	2.6	97.3	3
65+	11.9	87.7	3.1	0.3	99.7	0

Source: DOS, 2009, Employment and Unemployment Survey

**Figure 5.9 Distribution of the Total Unemployed Workforce According to Age and Gender, 2008**



Source: Analytical Report of the Employment and Unemployment Survey, 2008, DOS

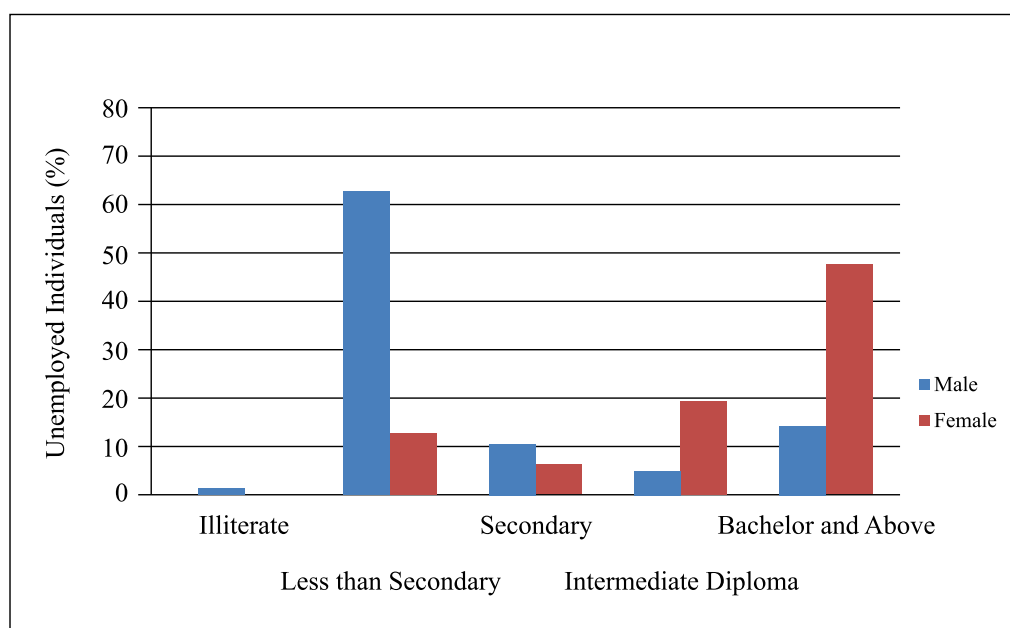
Most of the unemployed, from both genders, are concentrated in the age group of 15-24 years, that is, young people with minimal experience, and in many cases, no experience whatsoever.

This is a phenomenon seen across the region, where the majority of employment is made up of first-time job seekers, a proxy for youth, as shown in Figure 5.8.

The majority of male unemployment in Jordan lies with those holding a degree that is equivalent to less than a secondary school education.

5.10 shows, regarding females, pursuing higher education does not increase their employability. Focus groups indicated this may be due to the stereotyped roles that women have in Jordanian society - roles that persist, even if the woman is well educated.

Figure 5.10 Distribution of the Unemployed According to Educational Attainment and Gender, 2008



Source: Analytical Report of the Employment and Unemployment Survey, 2008, DOS

One should note that a nation’s youth could remain unemployed for a variety of reasons (Table 5.8), on top of the inadequate level of job vacancies. For example, they could be discouraged due to the excessive length of time needed to find a job, or due to the nature of underemployment, whereby youth are forced to take employment below their level of education or skills. If a person

feels of uselessness and inadequacy among unemployed youth.<sup>216</sup>

“Prolonged unemployment, in early life, may permanently impair employability, earnings and access to high-quality jobs.”

Table 5.8 Reasons behind Unemployment in Youth

	Not Enough Jobs Available (%)	Insufficient Level of Education (%)	Lack of Experience (%)	Other (%)
Egypt	70.2	15.8	2.6	11.4
Iran	35.8	14.0	20.3	29.9
Jordan	65.4	2.7	11.7	20.2
Kosovo	54.5	22.8	12.4	10.3
Nepal	8.7	52.2	8.0	31.1
Syria	16.2	42.9	15.7	25.2

Source: Elder, Schmidt, “Global Employment Trends for Youth,” 2006, International Labor Office <sup>217</sup>

does not work for a reasonable amount of time, (starting from a relatively young age), he/she will face difficulties obtaining employment in the future. There is a significant correlation between remaining unemployed for long periods of time at a young age, and not being able to integrate fully into society, due to the



Among the factors affecting youth employment in Jordan is the high rate of expatriate labor.<sup>218</sup>

This situation is exacerbated by the highly limited, weak extracurricular programs and vocational training centers.<sup>219</sup>

Thus, young people with poor grades are at risk from unemployment, due to the limited availability of employment, and the limited availability of training.

There is some evidence that MSMEs are encouraging youth employment.

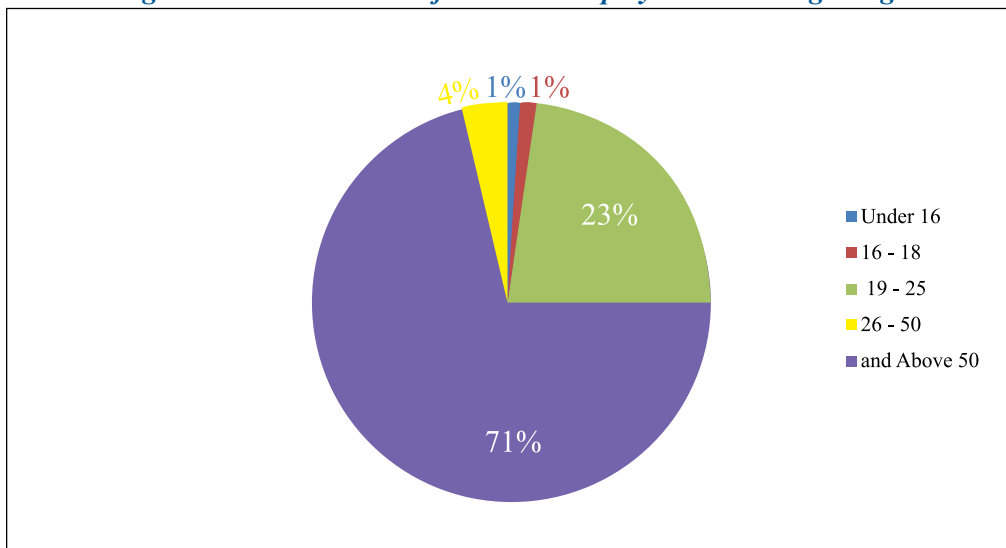
For example, smaller firms have a greater tendency to employ both young

The Report MSME Survey showed (see Figure 5.11) that approximately 23% of surveyed MSME employees are between 19-25 years of age, a more encouraging figure than the national average of 20.4% of 15 to 24 year olds, (according to the Department of Statistics).

However, it should be noted that many young people would also attempt to look for employment in the public sector, due to the security of such employment and relatively high benefit levels

While MSMEs may encourage youth employment, thus providing them with the opportunity to be more economically active and empowered, entrepreneurship

Figure 5.11 Distribution of MSMEs Employees According to Age

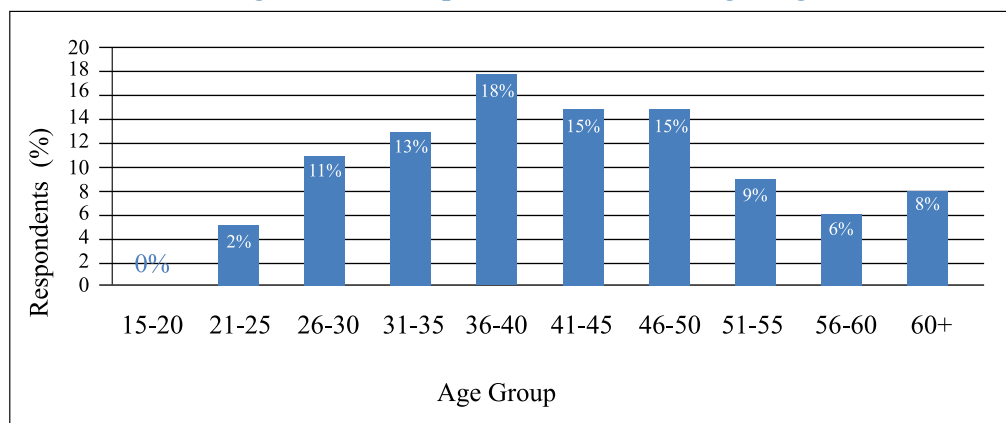


Source: Team Survey Analysis, 2010

individuals, and those without diplomas, or other qualifications<sup>220</sup>

is less frequent in young people than in adults. Intuitively, it is only a small minority of young people who start

Figure 5.12 Enterprise Owners According to Age



Source: Team Report MSME Survey Analysis, 2010

their own firms, due to the typical young person's need to continue his/her education, save for the future, or obtain job experience in his/her first employment<sup>221</sup>

In Jordan, young MSMEs owners (between 15 to 25 years of age) account for 5% of MSME owners, as shown in Figure 5.12. This number is on par with other regions, such as in Latin America, where young company owners (between the ages of 16 and 24) account for 8.2% of entrepreneurs.<sup>222</sup>

Entrepreneurship amongst youth is no easy matter, however. Most young business owners fail in their ventures due to business growth barriers requiring high levels of investment for expansion. In addition, they do not possess vocation and entrepreneurial skills – or even the networks required for growth.<sup>223</sup>

In conclusion, while entrepreneurship amongst the young may in fact create an alternative to unemployment, the struggles a young entrepreneur faces, and the likelihood of failure, are high enough to make such a choice undesirable. If a nation is to succeed in using MSMEs as a tool for youth empowerment, then it requires much more advanced mentorship and support structures.

### 5.12 Conclusions

Clearly national policies have not addressed with sufficient effectiveness the issue of adequately employing women and youth. Inherent disparities exist within the public sector in terms of promotion as far as women are concerned, and employment opportunities and pay discrimination in the private sector.

It is also evident that MSMEs do empower women and youth in terms of employment, societal esteem and acceptance. However, Jordanian averages are still well below international averages, and much remains to be done.

MSMEs are tools for encouraging the empowerment of less enfranchised population groups, and so the recommendations for empowerment relate directly to promoting MSMEs and supporting their growth. These MSMEs will then be used as tools to enhance youth and female empowerment within Jordan.

It is recommended that policies are adopted to remove discrimination based on gender, not only in the statement of the law, but also in practice. Furthermore, female entrepreneurship should be encouraged, not only because of its empowerment role, but also because of the higher value-added and competitiveness generated within the economy as a direct consequence of female ownership of businesses. Dedicated funds specifically for women, safe public transportation networks, and a renewed focus on education, among others, are all tools to enable this.

Discouragement of guest labor, as a policy, will significantly impact the employment of youth. This however, should be coupled with significant improvements in training (matching demand to supply, enhancing analytical, communication, and team working skills, along with more relevant and specific technical/vocational training), employment expectations, and the resolution of geographic impediments to employment, through better access to job locations.

The enhancement of social safety nets, together with the improvement of the business environment will reduce the fear associated with entrepreneurial risks and impact. However, care must be taken so that social safety benefits do not discourage labor from seeking employment.

*Chapter VI: The Role  
of Microfinance in  
Empowering  
the Less Advantaged*



### 6.1 Introduction

Micro, small and medium enterprises can be a boon to economic development, along with poverty and inequality reduction. The previous national report on human development revealed that there are few employment possibilities for many income deprived families and that it is difficult to obtain adequate and steady income from current employment opportunities. It is increasingly difficult to find employment in either the public or private sectors, thus the increasing emphasis on microfinance as a vehicle for promoting employment and income growth.<sup>224</sup>

Micro-finance institutions were developed in order to offer credit, as well as saving services, to the poor, helping them to invest in income generating projects, thus providing them with the assets needed to escape poverty.

In conjunction with human capital (to be obtained through education) and democratic capital (to be obtained through representative democracy), it is highly probable that microfinance can help the poor escape poverty. As a distribution channel of material and capital services, micro-finance institutions can overcome the government's inability to channel capital to those who most need it. However, these private entities must become self sustaining, if they are to succeed in disseminating capital to the disenfranchised, in the long term.<sup>225</sup>

However, emphasis on access to capital to the poor for income generation and poverty alleviation is to be considered with extreme caution. The poor often lack capacity, effective coping mechanisms against losses and market access. Therefore, by only providing credit, the poor could end up more indebted and pushed into extremely vulnerable situations rather than benefiting from micro-finance. Evidence suggests that credit access to the poor could result in positive impacts, if credit is accompanied by capacity development services, input and output market linkage services and insurance services. Policy should

recognize the combination of value added services that are essential for making microfinance effective for income generation activities. Furthermore, in more mature microfinance markets, such as in parts of southern India, competitive pressures among microfinance institutions have pushed multiple micro-loans onto women regardless of the stability of their businesses. This has resulted in indebtedness and backlash.<sup>226</sup>

This chapter of the report starts with outlining the growth of microfinance institutions in Jordan, followed by a focus on the role of micro finance in empowering the poor, using survey data, targeting the smallest bracket of enterprise (1-4 employees) who received micro finances (113). This bracket will be called a micro enterprise. It is recognized that many SMEs in general have also benefited from micro finance in Jordan

### 6.2 Literature Survey

Many believe that the origins of microfinance date back to the middle of the 1970s when Professor Muhammad Yunus of Bangladesh began making loans to the very poor with a focus on women. He started the Grameen Bank Project in 1976, and converted it into a bank in 1983. However, microfinance dates back centuries with savings and credit groups such as the 'susus' of Ghana, 'chit funds' in India, 'tandas' in Mexico, 'arisan' in Indonesia, 'cheetu' in Sri Lanka, 'tontines' in West Africa, and 'pasanaku' in Bolivia.<sup>227 228</sup>

The success of the Grameen Bank, however, may have been behind popularizing the idea that banking for the poor works. The Grameen Bank has 6 million borrowers (96% women), along with nearly 2,000 branches in Bangladesh, a repayment rate of loans of 98%, earned a profit almost every year, and is considered a best practice. Microfinance institutions have been created in communities with significant numbers of poor people around the world, even in developed countries. They range from tiny cooperatives to giant companies. They boast over 92 million-plus customers, and have proven,

contrary to established private banking wisdom, that the poor are bankable.

Early microfinance programs extended extremely small loans to groups of women, so that these women could obtain the finance needed to start their micro-businesses. The micro-enterprise credit depends on group lending whereby each member of a group assures the repayment of all the borrowers in the group. These lending programs focus on credit for revenue generating initiatives, which in specific cases were accompanied by forced savings systems targeting especially poor borrowers.

It is increasingly difficult to find employment in either the public or private sectors, thus the increasing emphasis on microfinance as a vehicle for promoting employment and income growth.

The impact of microfinance is found to be larger on extreme poverty, rather than moderate poverty.<sup>229</sup> However, the evidence is mixed as variables and communities change.<sup>230</sup>

Nevertheless, the focus should remain in the coming years on the extreme poverty areas found in Jordan, since the claim is not refuted in the literature. Furthermore,

there is evidence that women fair better under microfinance schemes than men<sup>231</sup>

In fact, one cited study<sup>232</sup> found there was no impact at all on men from microfinance schemes. Evidence from studies shows that repeat borrowers have higher incomes; higher expenditures on food, household maintenance; consumer products; and are more likely to have their daughters enrolled in primary schooling.<sup>233</sup>

Many studies were performed, in order to measure the improvements in livelihood achieved by utilizing micro-finance. Overall, the studies show that micro-credit empowers the less advantaged, and helps them engage in more productive activities, which in turn could increase their level of income and quality of life.<sup>234</sup>

These studies confirm that, intuitively, families with more income have greater access to credit, that those families living far away from micro-finance firms consume less. Households with less land and education participate more in micro finance. These studies also show that micro finance does alleviate extreme poverty, that the customers of micro-finance firms do see increases in income

However, only minor changes can be observed in terms of poverty reduction.

Table 6.1 Micro-finance Institutions in Jorda

Establishment Year	No	Name of Institution	Type
1960	1	Agriculture Credit Corporation	Public
1975	1	Industrial Development Bank/ Handicrafts Fund*	Public
1991	1	Development and Employment Fund (DEF)	Public
1992	2	Housing and Urban Development Corporation, UNRWA	Public
1999	4	Tamweelcom/Jordan Micro-Credit Company, Ahli Micro-financing Company, Micro-Fund for Women, Middle East Micro Credit Company	Private
2005	1	National Microfinance Ban	Private
2007	1	FINCA Jordan	Private

Source: Social Solidarity Coordination Commission, 2008

\*The IDB is in the process to be converted into a conventional bank, it was recently sold by the Government.

### 6.3 Micro-Finance Sector in Jordan: The Outreach

Microfinance has grown to become a dynamic sector in Jordan. During the last ten years, the number of operating institutions grew to 11 institutions, with such institutions spread over private Microfinance Institutions (MFIs), Non Governmental Organizations and governmental MFIs. Table 6.1 shows the microfinance institutions and their date of establishment.

The private MFIs play a vital role in providing financial services (mainly loans) to micro enterprises. The main institutions, with a strong financial background and dominating the Jordanian market, are: Tamweelcom/Jordan Micro-Credit Company, Ahli Micro-financing Company, Micro-Fund for Women, National Microfinance Bank, FINCA and the Middle East Micro Credit Company. These institutions are to be found across the governmental, non-profit and private sectors.

The growth of these micro-credit institutions in terms of funds, can be evidenced from their portfolios. A study developed by the Social Solidarity Coordination Commission in Jordan, in 2008, showed that microfinance institutions have served almost 116,000 customers with loans amounting to almost JD 85 million. The study shows, in comparison, that in 1999 micro-finance loans in Jordan were offered to almost one thousand people, with a loan amount of almost JD 4.4 million. Table 6.2 shows that Jordan has 4.5% of the active borrowers in the MENA region, and 9% of the loan portfolio. Jordan also has the largest loan portfolio of the MENA microfinance sector, after Morocco and Egypt.

**Table 6.2 Benchmarking Micro-finance Sector in Jordan Across Private, Public and NGO Sectors**

Country	Number of Participating MFIs	Number of Active Borrowers	Loan Portfolio (USD)
Morocco	9	1,325,243	721,512,669
Egypt	13	666,300	116,602,018
Jordan	6	100,206	93,595,303
Tunisia	1	63,775	22,304,016
Palestine	6	24,699	43,616,249
Yemen	5	18,354	2,079,131
Lebanon	3	17,730	15,260,580
Syria	2	16,297	14,050,128
Sudan	2	6,858	1,708,036
Iraq	1	5,268	8,341,706
Total	48	2,244,730	1,039,069,836

Source: 2008 Arab Microfinance Analysis and Benchmarking Report

The Jordanian microfinance market is considered one of the most efficient regionally, showing an operating expense ratio, compared to a loan portfolio ratio, of 17%. In Jordan, one study reveals that, "Microfinance activities developed gradually, allowing the sector to grow in a stable manner, which is why all indicators reveal positive trends."<sup>235</sup>

The Microfinance Information Exchange cites the following features confirm the stability of the microfinance sector's growth in Jordan:

- Growth in outreach, amounting to 40%.
- Solid regulation and management of Portfolio at Risk, with the top coverage ratio in the MENA nations.
- High levels of efficiency, compared to the world median.
- Productivity in directing the cost of credit, which grew by 15%, showing overall sector growth.
- Growth in the yield on portfolio, by 3% points, in 2007.

Though the sector has gone through a series of reforms, many issues still need to be addressed: other services outside of credit, such as micro-insurance, are almost non-existent; deposits amounted to about 5% of outstanding loans; and microfinance institutions still depend, to some extent, on external funding.

It is important to note however, that in addition to MFIs, some Ministries in Jordan are targeting the core poor, with no interest loans or grants, in order to lift them out of their positions of vulnerability.

The Ministry of Social Development has the productive families program, which targets some of the families taking repeated support funds from NAF with no-interest loans, and by offering grace periods of up to one year. During the grace period, the NAF support continues to the family, in order to make sure that the project is functioning properly.

The Ministry of Agriculture provides grants through livestock projects to families in the poverty pockets, in order to engage them in income generating activities. However, these interventions are limited as the budget available for such projects is usually not sufficient to reach a sizable percentage of the poor.

#### ***6.4 Micro-finance Sector in Jordan: Interest Rates***

Interest rates are typically greater in microfinance firms, as opposed to commercial banks.<sup>236</sup>

This is a result of the high expenses related to each small loan, and the higher-risks associated with non-collateral loans. Furthermore, micro-finance institutions need to reach the poor and thus operate in rural areas where population density is low (with large covered areas), increasing the cost of operating in these areas.

In certain cases however, the poorest of the poor cannot take advantage of MFI loans due to the high interest rates. In addition, loan officers sometimes prohibit the very poor from obtaining a loan, due to excessive repayment risk.<sup>237</sup>

Table 6.3 shows the various micro-finance programs operating in Jordan, along with their respective loan ceilings, interest rates and loan repayment periods. As is apparent from the table, loan ceilings are quite varied, and in some cases, rather high.

The Micro-Enterprise Survey conducted by the team in 2009, showed that the majority of loans charged interest rates of 16-20% annually, quite high compared to conventional loan interest rates. Interest rate percentages vary, with governmental institutions charging lower rates than private sector institutions. As figure 6.1 shows, the majority of microfinance firms charge between 16-20% interest rates. However, despite the high interest rates, 70% of loan takers were comfortable working with the agency they had selected.

Table 6.3 Micro-finance Institutions in Jordan Loans Offering and Interest Rates

<i>Development and Employment Fund</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Annual Interest Rate (%)</i>	<i>Loan Repayment Period, Years</i>
Establishing New Projects	15,000	6.5%	6
Developing Existing Projects	15,000	7.5%	6
Financing Pioneer Projects	50,000	9%	6
Financing Social Projects	100,000	6.5%	6
Empowerment of Rural Woman	2,000	6.5%	6
<i>Agricultural Credit Corporation</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Annual Interest Rate (%)</i>	<i>Loan Repayment Period, Years</i>
Mid-Term and Long Term Loans	(1 - 20,000)	(6.5% - 9%)	N/A
Seasonal and Short Term Loans	(1 - 20,000)	(6.5% - 9%)	N/A
Poverty and Unemployment Reduction Program	3,000	5%	5
<i>Jordan Micro Credit Company</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Monthly Interest Rate (%)</i>	<i>Loan Repayment Period, Months</i>
Cooperative Loan	(200 – 600)	1.9%	12 – 15
Hope Loan	(300 – 1,500)	1.7%	10
Vocational Loan	(300 – 3,000)	(1% - 1.4%)	4 – 24
Progress Loan	(1,500 – 5,000)	(1.25% - 1.4%)	4 – 24
Pioneer Loan	(5,001 – 25,000)	(1.25% - 1.4%)	4 – 24
Seasonal Loan	(120 – 150)	(1.5% - 2%)	6
<i>Ahlia Micro Financing Company</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Interest Rate (%)</i>	<i>Loan Repayment Period</i>
Startup Loan	400	(1% - 1.5%) Monthly	10 Months
Home Loan	1,500	(1% - 1.5%) Monthly	1 Year
Development Loan	10,000	(1% - 1.5%) Monthly	2 Years
Incorporation Loan	10,000	(1% - 1.5%) Monthly	3 – 6 Months
Auto Loan	15,000	9% Annually	4 Years
<i>Middle East Micro Credit Company</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Annual Interest Rate (%)</i>	<i>Loan Repayment Period, Years</i>
Individual Projects	2,500	8%	3
<i>National Microfinance Ban</i>			
<i>Credit Program</i>	<i>Loan Ceiling (JD)</i>	<i>Monthly Interest Rate (%)</i>	<i>Loan Repayment Period, Months</i>
Product One (Watani)	(200 – 1,000)	15%	(1 – 15)

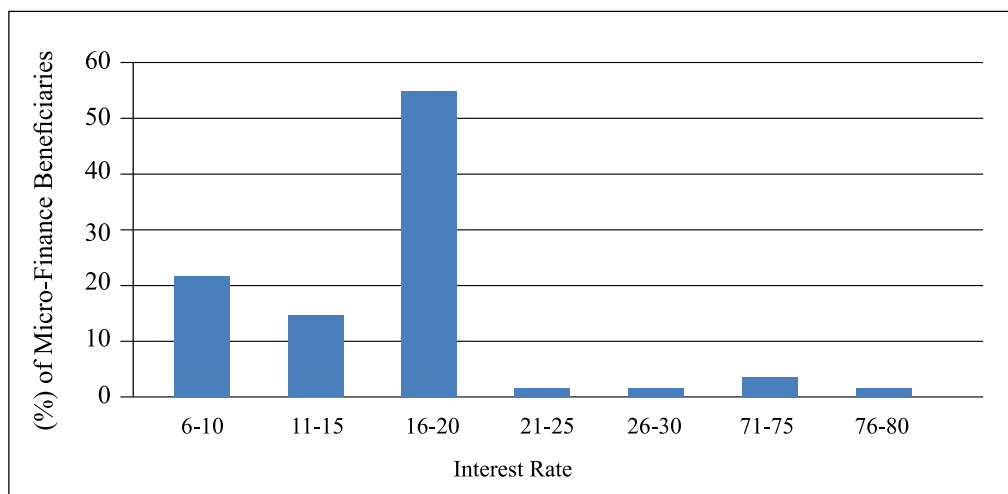


Table 6.3 Micro-finance Institutions in Jordan Loans Offering and Interest Rates (Continued) ...

Product Two (Mashrooie)	(1,001 – 5,000)	12%	(1 – 30)
Product Three (Istithmari)	(5,001 – 15,000)	9%	(1 – 48)
Product Four (Ibdaa')	(1,000 – 15,000)	8%	(1 – 48)
Product Five (Hasoubie)	(400 – 2,000)	N.A	(1 – 24)
<b>Micro-fund for Women</b>			
<b>Credit Program</b>	<b>Loan Ceiling (JD)</b>	<b>Monthly Interest Rate (%)</b>	<b>Loan Repayment Period, Months</b>
Solidarity Loan (3 – 6 Women)	600	1.75%	(10 – 15)
Developing Existing Projects Loan	10,000	(1% - 1.5%)	(1 – 36)
Seasonal Loan (2 – 5)	200	2.5%	6
Startup Loan (2 – 3)	200	2%	10
<b>FINCA Jordan</b>			
<b>Credit Program</b>	<b>Loan Ceiling (JD)</b>	<b>Monthly Interest Rate (%)</b>	<b>Loan Repayment Period, Months</b>
Women's Solidarity Loan	800	(1.6% - 1.8%)	18
Individual Micro Loan	4,000	1.7%	20
Startup Loan	2,000	(1.5% - 1.7%)	20
MSME (Opportunity) Loan	20,000	(1.35% - 1.5%)	36

Source: Social Solidarity Coordination Commission, 2008

Figure 6.1 Microfinance Beneficiaries Loan Annual Interest Rates



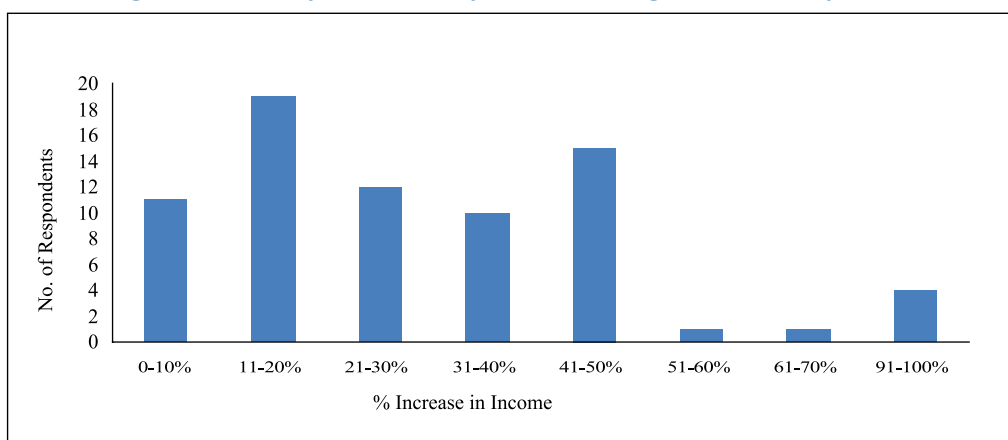
Source: Micro-enterprises Survey, 2009

The high interest rates charged by the micro-finance institutions marks a violation of current Jordanian laws (specifically, Civil Procedural Law of 1988 and the Usury Regulation of 1926). These codes have fixed interest rates up to 9%, on all civil and commercial transactions.<sup>238</sup>

after starting their businesses.

When assessing the distribution of expenditures occurring as a result of increased incomes, it is evident that although food and clothing are taking up the largest share of expenditures (due to their urgency), education is the next most important expenditure, implying that

Figure 6.2 Microfinance Beneficiaries Change in Income after Loan



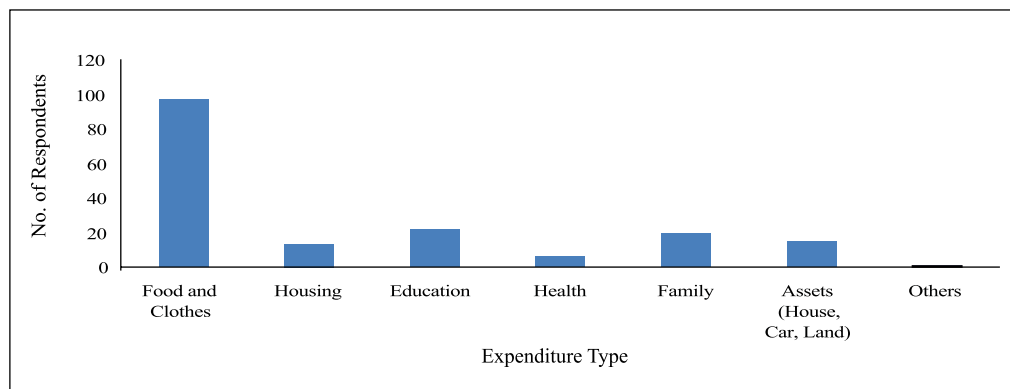
Source: Micro-enterprises Survey, 2009

### 6.5 Microfinance as a Tool to Eradicate Poverty

The evidence from Jordan shows that microfinance can have an important role in the creation of sufficient income for the poor by empowering them to start productive micro-enterprises. From the Survey findings of micro-credit beneficiaries, it is confirmed that micro-credit brings additional income to the beneficiaries, with just over 90% of the respondents witnessing an increase of around 50% on their original income,

poor households are investing in more sustainable livelihoods by investing in their children's education, as shown by Figure 6.3 and Table 6.4.

Figure 6.3 Expenditure for increased income of Microfinance Beneficiaries



Source: Micro-enterprises Survey, 2009

The survey results showed that the ability of micro-enterprise owners to access both private and public health insurance increased. Table 6.4 shows changes in health quality. Clearly, microfinance recipients who are also microenterprise owners were able to better access both private and public health insurance.

Some of the reasons that these projects fail are the high dependency on ‘over the shelf ideas,’ with a new product or value added service. This places these enterprises, being primarily informal, within the ‘easy enter, easy exit’ domain, especially since almost 64% of these projects are trade related, representing almost 36% of loan amounts.

Table 6.4 Change in Health Indicators of Micro-enterprise Owners Before and After Receiving Micro-Finance

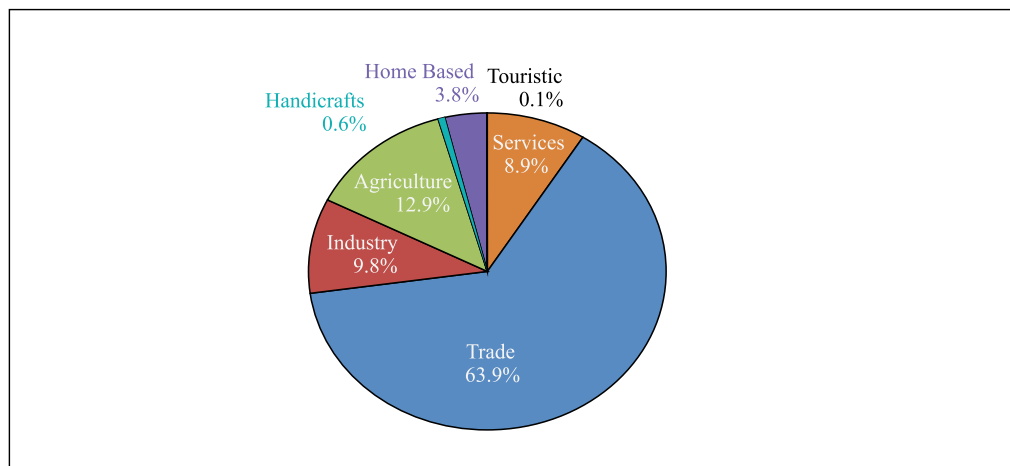
Indicator	Before (%)	After (%)
Public Insurance	39	44
Private Insurance	9	10
Visiting a Medical Clinic Routinely	1	1
Visiting a Private Doctor	1	3
Visiting a Public Hospital	3	2
Visiting a Private Hospital	2	2

Source: Micro-enterprises Survey, 2009

### 6.6 MFI Drawbacks

Of the 192 beneficiaries of microfinance loans from the productive family programs implemented by the Ministry of Social Development, during the period 1992-2006 in Irbid, it was found that 57.6% of the beneficiaries projects are still functioning, and that 42.4% were failed projects; a significant number.<sup>239</sup>

Figure 6.4 Distribution of Micro-Enterprises Projects according to Sector

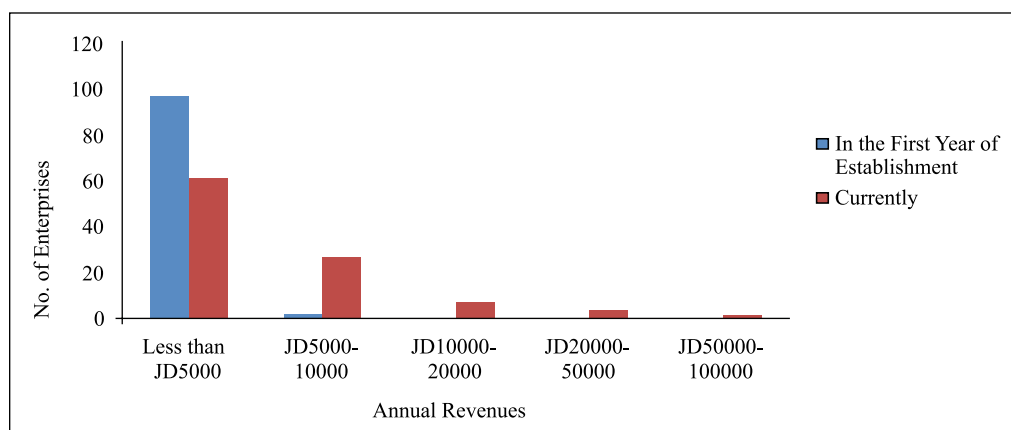


Source: Social Solidarity Coordination Commission, 2008

Being in the low value added categories implies that only marginal returns are realized from these enterprises. These returns may not be enough to maintain a livable income, with which to support a family and help to repay the loan, eventually resulting in indebtedness and extensive poverty.<sup>240</sup>

In terms of employment, micro-enterprises are low contributors to employment opportunities. Just over 15% of these companies have more than one employee.

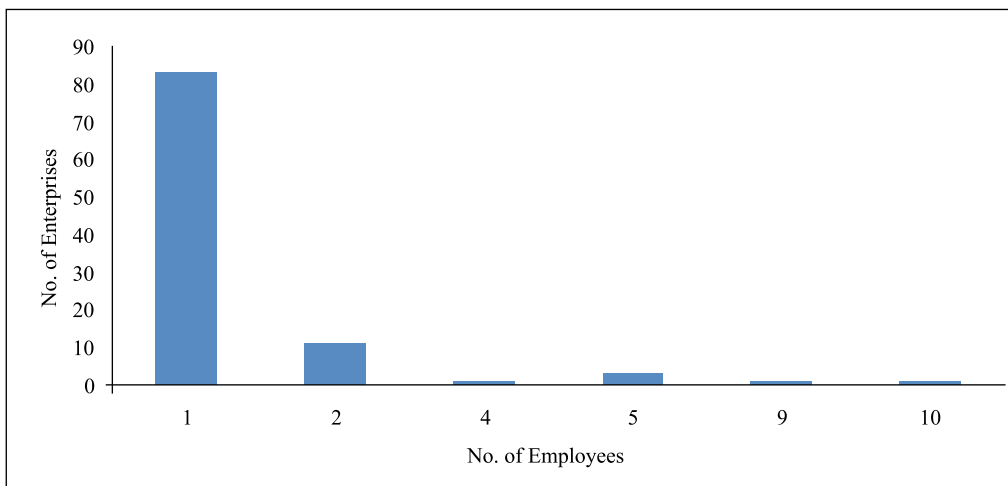
Figure 6.5 Revenues of the Micro-enterprise at the First Year of Establishment and Currently



Source: Micro-enterprises Survey, 2009

Also, along with being in the low value added sector of activities, even successful enterprises, which generate sustainable incomes for the owners of the household, frequently remain stagnant in terms of revenues generated. The surveys revealed that most of these enterprises fail to generate over JD 20 thousand in their annual income.

Figure 6.6 Employment Change at the Micro-enterprise from the First Year of Establishment to the Present

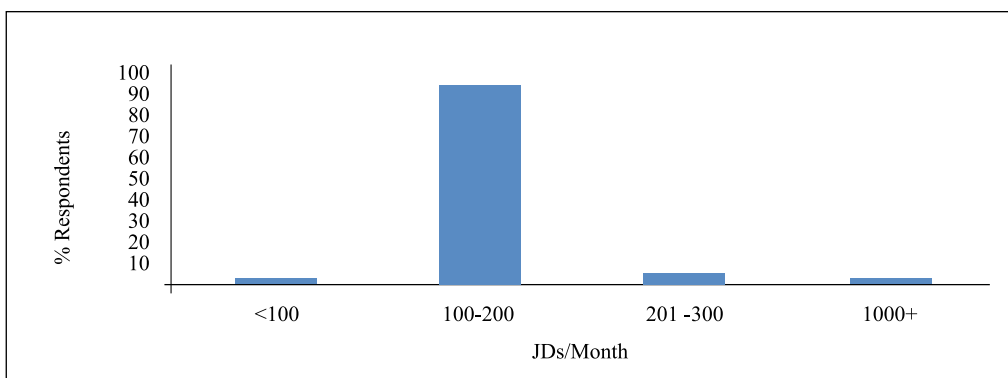


Source: Micro-enterprises Survey, 2009

Furthermore, when these enterprises tend to secure job opportunities, the majority of employees get paid around minimum wage level. About 91% of these employees receive between 100-200 JDs/month, as shown in Figure 6.7.

It is also the case that MFIs are often considered to have burdensome application procedures (that are often as complicated as regular banks), which often acts as a deterrent to applicants.

Figure 6.7 Salaries of the Micro-enterprise Employees



Source: Microenterprises Survey, 2009

It is obvious that many constraints limit the growth of micro-enterprises, and these projects usually operate in marginalized places where markets, and potential markets, are limited. Also, the nature of these projects hampers their development, since they are usually trade or service based industries with low value propositions, limiting their growth potential. Furthermore, the minimal returns these projects grant their owners are also limited in their ability to return investment for expansion plans, thus ensuring these projects remain at their current size, and minimizing the likelihood of expansion.

Other challenges that were reported by microenterprise owners, which if not properly addressed, would impair their growth potential, include:

“The procedure to grant a loan, compared to its amount, is quite cumbersome and did not pay back the costs and the time taken for obtaining it”

Yazan, Tafieleh - Interviewee

difficulty in dealing with project documents and records, difficulty in creating networks; reductions in capital; and the low quality of products/services due to unqualified workers.

My friend and I were thinking of opening a kindergarten and salon, we both approached DEF, I managed to realize my dream but she didn't. My father agreed to put our home as a collateral but her family home was rented which left her with no collateral and thus no loan and no project.

*Randa, Amman - Interviewee*

This calls for additional services, that should be combined with MFIs, such as technical upgrading and modernization services.

Other reported challenges included bad management, being busy with other family matters, health issues, licensing issues, financing and the limited availability of products due to a lack of cash.

### **6.7 Is Microfinance Relevant to the Core Poor?<sup>241</sup>**

The previous national human development report, published in 2004, focusing on the poor, pointed out that many low income individuals have to overcome many obstacles, to accessing credit. Microfinance firms attempt to offer credit to these individuals, and at the same time, maintain a profitable business.

These firms do so by minimizing transaction costs and risks. As a result of this, many of these firms aim to offer their services to those considered to be 'almost poor,' in densely populated areas (it is also an advantage if the applicant owns a business).

Even organizations that are capable of reaching less accessible areas and offering services to the 'struggling poor' might not wish to do so, for fear of excessive defaulting loans.<sup>242</sup>

In addition, the demand for micro-credit, from those with low incomes, is limited. This is due to a lack of information regarding the benefits of micro-finance, as well as a lack of successful role models, that is, others who formed their own businesses and managed to escape poverty.

Not only are there limited market opportunities, but those who actually do apply, find that the transaction costs (such as time and documentation needed) are quite high, in comparison to the money they borrowed.<sup>243</sup>

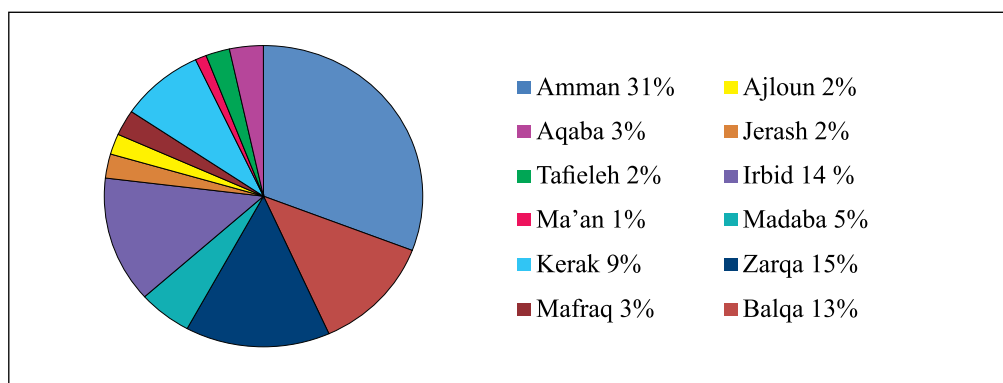
The analysis of the current situation of micro-credit beneficiaries emphasizes similar facts. As shown in Figure 6.8, most of the loans were given to urban citizens in the four largest governorates, including Amman, Zarqa, Irbid and Balqa, reflecting population distribution

The residents of these governorates have more accessibility to micro-credit. However, it is in these governorates that most of the 'almost poor' reside, that is, the ones capable of accessing such financing mechanisms to begin with

Furthermore, as shown in Figure 6.9, most of the beneficiaries of micro-credit institutions already had a basic income from their regular employment, before receiving the loan. From the survey conducted by the team, almost 94% of employed beneficiaries, (who represent almost 80% of the survey sample), have a monthly income of less than JD 300.

Therefore, microfinance has not served the poorest of the poor, that is, the individuals and households who require a loan the most. The very poor typically are unable to obtain any formal loans, as they do not possess collateral, nor can they join a borrowing group. Even with moderate improvements, interest rates on micro-finance loans are still excessive, as opposed to commercial banks. Rates are also excessive, compared to the return on investment rates of projects typically found in rural areas, such as trading and

Figure 6.8 Distribution of Projects according to Governorate



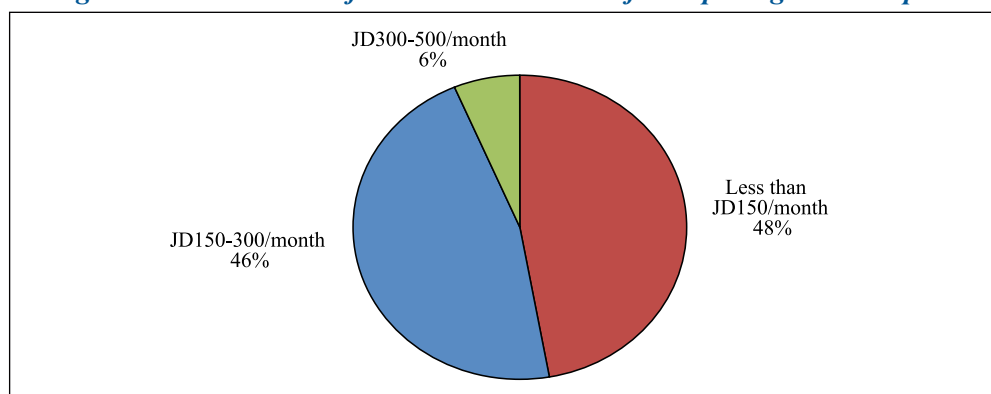
Source: Social Solidarity Coordination Commission, 2008

husbandry. This is understandable, as no microfinance institution declared that it is in their mission statements to serve the poorest of the poor. Thus, it is imperative that stakeholders find other methods of poverty alleviation, such as grants, subsidies and other services.

### 6.8 Is Microfinance Relevant to Women?

Women by far represent the largest target segment of all the micro-credit institutions working in the Kingdom. From the total number of projects receiving financing from micro-credit institutions, women implemented almost 86% of them.

Figure 6.9 Distribution of the Owner Income Before Opening the Enterprise



Source: Micro-enterprises Survey, 2009

Due to the limited access of the poorest of the poor to micro-credit facilities, they still live on direct financial support; Social Solidarity Coordination Commission statistics show that almost 40%<sup>244</sup> of the poor found in the poverty pockets of Jordan are receiving direct support from the National Aid Fund (NAF), showing that the micro-credit institutions still need to expand their operations and diversify their strategies, to include this segment of the less advantaged in their agendas.

Although the amount obtained from loans by women is less than the amount received by men, women still collected approximately 51% of the loans. Women were the largest beneficiaries of these loans, as they made up 81% of employment opportunities generated, as a result of these micro-projects.

Results of a recent Planet Finance study indicate that the average age of a microfinance client is a 37 year old, married female, with less than a high school education. To expose the importance of microfinance, results

indicate that it sometimes provides the only external source of finance for the economically active poor in Jordan. 55% of those sampled in the Planet Finance study state that their MFI is their main source of income, and that it has huge impacts to improving quality of life – especially for longer term users.<sup>245</sup>

As women are the main target of the micro-credit institutions, such institutions will have a remarkable impact on the individual woman. However, female entrepreneurs in microenterprises face problems at the start up phase, where almost 45% of the women surveyed faced problems with their families, while 35% faced problems with finding proper child care. However, once past these stumbling blocks, the positive impacts on the human development of these women are significant

- In terms of home-life, 89% of the women surveyed found that they were positively affected by owning their own business, mainly through increased income, but also many noted increased independence, as well as more respect within the family. Those with negative experiences complained of additional responsibilities and of being away from their children for long hours.
- Female business owners surveyed (roughly 70%) also reported overwhelmingly positive experiences in terms of their positions in society.
- Women also reported increased decision-making roles, where these women felt that they had a more authoritative voice in solving family issues.

## 6.9 Conclusions

A relatively equitable distribution of capital (both social and commercial) is essential for diminishing poverty. Microfinance can assist in equitable human development by providing a greater number of people with access to capital, and by generating the induced employment obtained when entrepreneurs invest this capital in their communities and the overall economy.<sup>246</sup> It is evident that microfinance can have an important role in the creation of the necessary, initial, distribution of physical assets, to the ‘near poor’. However, the core poor need microfinance programs to increase their outreach, through the reduction of interest rates and more focused strategies.

### Box 6.1 Fatima Zahran’s Story

After Fatima Zahran separated from her husband, she was left with 5 children, without an income provider. Fatima was facing financial constraints at that time, and the only way for her to improve her quality of life was to develop her knitting skills. This kind of situation encouraged and pushed Fatima to depend on herself and develop her skills and talents for the sake of her family, and her own self development.

The first step she took was to visit ERADA’s center in Ghoor El Safi area, in Jordan so they could help her develop her knitting project.

ERADA, enthusiastic about her project concept, encouraged her to pursue her idea in the market, and offered her help and services, by providing her with a study for her project concept, as well as referring her to a micro-credit fund to receive a loan.

She is now an independent woman who is able to provide income for her family and herself. As well, Fatima was able to open a business line in accessories and jewelry from the income she received from her knitting project.



Micro-enterprises are important instruments in promoting human development in Jordan, as they offer the opportunity for entrepreneurs to take control of their lives and increase their standards of living, with relatively small capital investment.

The Report MSME Survey showed that owning a micro-firm significantly improved the lives of the owners in many ways, for example, allowing them to obtain public insurance, as well as to join the professional associations and labor unions and the chambers of trade and industry; according to the Survey, 15% of MSME owners were members.

It should also be noted that micro-enterprises are a boon to women; the Survey conducted by the team showed that almost 90% of women experienced improvements in disposable incomes and personal independence. Also, more women find themselves in a position of assertiveness and authority after opening their own business. When a woman opens her own business, almost overwhelmingly they hire other women, thus increasing the number of women in the workforce.

It should be noted that micro-enterprises, on their own, will only have a medium-level impact on the lives of the disadvantaged, as government funded initiatives need to invest both in allowing people to set up their own micro-enterprise, and expand their existing ones.

In addition, micro-enterprises are often trapped in low-growth sectors with high competition and limited returns. Micro-finance programs need to diversify their product portfolios and expand to include the savings aspect of microfinance. Legal restrictions on these issues need to be addressed, in order to allow micro-finance institutions to offer savings to the less advantaged sectors of the population; MFIs need to have some provisions to help support micro-enterprise growth.

The government should also start investing in micro-finance firms, in order to increase the amount of capital micro-enterprises can obtain. However, with

this investment should come certain preconditions, such as ensuring micro-finance institutions are more accessible and affordable. The 'poorest of the poor' should receive grants, subsidies, and other services.

Not only should investment in micro-enterprises be improved, but professional associations should be created to support their specific needs, especially in terms of growth and loan guarantees to bypass collateral requirements.

Any group wishing to focus on micro-finance should be careful to make the distinction between those in temporary unemployment, due to job losses and other unforeseen circumstances, and those who are chronically poor, and target those groups differently.

Another area that should be given attention is the area of micro insurance; an almost non-existent industry in Jordan, it could be a new market aimed at those wishing to obtain insurance, but cannot afford conventional insurance.

Programs in Jordan should be created, similar to the ones created by institutions such as BRAC and ASA in Bangladesh, which might offer Jordanian micro-enterprises help, including training and medical care, grants and credit, all so that the most disadvantaged will have enough savings to create a micro-finance program. Savings services may be an additional source of support.

*Chapter VII: MSMEs  
and Sustainable  
Development*



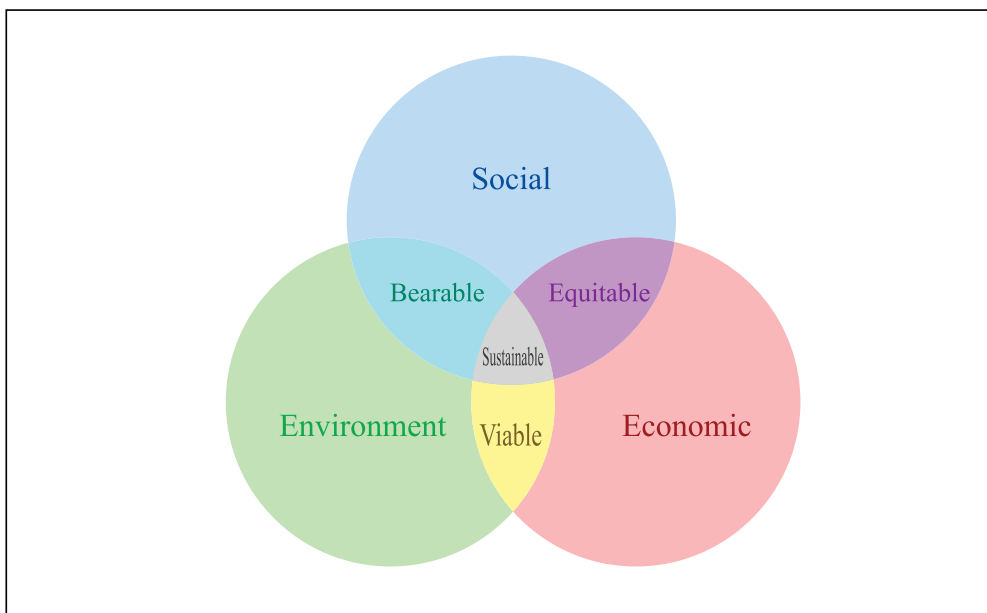
### 7.1 Introduction

According to the UN, “Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.”<sup>247</sup> Thus, the term sustainable development can be broken down into three parts: environmental sustainability, economic sustainability and sociopolitical sustainability, as shown in Figure 7.1.

Studies have shown, however, that a majority of small business owners and managers (80-90%) consider the environment to be a vital issue and encourage environmental safety.<sup>249</sup> Although, knowledge of formal environmental protection methods, environmental legislation and how to conform to such legislation, remains quite limited.

MSMEs – compared to large firms - are less likely to undertake environmental

Figure 7.1 Sustainable Development



Source: “The Future of Sustainability: Re-thinking Environment and Development in the Twenty-first Century,” UCN, 2006.

### 7.2 Literature Review

Research by the United Nations Environmental Program (UNEP) shows that small enterprises are particularly commonplace in areas distinguished by significant amounts of resource use and air pollution. Such areas include metal works, laundry services, printing, dyeing, food and beverage production, fishing, textiles, and chemical manufacture.<sup>248</sup>

According to UNEP, while most small enterprises are in the provision of services, the small enterprises engaged in manufacturing (approximately one quarter to one third of small firms) do produce an important share of industrial waste.

upgrading programs, have an established environmental policy or management standard, or to have conducted an environmental impact assessment. While entrepreneurs themselves understand the sensitivity of the environment, this does not seem to be applied in actual business, “The so-called MSME problem in environmental management.”<sup>250</sup> Furthermore, when environmental programs are undertaken, they are mostly reactive in nature, focusing on an immediate problem such as lowering the amount of harmful gasses released into the atmosphere (the ‘end-of-pipe treatments’) as opposed to pro-active pollution prevention methods. Small firms are not anxious to undertake major modifications in supplies, production methods or operations management, but instead look to what are ultimately makeshift

solutions, such as increased recycling.<sup>251</sup> UNEP also argues that far too often, small enterprises do much less than larger companies to address their negative environmental impacts-for a variety of reasons ranging from relative lack of training, know-how, technology, and money, to poor implementation of occupational health, safety and environmental laws in this sector, and less consumer or NGO pressure.<sup>252</sup>

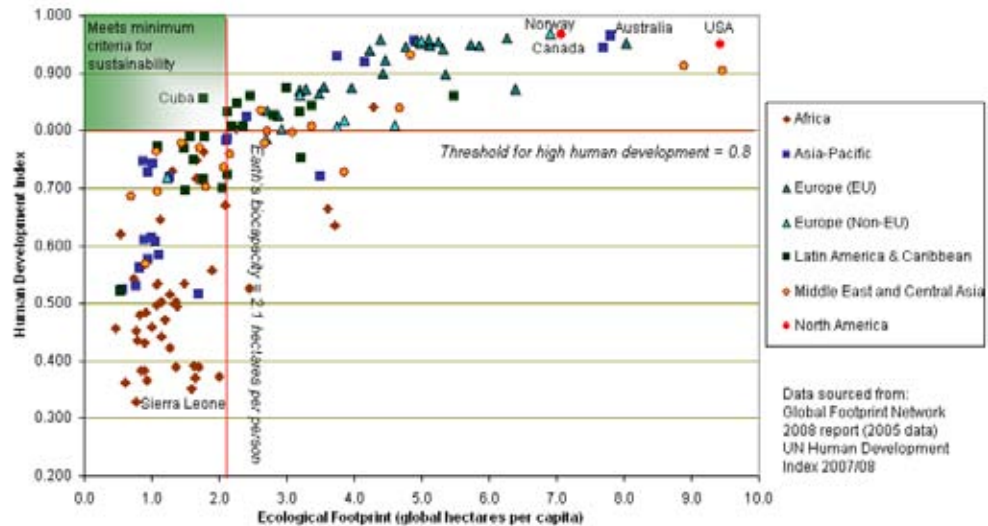
### 7.3 Environment and Sustainable Development

Abuse of the earth's resources is measured through the ecological footprint. The 'ecological footprint' is an indicator of human consumption, measured through the amount of land that can be utilized for resource extraction, and waste disposal, per person. In the year 2009, the ecological footprint was 2.6 hectares per person, which is 30% more than the natural capacity of the planet earth, 1.8 hectares per person.<sup>253</sup>

of humans; this footprint is increasing rapidly, thus resulting in an ecological deficit. Each year, the resulting ecological deficit is met by increasing the usage of unsustainable extra resources, which are obtained from three sources: products and services exchanged in global trade; from previous generations (for example, non-renewable fossil fuels); or the over-consumption of renewable resources (for example by over exploiting forests and fisheries).

It is necessary for the citizens of many countries to maintain both an acceptable standard of living and maintain the sustainable use of resources. In general, high standards of living will result in less sustainability. Population growth has always affected the levels of consumption of resource use. The objective of sustainability entails increasing the standard of living, on a global scale, without exceeding the planet's resource supplies. National, regional and urban scale data

Figure 7.2 Human Development Index vs. Ecological Footprints



Source: Francois Cellier, "Ecological Footprint, Energy Consumption, and the Looming Collapse," ETH Zurich, Retrieved from [http://www.inf.ethz.ch/personal/cellier/Pubs/World/tod\\_07.pdf](http://www.inf.ethz.ch/personal/cellier/Pubs/World/tod_07.pdf), on November 2, 2010

The data shows clearly that over time, the ecological capacity of the earth is diminishing and that more work is needed, in order to reduce the ecological footprint

reveals that current resource utilization is not sustainable, and this trend appears to be rapidly increasing globally.<sup>254</sup>

Figure 7.2 demonstrates that increased human development (measured by the UN's Human Development Index), has unsustainable ecological impacts. There seems to be a positive correlation between human development and the over utilization of resources, that is, the more developed a nation is, the more likely it is to put a strain on the planet's resources.

Paramount to the World Business Council for Sustainable Development is the concept of sustainable entrepreneurship, "The continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations." Therefore, sustainable entrepreneurship implies that the business should have responsibilities towards its shareholders, as well as the environment, the general public, and future generations.

At the outset, it is relevant that before examining the link between MSMEs and sustainable development, a quick review of Jordan's overall environmental progress, is provided. In her efforts to bring awareness of these issues, Her Majesty Queen Rania al-Abdullah launched the Arab Sustainability Leadership Group (ASLG). This group is an amalgam of enterprises, NGOs, and public agencies, designed to promote sustainability in the work place, in conjunction with strong business growth. Also, in May 2002, the heads of Jordan's 99 municipalities offered a declaration of support, regarding the World Earth Charter.<sup>255</sup> By implementing this Charter, governmental municipalities have agreed to the concept of strategic, sustainable development, in conjunction with the JOHUD and the Ministry of Rural Affairs.

Still, the Jordanian environment is faced with many challenges. The Jordanian Ministry of Environment estimates that environmental neglect and abuse costs the Kingdom JD 330 million yearly (approximately 5% of GDP) due primarily to the fact that the environment is not taken into account in national and regional

development plans. Water wastage alone costs the Kingdom approximately JD 100 million yearly.<sup>256</sup>

Energy exploitation, natural resource depletion, land degradation, chemicals and waste are among Jordan's leading environmental concerns. The main cause of Jordan's increasing air pollution is the rapid increase in the number of automobiles in the country (at 7%, yearly).<sup>257</sup> This problem is likely to grow in the coming years, impacting national health significantly.

A recent Country Environmental Analysis has shown that the collective damage caused by CO<sub>2</sub> emissions from road vehicles in Jordan amounted to JD 130 million annually. In specific, heavy-duty automobiles, minivans, minibuses and light duty automobiles accounted for 60% to 90% of these gasses. However, passenger cars were the main cause of carbon monoxide and hydrocarbons, that is, 80% of such pollution. Electricity production, mining and cement creation were among the worst industrial polluters.<sup>258</sup>

Regarding solid waste collection, Jordan collects approximately 90% of urban solid waste and 70% of rural solid wastes, although frequently dumping them in open, unregulated sites (except for Amman, which has more sophisticated waste disposal mechanisms). Regarding dangerous wastes (such as medical wastes), disposal is insufficient. For example, roughly half of such waste is burned in old-fashioned incinerators, and the remainder is dumped in open municipal landfills.<sup>259</sup>

The productivity of Jordan's farmland has decreased by approximately 50% over the last 15 years, due to the overuse of various animals for food, and Jordan's rapid population increases. On the other hand, Jordan is increasing the amount of land that is designated 'protected areas,' reaching 6% of forest spaces (that is, twice the MENA average).<sup>260</sup>

Starting in 2008, there has been an increase in the number of illegal logging violations across Jordan's green cover,

covering less than 1% of Jordan's total area. In rural forest areas, deforestation has become a significant issue, with lumber transferred to the capital, where each ton is sold for over JD 120, even though the practice carries a fine of at least 100 JD per tree and a three-month imprisonment. In 2008 alone, the Ministry of Environment and the Royal Environment Protection Department (Rangers) fined approximately 17,670 individuals/firms for illegal practices in 2008 (the majority of which constituted logging without public authorization, and improper industrial waste disposal). Of these individuals/firms, the vast majority (17,600 individuals/firms) received warnings and/or reprimands, while the remaining 74 companies/farms were shut down.<sup>261</sup>

On a more positive note, Jordan's National Energy Strategy adopted in 2009 has set a target, whereby 10% of the nation's energy supplies must be renewable by 2020.<sup>262</sup>

#### Box 7.1 Sustainability as Business Strategy

According to experts at the Second Annual Corporate Ambassadors Conference in Amman in November 2009, eco-friendly business initiatives in Jordan require more inducements and cooperation among the main players, as the nation faces various challenges, such as a water deficit and an increasing growing population. Both challenges when put together are formidable and require strategic action involving all stakeholders.

"Go green" businesses need incentives, because "brown business", which utilizes fossil fuels, is less expensive in the region, as consumers are not paying the full economic price for fuel.

Jordan presently imports 96% of its fuel, and has come to pay almost the full cost of this energy; however, 25% of the nation's fuel is utilized for pumping water. By reducing water consumption or making its supply more efficient, Jordan can lessen its fuel consumption.

Protected areas and nature reserves are assisting the national economy, as they generate revenues for local communities, through MSMEs in particular; the preservation of nature is becoming not only economically feasible, but also economically attractive.

The Ministry of Agriculture, Ministry of Water, and other relevant governmental agencies, have set in motion 21 laws and pieces of legislation that are meant for the preservation of the environment. The Environmental Protection Law No. 52 of 2006 is one such piece of legislation, serving as the basis for many regulations and instructions.

In 2008, Jordan's Ministry of Environment amended the country's environmental laws. Government officials maintain that these laws are often at odds with one another, thus leading to a situation where a judge, when offering a verdict against an environmental infraction, is stopped due to a provision in another law. Consequently, two laws were amended: The Environment Inspection and Monitoring Law (to govern and regulate inspections and adherence to regulation, classifying industries as high, medium and low risk), and the Environment Protection Fund Law (clarifying the criteria for environment-friendly projects that are eligible to apply for grants).

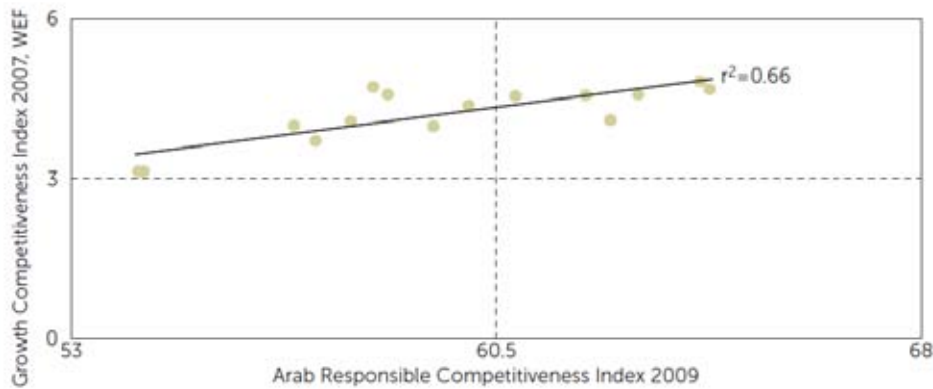
#### 7.4 MSMEs and Sustainable Development

An emerging science in the study of environment and business is Industrial Ecology, a "Systems-based, multidisciplinary discourse that seeks to understand emergent behavior of complex integrated human/natural systems."<sup>264</sup> Industrial ecology is often useful for companies wishing to enhance their resource productivity, hence, competitiveness. However, industrial ecology cannot in itself promote a competitive advantage for the company. In some cases, the cost may exceed the benefits. Unless regulatory requirements completely internalize environmental costs, polluting companies do glean cost advantages relative to firms

that reduce or do away with emissions.<sup>265</sup> Furthermore, the recently published “Responsible Competitiveness in The Arab World Report (2009),” shows that, “Responsible business practices are strongly correlated with competitiveness, human development, and innovation; though less so, albeit still positively correlated, with environmental performance.”<sup>266</sup> The relationships are demonstrated in Figures 7.3, 7.4 and 7.5.

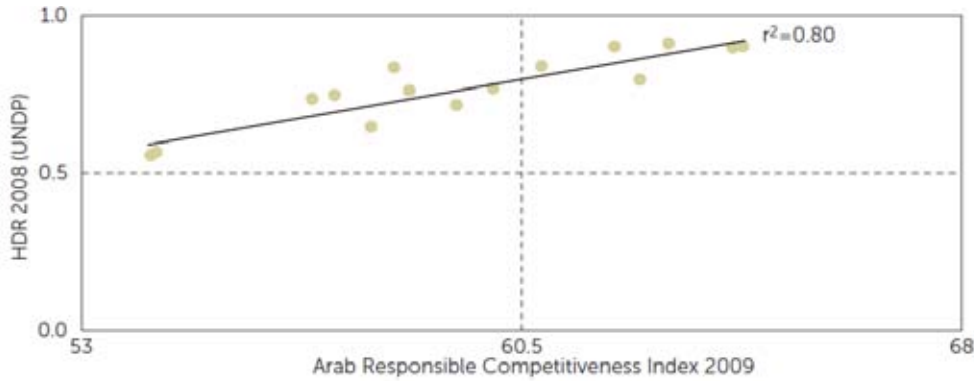
Jordan was ranked seventh out of 15 Arab states in the Responsible Competitiveness in the Arab World 2009 report. The top rank was achieved by the UAE. Jordan fell behind Oman, Lebanon, Bahrain as well as Kuwait. This indicates that Jordanian businesses are ranked in the middle in comparison with the rest of the Arab world.<sup>267</sup>

**Figure 7.3 Growth Competitiveness vs. Arab Responsible Competitiveness Index 2009**



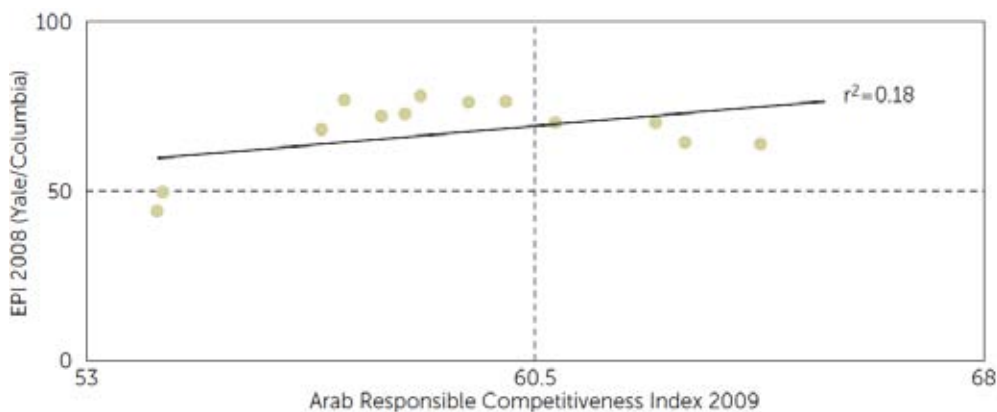
Source: “Responsible Competitiveness in the Arab World 2009,” Accountability, May 2009

**Figure 7.4 HDR (UNDP) vs. Arab Responsible Competitiveness Index 2009**



Source: “Responsible Competitiveness in the Arab World 2009,” Accountability, May 2009

**Figure 7.5 EPI vs. Arab Responsible Competitiveness Index 2009**



Source: “Responsible Competitiveness in the Arab World 2009,” Accountability, May 2009

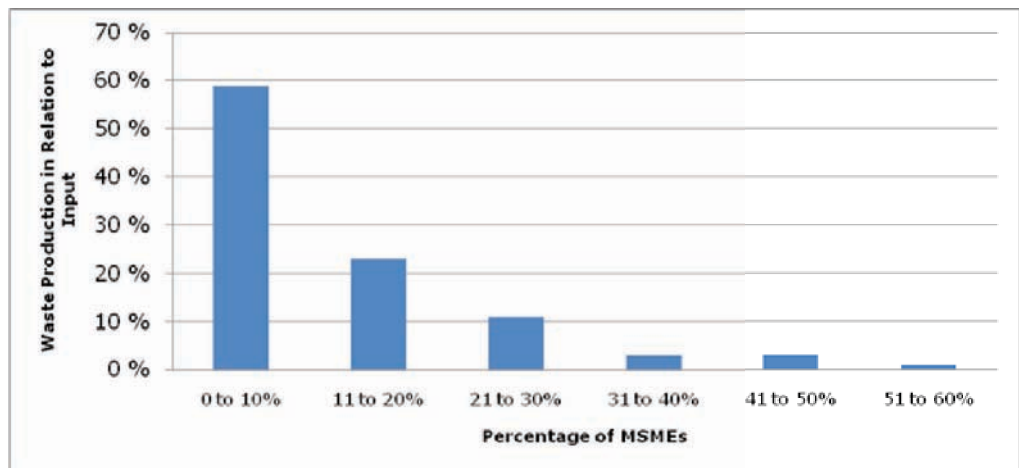
While individually micro, small and medium sized enterprises (MSMEs) have relatively minor social, environmental and financial impacts, cumulatively their impact is significant. An essential point that must be addressed when discussing sustainability is whether MSME's can be involved in sustainable operations given their lack of competitiveness. However, an obvious answer is that policy, granting certain advantages to MSMEs who act responsibly toward the environment, may encourage not only a better environmental performance but also greater competitiveness of MSMEs.

Small firms, with their limited manpower and revenue, and weaker ownership structures, are less likely to adopt sustainability practices, since such practices

are less likely to be geared towards them. This case is especially interesting since theories and practices on sustainability have been predominantly developed for and in large firms. By now, the MSME sector has gained major recognition for contributing to an economy. However, they have also gained major recognition and attention in previous years for their environmental and social actions. At the same time, MSMEs are increasingly being criticized for being highly resistant to voluntarily improving their performance in these areas, behaving reactively rather than proactively, and adopting few sustainability programs.

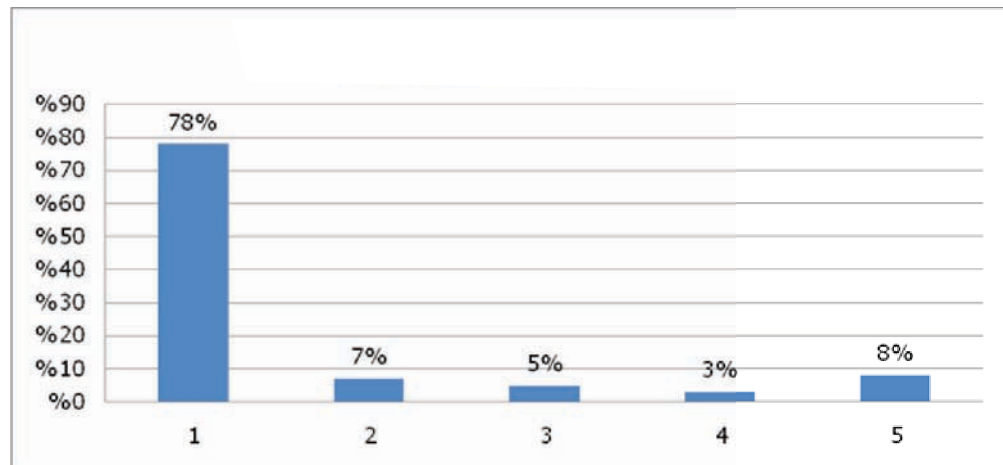
MSMEs may have functioned inadequately, in terms of environmental conservation, as more companies do not use

Figure 7.6 Waste Production



Source: Report MSME Survey, 2010

Figure 7.7 Is the Environment Important to MSMEs?



Source: Report MSME Survey, 2010



resources efficiently and create more than proportional waste. Simple lack of economies of scale and scope may underpin materially wasteful practices. Lack of resources to mobilize best practices in terms of production and waste management places an undue burden on the small production units, especially when, as shown earlier in this Report, most MSMEs are operating at below their competitive potential.

Studies have indicated that some MSMEs create pollution and waste that consequently harm their nation's environment.<sup>268</sup> Indeed, according to the Report MSME

"I care that my business does not disturb or harm my neighbors. But waste disposal is so expensive"

*Abdel Naser, Poultry Farm Owner*

Survey, 59% of Report MSME Surveyed produces 0-10% waste in relation to their input and 7% produce 30% or more waste, as shown in Figure 7.6.

On the other hand, MSMEs recognize environmental protection as one of the pillars of sustainable development, which requires significant attention. According to the Report MSME Survey, 78% of MSMEs view the environment and its protection as very important. As shown by Figure 7.7, 8% of respondents did not consider the environment to be a significant issue. While it is evident that the vast majority of respondents are concerned about the environment, it is not a simple task for these respondents to convert their concern into positive actions.

MSMEs usually lack the financial resources and the knowledge of how to implement environmentally friendly practices. In the survey, only 14% of the MSMEs have adopted environmentally friendly policies, and of those who did:

- 31% use recycling (6% of total MSMEs)
- 19% use renewable energy (3% of total MSMEs)
- 42% have an energy savings plan (8% of total MSMEs)

Of the Report MSME Surveyed, 73% do not view the environment (or environmental regulations) as an impediment to growth; only 3% view it as a large impediment. For those who do view it as an impediment: 46% are concerned with cost and 13% with complicated procedures.

Therefore, given that resources for sustainability are allocated or that governmental action assisted to those who opt for a sustainable mode of production, MSMEs would be potential candidates for early and quick adoption of sustainable technologies.

The two major issues impacting the behavior of MSME owners are:

- (I) Funding: Only 18% of those surveyed state they can provide the necessary funding for the implementation of environmental protection policies
- (II) Awareness of Local and Global Environmental Standards: According to survey results, only 32% of business owners are aware of local and international standards regarding environmental policies, which underscore the significance of awareness campaigns and proper access to information.

Searching for economically sustainable solutions to environmental issues is the focal point of the challenge. MSMEs are unlikely to adopt expensive environmental saving technologies. In general, due to the marginal profits that MSMEs have to contend with, there is little room for additional expenses, even if some environmental gains will be achieved.

The formation of the Environment Protection Fund is in progress, in order to finance environmentally friendly projects. The new Fund will help private sector projects that act in accordance with environmental legislation and assist entrepreneurs with environmentally friendly projects that they apply for, as well as proposing projects themselves. The Fund's managers will include officials from the private sector and government, for the sake of complete transparency, and it will be financed through the revenues generated from selling carbon dioxide credits/offsets to industrial nations. Some examples of these projects include GAM's biogas venture in the

### Box 7.2 Medium-Sized Industrial Pioneers Environmental Policy

“At Nuqul Group, we believe efficiency is our ally. Waste is our enemy. Waste, whether in material, resources, time or due to an injury or lost opportunity, cost money, serves nobody, and is paid for by all stakeholders.”

Nuqul Group, an energy dependent company that makes a diverse group of products including sanitary paper products where energy accounts for 40% of the production cost, has been certified in ISO 14001. This was accomplished by reducing input resources, reusing waste back into the production process and sending production by-products (waste) to third parties to be recycled.

One of the core products are diapers. New technologies have enabled the Group to reduce the pulp that goes into each and every diaper by 20% without compromising established performance standards. Most of the plastic packaging material thickness has also been reduced by 20% without compromising its integrity.

Overall, there was decreased use of fresh water consumption throughout the facilities. For instance, a reduction (by 3%) of reject process water, optimized shower nozzles (using 35% less water), high-efficiency pump seals (reduced water usage by 12%), replaced open-looped chillers with closed-looped chillers (reduced water usage by 14%), with regards to a major boiler, replacement of an outdated flash steam condenser to a more efficient one-this in turn allowed a reduction of the amount of boiler make-up water needed (thereby, reducing water usage by 20% and fuel consumption by 3%).

With existing boilers running on kerosene and other heavy fuel oils, a reduction of hood/stack heat losses through better design and insulation coupled with electronic gas monitors and recalibration addressed fuel and air variations that provide an ideal damper settings and ideal burner settings. As a result, hood thermal energy loss was reduced by 20%.

The Low BTU Gas boilers decreased its heat loss by 18%; and the Heavy Fuel Oil boilers reduced heat losses by 15%. From a geographic location, at one of its major facilities, it made sense to have an on-site generation plant. This reduced the amount of electricity loss utility companies experience during the delivery process.

*Source: Taken directly from , “Global Compact, end of year communication on progress”, July 2009, Nuqul Group.*

Russeifa landfill, the venture to sell CO2 from the Rihab Electricity Plant to the US, and a thermal heat station in Aqaba. These projects along, with others, are expected to produce 100 million Euros in the upcoming five years, with 15% of the profits channeled back into the fund.<sup>269</sup>

### 7.5 Conservation Related Enterprise Development

Environmental groups have been involved in the promotion of environmentally friendly MSMEs, as an alternative to unsustainable economic activities, which consistently threaten biodiversity and the ecosystem. Activities that have been promoted, involving MSME environmental leadership include: organic farming, ecological tourism, agro-forestry, and forest products (that do not consume wood). In Indonesia, six million individuals obtain income by gathering or processing non-wood forest goods for export revenues, amassing of USD 202 million annually.

### 7.6 Society, Culture and Sustainable Development

The idea of culture has grown in tangent with global development matters, as

environmental sustainability and economic equity. Often, advances in human development may also require cultural change. In the case of Jordan, however, years of resource scarcity have led to the development of many environmentally friendly practices that became embedded within the culture itself. Jordanians tend to light the room they are in within the house rather than lighting all rooms, which lends towards family gatherings in one area of the house.

### 7.7 Preserving Cultural Heritage

Cultural heritage is both tangible and intangible, and supporting crafts along with home-based micro enterprises are two dimensions of preserving cultural heritage. Jordanian crafts were restored and renewed through voluntary initiatives in order to promote traditional values and local heritage. A number of voluntary societies started during the past twenty years to rediscover traditional crafts through the initiation of income generating projects to improve the standards of living in rural areas. Crafts in Jordan are produced through different business formats that correspond to four different structures of production: Individual

Table 7.1 Employment in Sales and Craft, 2008

ISIC number	Crafts Professions	Total of Sales in (*000) JD	Number of Employees
2699	Ceramics classified as part of the crafts	8,961.9	317
2731	Metal, copper and silver works	18,923.4	1,125
1912	Leather Works	1,773.9	287
1722	Weaving	37,940.4	790
2029	Wood works	6,242.2	545
2691 & 2693	Pottery	23,055.9	1,350

Source: Department of Statistics, "Economic Surveys," 2008

evidenced by the rising share of cultural products, services and intellectual property in global trade (along with the challenges to cultural diversities and characteristics, related to modern globalization). Cultural diversity and preservation is an integral aspect of sustainable development, and human development. Human development can only be accomplished through a synergy of cultural preservation,

craftsmen, groups of artisans associated with NGOs, cooperatives or voluntary and social societies, and small and medium size private companies.

Department of Statistics data for items classified according to the ITC definition as crafts were identified by the International Harmonized System. The following estimates are the only currently available figures

**Box 7.3 Royal Society for the Conservation of Nature (RSCN)**

The Royal Society for the Conservation of Nature is designed for the preservation of nature, in conjunction with rural economic growth. It seeks to do this via the private sector and free market.

As an example of its approach, the RSCN has entered agreements with over 25 local tour operators to advertise and market its ecotourism initiative. The RSCN also founded the Wild Jordan Center, in order to market the richness of the natural environment, via tourism and handicraft.

RSCN says of themselves: “The collective impact of these initiatives (and the general adoption of business approaches) has been to revolutionize nature conservation strategies in Jordan. No longer are protected areas seen as the preserves of the elite, of little relevance to the social and economic needs of ‘ordinary’ Jordanians; they are now being recognized as engines of rural development, able to offer alternative and sustainable livelihoods for some of the poorest communities in the Kingdom. Such environmental entrepreneurship, combined with a people-centered philosophy, has also enabled RSCN to generate more popular support for conservation, minimize its need for government financial support, and become a national and regional leader in sustainable development.”

*Source: Royal Society for the Conservation of Nature Website ([www.rscn.org](http://www.rscn.org))*

It is clear from the numbers stated in Table 7.1 that they represent a minimum measurement, since these numbers go back to the year 1999. As there is no formal system for collecting data, most of these activities are part of an informal economic sector which is either not counted or difficult to trace, without a clear codification system.

**7.8 Culture Related Enterprise Development**

A common perception in Jordan is that establishing MSMEs can contribute to the sustainability of social activities and cultural heritage. Indeed, establishing new MSMEs may create new job opportunities for the younger generations and establish alternative products and production methodologies, which may sustain Jordan’s cultural heritage. They can develop cultural and formative exchanges in the fields of arts and crafts. MSMEs may also develop at the level of local tourism in Jordan, by attracting tourists to businesses that supply cultural souvenirs, traditional handicrafts and Islamic art. The success of the Jordan River Foundation and the emergence of a rug weaving and tapestries industry, with worldwide exports, is one example.

**7.9 Jordanian MSMEs and the Global Compact and Corporate Social Responsibility**

The UN Global Compact is a voluntary corporate citizenship initiative that engages business enterprises with civil society, labor organizations, governments, academic bodies and institutions and other stakeholders, in order to address the areas of human rights, labor, environment, anticorruption, and social accountability. According to the UN Global Compact, there are 29 organizations in total participating in the Global Compact Initiative in Jordan. Table 7.2 indicates that the majority of the organizations are large corporations and NGOs.

However, MSMEs are increasingly joining this international movement. As the table shows all the Jordanian companies

who joined the UN Global Compact during the years 2009 and 2010 are MSMEs. This clearly indicates that more and more MSMEs in Jordan have the willingness to invest in more CSR practices, in order to have better environmental and social impacts.

As to volunteerism in Jordan, in 1959 the General Union of Voluntary Societies (GUVS) was established in response to the formation of volunteer associations and accompanying the process of modernization in the country. Currently, volunteerism is spreading in Jordan, helping to foster inclusion among some marginalized groups, especially those living in poverty pockets, as well as the young. Use of external volunteers is becoming more common, especially the US Peace Corps, the European Voluntary Service and others. However, the number of volunteers involved is still relatively small, the Peace Corps for example (one of the larger organizations in terms of its Jordan presence) at present having a total of 30 volunteers in the country, with all volunteers to date since the beginning of its activities over 20 years ago being around 420.

In Jordan, the United Nations Volunteers (UNV) program was formally established in 2000. Since its commencement, the UNV program has expanded and continues to assist UN institutions, local non-governmental organizations and various governmental departments, in their development endeavors by mobilizing national and foreign volunteers.<sup>270</sup> One example of volunteerism in Jordan is the Madrasati (My School) initiative. Her Majesty Queen Rania Al Abdullah commenced Madrasati as a partnership between the governmental and private sectors in 2008, in an attempt to increase the quality of the infrastructure in public schools in Jordan, thus offering an improved learning environment for pupils. The initiative, which is in collaboration with the Ministry of Education, is intended to assist some 165,000 pupils over a period of five years. It is an opportunity for corporations to invest their resources in a result oriented effort. Even though

#### Box 7.4 Examples of Cultural MSMEs

Khulood Abu Saqer was talented in art and drawing. However, she felt she needed professional guidance for her mosaic painting business to succeed in the market. She also felt that she needed the proper training tools in order for her to improve her talent and skills professionally so she can be able to compete with competitors in the market before opening her own business as a stable source of income for her and her family. What made a successful impact on Khulood's micro business and life was working with home producers to market her products. Consequently this enabled her to earn a high source of income.

The story of Fatima Zahran is another example of a business promoting cultural heritage. She was able to open a business line in accessories and jewelry from the income she received from her knitting project.

Promoting cultural heritages by business can be also seen in the success of Ms. Nihad Al Zubood's entrepreneurial story. Nihad Al Zubood was always inspired to open her own business and earn her own income. She owns a micro enterprise business at her home in Mafraq. She manufactures hay products for a living. As an independent individual, she pursued her goal with no hesitation whatsoever along with the help of ERADA (The Center for Enhanced Economic Productivity). To be specific, she was introduced to the institute of ERADA in Mafraq through lectures and various awareness presentations in the area of Rihab (which are done in local areas) and she later on joined training sessions regarding manufacturing candles and creams. This project was able to help her improve her family's income (which includes 5 family members of hers) and their standard of living. In addition, different products have been developed such as various types and styles of tables made out of hay.

Table 7.2 Firms Participating in the Global Compact Initiative

<i>Participant</i>	<i>Nature of Org</i>	<i>Sector</i>	<i>Country</i>	<i>Joined</i>
Al Urdun Al Jadid (New Jordan) Research Center - UJRC	NGO Global	Not Applicable	Jordan	2009/01/19
Al-Faris National Investments Company (Optimiza)	Company	Technology Hardware & Equipment	Jordan	2008/07/23
Alia-The Royal Jordanian Airlines (Royal Jordanian)	Company	Travel & Leisure	Jordan	2008/09/04
Amman Chamber of Industry	NGO Local	Not Applicable	Jordan	2008/09/05
Anglo-Arab Insurance Brokers P.S.C	SME	Nonlife Insurance	Jordan	2009/07/07
Arab Center for Engineering Studies (ACES)	Company	Construction & Materials	Jordan	2008/05/29
Arab Company for White Cement	Company	Construction & Materials	Jordan	2008/08/07
ARAMEX PJSC	Company	Industrial Transportation	Jordan	2007/07/12
BEAT - Blue Energy for Advanced Technologies	SME	Software & Computer Services	Jordan	2008/05/08
Business Development Center - BDC	NGO Local	Not Applicable	Jordan	2008/08/19
King Hussein Bin Talal Convention Center	SME	Support Services	Jordan	2008/08/07
IDEA JWT - AMMAN	SME	Media	Jordan	2008/01/08
Primus - A Division of Computer Networking Services	SME	Software & Computer Services	Jordan	2007/09/24
Jordan River Foundation	NGO Local	Not Applicable	Jordan	2008/12/26
Owning Group of Landmark Hotel - Jordan Holiday Hotels Company	Company	Travel & Leisure	Jordan	2008/09/04
Nuqul Group	Company	Forestry & Paper	Jordan	2007/07/12
Naouri Group	Company	Industrial Transportation	Jordan	2008/01/17
El Zay Ready Wear Manufacturing Company	Company	Personal Goods	Jordan	2008/05/15
Greater Amman, Municipality of	City	Not Applicable	Jordan	2008/07/10
City of Salt	City	Not Applicable	Jordan	2007/01/16
Protech Company	SME	General Industrials	Jordan	2009/07/07
Protechnique	SME	Electronic & Electrical Equipment	Jordan	2009/08/18
RAZORView Advisors	SME	Support Services	Jordan	2006/12/12
Sayegh Brothers For Engineering Industries Co.	SME	General Industrials	Jordan	2008/09/10

*Table 7.2 Firms Participating in the Global Compact Initiative (Continued)*

<i>Participant</i>	<i>Nature of Org</i>	<i>Sector</i>	<i>Country</i>	<i>Joined</i>
Schema	SME	Support Services	Jordan	2006/12/12
Shabakat Al Ordon	NGO Local	Not Applicable	Jordan	2008/12/10
Tactix Strategic Consulting	SME	Media	Jordan	2007/08/06
Young Entrepreneurs Association	Business Association Local	Not Applicable	Jordan	2008/11/03
Terra Vertis	SME	Support Services	Jordan	2010/01/20
O2 Catering- O2 Events and Conference	SME	Food Producers	Jordan	2010/03/16
Jordan Select Tours	SME	Travel and Leisure	Jordan	2010/04/14

Source: UN Global Compact Website

Box 7.5 Aramex, Ruwwad, and CSR

Aramex, a multinational corporation founded in Jordan and with headquarters in Amman, is a strong advocate of corporate social responsibility. An important example of Aramex's CSR activity is the founding of Ruwwad, a private sector initiative acting as a catalyst for members of marginalized communities to work together to meet their needs through among other things youth development, education, employment-generation, and promotion of entrepreneurship.

With the participation of other socially responsible entities in Jordan, in 2005 Aramex set up Ruwwad, the first privately funded non-profit organization in the country. Today, Ruwwad runs a series of programs such as scholarships and rehabilitation programs in marginalized communities, and aims to expand its successful formula regionally, aiming to positively affect the lives of people in marginalized and under-privileged societies. Ruwwad launched its work in Jabal Nathif, a community in East Amman incorporating a refugee camp that is not officially recognized as such and therefore remains severely underdeveloped, suffering overcrowding and lack of many public services, with 50% more unemployment than the national average, and 50% fewer higher education graduates. When Ruwwad first came to Jabal Nathif, corporate volunteers spent the first year gathering information about the neighborhood and determining priorities by listening to residents, who prioritized projects ranging from creating a children's library to cooperating with the government to open the area's first post office, police station, and public health clinic. Apart from corporate staff who undertake volunteer work, Ruwwad promotes community activity by providing university and college scholarships to 250 students from Jabal Nathif, in return for which they work with children at Ruwwad's library and creative arts workshop; refurbishing furniture for area residents, upgrading and repairing substandard dwellings, and supporting various other local development work across the country and abroad. Though this initiative is still in its early stages, it is envisaged that these young community workers will go on to become volunteers in their own right, with some of them also using the skills acquired through education to set up their own businesses and in turn give back to the community. In that respect, Aramex has started the process through Ruwwad by acting as a catalyst for what will hopefully be large-scale volunteerism and social entrepreneurship. At the same time, in the case of Zikra, Aramex's focus on CSR has promoted the backing of a successful volunteer effort to promote enterprise.

The United Nations realized the importance of tapping the talents of volunteers around the world to utilize them for development. The UNV is the UN central point for advancing and utilizing volunteerism for effective development. The UNV advocates for civic engagement, integrates volunteerism into development programs, and mobilizes volunteers in pursuit of distinctive contributions to development effectiveness.

“Voluntary work must be based on the concept of national commitment and social partnership. Attention must be paid to the establishment of voluntary societies and clubs and providing them with incentives conducive to effective participation, to strengthening the positive values of Jordanian society and to rejuvenating the Arab and Islamic traditions of partnership, amity and altruism.”

Jordan National Charter



the Madrast initiative did not attract the MSMEs, however top companies in the country are involved in this effort including Zain, Orange, Saraya, Mawared, Capital Bank, Cisco, Abraaj Capital, Jordan Security Commission, Eastern Holding and some individual business men. According to Madrasati officials a total of 380 volunteers from five universities, the government and local communities are currently aiding the Madrasati volunteer program.

Though the role of CS in development of MSMEs in Jordan remains small, this is not because of limited CSOs and volunteer activity in the country. There are over 1,000 CSOs registered with GUVS, yet only 25% of them, mostly in rural areas, indicate such an aim. For example, the Jordan Hashemite Fund for Human Development (JOHUD) provides services in supporting MSMEs start up and growth.

JOHUD and similar organizations thus help a local society establish revolving funds to support small businesses. On the other hand, a local organization such as the Young Entrepreneurs Association, a voluntary, membership orientated, non-profit organization, set up to develop entrepreneurs' talents and abilities, helping them to compete in the modern economy, does work with MSMEs by networking, training, advocacy, conferences, and organizing an Entrepreneur of the Year Award.<sup>271</sup>

Also, some of the international voluntary bodies that are working in Jordan started to realize the importance of helping MSMEs through engaging volunteers in assisting these enterprises to become more successful. A United Nations International Short Term Advisory Resources (UNISTAR) utilized the concept of corporate volunteerism through engaging experts from global businesses to help MSMEs in other countries in need of expertise. Through this program, UNISTAR mobilized some of its volunteers in order to help Jordanian MSMEs to successfully implement better manufacturing or management processes, thus becoming more competitive. One example is the mobilization of an Italian

UNISTAR adviser with more than three decades of experience in dairy product manufacturing. The expert was brought into Jordan to introduce new technology in order to advance the value and amount of mozzarella and ricotta cheese in the nation's, first cheese factor .

The private sector's awareness of development in Jordan is still modest, partly because of a belief that focusing more on developmental issues would have a negative impact on profits. Another point of difficulty is the confusion between corporate social responsibility (CSR), charity and corporate volunteerism. CSR operates as an autonomous mechanism, whereby, firms monitor and guarantee fulfilling the spirit of the law, ethical standards, and international practices. Charity is defined as an institution set up to provide help to the income deprived. Finally, corporate volunteerism is defined as businesses sponsoring and encouraging employee participation in the community assistance.

A field investigation into corporate social responsibility in 2008 shed some light on the difference between philanthropy and sustainable social responsibility. The survey examined 220 Jordanian public shareholding companies and explored the perceptions of their executives toward CSR practices and obstacles. The survey revealed that over seven tenths of Jordanian firms believed CSR to constitute simply of adhering to existing laws, while 57% considered it to be offering employees benefits, thus showing a fair amount of ignorance of the concept. A second piece of field research by the same team, investigated the hopes of different social and economic organizations from the private sector. Targeting CSOs, municipal councils, business associations, and government bodies, 37% of those surveyed said that firms are not carrying out CSR activities, while 95% believed currently that the activities currently taking place was not enough, and 90% said that these non-profit actions consisted of charity events taking place in Ramadan. No significant support by larger businesses for MSMEs was noted.<sup>272</sup>

### 7.10 CSR for MSMEs in Jordan: an Opportunity or Constraint

When it comes to corporate social responsibility and the effect it has on the financial performance of the company, there have been many debates regarding the relationship between the two. For example, according to a study in 1999 mentioned in the Business and Society Review, it was revealed that companies that conform to ethical standards and promote/advertise the commitment of their practices, to the public, have increased the price of their shares in the market from 2 to 3 fold, compared to other enterprises or companies who have not endorsed their practices.<sup>273</sup>

The current debate on (CSR) in Jordan seems to focus exclusively on large companies whose impact on stakeholders might be more evident. Yet, the role of MSMEs is not minor, considering their economic positions and social value, as well as their relations with the local communities. As stated in the European Commission Green Paper (a document exploring the nature of MSMEs and CSR, as a first step to taking action), CSR practice has usually been in the hands of large companies, but “Its wider application in MSMEs including micro businesses is of central importance, given that they are the greatest contributors to the economy and employment.”<sup>274</sup>

These enterprises, due to their wide reach and dispersion in all parts of the country, are touching the lives of many Jordanians, both directly and indirectly. Therefore, institutionalizing the concept of corporate social responsibility within these units will have an indispensable impact on the livelihoods of Jordanians and maximize the outreach required to reach as large a percentage as possible of the needy.

According to the Report MSME Survey, almost six tenths of Jordanian MSMEs are engaged in some form of socially responsible activity, in favor of their local communities. The activities range from support for sport and cultural activities, in the form of donations or sponsorships, to employees volunteering in local schools, or in the form partnerships with non-profit organizations. The challenge, therefore,

is to develop methods for MSMEs to engage further in CSR by demonstrating the link between responsible business practice and long term business benefits

Enterprises in Jordan should understand that CSR does not affect shareholders negatively; it promotes the value of shares and the reputation of the companies. CSR allows enterprises in the business sector to promote their work through socially responsible practices, which will add value to the community as well as the enterprise. Due to the advantages, (although not immediately apparent), of CSR to the firm itself, the issue should be reclassified as Corporate Economic Responsibility.

CSR is not an attempt at generosity or compassion, by the entrepreneur or company. It should be understood as an inherent, self-regulating system, whereby companies would self-examine and guarantee their observance of the law, ethical standards, and international practices, as all these are a part of any modern, efficiently functioning market economy, which Jordan aspires to become.

Corporations, MSMEs included, should recognize that it is economically sound for firms to protect and ensure the rights of their customers, the environment, workers, communities, and all other stakeholders. Any company that wishes to achieve long term sustainability, must improve not only the value of its goods, but also the markets and communities in which such goods are sold.

The reasons for such thinking include: rich customers spend more than poor customers; well regulated markets offer protection against corruption, favoritism and lawlessness; environmental friendliness also means that in the long-term, factories, workshops, offices and companies will not move to different locations and incur excessive expenses; a more educated country implies better and more demanding customers, who are willing to pay more for better products; a vocational center, library, or school that is set-up by a company, within its community, implies that the company will have more

educated employees in the future.

For a company to act in a way that recognizes corporate economic responsibility, it must develop a system that emphasizes long term sustainability and growth. It must have long term strategies, for remaining and expanding within a market, and this is where, as shown by the Report MSME Survey, MSMEs fall short.

In addition, family businesses, which comprise the majority of enterprises in Jordan, frequently mistake CER for charity. Therefore, they believe that should they offer charity, he receives both moral satisfaction and fame.<sup>275</sup> It is intuitive, therefore, that the most prominent firms, in terms of CSR (and CER) in Jordan are large, corporations such as Aramex, Zain and Orange, along with some progressive family-owned companies, such as the Nuqul Group.

As Jordanian firms mature in terms of their outlooks, regarding sustainability and economic growth, they will obtain a higher understanding of CSR. One positive effort by the public sector, in this regard, is to offer a secure legislative environment, minimizing sporadic fluctuations in commercial and property laws, along with enforcing current commercial and property laws, to a greater degree. Therefore, firms will be able to incorporate the regulatory environment into their long term planning, along with CSR. After all, CSR makes good business sense.

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”

Adam Smith,  
The Wealth of Nations, Oxford: Clarendon  
Press 1979

### *7.11 Conclusions*

Although the MSMEs' Survey has shown 78% of respondents viewing environment protection as vital, it is highly unlikely that MSMEs in Jordan can turn this conviction into positive action. This is since MSMEs have been shown to be more likely to be inefficient users of resources and proportionally producing more waste. Additionally, owners of MSMEs are unaware of regulations and cannot afford best practices. It is thus essential to realize that as MSMEs grow, more environmental awareness, monitoring and enforcement programs will be needed to ensure environmental sustainability.

By joining the UN Global Compact, more and more MSMEs in Jordan are demonstrating the willingness to invest in more Corporate Social Responsibility activities aimed at better environmental and social impacts. However, Jordan's MSMEs are yet to enter into the market as players. For this reason, policy and institutional efforts must focus on germinating their interest and capturing their potential.

## *Chapter VIII: Recommendations*



To enhance the effectiveness of SMEs, as agents of human development, certain issues must be addressed. The Jordanian government took significant steps to improve the efficiency with which companies interact with the government, including reducing the number of offices needed to register a company, to one, as well as introducing online payment of tax revenues and the establishment of a commercial court. In addition, the government reduced the registered capital required to form a limited liability company from JD 30,000 to JD 1,000. These have helped greatly. However, much remains to be done. In light of the findings above, the Report concludes with the following key recommendations:

***Institutional Coordination:*** Increased coordination among the different institutions serving the sector is required, to ensure an efficient allocation of resources. Many institutions play the same role as others and cooperate in serving the same targeted group or sector. A national strategy and action plan should be developed to set and define the role of each stakeholder, in the development process, linking the different stakeholders in order to increase the level of cooperation amongst them, when serving SMEs. The strategy shall also define applicable KPIs to measure the success and sustainability of the initiatives and programs serving the sector. Most importantly, stakeholders should ensure that the activities of all stakeholders are geared towards human development, and are sustainable.

***Exports:*** While the Report did show that SMEs do have a smaller export potential than large firms, their export potential is nonetheless significant. The government should encourage the growth of SMEs in exporting, promote the growth of professional associations among entrepreneurs, the adoption of quality assurance standards, as well as cooperation among SMEs, in order to further increase their export potential.

***Cluster Groups:*** The government could also encourage SME value chains and cluster groups, by improving the logistics situation of Jordanian SMEs and organizing purchasing groups. Promote the benefits of linking with other firms whether horizontally or vertically. Cluster associations will improve strategy; create innovation, through learning from best practices that could lead to higher-end employment opportunities. Adopt measures to strengthen linkages among SMEs within the geographic boundaries of their clusters and among clusters to develop further specialization and competitiveness, which will lead to higher wages and welfare. Create value-chain through the arrangements of buyer groups, along with providing incentives for participating firms, through programs such as the Cluster Development Program, in India. Encourage the specialization and clustering of SMEs in order to produce greater value added products that are also exportable beyond the localities of current firms. Invest in R&D via innovation grants.

***Quality standard:*** Create programs to ensure that SME products pass a certain standard of quality, thus increasing their potential for exporting. These programs would include training on quality control and export regulations. However, care must be taken that these initiatives do not simply regulate, but also assist in garnering compliance by SMEs of the required standards. Therefore, they should be coupled with technical assistance that promotes, among other things, the enhancement of SMEs market access to developed and stable export markets.

***Government Monitoring:*** Increase the Ministry of Labor inspectors' visits to follow up its implementation through site visits to employers' sites, in order to assess the working conditions and the fair implementation of the provisions of the law. Provide training in human rights and their violations is necessary.

***Tax Law:*** Review the new tax law that was proposed in 2009 to promote progressive taxation, in order to further equality and social justice. An independent tax bracket for SMEs, could be considered.

**Local Development:** Expand the current support mechanisms at the regional level to ensure that SMEs located in the poorer governorates do not migrate into the more developed governorates. The government could provide SMEs with incentives, to encourage employee training.

**Informal Sector:** The government should make a considerable effort to move firms out of the informal sector, into the formal sector, thus allowing SMEs to take advantage of the benefits of the formal sector. Activities could include making the registering of a business much easier, by minimizing the costs and time required to register, streamline and minimize the methods for obtaining credit, so that entrepreneurs will have a source for their start-up capital. Review taxes, procedures for filing for bankruptcy, and labor/union issues. Consider lowering the minimum capital requirements, by allowing some businesses to operate from homes, especially those owned and run by women.

**Increase minimum wage:** Increase the minimum wage.

**Appropriate training:** Increase investment in training for SMEs employees, by supporting on the job training, subsidized training, and initiatives such as “centers of excellence”. Focus on providing sponsored training and education matched to market needs, as well as focusing on promoting the concept of entrepreneurship within the educational curricula. Invest in vocational training centers, as employee skill levels improve significantly after receiving specialized and relevant vocational training.

**Female entrepreneurship:** Increase funds, loans and programs that encourage investment in SMEs, in order to create a more equitable distribution of income, especially amongst women. Female entrepreneurship should be encouraged and dedicated funds for this purpose coupled with significant improvements in training (enhancing analytical, communication, and team working skills, along with more relevant and specific technical/vocational training), and the removal of geographic impediments to employment.

**Guest Labor policy:** Review the current guest labor policy.

**Retain employees:** Support SMEs to find and retain competent employees through incentives to SME employees that may include tax rebates, increased training potential, and encouragement of benefits such as social security (as less than 10% of SMEs offer their employees social security). Sponsor career fairs.

**Youth empowerment:** Provide more advanced mentorship and support structures than currently exist. Incentive schemes, tax holidays, and seed capital can help youth owned startups. Consider part-time youth employment and encourage enterprises to partake in the drive through funding (partial or full) of on-the-job training; information dissemination of employment opportunities; transport pooling. Design schemes to bus workers from several areas to several factories, whereby the pooling firms save on fuel and youth can access distant job sites.

**Micro- enterprise and micro finance:** Increase support to micro-enterprises, as an attempt to help disadvantaged people attain their independence through training, grants and low interest loans with a quota of loans for the poorest sectors of the population. Reduce the legal obligations, paperwork and bureaucracy inherent in establishing a micro-enterprise. Invest in Jordan’s ‘poverty pockets,’ so that the investments target those most in need.

**Venture Capital:** External equity financing does not have a real tradition in the SME sector in Jordan. Since Jordanian SMEs are generally family businesses that have not historically been open to external equity financing and transparent books, tools such as Venture Capital (VC) are required to address this issue. More venture capital funds are needed in Jordan with a focus on women and youth entrepreneurs, with a focus on micro-capital.

**Protect the Environment:** Provide training programs for SMEs to learn the importance of the environment, and methods to preserve it. Support the costs associated

with environmentally friendly production methods.

**Energy Costs:** The rapid and sharp rise in electrical energy prices in Jordan is affecting the competitiveness of Jordanian products. Energy costs are becoming increasingly critical for the industrial sector in general and the SMEs in particular. There are still too many industrial strategies that are not energy efficient. An increase in best practices, regarding electrical energy savings, is needed, and SMEs need to adopt practical solutions to lower their energy bills. This, however, will require significant capital outlays that may not be available to SMEs and would divert resources from those required for viably competitive products. In order not to penalize adopters among SMEs of best practice methodologies, incentives (tax holidays or subsidies) should be provided by the government. This will also free up resources for the betterment of SME production in other areas and enable a greater impact of SMEs on human development in Jordan.

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- <sup>20</sup>There are two measures of the Human Poverty Index. The first (HPI-1) is measured by the unweighted average of the percentage of the population without access to safe water and the percentage of underweight children for their age. For the HPI-2, the third dimension is measured by the percentage of the population below the income poverty line.
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## Statistical Annexes

## Life Expectancy Index

Governorate	Male	Female	Index (Male)	Index (Female)	Index
					(Both Sexes)
Amman	70.7	73.0	0.7616	0.8000	0.780
Balqa	72.0	74.5	0.7833	0.8250	0.804
Zarqa	71.7	74.0	0.7783	0.8167	0.797
Madaba	70.7	73.0	0.7616	0.8000	0.780
Irbid	71.7	74.0	0.7783	0.8167	0.797
Mafraq	65.9	70.4	0.6817	0.7567	0.718
Jarash	70.9	73.5	0.7650	0.8083	0.786
Ajlun	71.2	73.7	0.7700	0.8117	0.790
Karak	67.8	70.0	0.7133	0.7500	0.731
Tafiel	66.8	71.3	0.6967	0.7717	0.733
Ma'an	70.1	72.3	0.7517	0.7883	0.770
Aqaba	70.9	73.0	0.7650	0.8000	0.782
Total	71.6	74.4	0.7776	0.8233	0.799

Source: Jordan Human Development Report, 2011

## Adult Literacy Index

Governorate	Male	Female	Total
Amman	0.97	0.921	0.946
Balqa	0.947	0.857	0.902
Zarqa	0.967	0.903	0.935
Madaba	0.942	0.872	0.908
Irbid	0.966	0.872	0.92
Mafraq	0.908	0.786	0.848
Jarash	0.948	0.862	0.906
Ajlun	0.947	0.857	0.902
Karak	0.935	0.836	0.885
Tafiel	0.941	0.828	0.884
Ma'an	0.927	0.802	0.866
Aqaba	0.937	0.866	0.903
Total	0.959	0.886	0.923

Source: Jordan Human Development Report, 2011



Gender Related Development Index

Governorate	Life expectancy index		Adult literacy index		Gross enrolment index		Educational attainment index		GDP index	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
<b>Jordan</b>	<b>0.782</b>	<b>0.818</b>	<b>0.886</b>	<b>0.959</b>	<b>0.926</b>	<b>0.852</b>	<b>0.899</b>	<b>0.923</b>	<b>0.4453</b>	<b>0.7467</b>
Amman	0.758	0.803	0.921	0.97	0.931	0.861	0.924	0.934	0.518	0.777
Balqa	0.783	0.825	0.857	0.947	0.89	0.835	0.868	0.91	0.473	0.696
Zarqa	0.775	0.82	0.903	0.967	0.917	0.806	0.908	0.913	0.409	0.721
Madaba	0.758	0.803	0.872	0.942	0.913	0.905	0.886	0.93	0.494	0.674
Irbid	0.775	0.82	0.872	0.966	0.949	0.872	0.898	0.935	0.429	0.718
Mafraq	0.715	0.723	0.786	0.908	0.913	0.823	0.828	0.88	0.418	0.699
Jarash	0.767	0.807	0.862	0.948	0.917	0.856	0.88	0.917	0.464	0.713
Ajloun	0.77	0.812	0.857	0.947	0.972	0.931	0.895	0.942	0.505	0.708
Karak	0.708	0.755	0.836	0.935	0.927	0.917	0.866	0.929	0.517	0.715
Tafeila	0.73	0.738	0.828	0.941	0.988	0.926	0.881	0.936	0.486	0.694
Ma'an	0.747	0.793	0.802	0.927	0.939	0.878	0.848	0.911	0.465	0.703
Aqaba	0.758	0.807	0.866	0.937	0.866	0.713	0.866	0.862	0.443	0.727

Source: Jordan Human Development Report, 2011

Governorate	Equally distributed	Equally distributed	Equally distributed	GDI	GDI (new methodology)
	Life Expectancy Index	Educational Attainment Index	GDP Index		
<b>Jordan</b>	<b>0.800</b>	<b>0.912</b>	<b>0.562</b>	<b>0.758</b>	<b>0.743</b>
Amman	0.781	0.929	0.625	0.778	0.768
Balqa	0.804	0.889	0.567	0.754	0.740
Zarqa	0.798	0.911	0.527	0.745	0.726
Madaba	0.781	0.908	0.573	0.754	0.741
Irbid	0.797	0.916	0.541	0.751	0.734
Mafraq	0.719	0.854	0.528	0.700	0.687
Jarash	0.787	0.899	0.566	0.750	0.737
Ajloun	0.791	0.918	0.591	0.767	0.755
Karak	0.731	0.897	0.601	0.743	0.733
Tafeila	0.734	0.908	0.573	0.739	0.726
Ma'an	0.770	0.880	0.565	0.738	0.726
Aqaba	0.785	0.864	0.566	0.738	0.727

Source: Jordan Human Development Report, 2011

Gross Enrolment Index

<i>Governorate</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Amman	0.861	0.931	0.894
Balqa	0.835	0.89	0.86
Zarqa	0.806	0.917	0.858
Madaba	0.905	0.913	0.908
Irbid	0.872	0.949	0.911
Mafraq	0.823	0.913	0.867
Jarash	0.856	0.917	0.884
Ajlun	0.931	0.972	0.95
Karak	0.917	0.927	0.921
Tafiel	0.926	0.988	0.956
Ma'an	0.878	0.939	0.906
Aqaba	0.713	0.866	0.781
Total	0.852	0.926	0.888

Source: Jordan Human Development Report, 2011

Education Index

<i>Governorate</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Amman	0.934	0.924	0.9288
Balqa	0.91	0.868	0.88802
Zarqa	0.913	0.908	0.90934
Madaba	0.93	0.886	0.90792
Irbid	0.935	0.898	0.91686
Mafraq	0.88	0.828	0.85447
Jarash	0.917	0.88	0.89876
Ajlun	0.942	0.895	0.91796
Karak	0.929	0.866	0.89701
Tafiel	0.936	0.881	0.90792
Ma'an	0.911	0.848	0.87926
Aqaba	0.862	0.866	0.86217
Total	0.923	0.899	0.91129

Source: Jordan Human Development Report, 2011

Selected Indicators

<i>Indicators, 2008</i>	<i>Jordan</i>	<i>Amman</i>	<i>Balqa</i>	<i>Zarqa</i>	<i>Madaba</i>
Population	5850000	2265100	391900	871600	146300
Population (%)	100	38.8	6.7	14.9	2.5
Male population	3015000	1164300	203500	450900	75300
Female population	2835000	1100800	188400	420700	71000
Area (km2)	89,342	8,231	1,076	4,080	2,008
Population density	65.5	275.2	364.2	213.6	72.9
Total Number of Companies, 2010	-	110,935	2,109	9,614	890
Total Registered Capital of Companies, 2010 (Millions)	9,371	8,637,185,183	51,912,625	124,964,423	20,962,656
Individuals Below Poverty Line (%)	13.3	9.4	15.3	14.9	10.0
Rural population (%)	21.5	8	35	5	41
Unemployment rate (%) (2004)	22.8	16.3	24.6	20	30.6
Male unemployment rate (%) (2004)	17.5	12.8	17.9	16.2	22.3
Female unemployment rate (%) (2004)	47.3	28.8	46.9	38.8	54.3
Economic Activity Rate (%) (2004)	46	46.6	48.5	44.5	47.4
Male economic Activity Rate (%) (2004)	70.3	71.4	71.9	72.2	68.6
Female economic Activity Rate (%) (2004)	20.7	20.7	23.2	15.4	25.3
Income	7,590.4	8,896	6,039.3	6,348.1	5,647.7
Expenditure	8,516.5	10,283.5	6,977.2	6,776.9	6,525.3
Number of Hospitals	105	53	5	8	3
Number of Hospital Beds	11,200	6,204	561	919	166

Source: Department of Statistics, "Population and Housing Census," 2004; Ministry of Health, 2008; Companies Control Directorate, 2010; Department of Statistics, "Household Income and Expenditure Survey, 2008," 2008

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Balqa	0.783	0.825	0.857	0.947	0.89	0.835	0.868	0.91	0.473	0.696
Zarqa	0.775	0.82	0.903	0.967	0.917	0.806	0.908	0.913	0.409	0.721
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Irbid	0.775	0.82	0.872	0.966	0.949	0.872	0.898	0.935	0.429	0.718
Mafraq	0.715	0.723	0.786	0.908	0.913	0.823	0.828	0.88	0.418	0.699
Jarash	0.767	0.807	0.862	0.948	0.917	0.856	0.88	0.917	0.464	0.713
Ajloun	0.77	0.812	0.857	0.947	0.972	0.931	0.895	0.942	0.505	0.708
Karak	0.708	0.755	0.836	0.935	0.927	0.917	0.866	0.929	0.517	0.715
Tafeila	0.73	0.738	0.828	0.941	0.988	0.926	0.881	0.936	0.486	0.694
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Aqaba	0.758	0.807	0.866	0.937	0.866	0.713	0.866	0.862	0.443	0.727

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Governorate	Equally distributed	Equally distributed	Equally distributed	GDI	GDI (new methodology)
	Life Expectancy Index	Educational Attainment Index	GDP Index		
<b>Jordan</b>	<b>0.800</b>	<b>0.912</b>	<b>0.562</b>	<b>0.758</b>	<b>0.743</b>
Amman	0.781	0.929	0.625	0.778	0.768
Balqa	0.804	0.889	0.567	0.754	0.740
Zarqa	0.798	0.911	0.527	0.745	0.726
Madaba	0.781	0.908	0.573	0.754	0.741
Irbid	0.797	0.916	0.541	0.751	0.734
Mafraq	0.719	0.854	0.528	0.700	0.687
Jarash	0.787	0.899	0.566	0.750	0.737
Ajloun	0.791	0.918	0.591	0.767	0.755
Karak	0.731	0.897	0.601	0.743	0.733
Tafeila	0.734	0.908	0.573	0.739	0.726
Ma'an	0.770	0.880	0.565	0.738	0.726
Aqaba	0.785	0.864	0.566	0.738	0.727

Source: Jordan Human Development Report, 2011

Selected Indicators

<i>Indicators, 2008</i>	<i>Jarash</i>	<i>Ajloun</i>	<i>Karak</i>	<i>Tafle</i>	<i>Ma'an</i>
Population	175,500	134,500	228,200	81,900	111,200
Population (%)	3.0	2.3	3.9	1.4	1.9
Male population	90300	68500	115500	41700	58300
Female population	85200	66000	112700	40200	52900
Area (km2)	402	412	3,217	2,114	33,163
Population density	436.6	326.5	70.9	38.7	3.4
Total Number of Companies, 2010	420	182	1,161	236	460
Total Registered Capital of Companies, 2010 (millions)	7,883,751	11,002,862	29,171,870	6,691,223	21,129,888
Individuals Below Poverty Line (%)	16.7	17.7	21.7	19.1	12.7
Rural population (%)	49	33	65	37	57
Unemployment rate (%) (2004)	33.7	34.7	33.1	31	28.2
Male unemployment rate (%) (2004)	24.6	25.1	24.9	22.6	20.9
Female unemployment rate (%) (2004)	63.8	61.8	50.3	56.5	52.9
Economic Activity Rate (%) (2004)	44.9	43.7	51.9	46.9	49.5
Male economic Activity Rate (%) (2004)	67.2	64.3	70	69.4	72.4
Female economic Activity Rate (%) (2004)	21.4	23	33.8	23.7	24
Income	6,669.6	7,472.1	7,319.3	6,378.6	6,898.7
Expenditure	6,753.3	3,162.2	2,993.7	2,641.1	2,823.1
Number of Hospitals	2	1	6	1	2
Number of Hospital Beds	150	105	452	120	203

Source: Department of Statistics, "Population and Housing Census," 2004; Ministry of Health, 2008; Companies Control Directorate, 2010; Department of Statistics, "Household Income and Expenditure Survey, 2008," 2008

Selected Indicators

<i>Indicators, 2008</i>	<i>Irbid</i>	<i>Mafraq</i>	<i>Aqaba</i>
Population	1,041,300	275,000	127,500
Population (%)	17.8	4.7	2.2
Male population	533,200	142,500	71,000
Female population	508,100	132,500	56,500
Area (km <sup>2</sup> )	1,621	26,435	6,583
Population density	642.4	10.4	19.4
Total Number of Companies, 2010	8,751	1,186	2,946
Total Registered Capital of Companies, 2010 (millions)	156,741,878	39,649,170	263,377,909
Individuals Below Poverty Line (%)	12.1	23.0	15.4
Rural population (%)	24	70	14
Unemployment rate (%) (2004)	29.5	29.9	17.6
Male unemployment rate (%) (2004)	23	23.8	13.3
Female unemployment rate (%) (2004)	51.8	53.5	44.1
Economic Activity Rate (%) (2004)	44.2	42.7	52.5
Male economic Activity Rate (%) (2004)	67.4	66	79.4
Female economic Activity Rate (%) (2004)	20.4	18	17.2
Income	6869	6,731.1	7,488.2
Expenditure	7,960.5	6,572.2	3,012.9
Number of Hospitals	17	4	3
Number of Hospital Beds	1,874	240	206

Source: Department of Statistics, "Population and Housing Census," 2004; Ministry of Health, 2008; Companies Control Directorate, 2010; Department of Statistics, "Household Income and Expenditure Survey, 2008," 2008

<i>Employment</i>	<i>Year</i>	<i>Value</i>	<i>Year</i>	<i>Value</i>	<i>Change, Over Period</i>	<i>Change, Per Annum</i>
Percentage of labor force in agriculture	2002	3.9	2009	2.8	-1.1	-0.2
Percentage of labor force in industry	2002	12.6	2009	19.5	6.9	1.0
Labor force (as % of total population)	2002	24	2004	35.6	11.6	5.8
Total unemployment rate (%)	2002	15.3	2004	22.8	7.5	3.8
Unemployment rate (%) male	2002	14	2008	10.1	-3.9	-0.7
Unemployment rate (%) female	2002	21.9	2008	24.4	2.5	0.4
Youth (age 15-24) unemployment rate (%)	2002	31	2004	43.2	12.2	6.1

Source: Department of Statistics, "Employment and Unemployment Survey," 2009

Statistical Annexes

<i>Population</i>	<i>Year</i>	<i>Value</i>	<i>Year</i>	<i>Value</i>	<i>Change, Over Period</i>	<i>Change, Per Annum</i>
Total population (thousands)	2002	5329	2009	5980	651.0	93.0
Predicted population (thousands)	2015	6870				
Urban population (%)	2002	78.7	2010	78.5	-0.2	0.0
Crude birth rate (per 000)	2002	29	2008	29.1	0.1	0.0
Crude death rate (per 000)	2002	5	2008	7	2.0	0.3
Total fertility rate (child)	2002	3.7	2008	3.6	-0.1	0.0
Crude marriage rate (per 000)	2002	8.8	2008	10.4	1.6	0.3
Crude divorce rate (per 000)	2002	1.7	2008	2.2	0.5	0.1

Source: Department of Statistics, "Jordan in Figures," Annual Report, 2009

<i>Main Economic Indicators</i>	<i>Year</i>	<i>Value</i>	<i>Year</i>	<i>Value</i>	<i>Change, Over Period</i>	<i>Change, Per Annum</i>
GDP at current market prices (JD millions)	2002	6652.7	2010	19,528	12,875	1,609
GDP per capita (current market prices per person)	2002	1248.4	2010	3,255	2007	250
GNP at current market prices (JD millions)	2002	6731.9	2010	19,888	13156	1645
Gross fixed investment (as % of GD at current market prices)	2002	18.5	2007	28	9.5	1.9
Total government revenues and grants (as % of GDP)	2002	30.5	2009	25.3	-5.2	-0.7
Total government expenditure and net lending (as % of GDP)	2002	34.4	2009	33.9	-0.5	-0.1
Overall budget surplus/deficit, including grants(as % of GDP)	2002	-3.9	2010	-5.1	-1.2	-0.15
Overall budget surplus/deficit, excluding grants (as % of GDP)	2002	-8.1	2010	-7.2	-0.9	-0.1
Total external debt (JD millions)	2002	5123.5	2010	4611	-513	-64
Total external debt as % of GNP	2002	76.1	2010	23.6	-52.5	-6.6
Total internal debt (JD millions)	2002	1656	2010	6852	5196	649.5
Total internal public debt as % of GDP	2002	24.6	2010	34.9	10.3	1.3
Exports of national goods (JD millions)	2002	1538.1	2009	3,579	2040.9	291.6
Imports of goods (JD millions)	2002	3531.5	2009	10,108	6576.5	939.5
Trade balance, Goods and Services (JD millions)	2002	-1586.4	2009	-4448.8	-2862.4	-408.9
Current account balance ratio to GDP (%)	2002	4.9	2009	-4.5	-9.4	-1.3
Capital account balance ratio to GDP (%)	2002	-1.1	2009	0.002	1.1	0.2
Average annual rate of inflation (%)	2002	1.8	2009	-0.7	-2.5	-0.4
Average JD exchange rate against US Dollar	2002	1.41	2010	0.7	-0.7	-0.1

Source: Central Bank of Jordan



## Jordan Human Development Report 2011

Human development is the expansion of people's freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet. People are both the beneficiaries and the drivers of human development, as individuals and in groups.

Jordan Human Development Report 2011 examines the role of Micro, Small, and Medium-sized Enterprises (MSMEs) in human development in Jordan with a primary focus of analysis on the role of MSMEs in relation to four main pillars: economic growth which is inclusive, equitable, and pro-poor; social progress; participation and empowerment through microfinance; and environmental sustainability.

The analysis of the Report is based upon a questionnaire distributed to 1500 SMEs and 113 micro- enterprises to generate primary data in addition to secondary and macro data, international rankings and best practices to provide a comprehensive view of the impact of MSMEs on human development in Jordan.

Jordan Human Development Report shows that while MSMEs do contribute toward the development of Jordan in terms of job creation and empowerment, their contribution can and should be expanded.

