

**Achievement of Market-Friendly Initiatives and Results Program  
(AMIR 2.0 Program)**

Funded by U.S. Agency for International Development

**Backward Linkages  
Enterprising Connections Program Pilot Program Assessment**

Final Report

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**AMIR**  
**MEI Component – Backward Linkage**  
**Enterprising Connections Program Pilot Program Assessment**

**Background**

In 2000, the Services Groups (TSG) was contracted by USAID, under AMIR Program, to design a Backward Linkage Program tailored to Jordan, including the design of an 18-month pilot program, an installation plan, and a training program for Jordanian officials who will be involved in the pilot program.

However, and due to budget constraints, a pilot program could not be implemented as recommended by TSG. Any initiative undertaken at that point of time will not be able to fulfill the requirements of a Backward Linkage program. Therefore, JIB and AMIR program came out with another pilot project idea that was called: Enterprising Connections Program (ECP). The objectives of this program are as follows:

- Identifying promising industrial sub-sectors.
- Stimulate business opportunities to the identified industrial sub-sectors.
- Link the small enterprises to micro-finance companies.
- Acquire experience from this pilot project in order to inform the design and implementation of the proposed Backward Linkage program. (During AMIR 2)

It was agreed by concerned parties that the main objective of the pilot project is experimental and should be perceived neither as a success nor as a failure, as said by Mr. Asfour.

The ECP started in September 2001, and is managed by the Jordan Investment Board (JIB), and hosted at the Zarqa Chamber of Industry (ZCI). AMIR Program financed the purchase of equipment (computer, fax machine, and etc.) and office furniture. In addition, AMIR provided input into the development of this test program. The target audience is the 2600 member companies of the ZCI.

Currently, JIB is providing part time staff: Mr. Asfour who is unofficially designated to manage the program, Mr. Ziabat, JIB representative at ZCI, who is responsible for the implementation of the ECP, and data entry support, which is administrated by Ms. Marwa Abed Al Haq.

**Purpose**

The purpose of this paper is to conduct preliminary basic assessment of the ECP. The methodology adopted for the assessment is: review of the final report prepared by TSG (*Analysis and Recommendations for the Establishment of a Backward Linkage Program in Jordan, May 2000*), interviewing key program personnel (Annex A) and analysis of the computer software used by the program for data entry and manipulation.

## General Findings

- ?? A number of government and quasi government bodies have either started or are interested in a backward linkages program. Some have also approached international donors for support.
- ?? The ZCI is highly interested in a backward linkage program. Recognizing the importance of such an initiative, the ZCI General Manager, Mr. Arslan, in cooperation with concerned parties, drafted a proposal on backward linkage. This proposal was submitted to the European Project EJADA for financing. The proposal includes conducting an industrial survey and the development of a comprehensive MIS. The JIB, Amman Chamber of Industry (ACI), ZCI, and Irbid Chamber of Industry (ICI) will be involved in the implementation of the project.  
To date, they haven't received an approval on the project. However, this requires further investigation and coordination between AMIR and EJADA on the subject matter.
- ?? The ECP has been in operation only for 6 months. During that time, there has been a change of JIB representative at ZCI twice, which had adverse effect on the performance of the ECP.
- ?? JIB uses a simple two-page questionnaire to collect data about the companies (Annex B). The company's representative fills it out. The questionnaire is collected in Zarqa by Mr. Ziabat and is sent to JIB's main office in Amman for data entry and analysis on weekly basis. But, since the ECP MIS is not ready yet, the ECP Administrator is just collecting the questionnaires.
- ?? Mr Ziabat started work in January 2002. Since then, he conducted 60 field visits, mostly in Zarqa, and in the manufacturing sector. He is planning to include hospital and hotel sectors soon in his future visits.
- ?? Mr Ziabat managed to successfully conclude two business linkages. These are:
1. Baker Fouzi Salameh printing press and Al Almeiya for the production of paper & carton. Baker used to import 700 tons/year of envelopes, which are now purchased locally from Al Almeiya.
  2. Al Marwa Water Co. and Technical filling Co. Al Marwa used to import the 1.5 litre PET bottles from Lebanon and Saudi Arabia, which are now purchased locally from the Technical filling Co.
- Please note that the achieved linkages were not the result of the ECP. Mr. Ziabat managed to conclude them through his personal knowledge of the businesses.
- ?? According to Mr Ziabat, the major obstacles that face backward linkages are:
- ✂✂ Quality of products. For example, a poultry company, which also freezes poultry, was interested in purchasing the freezing bags and packaging cartons from the local market. However, local manufacturers contacted were not interested in modifying their end product to satisfy the required specifications and desired quality, despite the evident demand available in the country. .

- ✂✂ Delivery time. Some enterprises face problems in meeting delivery dates due to weak production planning and inventory control.
- ✂✂ Lack of business culture. For example, one company asked the buyer to provide them with the formula from their current supplier<sup>1</sup>.

?? From the field visits, Mr. Ziabat found out that local companies generally prefer to buy their raw material from the local market if available. Specifically to reduce delivery time, save on cash withdraw at one time (order smaller quantities from the local market rather than import in bulk), minimize their inventory and reduce cost (usually local products are cheaper than imported ones). However, they are not willing to jeopardize the quality of their input material and have the risk of not meeting their own deadlines.

?? Currently, no data entry is happening due to the absence of an operating MIS specifically for backward linkages. JIB formed an internal committee comprised of concerned individuals including the IT and Research & Development departments to decide on whether to amend the current MIS to include backward linkages requirements or to design a new MIS while linking it to the central JIB MIS. This committee is highly supported by the Director General Ms. Badran. In April, the committee decided to amend the current JIB MIS.

?? The current MIS is sector specific based on type of manufactured products. It already has 1623 entries. Unfortunately, a number of fields (e.g. raw material) are input as text and no coding system (e.g. HS code) is being used, which makes data analysis harder. However, they are planning to do so in the near future. Appendix C is a translation of the main and report menus of the MIS. It is indicative of the type of existing data on the system.

## Conclusions

- ✂✂ It is premature to draw conclusions about the performance of the ECP due to the following:
  - ✂✂ Short effective operational period
  - ✂✂ Lack of sufficient resources (human & financial)
- ✂✂ Local enterprises hardly invest in product development to meet emerging demands. However, this opens a window of opportunity for subcontracting and under licensing agreements. With proper awareness, and business planning, this can be overcome.
- ✂✂ The questionnaire is not satisfactory to collect information necessary to establish a backward linkage program.
- ✂✂ The general perception on backward linkages (business to business) is the use of the finished product of a business as an input to another business. None of the interviewed considered the idea of linking service industry to a manufacturing or another service industry. This is inherent in the MIS system of JIB.

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<sup>1</sup> This can be an opportunity for subcontracting or under licensing agreement with the original supplier

~~///~~ Nobody considered that a byproduct could be an input to another industry.

### **Recommendations**

1. Since several national, government and non-government (Chambers of Industry) organizations, in cooperation with international donor programs are currently working on this subject matter, it is highly recommended to form a national coordinating committee to avoid overlap and have complimentary roles.
2. Create an interactive website for business to business linkage. It will be an excellent tool to be used by businesses to identify sources and/or provide products/ services to other businesses. Outside Amman, this website can be accessed at the twenty Enterprise Development Centers (EDCs) to be created by the Ministry of Planning throughout the kingdom by the end of July 2002.
3. It is recommended to hold a number of awareness seminars about backward linkage, to explain it, talk about opportunities, and etc. The website can be promoted during these seminars. Target groups: Individuals from industry and service sectors, and personnel involved in implementing a linkage program.
4. It is recommended to implement the pilot program as proposed by TSG, but in coordination with all concerned parties. However, if the ECP is going to continue as is, it is recommended at this point to assist JIB in designing a new questionnaire and helping them in the design of the MIS.

**Annex A**  
**Persons Contacted**

**Mr. Mohammad Arslan, Head of Zarqa Chamber of Industry (ZCI)**

**Mr. Musa Ziabat, JIB representative at ZCI**

**Mr. Mohammad Asfour, Jordan Investment Promotion**

**Ms. Marwa Abd Al Haq, ECP Administrator**



**Annex B**  
**Backward Linkages Company Form**  
**Jordan Investment Board**  
**1/1/2002**  
**(English Translation)**

<b>Contact Person:</b>	<b>Title:</b>	<b>Mobile #:</b>
<b>Company Name:</b>		
<b>Trade Name:</b>		
<b>Company Type:</b>	<b>Registration Date:</b>	
<b>Governorate:</b>	<b>District:</b>	<b>Area:</b>
<b>Industrial Estate:</b>	<b>QIZ:</b>	<b>Non-QIZ:</b>
<b>P.O. Box:</b>	<b>Zip Code:</b>	<b>Fax #:</b>
<b>Telephone:</b>		
<b>Email:</b>	<b>Website:</b>	
<b>Personnel:</b>		
<b>Administrative:</b>	<b>Laborer:</b>	<b>Technical:</b>
<b>Foreign Labor:</b>		
<b>Investment:</b>		

<b>Country</b>	<b>FDI</b>

**General Comments:**

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**Benefited from the Investment Promotion law**

Yes    No

**No. Of Project:**

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**Sector:**

Product	Planned Production	Actual Production	% Export	Country of Export

Obstacles & Constraints	Suggestions to overcome obstacles & constraints

**Raw Material:**

Raw material	Imported		Local		Local supplies available to substitute import		Comments
	Quantity	value	Quantity	value	Yes	No	

**Annex C**  
**Jordan Investment Board**  
**MIS**

**Main Menu:**

1. Application registration
2. General project information
3. Licensing pre-approvals
4. Financial information
5. Relevant committee meeting
6. Project changes and expansion
7. Exemptions
8. Customs declaration
9. One stop shop
10. Field visits
11. Re-export
12. Reports
13. Graphical reports

**Report Menu:**

1. List of projects categorized according to year of application
2. List of project categorized according to major sectors
3. List of project categorized according to capital investment
4. Projects prior to 1996
5. Projects that went through one expansion
6. List of projects that went through one expansion
7. List of projects that went through two expansions
8. List of projects categorized according to development region
9. List of projects that obtained tax exemptions
10. List of projects categorized according to industrial zone
11. List of projects categorized according to legal registration
12. List of hotels categorized according to their classification (e.g. 5 stars etc.)
13. List of projects categorized according to type

## **Annex D**

### **Backward Linkage Program JIB Proposal**

#### **1. Program Title**

FTA oriented Backward Linkage program.

#### **2. Introduction**

The term "backward linkages" refers to inter-firm relationships in which a company purchases intermediate goods and services as its production inputs on a regular basis from one or more local companies in the production chain.

The development of backward linkages benefits a country's industrial base by strengthening local suppliers and stimulating foreign investment. Backward linkages have the potential to:

- Generate additional economic activity -increased demand for locally supplied inputs translate into additional income as well as employment generation.
- Stimulate improvements in the products and services of local suppliers through technology transfer and skills upgrading.
- Give local suppliers a foothold in international markets by exposing local suppliers to international production and quality standards.
- Attract foreign investment by offering the advantage of a local supplier base capable of offering quicker delivery times and reduced transportation and inventory costs.

While there is significant room to increase the inflow of FTA related FDI into the Kingdom, there is also an opportunity to increase the benefits of any incoming FTA related FDI, as well as existing investment, to the Jordanian economy. One of the most dynamic benefits of FDI is the potential to develop backward linkages with domestic industry -a benefit that has only been marginally realized in the Jordanian context. For the most part, incoming investors meet the majority of their demand for intermediate inputs through imports from abroad.

A broad review of Jordanian industries' current import requirements and existing domestic supply capacity indicates strong potential for the development of new domestic linkages.

The development of a Backward Linkage Program will play an important role in linking foreign investment to Jordan's domestic industry base and increasing the returns to the Jordanian economy. Thus, enabling local and foreign investors reach the 35% percentage required to enter the US market in accordance with the FTA agreement.

#### **3. Program Rationale**

The strategy underlying the development of a Linkage Program for Jordan is to improve the capacity of Jordanian companies to enable them to supply components that are currently being imported and to increase their potential to move into export

markets. The program that is being proposed for Jordan is based on the tried and tested mechanisms of the highly successful Irish model with modifications to take account of the Jordanian economy and available support systems.

Due to the lack of a well-defined sub-supply sector a critical element of this strategy is aimed at developing indigenous companies and helping to overcome their deficiencies.

The key goals of the FTA oriented Backward Linkage program are as follows:

- Create linkages between FTA –FDI attracted investment
- Link local industries to FDI investments to become eligible to benefit from the FTA
- Upgrade local industries (Price and quality) to become competent suppliers to FTA related FDI
- Use the gathered info to link local industries together to become eligible for the %35 value added.
- Provide business opportunities into which FDI could be attracted.

#### **4. Program Requirements**

- Comprehensive study. (Available but needs to be tailored to FTA)
- A team of 11 personnel situated at the JIB, competitiveness unit and chambers as following:
  - 5 at the JIB
  - 3 at ACI
  - 2 at ZCI
  - 1 at ICI
  - 1 from the competitiveness unit
- A critical masses of companies whose inputs constitute a real opportunity for domestic supply -these constitute the demand-side of the linkage equation.
- A pool of domestic companies capable of supplying the goods and services as required by the demand companies to their standards and specifications -these constitute the supply-side of the linkage equation.
- A series of mechanisms to bring about the effective "linking" together of the demand- and supply- sides of the equation. (This includes office space at chambers of industry and an information processing and management center at the JIB)
- A series of support and/or developmental mechanisms to assist the potential domestic companies to achieve the standards required to become suppliers to multinational, other large companies and ultimately to move into export markets.

#### **5. Financial Requirements**

The cost for the 18-month Pilot Program would be approximately \$263,000-293,000. The assumptions in the above estimates are as follows:

## 6. Budget Clarification

Budget for 18-month Pilot Program:

Line Item	Budget (US\$)
Salary of the Linkage Director	60,000-90,000
Salary of the Linkage Executive	30,000
Salary of the Linkage Administrator	15,000
Salary for 3 units heads	45,000
6 Auditors	30,500
Salary for 3 drivers	22,500
Consumables	7,500
Car	20,000
Traveling Expenses	15,000
Other Expenses	7,500
Equipment (Computers, Furniture, etc)	10,000
Total	\$263,000-293,000

## 7. Implementation Strategy

- Tailor the existing study to the current program needs
- Each chamber should conduct its own survey including data collection in accordance with the set program
- Central office at the JIB will process the info presented by the chambers in coordination with consultants.
- Follow up on findings through the sub offices on the predefined sectors.

## 8. Timeline

- Set up + appointments: 2 months.
- Customize study: 1 Month
- Data collection: 3 months
- Processing: 2 months
- Implementation: 10 months.

This action plan was based on the “ ANALYSIS AND RECOMMENDATIONS FOR THE ESTABLISHMENT OF A BACKWARD LINKAGE PROGRAM IN JORDAN” study that was prepared by The Services Group (TSG), in collaboration with Chemonics International Inc., as prime contractor to the United States Agency for International Development for the AMIR Program, and presented to the JIB.