

Newsletter  
|29<sup>th</sup> Edition, February 2023|

Welcome to the Twenty Ninth edition of our Newsletter. In this edition, we will present the status-quo of the micro, small and medium sized enterprises in the Hashemite Kingdom of Jordan (hereinafter referred to as “**Jordan**”) in addition to the features of its legislative and regulatory environment, as follows:

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**“We want a future in which we regain our leadership in education, advance our economy, increase the capabilities and effectiveness of our public sector, and in which our private sector thrives, so that opportunities increase on an equal level and we confront poverty and unemployment with determination and our youth embark on the horizons of leadership and innovation.”**

**King Abdullah II Bin Al Hussein**

30<sup>th</sup> of January 2022

Quoted from text published in Arabic by the media during the launch of the Vision for Economic Modernization at the National Economic Work Shop

<sup>1</sup> This is an unofficial translation of the original quote in Arabic done in good faith. The firm does not bear any legal liability or responsibility for any inaccuracy, inconsistency or misquotation of the original Arabic text.

## Introduction

2 Micro, small and medium sized enterprises are the backbone of the economy and one of the main pillars for achieving economic development, since they occupy the largest percentage amongst all types of economic enterprises. Plenty of evidence worldwide shows that these enterprises play a critical role in addressing poverty and unemployment and contributing to job creation for young men and women as well as constituting a suitable place and environment that can serve both innovative minds and low-skilled workers. Also, these enterprises are a sustainable engine for growth in gross domestic product and the export of manufactured goods.

The definition of micro, small and medium sized enterprises varies across countries and organizations, and the most common denominator for the definition of micro, small and medium sized enterprises is a group of factors, the most important of which is the number of employees, followed by the revolving rate and assets. The majority of governments, in addition to the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), define micro, small and medium sized enterprises as enterprises employing up to 249 workers, provided that micro companies employ 1-9 workers, and small enterprises employ 10-49 workers, while medium enterprises employ 50-249 workers.

Many countries have worked to put in place the legislative and regulatory frameworks for this important sector, which defines the features of the political economy at different levels, including entrepreneurial activity, regulatory policies, trade policies, labor market policies, social policies, and even gender policies. The Jordanian government at an earlier time had issued several regulations and laws that serve micro, small and medium enterprises, such as Companies Law No. (22) of 1997, Development and Employment Fund Law No. (33) of 1992, Investment Environment Law No. (21) of 2022, the Chambers of Industry Law No. (10) of 2005, the Enterprise Development Law No. (33) of 2008, and the Credit Information Law No. (15) of 2010 and others.

The number of micro, small and medium sized enterprises in Jordan until the start of the year 2022, according to official reports and what has been published in newspapers and electronic news sites, amount approximately to 190 thousand companies, forming approximately (99.5%) of the number of companies that have been officially registered, employing (58%) of the total workforce in the Kingdom (71% of the total workforce in the private sector), and it also

contributes to 40% of the gross domestic product<sup>2</sup>.

### 3 **First: Status-quo of the Micro, Small and Medium Sized Enterprises in Jordan**

Micro, small and medium enterprises are considered among the most important economic enablers to accommodate the increase in the work-force and the need for more economic growth and to support economic development projects in light of the increasing rates of poverty and unemployment. The idea of these projects is mainly based on supporting the self-employment process; that is, the owner is the manager who came up with a creative idea and now wishes to implement it and bring it to life.

The percentage of micro enterprises from the total amount of private sector companies officially registered in the records of the Jordanian government is about (89.5%), while the percentage of small enterprises is (8%) and that of medium enterprises is (2%), with the percentage of large enterprises being (0.5%). It should be noted that most Jordanian companies are registered according to the formalities specified in the law, but the unregistered (i.e. informal) economy is estimated at about (16%), which means that the number of micro, small and medium enterprises is (16%) more than what is

officially registered in public records. It is further noted that these establishments are mainly concentrated in the central region of Jordan, which is represented by the governorates of Amman, Balqa, Zarqa, and Madaba, which possess a total of (68%) of the total registered micro, small and medium enterprises.

It should be noted that (56%) of the micro, small and medium enterprises operate in the trade sector, (29.3%) in the services sector, (13%) in the industrial sector, while (1.7%) operate in the rest of the sectors<sup>3</sup>. The information technology sector and the digital economy, including e-marketing, may be considered one of the most important contributors of micro, small and medium enterprises.

### **Second: Definitions and Classifications**

The importance of finding a specific definition for micro, small and medium enterprises lies in framing the quantitative and qualitative criteria essential for them to obtain support, assistance and tax incentives for these enterprises, such as tax exemptions, licensing and registration fees for companies in the start-up stage and many others<sup>4</sup>.

Also, the importance of finding a unified definition for micro, small and medium sized

<sup>2</sup> [www.smeffinanceforum.org](http://www.smeffinanceforum.org)

<sup>3</sup> According to the expectations of the Jordanian Strategy Forum study, the informal economy in Jordan. ([www.jsf.org](http://www.jsf.org))

<sup>4</sup> European Commission, 2016, User guide to the SME Definition.

enterprises entails precise evaluation of the success of government policies in deepening the achievements of this sector on several levels, including calculating the added value of micro, small and medium enterprises in the gross domestic product, which reflects positively on the reality of poverty and unemployment rates and contributes to reducing them.

The definition approved by the Jordanian Council of Ministers in 2005 for micro, small and medium sized enterprises is based on the number of workers and/or registered capital, as follows<sup>5</sup>:

A - Micro enterprises: the number of workers is from (1-9) and / or the registered capital is less than 30 thousand Jordanian dinars.

B - Small enterprises: the number of workers is from (10-59) and the registered capital is over 30 thousand Jordanian dinars.

C - Medium enterprises: the number of workers is from (50-249) and the registered capital exceeds 30 thousand Jordanian dinars.

The Central Bank of Jordan launched the National Financial Inclusion Strategy (2018-2020) according to which it classifies economic enterprises according to the

number of workers, the size of the assets or annual sales, as follows:

A - Micro enterprises: the number of workers is less than 5, and the annual revenue is less than 100 thousand Jordanian dinars.

B - Small enterprises: the number of workers is from (5-20), and the annual revenue ranges between one hundred thousand and one million Jordanian dinars.

C - Medium enterprises: the number of workers is from (21-100), and the annual revenue ranges between one million and 3 million Jordanian dinars.

### **Third: Legislations Governing the Work of the Sector and the Regulatory Authorities**

With regard to the regulatory authority, the Companies Control Department at the Ministry of Industry, Trade and Supply is the authority responsible for regulating the mechanism for selecting the trade name and the company name, in addition to choosing the sectoral classification and objectives for micro, small and medium economic units. The project may take several legal bodies as its basis, as it may be included in the registry of individual establishments, or of general partnership companies, or limited partnership companies, or limited liability companies. In

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<sup>5</sup> Council of Ministers' Decision dated 22/09/2005 in accordance with the Chambers of Industry and Trade Law.

this regard, it should be noted that the preferred legal body for micro, small and medium enterprises is the establishment of a limited liability company because of its many advantages and benefits that are comparable to the advantages of other legal bodies, among these is the independence of the financial legal liability of the company so that only the company's capital and assets guarantee its debts and obligations and the shareholder is not responsible for those debts, obligations and losses - if any - except to the extent of his/her share that he/she owns in the company. This is unlike companies that are a general partnership company or jointly liable partners in a limited liability company. In addition, should a limited liability company's capital not exceed twenty thousand dinars, said company is not obligated to appoint a lawyer, according to Article (43) of the Jordanian Bar Association Law No. (11) of 1972.

It should be noted that the manager or owner of such establishments must familiarize themselves with the Jordanian Labor Law No. (8) of 1996 and its amendments in order to have a general knowledge regarding the provisions that regulate the employee's relationship with the employer, which contributes in clarifying the rights and duties of both the employer and the employee in order for him/her to sustain a healthy labor environment that inspires the spirit of initiative and production.

By evoking the effects of digitalization and the possibility of electronic registration, the steps to establish a company are the easiest and least bureaucratic. However, despite that, there are some obstacles being faced by this sector, which lie in obtaining regulatory approvals related to the practice of economic activity and its complexities, which are always the main factor in moving Jordan down the ladder in international reports related to competitiveness and doing business.

Perhaps also one of the most important obstacles is the multiplicity of laws and regulations governing the work of micro, small and medium enterprises. The multiplicity of regulatory legislations that projects are subject to from the early stages negatively affects the work and sustainability of those projects and their ability to obtain the necessary financing in some cases. The government is also criticized for the lack of a unified umbrella for the work of micro, small and medium enterprises, in addition to the multiplicity of authorities concerned with licensing these projects and the overlapping of powers between them.

It is worth mentioning in this regard, and in light of the government's vision to develop Jordan's economic system, the Investment Environment Law, which was entered into force recently, has clearly stipulated the necessity of "*creating the appropriate environment for the development of small and medium enterprises*" in Article (3/e) of

the abovementioned law. The Insolvency Law No. (21) of 2018 and the Law of Guaranteeing Rights on Movable Assets No. (20) of 2018 had a positive impact on the development of the investment environment, as it falls on the shoulders of micro, small and medium enterprises to establish reliable financial records which supports them whilst they aim to obtain credit facilities, in light of the Credit Information Law No. (15) of 2010.

Despite the abolition of the Jordanian Investment Law No. (30) of 2014 and its amendments, Article (16) of the Investment Environment Law explicitly stipulates that economic activities which enjoy advantages, customs or tax exemptions, or financial incentives under Investment Law No. (30) of 2014 and any regulations, instructions or decisions issued pursuant to it, shall remain valid in terms of the benefits conferred them until the end of the granted exemption period or for seven years from the entry into force of the provisions of the new law for the exemptions that do not specify a period.

Accordingly, this means that the effects of any additional benefits, exemptions or incentives targeting micro, small and medium enterprises will continue to apply, based on the provisions of Article (8) of the repealed and annulled Jordanian Investment Law, which stipulates that:

- A- The Council of Ministers, upon a recommendation from the Board, may grant any additional benefits,

exemptions, or incentives for economic activities, including medium or small enterprises, or any economic activity in a specified geographical area in Jordan, provided that the decision specifies the conditions and procedures for granting them, and that they are published in the Official Gazette.

#### **Fourth: Supporting and Funding Entities for the Sector**

The process of obtaining support and financing for micro, small and medium enterprises is very important because of the difficulties that these projects may face during their beginnings and development. The financing institutions have facilitated the procedures and the speed of granting finances to these projects, including supporting the labor force and reducing the interest rate on these projects.

According to data on the facilitation measures provided to small and medium-sized economic enterprises in 2021, the Central Bank of Jordan's facilities granted to small and medium-sized companies amounted to 2,000,000 and 844,000,000 Jordanian dinars in 2021, with an increase of more than 60 million Jordanian dinars from the previous fiscal year.

In addition to many programs presented by the Central Bank of Jordan (CBJ) for the purposes of providing financing for the targeted economic sectors, especially small

and medium enterprises, one of which set the interest rate from (0.5% to 1%) and with repayment period up to 10 years, including a two-year grace period for those who wish.

7 In addition to the Central Bank of Jordan program, there is a national program in the Jordanian Ministry of Planning and International Cooperation (MOPIC)- named IRADA - that was launched in 2002 and works to promote local investment opportunities and improve financing and training tools aiding, the establishment or development of micro, small and medium enterprises through studying them on sound scientific bases that enables them to make the appropriate investment decision and ensure their implementation and sustainability through discussing the idea of the project and inspecting the project site, studying the price offers, and directing the customer to the appropriate financing entity, preparing the economic feasibility study, following up on financing, as well as training the project owner and his/her employees on the basic skills necessary for the project's work.

One of the most important pioneering institutions in the field of supporting the private sector and supporting startups, micro, small and medium enterprises, developing them in Jordan and helping them to grow and find export markets, is the Jordan Enterprise Development Corporation (JEDCO) which recently, and in implementation of the government's plan of economic modernization and as part of the

corporation's strategic plan, launched programs for technical and financial support for start-ups, small and medium enterprises, that include:

A- The Industry Modernization Program derived from the Industry Support Fund, which is supervised by the Ministry of Industry, Trade and Supply, where the financial support for the industrial company may reach about 100 thousand Jordanian dinars in the event that all criteria for benefiting from the program are met.

B- The Thimar Program, in which financial support for food processing and innovative agricultural projects may reach 22 thousand euros for the company or for the farmer.

C - The Do Your Project 2023 program (E'amal Mashrooak), which provides a financial grant for young people reaching 25,000 Jordanian dinars to implement the idea of establishing a sustainable entrepreneurial economic project in various sectors.

D – The “Raise your capabilities” program to develop the production, administration and promotion of existing small and medium-sized economic enterprises with a maximum of 15 thousand Jordanian dinars.

E - A financial grant of 50% of freight charges for agricultural and industrial commodities of Jordanian origin and

exported to various countries around the world.

It is also worth noting the role of the private sector in supporting leadership and innovation through business incubators, such as the 'Tank' that follows the Umniah Mobile Phones Company, 'ZINC' that follows the Zain Telecom Company, 'BIG By Orange' that follows the Orange Telecom Company, in addition to 'Spark', 'King Hussein Business Park' and the "Jordan Creativity Company". Bank al Etihad has recently launched the "Accelerate SMEs in Jordan" platform, which is an integrated digital portal that makes it easier for small and medium enterprises to benefit from various solutions and financing programs. The platform provides startups, small and medium enterprises with a comprehensive set of resources, services and financing solutions. The platform is free to access and allows the owners of emerging projects, companies and entrepreneurs to access many resources and privileges, including financing solutions suitable for the various stages and business needs provided by the bank.

'OASIS 500', for example, which is a business accelerator, had a major role in developing the entrepreneurial environment and providing financing, technical supervision and guidance for a wide range of ideas and startups, including 'Madfooatkom', 'Jamalon', 'Jo-Bedu', 'Tamatem' and 'Arabia Weather' amongst many others.

In addition to all of the above, the Business Development Center is one of the most important centers that contributes to economic development through the design and implementation of development programs and aims to create job opportunities for Jordanians and increase the competitiveness of micro, small and medium enterprises by promoting a fertile and empowering business environment for entrepreneurs. Among its main projects is the operation of a business incubator and a project to develop projects that will advance the capabilities and competitiveness of small and micro enterprises in Jordan in addition to the project for the development of small enterprises.

The United States Agency for International Development (USAID) recently called for all Jordanian micro and small tourism projects seeking grant support. The project to develop the productivity of micro, small and start-up enterprises (Iqlaa), funded by USAID and Mercy Corps in Jordan, is seeking applications from qualified institutions that offer innovative tourism solutions and place the inclusion of women, youth, and people with disabilities at the core of their operations.

## Conclusion

This newsletter addresses the subject of micro, small and medium enterprises in Jordan and the features of their legislative and regulatory environment. It does so by

addressing the concept of these projects and companies and then taking a look at the status-quo of micro, small and medium enterprises in Jordan. In addition, it also addresses the most important legislations governing the work of this important sector in the Jordanian economy, down to the most important legislative recommendations related to the development of this sector.

The Economic and Social Council-Jordan, the advisory arm of the government of Jordan, in addition to the Jordan Strategy Forum (JSF) and Jordan Enterprise Development Corporation (JEDCO), have contributed positively to highlighting and localizing research and reports related to the status quo of micro, small and medium enterprises. We have relied on those to enrich our newsletter, bearing in mind that the various thinkers, economists and politicians are the most capable of evaluating the reality of the situation and pointing out the imbalances in the general environment incubating these establishments.

## Recommendations

In the field of legislation, we recommend the following:

1- Redefining micro, small, and medium enterprises to include only the work criterion without regard to the amount of registered capital or annual revenues, and to increase the category of individual enterprises, as follows:

A. Sole Proprietorships: run by a single individual or family from home.

B. Micro enterprises: employs 10 workers or less.

C. Small enterprises: employs 11-30 workers.

D. Medium enterprises: employs 31-249 workers.

2- Establishing a registry for individual, micro, small and medium enterprise companies at the Companies Controller Department, provided that they are classified according to the unified definition in point (1) above and its branches.

3- Dedicating an entire chapter within the Investment Environment Law No. (21) of 2022 that regulates all entities by adopting a unified institutional reference to nurture creativity, innovation, entrepreneurship, and individual, micro, small and medium enterprises, for entrepreneurs and that provides all the desired services on the principle of a (one-stop shop).

4- Providing exemptions from taxes and fees for a specific period and reducing the general sales tax for financing agreements, which is borne by the owner of the project.

5- Micro, small, and medium enterprises should be informed about the option of establishing a limited liability company instead of a sole proprietorship company, due

to the many advantages enjoyed by limited liability companies.

If you would like to discuss further any aspects of this Newsletter, please feel free to get in touch with one of our lawyers, using the contact details in the Contributors section below.

If you feel that other persons would be interested to read this Newsletter, please feel free to share this Newsletter.

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Warm regards,

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## ABOUT HAMMOURI & PARTNERS ATTORNEYS AT-LAW

Hammouri & Partners Attorneys at-Law, is a Jordanian multi-practice law firm, founded over two decades ago (established in 1994) by the late Professor Mohammad Hammouri. Professor Hammouri was a renowned Jordanian attorney and an arbitrator, a former Minister of Culture and National Heritage and a former Minister of Higher Education, who wrote a plethora of books, primarily on constitutional rights. Professor Mohammad Hammouri also founded the first School of Law in the Hashemite Kingdom of Jordan at The University of Jordan, in which he was its first dean. Today, the firm is managed by Dr. Tariq Hammouri, a distinguished academic and attorney and a former Minister of Industry, Trade and Supply. Dr. Tariq Hammouri is both an experienced attorney and an arbitrator, an expert in the Corporate sector, Commercial Transactions, Financial Markets, Banking Law and International Trade. He is an Associate Professor at the School of Law, University of Jordan and (formerly) the Dean of the School of Law. Dr. Hammouri is also an officially appointed member of the International Center for Settlement of Investment Disputes (ICSID) Panel of Arbitrators upon designation by the Government of the Hashemite Kingdom of Jordan, for the period of 2020 to 2026.

Hammouri & Partners team consists of more than 30 attorneys and a number of other professionals working in the firm's specialized departments, providing professional legal services at a local, regional and international level.

The firm's legal services cover numerous areas of practice, including the following: Corporate and Commercial Law (whether that is corporate set-up or drafting of all types of commercial agreements), Intellectual Property Law, Banking and Finance Law (the Firm advises local and international banks regarding all Banking Transactions and Regulatory Compliance). Additionally, the Firm's Litigation and Arbitration department have the capabilities and competence to represent parties in the most complex and novel legal matters, as it encompasses expertise in several areas of law, whether it is before courts or arbitral tribunals. Hammouri & Partners Attorneys at-Law was one of the first firms in Jordan to establish a specialized International department to cater for the needs and requirements of international clients on an array of tasks with an international element, such as those regarding bilateral and international trade negotiations, projects, contracts and others.

In addition to what has previously been stated, Hammouri & Partners provides legal advice and consultation to various industries such as those of Construction & Infrastructure, Manufacturing, Engineering, Trade, Securities and Energy, as some of its clients are major energy, healthcare, information technology and telecoms companies.

Hammouri & Partners Attorneys at-Law provides its broad services throughout Jordan as well as worldwide, through established collaborations with reputable law firms in the MENA region, Europe, the United Kingdom and the USA. Hammouri & Partners has earned regional and international acclaim by the most reputable legal directories. Chambers and Partners Global, International Financial Law Review (IFLR 1000) and the Legal 500, all highlight Hammouri & Partners as a leading law firm in the Jordanian legal services industry.