

**Access to Microfinance & Improved Implementation of Policy Reform
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*This report was prepared by **Marc de Sousa-Shields of Enterprising Solutions Global Consulting**, in collaboration with **Chemonics International, Inc**, prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.*

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EXECUTIVE SUMMARY

- 1.0 The purpose of this study was to evaluate the Jordanian business structure to determine interventions to increase microenterprise development and ultimately the demand for microcredit. This paper provides a detailed report of both the background/support work for the conclusions and recommendations found summarized below.
- 2.0 The Jordanian economy has chronically failed to provide sufficient employment opportunities for the country's economically active population (EAP). This is particularly true for youth, who as a group suffer unemployment of over 25%.

Unfortunately, all signs point to an economy unable to meet the long-term employment needs of the relatively youthful Jordanian population. Indeed, some forecasts predict annual economic growth of over 7% is required for up to ten years to fully accommodate current and new entrants to the EAP.

- 3.0 If the employment needs of Jordan are to be met, the structure of the Jordanian economy must change. In particular, there is a need for a more dynamic micro and small enterprise (MSE) sector as it has proven in many other countries to be the engine of economic growth, jobs, and wealth creation.
- 4.0 Our research confirmed suspicion that the shallow depth of market demand for microcredit is related to the small size of the Jordanian MSE sector. It also confirmed that Jordan's enterprise culture does not support a dynamic MSE sector.

This was found to be the case for a number of reasons, including: cultural barriers to enterprise ownership, business ownership risk aversion and preferences for public sector employment, lack of enterprise education opportunities, and government regulations and economic interventions that discourage MSE formation and development.

- 5.0 The nature of Jordan's enterprise culture has had several important impacts on MSE activity. Specifically, we see:
 - A profusion of *low-impact* businesses, such as hair salons, mini-markets, small commercial activities, which have relatively little positive, net effect on the economy or on the creation of a dynamic MSE sector;¹ and
 - A relative lack of *high-impact* MSEs, or businesses that export, provide inputs or services to export-oriented businesses, or produce import substitution goods or

¹Low-impact businesses tend to add little to the national economy in that while they provide valued products and services, they seldom attract income from outside the local economy.

services. High impact businesses create economic benefits beyond income to their owners.²

- Few inter-business linkages (i.e., business to business sales).

By contrast, highly dynamic MSE sectors are characterized by a preponderance of high impact MSEs *linked* together, and with larger enterprises, in tight web of supplier-purchaser chains.

6.0 To improve the vibrancy of the Jordanian MSE sector, its job and wealth creation potential, and the demand for microfinance capital, we have two general recommendations:

- Strategically support pockets of vibrant MSE activities; and
- Encourage the development of a dynamic MSE enterprise culture.

We recommend two strategic programs in order to carry out these goals.

7.0 To support MSE sector vibrancy we recommend the creation of *Community Economic Development Offices* (CEDOs). CEDOs will act as local/regional information hubs linking clients with market opportunities through business linkages and business ideas/opportunities identification.

The center piece of CEDO support will be the Business Opportunities Program. This program will support the creation of agglomerations of vibrant MSEs. It will offer three specific services:

- *Business Support Consulting* targeting high-impact MSEs, where one-on-one business consultants help businesses develop and grow;
- *Business Opportunities and Linkages Program and Database* where existing or would-be entrepreneurs can access *or* will proactively be linked by CEDO staff to business opportunities or possible inter-business sales via national and local database; and

**Table I
Program Recommendations**

Community Economic Development Organizations – Vibrant MSE Activity

- Targeted direct business development services
- Business Opportunities Program
- Business Information Services

MSE Business Council – Enterprise Culture Development

- Long-term Promotion of Enterprise Culture
 - Inspirational Annual MSE Awards
 - Annual MSE Trade Shows
- Regulatory and Tax Considerations
- Higher Education MSE Management Skills for Professional and Vocational Programs

² From a community economic development perspective (as distinct from a national economic perspective) high-impact businesses are also those that sell to clients outside of a local economy. This may include a small dairy producer supplying cream to a company in a nearby urban center, or even a taxi owner who regularly shuttles managers of a company between a rural plant and an urban headquarters. Obviously, the line between high- and low-impact is not necessarily clear. The key distinction is that high-impact businesses earn a higher proportion of income from non-local sources or via selling import substitution products and services.

- *Business Information Services* providing information on business regulatory change, tax regimes, export opportunities, general economic data and reports relevant to MSE management.

The CEDOs will be small and market-driven, have significant flexibility to provide or deliver services in a locally appropriate manner (e.g., catering to a specific sector of the economy). Local CEDOs will work together to develop common products and services (e.g., the Opportunities and Matching Program and Data-base).

- 8.0 To encourage the development of a dynamic MSE enterprise culture we recommend the creation of an MSE Business Council. The Council will promote networking between members and represent the MSE sector to the government and other potential supporters.

The center piece of Business Council activity will be the *Enterprise Culture Development Program* which will seek to create a more entrepreneurial business culture in Jordan. It will have four main program thrusts focused on communications/publicity, SME education, services and representation on business and regulatory issues:

- *A national communications strategy* to develop long-term, high-profile, country-wide programs promoting the benefits of MSE ownership. We recommend two initial activities: a series of annual MSE trade shows as a means to promote both businesses and MSE ownership, particularly among youth; and a national awards program for inspirational MSE owners;
- *Micro and small business enterprise management education* for high-schools, colleges, and universities focusing on both soft management skills (business vision and opportunity identification etc.) and harder skills (human resources, marketing, finance and accounting);
- *Private sector managed pension funds and insurance schemes* for MSE owners and employees; and
- Research and development programs aimed at reducing regulatory, tax, and other business operating environment barriers to MSE sector vibrancy.

- 9.0 In addition, we recommend the following research be undertaken as a means to strengthen the program recommendations:

- *Business Development Services Inventory and Evaluation* to assess the number, type, and effectiveness of existing business development services in Jordan. This will help to identify organizations which could deliver CEDO activities;
- *Business Survey* to assess the size, industry, type, and location of MSEs in Jordan to identify areas to support with CEDOs;

- *Business Linkages Study* to fully understand the MSE - medium and large business linkage dynamic and to provide strategic information for the Business Opportunity Program development; and
- *Regulatory Change Survey* to assess the impact of regulatory and tax laws on MSE activity to support the MSE Business Council activities.

10.0 In order to move forward with this report and pursuing its recommendations, we suggest a two-phase program development and implementation strategy. The first phase should focus on:

- Clarifying and prioritizing recommendations in this report;
- Developing detailed implementation plans for specific programs; and
- Soliciting and contracting expert program implementation teams.

The complex nature of Jordanian culture and customs lead us to recommend that follow up to the recommendations be done by a team of Jordanians, with Enterprising Solutions Global Consulting, or a similar consulting firm, being contracted to provide critical input to the design and process.

The second phase of the implementation strategy will consist of the program start-up. Again, we believe this should be led by experienced, locally knowledgeable teams, supported, where necessary, with consultants familiar with the program applications (preferably with Jordanian and or those with regional experience).

SCOPE OF WORK

Under the terms of the contract with Chemonics International Inc., dated August 10, 2000 the consultant spent 21 days on this assignment with the period August 26 – September 07, 2001 in country. The Scope of Work (SOW) had as an objective:

To evaluate the Jordanian business structure to determine those interventions which will increase microenterprise development and ultimately the demand for microcredit.

The evaluation reviews business linkage initiatives in Jordan, as well as considers the need for the development of an “idea generator”. The sub-contractor reviewed existing models and proposes new structures which may ultimately satisfy the needs of the Jordanian market. The sub-contractor also considered programs to stimulate entrepreneurial growth in Jordan.

The subcontractor's work encompassed several phases, each with its own set of tasks and deliverables. These phases include:

Phase One: Pre-Arrival Work and Consultancy Workplan Development

Prior to visiting Jordan, the subcontractor developed an understanding of the project by undertaking background reading leading to the development of a detailed consultancy plan. The subcontractor established open lines of communication with those involved in the project by coordinating with the local facilitator and consulting with participating / interested institutions and others affected by the program. The subcontractor also designed an action plan for the project and a detailed workplan noting deadlines and deliverables. In coordination with the local facilitator, the sub-contractor established participant profiles and developed a strategy and a question list for the focus groups.

Phase Two: In-Country Information Collection

While in Jordan, the subcontractor personally interviewed numerous business and economic leaders in the community – low- and high-impact business owners and service providers, and USAID, donor and government officials. The information gathered allowed the subcontractor to:

- Identify and better understand the general business context and needs;
- Assess the socio-cultural mindset of entrepreneurship and stigmas (if any);
- Better understand micro and small businesses perceived and actual barriers to business start-up (bureaucratic, psychological, social, etc), linkages to larger businesses, barriers to import substitution and export activities (both products and services);
- Assess the suitability of the current microfinance products offered in the marketplace and suggest additional products where appropriate;
- Assess previous or ongoing programs with similar objectives; and
- Establish an informal project development forum.

The sub-contractor also used the collected information to:

- Refine the focus group participant selection methodology;
- Design an interview format and question sheet; and
- Observe focus group session and lead an information interpretation session.

Phase Three: Participant Focus Groups

In conjunction with the AMIR Program, the subcontractor, together with a local facilitator, conducted a number of focus group interviews that included groups of small and large businesspersons, business service providers, lenders and others deemed important to the multiplier project. The subcontractor drew upon the local consultant to facilitate focus group; recruit focus group participants according to a selection methodology; organize appropriate interview space; provide logistical support during interviews (e.g., ensure interview rooms are organized, participants are confirmed, etc.).

Phase Four: Program Considerations

In this final report, the subcontractor recommends possible multiplier project models based on market research and client demand. The subcontractor completed the project design process in four stages by:

- Reviewing and summarizing in-country information;
- Facilitating a planning session to present findings, receiving feedback, outlining possible project models, and developing a project outline;
- Finaling a possible project design to include a project design overview, possible incentives for project acceptance, plausible implementation schedule and budgets and a recommended project evaluation methodology; and
- Ranking models for consideration and implementation.

OVERVIEW OF THE REPORT

This report has six parts. Part One provides a brief review of the economy and poverty in Jordan as means to provide a context for an assessment of the MSE sector. Informed by a modest literature review, Part Two offers a brief description and analysis of the Jordanian MSE sector. This is followed, in Part Three, by a deeper view of the sector based on fifteen stakeholder interviews and six focus groups involving MSE owners, business support service providers, and students.³

Part Four provides specific programmatic recommendations together with objectives and strategies. Part Five offers a series of next steps required to implement proposed MSE interventions. Finally, Part Six provides a brief conclusion.

³ Stakeholders interviews were held with various experts on the micro and small business sector. They included microfinance leaders, business development service providers and government and aid officials. For a full list of interviewees see Appendix One.

Part 1 – THE ECONOMY AND POVERTY IN JORDAN

1.0 The Jordanian Economy ⁴

Despite ongoing regional political turmoil, Jordan has moved from an economy dominated by the central government to one increasingly characterized by free market openness. In recent years, a range of important market reforms have stimulated modest industrial diversification, some degree of macroeconomic stability, and consistent, if weak, economic growth.

Between 1995 and 2000, annual gross domestic product (GDP) in Jordan, for example, fluctuated between 3% and 4%. Inflation has been under control, ranging between 2% and 4% annually since 1995. Pegged to the US dollar, the Jordanian Dinar (JD) has seen little exchange rate movement. Interest rates have also been stable, providing an effective monetary tool for the Jordanian Central Bank.

Central government deficits, however, continue to grow, albeit more modestly than in the past, and hovering around 7% of GDP for the last two years. Overall external government debt, as a result, is 109% the country's GDP. Government debts are exacerbated by chronic trade deficits (before remittances and foreign grants), which in 2000 amounted to an estimated 25% of GDP. Likewise the economy remains heavily dependent on foreign remittances and grants from foreign governments which accounted for approximately 17.5% and 6.6% of the country's GDP in 2000.

A determined effort to enter the world economy through trade agreements should improve both the trade deficit and economic growth potential. For example, Jordan's accession to the WTO and a free trade agreement with the US have already spurred a 15% increase in exports to the US and increased trade with non-former trade protocol partners, such as India, by over 50%. Exports to Israel and Iraq, two of Jordan's most important historic trade partners, however, have suffered due both to political unrest and, in the case of Iraq, as a result of competition from other Arab nations.

2.0 Poverty in Jordan

Modest economic gains resulting from reforms have not been equally shared among all Jordanians. Indeed, poverty remains intransigent. Annual per capita income has fallen marginally over the past two years from JD\$1,187 (US\$1,681) in 1998 to JD\$1,173 (US\$1,662) in 2000.⁵ Wealth distribution remains a pressing problem. Over 67% of all households (averaging 4.4 people) have total annual incomes of less than JD \$2,900 or JD\$1.98 per day (US\$2.81). Of these, 44% earn less than JD\$1,800 or JD\$1.60 per day (US\$2.27). Households in the bottom income deciles are generally headed by those who are over the age of 60, are illiterate or with only basic education, or are single parents (typically

⁴ Statistics from this section are drawn from Atlas Investment (2001), Jordan Human Development Report (2000), World Bank (2001), and Vision 20-20 (1999).

⁵ All currency figures quoted in current dollars.

women-led households). According to the UNDP, some 33% of the country's population lived in poverty in 1999 (Atlas Investment Group, 2001).

Unemployment also remains stubborn. Of the economically active population (EAP) of 1.4 million, an estimated 14% are officially unemployed (seeking work for two consecutive months).⁶ Unofficial estimates provided by stakeholder interviews put unemployment at around 20% to 25% and underemployment at another 10% to 15% of the EAP. The official estimate of absolute unemployment is just under 200,000 persons, while unofficially it is closer to 315,000. Unemployment rates among men are estimated at 11.8% -- female unemployment is much higher at 25%.

...people don't know that they have the right to a good standard of living, don't know to demand good education and health services for their children, and don't know that there are opportunities beyond the pitiful salaries and security some traditional jobs have...it is our job to show them the way to get their rights, many through MSE opportunities...

Stakeholder Interview.

Demographic trends in Jordan will exacerbate unemployment in the coming years as over 40% of the country's labor force is under the age of twenty-five, with only 10% retiring in the next ten years. With an estimated 40-50,000 new people entering the workforce for the next several years, the economy will need an estimated annual average GDP of more than 7% over ten years to produce employment sufficient for those currently unemployed and new workers.

Unemployment and underemployment are critical for youth, who suffer an unemployment rate of over 27%. Not only are they most likely to be unemployed, but many, particularly the well-educated, do not perceive opportunities available to be suitable for a number of reasons – from poor pay and benefits, to lack of future advancement, to cultural inappropriateness (i.e., menial task or non-managerial positions). As a result, many youth spend significant periods of time unemployed waiting for what they consider more appropriate work in government, quasi-government organizations, and large companies (Jordan Human Development Report, 2000).

⁶ Unemployment statistics cited are official quotes.

Part 2 – THE MICRO AND SMALL ENTERPRISE SECTOR IN JORDAN

1.0 The Enterprise Structure of the Jordanian Economy

The once dominant control by national government of the Jordanian economy has had significant effects on the enterprise structure of the country. Until recently, the economy was characterized by a few large, mostly state-owned companies, a larger but still small number of small to medium-sized companies, many micro and small service enterprises, and rapidly declining numbers of agricultural producers (see Figure One and Table One).

Table One
Estimated Employment by Firm Size⁷

	Number of Firms	Average Number Employed	Number of Employees	Percentage of Labor Force
Government	n/a	n/a	518,000	37.0%
Private Sector				
Large Firms	150	300	45,000	3.2%
Small & Medium Firms	3300	57	188,100	13.4%
Micro Enterprise	217,000	3	651,000	46.5%
Total	220,450	n/a	1,398,800	100.0%

Source: Estimates are derived from three sources. Total employment and government employment statistics are estimated from the Jordan Human Development Report (2000) and Atlas Investment Group (2001); microenterprise estimates are from Perrett (2001).

Though official statistics are unavailable, Table One provides an *order of magnitude* estimate of the enterprise structure in Jordan.⁸ It shows that some 150 large businesses (an average of 300 employees) are complemented by 3,300 small and medium-sized enterprises (averaging

⁷ Very few systematic sources of data on corporate activity in Jordan are available. A significant number of businesses are unregistered or informal, although business are required to register at both the national level and locally, at either a Chamber of Commerce (service businesses) or Chambers of Industry (manufacturers). Registration, however, does not require disclosure of business size either by income or by number of employees.

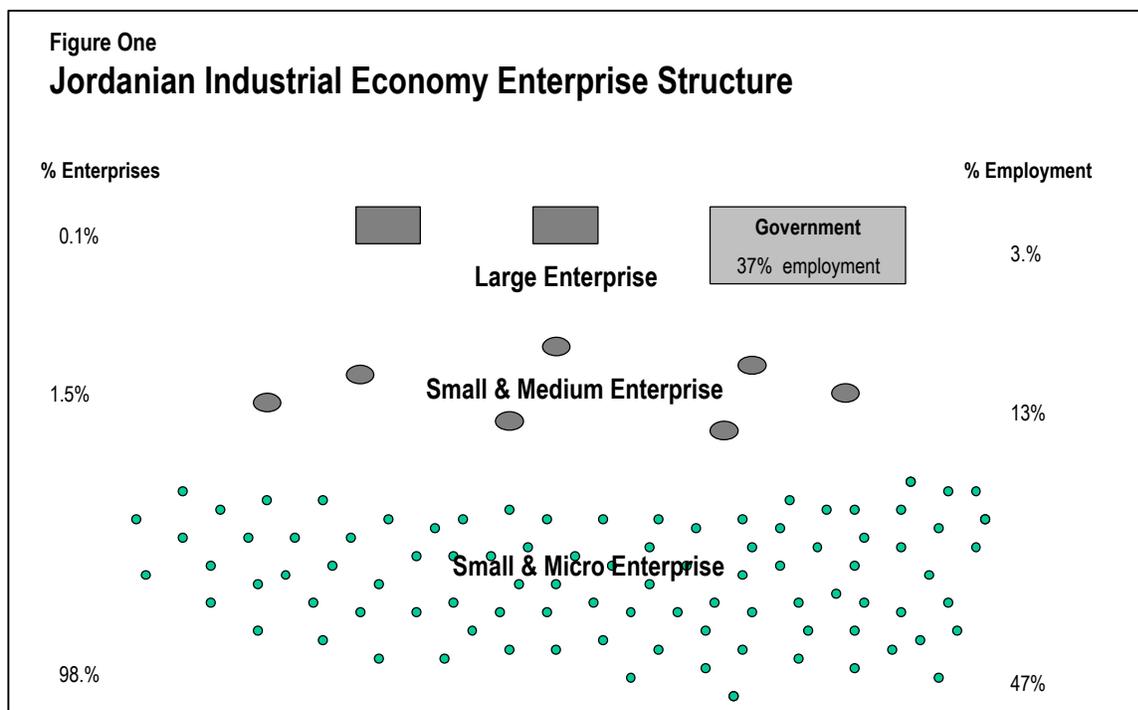
⁸ For the purposes of this report, we can consider the estimates of microenterprise and government employment statistics as reliable. All other statistics have been calculated based on expert estimates and *are intended to show the order of magnitude* between different business size categories, not necessarily the precise numbers of enterprises. Small, medium, and large business statistics are calculated based on the following formula:

$$\text{Small, Medium, and Large Firm Employment} = ((\% \text{Government} \times \text{Total Employment}) + (\% \text{Micro} \times \text{Total Employment})) - \text{Total Employment}$$

Small, medium, and large firm employment was then estimated based on average employment by firm size given by stakeholders. Given the lack of official data these somewhat "heroic" estimates are illustrative nonetheless, for even if medium sized enterprise figures were doubled, for example, the percentages employed would not compare to more entrepreneurial economies.

57 employees) and 190,000 formal and informal micro businesses (with an average of 3 employees). Also, as with most developing economies, the majority of businesses are located in urban areas. In the case of Jordan that means in the northern cities of Amman (64,000), Zarqa (19,500), and Irbid (27,000).⁹

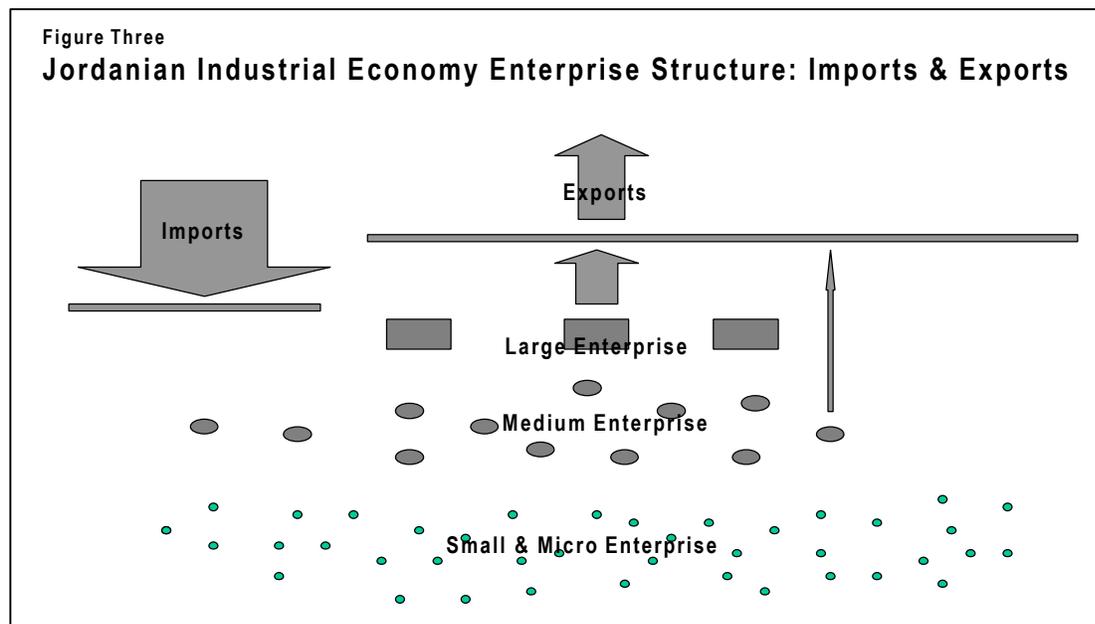
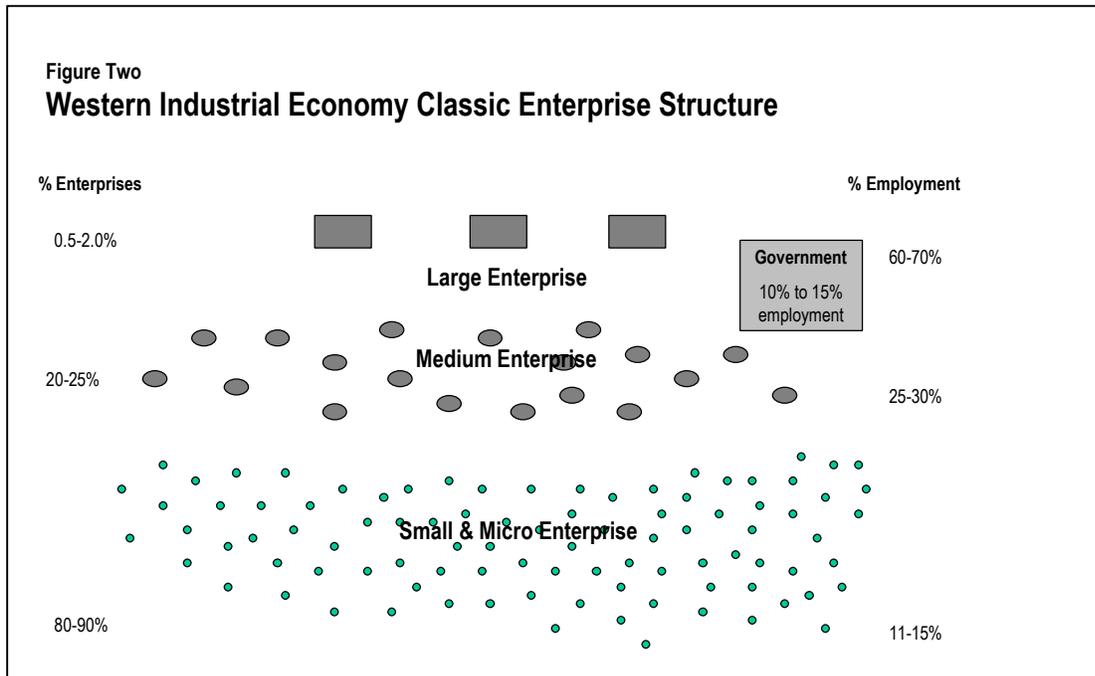
Over the last ten years, Jordan has introduced a number of important reforms including less government intervention in the economy, the opening of Jordanian markets for freer trade, and fewer government employment opportunities, all of which have stimulated the growth of enterprise activity. Other advances include manufacturing and productive enterprise development in Qualified Industrial Zones (QIZ) and the Aqaba Special Economic Zone (ASEZ). Other important reforms being pursued are to increase liquidity in the stock market, increase access to microfinance for microentrepreneurs, and to decrease regulatory and legal barriers to business activity.

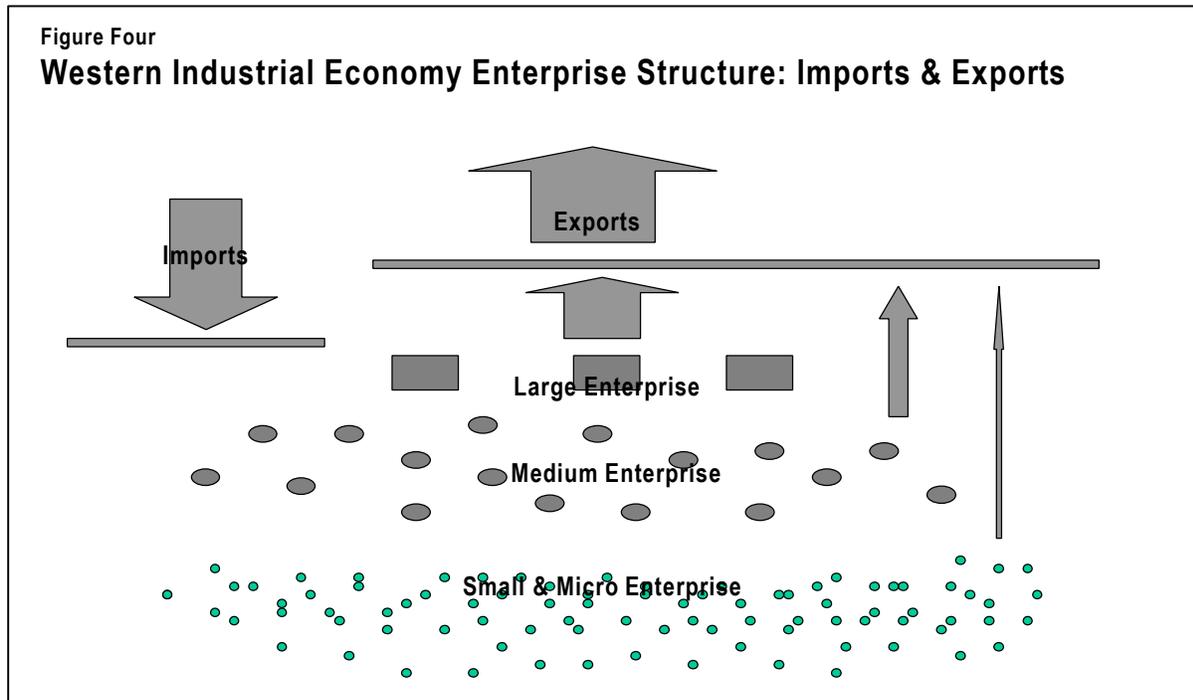


Despite these reforms, the Jordanian enterprise structure lacks a proportionate number of small enterprises compared to other developing and industrialized countries. In Latin America, for example, 80% of the region’s businesses employ fewer than ten people and in most countries micro business employment accounts for upwards to 60% of all employment (Berger, 2000). In developing countries, micro and small business accounts for a similar number of businesses (70% to 80%), though somewhat less employment (30% and 40% – see Figures One and Two).

⁹ These statistics include only registered businesses (source: Jordan Department of Statistics, 1999)

Similarly, in some of the more successful emerging markets, such as Mexico, Brazil, Poland, and China, enterprises of all size export. This is equally true of a number of smaller economies such as Macao, Chile, and Costa Rica. Statistics are not available in Jordan as the extent to which smaller enterprises export, however, experts believe that the percentage is very small (see Figure Three and Four)





2.0 A View to Micro and Small Enterprise Development

According to all stakeholders interviewed, an entrepreneurial culture is slowly emerging in Jordan. There are, however, two essential and consistent differences between the MSE sector in Jordan and that of other countries.

First, as discussed above, vibrant micro and small enterprise sectors tend to have a greater number of small- and medium-sized enterprises relative to larger companies, and larger number of microenterprises relative to small- and medium-sized businesses. Second, in the most successful MSE economies there is strong vertical integration, or significant business-to-business linkages, where smaller firms form part of a supply chain of product and service inputs to larger firms. According to the available statistics and stakeholder interviews, this is not the case in Jordan.

In the case of Jordan, stakeholders believe that the enterprise culture does not encourage business start-ups and business innovation. For example, several experts mentioned that although a newly constructed truck stop outside of the city of Aqaba attracts over 200 drivers daily, it has no restaurants, laundromats or other services drivers are said to want (see Perrett, 2001). This is despite business stalls built at the stop by the municipal government. In another example, experts note that very few small apparel manufacturers are linked to larger textile and apparel exporters in northern QIZ, unlike, for example, the case of Mexico, where there is a strong cottage industry, with many smaller shops and individuals doing piece work – cutting, sewing, etc. – from their homes, for large factories.

Second, industry association officials and government representatives consistently reported an enterprise structure with very few business-to-business linkages. Stakeholders attribute this to

the fact that many small and microentrepreneurs establish businesses out of necessity and have insufficient basic business vision and capacity. As a result, they tend to create “copy-cat”, low-impact businesses as seen by the hundreds of hair salons and mini-marts lining the streets of most communities.

These low-impact businesses tend to add little to the national economy in that while they provide valued products and services, they seldom attract income from outside the local economy. Typical low-impact businesses constitute between 90% and 95% of all small and microenterprise (de Sousa-Shields, 1998). In Jordan, an estimated 80% of microenterprise clients operate commercial activities or are service providers (Perrett, 2001). Most of these low-impact businesses sell to the final consumer and few are connected to other businesses (except as purchasers). Low-impact businesses also tend to be characterized by low barriers to market entry. The result is strong competition and typically low profit margins (e.g., a mini market on every corner in every neighborhood).

High-impact businesses, by contrast, are those which add significantly to the vibrancy of local, regional, and national economies. These types of business either export directly or provide inputs or services directly to export oriented businesses. They can also produce import substitution goods or services, or, in the case of disadvantaged communities, trade outside of their local economies.¹⁰

Both kinds of business are vital to economic development, but high-impact businesses are more desirable from an economic development perspective as they attract income or replace imports coming into a local or national economy. Export income is particularly valuable as each dollar inputted to an economy multiplies in value as it is passed through sales of goods and services from business to business (see Ben David Val, 1991).

It is important to note that the growth of low-impact businesses is correlated to or dependent upon the performance of high-impact businesses. In Brazil, for example, low impact micro businesses such as restaurants, shoe repair, and taxi stands stakeout ground outside of every high-impact business. In fact, even before the Volkswagen plant, or textile manufacturer breaks ground for a new plant, low-impact businesses are already operating. A strong high-impact business sector, in essence, creates opportunity for low- impact activities. In a globalizing economy, the fate of low-impact businesses becomes even more linked to export earning high-impact business.

¹⁰ From a community economic development perspective (as distinct from a national economic perspective) high-impact businesses are also those that sell to clients outside of a local economy. This may include a small dairy producer supplying cream to a company in a nearby urban center, or even a taxi owner who regularly shuttles managers of a company between a rural plant and an urban headquarters. Obviously, the line between high- and low-impact is not necessarily clear. The key distinction is that high-impact businesses earn a higher proportion of income from non-local sources or via selling import substitution products and services.

Part 3 – A DEEPER VIEW OF THE MSE SECTOR: MSE STAKEHOLDER INTERVIEWS AND FOCUS GROUPS

1.0 Introduction

The MSE sector in Jordan faces many significant challenges if it is to have a more desirable, vertically integrated, export-oriented enterprise structure. At the most general level, Jordan needs to create a more entrepreneurial culture, one that is able to stimulate the growth of a critical mass of MSEs. Importantly, if the country is to have a globally competitive economy, it also must develop a sizeable high-impact small business sector.

The distinction between high- and low-impact businesses, unfortunately, is more difficult to draw in practice than in theory. From a development perspective, however, the distinction is still useful, as it can provide important strategic direction for planning business support interventions. *Importantly, it declares that not all businesses are of equal value to the economy, or, at the least, that some merit greater support than others.* It also argues that lower-impact businesses, in most economies, are a natural outgrowth of a vibrant high-impact enterprise sector and that, if the latter sector is vibrant, left to its own devices, so too will be the former.

With these distinctions in mind, this section seeks to gain a more nuanced understanding of the potential and challenges of stimulating the MSE sector in Jordan. To do this, we undertook interviews with fifteen MSE experts in Jordan and conducted six focus groups which included business persons, business development support experts, and students. The goal of the interviews and focus groups was to identify and then dissect the Jordanian enterprise culture. In doing this, we hoped to better understand the kinds of MSE development interventions that would best stimulate the growth of the MSE sector.¹¹

2.0 Stakeholder Interviews

Fifteen stakeholder interviews were held between August 26 and September 4, 2001. Interviewees included a range of experts on MSE and economic development (see Appendix Two). Interviews were informal but were guided by a list of questions and a short questionnaire (see Appendix One). The intent of the interviews was to probe stakeholder views on the nature of the MSE sector in Jordan and how it could be strengthened. In all, five MSE growth and development themes emerged from the interviews:

- Socio-cultural considerations;
- MSE as they relate to economic development;
- MSE business development strengths and weaknesses;

¹¹ It is important to note three important caveats to the conclusions drawn in this section of the paper. First, stakeholder or expert interviews provide subjective information that must be interpreted. Second, where possible we corroborated information with reliable sources of data (in most cases such support was unavailable). Finally, due to the short length of the assignment, deeper investigation into a variety of subjects was not possible.

- Financial needs; and
- Regulatory concerns.

Each of these themes are discussed below.¹²

2.1 MSE and Socio-Cultural Considerations

Common to many Arab countries, religious belief affects business in many significant ways. Religion is more often than not placed at the forefront of life and, as a result, business practice can be subsumed to religious activities and belief. For many Jordanians, business success is described as being “fated”, a sentiment that can affect the time and energy invested in business activities.¹³

For many, societal and religious attitudes also define the nature of what is considered “acceptable work”. Women, for example, tend towards home-based business such as sewing, knitting, mini-markets, hair salons, and childcare not simply because they have low barriers to entry as in many other countries, but also because such businesses require a minimum amount of public exposure.¹⁴ Although the situation has improved in recent years, women also face a range of other cultural issues affecting their ability to develop enterprises. Domestic responsibilities, freedom to move about in public, and other societal norms often combine to restrict women to work to the fullest (see al Khaldi, 2000).¹⁵ These restrictions contribute to an unusually low female EAP participation rate of just over 13% (Jordan Human Development Report, 2000).

Socio-cultural factors also impact the economic activity of men. Men, for example, tend to prefer certain types of jobs or businesses that are considered socially appropriate or suitable. For the working class, acceptable occupations may include plumbing, mechanics, blacksmithing, carpentry, etc. For the educated and middle- and upper-classes who are particularly prone to this sentiment, this means that any perceived “menial” jobs are not acceptable. Such work is seen to be fit only for the large community of nationals from other countries. As MSE ownership invariably involves what may be regarded as menial tasks, particularly in the critical start-up phase, it can be viewed as “disagreeable” to many Jordanians.

People also care about what others, particularly family and community members, have to say about the social and religious acceptability of their enterprise. For example, one stakeholder related that a couple closed their restaurant due to family pressure about selling alcohol. As a

¹² It is important to note that stakeholder interviews were used to deepen our understanding of the MSE sector. Information provided by stakeholders are experiential and desirably subjective.

¹³ It is important to note that this observation is not a judgment upon the validity of such a condition. Nor should it be interpreted to infer a judgment of religious belief or practice.

¹⁴ While providing income to families and perhaps valued services to communities, low-impact enterprises certainly add less to the economy than high-impact businesses.

¹⁵ These observations must not be misconstrued as biased against women-owned businesses. Indeed, both stakeholder and focus group work showed women every bit as capable business managers as men. Instead, these observations are intended to draw attention to how socio-cultural conditions have impacted an important economic development resource.

restaurant dependent on the tourist trade, selling wine, beer, and spirits was critical to the success of the restaurant, so it was closed. Another example often noted was that MSEs, particularly those in smaller communities, lack business because community members do not want to patronize local establishments for fear that neighbors will prosper. This sentiment, as one stakeholder noted, causes many people in rural communities to travel to the nearest large center for many supplies, when the same materials can be purchased at the same price in the local marketplace.

There also remains some religious-based reluctance to accept interest charged on business loans. This can affect the pace of business growth. Finally, many poorer people are also afraid to take out loans because of the real risk it represents to family well-being and community status should their enterprise fail, despite the potential for income generation.

2.2 Economic Development

Stakeholders highlighted the economic geography of Jordan as a means of understanding the barriers facing the development of the MSE sector.

First and foremost, stakeholders noted that Jordan is a small market (GDP US\$7 billion), surrounded by the significantly larger markets of Saudi Arabia (US\$125 billion), Iraq (US\$30-50 billion), Turkey (US\$165 billion), Israel (US\$92 billion), and Egypt (US\$48 billion).¹⁶ The relative size disadvantage is exacerbated by periodic regional political disruptions and realigning economic and political allegiances. Put simply, Jordan has not enjoyed particularly stable and reliable trading partners over the last several decades. This has contributed to the unfavorable economic performance of Jordan compared to other countries of similar size – Singapore, Ireland, and Costa Rica (Vision 2020, 1999).

At a more micro level, stakeholders argue that urban economic environments in Jordan are not conducive to the small businesses agglomerations critical to vibrant MSE sectors. There are no pedestrian malls, few central *souks* (markets) or areas supporting agglomerations of commercial, retail, or tourism MSEs. With the exceptions of small pockets in Amman, Zarqa, Aqaba, and a few scattered zones in northern cities such as Irbid, neither are there significant agglomerations of industrial activity. Stakeholders did note that the five QIZs have seen modest concentrations of textile enterprise, though they are mostly large and foreign-owned.

Most stakeholders also pointed out that linkages between enterprises, the hallmark of the ideal agglomeration economy, are not particularly intense in any part of Jordan. One or two QIZ textiles firms have, for example, tried to sub-contract orders to smaller, local apparel manufacturers, without success. In one example, a larger firm's attempt to sub-contract out half a million dress shirts to several smaller producers resulted in losing the order to a producer in the Far East, as the Jordanian firm was unable to find enough small, local producers willing to fill the orders at an acceptable level of quality.

¹⁶ Source for Iraq estimate based on World Bank Development Report 2001.

Many stakeholders believe that there are insufficient levels of support and capacity at the municipal level for the creation of intense agglomeration economies. In particular, they believe local development offices with good technical capacity and links to finance sector resources would provide solid support for stronger inter-businesses activities.

If urban economic development has been difficult, rural economic development is even more troublesome. There are a variety of reasons for this, the most notable being a lack of basic and affordable infrastructure (with the possible exception of roads). There is also a reported dearth of business information and lack of entrepreneurial skills in rural areas. Aggravating these factors, is a lack of critical social services in terms of health, education, and business finance.

On the upside, Jordan enjoys a relatively large, technically skilled population. This well- educated labor pool is also available at a much lower cost than that of developed countries. For example, there are an estimated 50,000 engineers (75% men) in Jordan or about 5% of the EPA. This has resulted in a significant number of specialty machine shops and other engineering-based enterprises. Jordan also has a significantly large and well-trained medical and pharmaceuticals labor force (considered a more culturally suitable source of employment for women).

Strong technical skills in some sectors notwithstanding, many stakeholders believe that lack of appropriate vocational, basic, and adult education also holds back the development potential of a large portion of the population, typically women and the poor. Importantly, there is also said to be an alarming lack of business training of any kind.

Jordan's competitive skill advantage would be more significant, argue stakeholders, if there were sufficient well-paying jobs to stop the "brain-drain" to other countries in the region: Europe, and the United States. Stakeholders also believe that the technically skilled – accountants, engineers, scientists, computer technicians – may also be more likely to stay in Jordan if they had business start-up and management training.

2.3 Business Development

Stakeholders believe that most MSE owners lack conventional business management skills. Business managers often have good technical skills, but few have the business vision and the kinds of soft skills in organizational development, marketing, and human resources required to create a vibrant micro or small business sector (see Figure Five) Many experts also believe that recent poor economic conditions have provided an exaggerated excuse for poor business performance, and that many MSEs are held back by simple managerial ineffectiveness and inefficiencies.

Figure Five

MSE Business Management Skill Requirements

"Hard" Management Skills

- Basic organization abilities
- Human resources
- Product pricing
- Delivery system
- Quality assurance
- Low-volume production management
- Marketing
- Strategic planning
- Communications
- Financing/accounting skills

"Soft" Management Skills

- Business vision
- Expansion planning
- Creativity
- Opportunity identification

Much of the perceived inefficiency in the MSE sector is thought to be caused by low levels of education and a lack of enterprise culture. The fact that an estimated 95% of businesses are family-owned, is also blamed for poor management. Instead of meritocracy, for example, managers are rewarded based on family relations rather than performance. This dynamic often places unprepared managers in key positions and can effectively block the career paths of good, non-family managers. Similarly, it seems that companies tend to eschew the efficiencies of out-sourcing services such as those provided by public relations firms, management consultants, and marketing experts.

Stakeholders also believe that many small firms could benefit from more formal, strategic alliances with larger national and/or foreign companies for both local and international markets. An example of this is a Jordanian pharmaceutical firm which sells Japanese products in the generic drug market in the US.

Enterprise development and formation is also slowed by a preference for a salaried position over the risks involved in starting and operating a MSE. Like most people, the majority of Jordanians want predictable work conditions and hours, a regular wage, and the promise of social security. This is despite the fact that MSE income can be double or triple that of the highly-sought after low-level government job. Ironically, employment with larger firms, which is also highly sought after, rarely provides the kinds of social security benefits – particularly health and pensions plans – many believe are included with employment. Thus, there may be a mismatch between the perceived and actual benefits of low wage employment and the benefits-risks of MSE employment.

2.4 Finance

Access to appropriate types and volumes of capital remains a major barrier to the development of the MSE sector. In-roads made by Jordanian microfinance institutions (MFIs) supported by the AMIR Program, demonstrate that the market for MSE loans is both profitable and large enough to support sustainable institutions.

Still, capacity is low and some 50% of demand remains unmet (see Table Two). In fact, some stakeholders believe only the “low-hanging fruit” or the most bankable MSEs have received microfinancing to date. Moreover, most stakeholders report that the average MSE loan size should be closer to \$JD 4,000 than to the \$JD 1,302 used in Table Two. If this was the case, then unmet demand would reach \$JD548 million.

Many predict that deepening the microfinance market will be much more challenging than development activities to date.¹⁷ For example, there is increasing demand for more diverse product offering such as more individual lending, seasonal loans, small asset loans, professional loans, fast working capital loans to fill unanticipated orders or temporal market opportunity, and, of course, larger loans.

¹⁷ It is important to note, that certain sectors of the population, particularly the poorest of the poor, will likely never demand much in the way of micro credit and thus, social programs will always be required.

Table Two
Microfinance Supply and Demand
 (figures in Jordanian Dinars)

Demand	Number of microenterprise	Average Loan	Total Demand
Demand Assumption = \$1,302	154,000	1,302	18,667
Demand Assumption = \$4,000	154,000	4,000	10,000
Supply	Number Clients	Loan Portfolio	
Subsidized MFIs	26,392	64,000,000	
Sustainable	9,715	3,324,000	
Total Supply	36,647	67,324,000	
Current Supply – Demand Assumption = 1,302	-117,353	-133,184,000	
Current Supply – Demand Assumption = 4,000	-117,353	-548,676,000	
Percent Coverage – Demand Assumption = 1,302	31.2%	50.5%	
Percent Coverage – Demand Assumption = 4,000	31.2%	10.4%	

Sources: Perrett (2001); financial statements for the Jordanian Microfinance Company, Al-Ahli Microfinancing Company; Microfund for Women.

Average loan size is the weighted average loan size reported by the Jordanian Microfinance Company, Al-Ahli Microfinancing Company; Microfund for Women and the Jordan Access to Credit Project

Small businesses share similar financing challenges. As in most developing countries, there is a severe drought of small business capital, despite relative liquidity in the commercial banking sector. Stakeholders report that capital from commercial banking sources for small businesses is rarely available at reasonable terms. Interest rates are a major concern, but less so than collateral requirements which can be as high as 150% value to loan.

Stakeholders simply do not believe that the Jordanian commercial banking sector is either willing or able to make large amounts of small business loans available. Instead, as in many developing countries with relatively sophisticated banking systems, banks are focused on upper-income, individual clients product and services (e.g., credit cards, mortgages etc.) and large business and government lending.

Commercial finance aside, there are few other forms of small business capital such as supplier credit.¹⁸ There is also a limited amount of venture capital activity.¹⁹ The Foursan Technology

¹⁸ No statistics are available as to the forms of financing most used by MSEs, though anecdotal evidence points to family, friends, and supplier credit as the most common form of finance.

Partners, EFG-Hermes, and others all have small interests in Jordan (Atlas Investment Group, 2000 and stakeholder interviews).

Unfortunately, most venture funds tend to look for deals in the millions of dollars, where most small business in Jordan need significantly smaller investments, between \$20,000 and \$10 million. As important, most venture funds focus on high technology rather than the more mundane, yet important, investments that could be made in other sectors such as food processing or tourism. A local venture capital firm, Jordan Venture Projects, offers a variety of capital, but with only \$500,000 available, the impact is tiny relative to demand. Some local angel investors exist, but they tend to favor a few family businesses. Finally, the venture and private equity investment sector is not only thin, it is virtually unorganized, thus very little risk capital finance information or market analysis is available to investors interested in smaller enterprise.²⁰

Stakeholders feel that despite recent gains in the MFI sector, the capital gap for MSEs in Jordan is striking and needs redress. Most broadly, MSEs need a greater volume and variety of capital. Small business venture capital funds, investing hundreds of thousands, instead of millions, per deal are required. Specialized small business lending units within commercial banks are likewise vital.

Most stakeholders also believe that MSE finance would greatly improve with the introduction or development of a number of key institutions including a credit bureau, a supervised MFI banking sector (i.e., one that was supervised and able to offer a larger range of products and services, particularly savings), and an end to subsidized MFI activity. Supervision could take many forms and offers many benefits, including easier access to credit for MFIs and greater market credibility. Without savings products and services, self-regulation may be the most attractive formalization option.

To sum, stakeholders believe that MSEs in Jordan continue to rely on informal credit sources such as family, friends, and suppliers. Such financing, while often right for individual MSEs, does little to support the creation of accessible and efficient capital markets for the sector as a whole.

2.5 Government and Regulatory Environment

Many stakeholders report that government regulation is “stifling” the development of the MSE sector. Specifically, stakeholders note the need for a simplified tax code (where businesses pay a single tax instead of a variety of taxes) with taxes payable in quarterly installments to one governing body. An MSE-friendly tax regime would encourage more businesses to formalize, which, in turn, will allow them to operate more publicly, improve their access to credit, and make them eligible for a greater number of government programs.

¹⁹ Formation of venture capital funds has slowed due to regulations that do not allow funds to incorporate as separate entities. This does not permit a separation of liabilities between fund management companies, investors, and investees.

²⁰ A full review of the MSE and related capital markets is a required to fully assess competing MSE finance programming options.

Similarly, stakeholders believe that government should reform and rationalize various aspects of business law. An effective and efficient small claims court was the most often noted need, followed by a moveable asset collateral law that would permit MSEs to pledge movable assets (e.g., televisions, small machinery, etc.) against loans.

3.0 Focus Group Work

Six focus group sessions designed to provide a more refined understanding of the challenges and opportunities facing Jordanian MSEs were held in Amman between August 29 and September 3. The focus group work had four specific objectives:

- 1.● To better understand the challenge and hurdles faced by would-be entrepreneurs when they consider starting a business;
- 2.● To better understand the motivations behind why entrepreneurs start the kind of businesses they start;
- 3.● To better understand the cultural, social, or environmental constraints that discourage more entrepreneurial activity in Jordan; and
- 4.● To assess the possibility of creating linkages between larger and smaller companies.

Two groups each of small, high-impact businesses and micro, low-impact businesses were interviewed. One group of business development service providers and one group of students were also interviewed.

Each group were asked similar sets of questions designed to elicit information on the above stated objectives. Questions focused on three broad areas of entrepreneurship and enterprise development:

- Defining what it means to be an entrepreneur, and what are the risks and rewards;
- Assessing MSE and larger businesses linkages;
- Possible market interventions stimulating the growth and development of the MSE sector in Jordan.

For focus group questions see Appendix One.²¹

3.1 Participant Selection

Focus groups participants were selected to represent the MSE sector only in terms of the following impact criteria: business size, type of activity (e.g., production, commercial, retail), and gender of ownership. Microenterprise, low-impact participants were drawn from the clientele of the Jordan Microcredit Company, Jordan Hashemite Fund for Human

²¹ It is important to note that the focus group work provides subjective data which is intended to provide greater, nuanced, and detailed understanding of MSE. Thus, focus group information is intended to either reinforce, refine, or refute observations drawn from other sources.

Development (JOHUD), Microfund for Woman and Jordan Access to Credit Program. High-impact, small businesses were drawn from the membership of various Jordanian Business Associations and other referrals. Business service providers were contacted directly by AMIR staff and student participants were organized by *Intaz*, a *Junior Achievement*-like program.

Focus groups were not meant to be statistically representative of the MSE market in Jordan. Rather, and due to budget and time restrictions, we were limited to selecting MSEs based on the four criteria noted above. Also, with the exception of one participant from Aqaba, all were from Amman, thus limiting our ability to generalize about MSE outside of the capital specifically and urban areas more generally. These limitations notwithstanding, we would argue that the focus groups *fairly* represented MSEs in urban areas throughout the country.

3.2 High-impact Enterprise Focus Group

Six high-impact small businesses were represented in two different focus groups sessions. Except for two general managers, all representatives were owners and CEOs of the companies. All businesses were production companies and several exported (see Table Three).

3.2.1 Entrepreneurship

High-impact enterprise representatives believe that Jordan lacks an “enterprise culture” – an environment in which entrepreneurs can organize business resources to undertake profitable ventures around new or unique market opportunity. They also believe that the rewards of MSE ownership far outweigh the many risks. According to focus group participants, the most often noted challenges to MSE ownership include (not in order of importance):

- Financial risks;
- Government, legal, regulatory instability/consistency;
- Regional political instability;
- Maintaining pace with global economic changes;
- Shallow labor market;
- Small local market from which to base export products.

3.2.2 Business Linkages

Stakeholders posited that Jordanian producers have traditionally focused on the final consumer. The result is less than desirable business-to-business transactions. In many cases, local suppliers of even the simplest inputs are not available. The classic example is the lack of a bottle cap producer in Jordan: a simple product with significant demand from at least ten medium-sized companies.

Table Three
High-Impact Focus Group

High-impact	
Number of Participants	6
Service	0
Commercial	0
Production	7*
Male	4
Female	2
Urban	6
Rural	0
Average Years in Business	8.5

*One participant had a number of businesses

High-impact representatives believe there are many opportunities for the creation of more high-impact MSEs. They feel that the structure of the economy is “broken” or lacks MSEs capable of providing goods and services to large and medium-sized producers which, as a result, must look abroad for production inputs.

According to this group, critical to securing larger business transactions for MSEs are: price, quality, and timeliness of delivery. Participants related that few local MSE suppliers are able to compete on the basis of price, fewer still on quality, and even less often on delivery date commitments. All factors being equal, participants would prefer local suppliers, but consistently voiced doubt that Jordanian MSEs were competitive. Participants felt that the inability of MSEs to meet minimum requirements has resulted in a lack of intense inter-business relationships that characterize highly successful MSE-based economies, such as those in found Northern Italy and in various regions in the United States.

Difficulties notwithstanding, high-impact business owners felt that the quality standard of Jordanian produced goods was relatively high compared to other regional economies. They did mention, however, that the internal market for many products was too small to provide a platform for scaling up to the volumes required for being competitive in export markets

Participants also believe that extensive cooperation between input supplier and client businesses is required to create a thriving MSE sector. Mutual cooperation on such things as product design, technical assistance, and inter-firm production lines (e.g., just-in-time inventories and supply chains) were viewed as indispensable parts of inter-firm activities.

According to participants, this kind of industrial cooperation is rare in Jordan. Instead, the opposite exists. A local specialty plastic supplier with a monopoly on PVC, for example, raises prices according to the speed at which a client company needs an order. If the supplier knows that clients cannot wait to import raw materials to turn an order around, suppliers increase prices three to four times the normal rate. The result is that local clients buy from local sources only when necessary. A cooperative arrangement would reduce client costs to the purchaser, while decreasing margins to suppliers, but increasing sales volumes: more efficient for the economy and for the businesses involved.

3.2.4 Stimulating the MSE Sector

In order of importance, high-impact participants focus on government regulatory changes, access to small business finance, direct business development services support, and educational programs as appropriate means to support the development of the MSE sector in Jordan. Participants, for example, called for a tax system which required paying one tax to a single agency on a regular basis (e.g., quarterly).

3.3 Low-Impact Business Focus Groups

The low-impact businesses were involved in a range of businesses (see Table Four). All the participants were owners of their businesses, of which the majority were service or commercial activities. Only two of thirteen were production enterprises. All provided modest to low family income.

...Life is a matter of opportunities...

Low-Impact Business Owner

3.3.1 Entrepreneurship

On most issues, low-impact participants viewed the world much the same way as high-impact entrepreneurs. These business people view themselves as independent, profit-oriented, creative, innovative, able to develop both personally and from a business perspective.

Low-impact persons, however, were more forthcoming about the range of social pressures – both positive and negative – related to their business activities.

Relationships with clients and suppliers, for example, were expressed as important rewards of business, particularly for women. Social status accorded business ownership was also important as was the ability to be one’s “own master”. Low-impact business owners also expressed a range of negative emotions such as the need to sacrifice, loneliness at work, feeling of a lack of business support, and of being envied or somehow monitored by family, neighbors, and friends.

Many expressed a fear of failure believing that “many family and community members were just waiting for (them) to fall into a mistake.” Women voiced a concern about the double work day and the risks of not being able to manage domestic responsibilities while giving their business the full attention it needed.

These negative sentiments were offset by a keen focus on the ability to earn a good income and the resulting benefits to family welfare. Women particularly felt the self-employment ownership reward of flexibility, in terms of being able to organize their time.

From a more business perspective, low-impact business owners felt their activities were limited by financial and human resources capacity. Limitations, they say, leads to the inability to increase sales and raise product quality. Participants also mentioned the difficulties of understanding how broader market trends affect their business.

3.3.2 Business Links

None of the participants had significant relationships with larger businesses. Despite this, participants identified the same linkage barriers as did the high-impact representatives: quality, price, meeting delivery commitments. They believed that achieving volume or production scale was also a major issue that would require more finance and skilled labour than currently available to them.

When asked how they might establish linkages with larger businesses, low-impact business owners were largely unable to differentiate between strategic marketing and sales techniques. Participants demonstrated good selling ability, but clearly lacked marketing skills. Thus, participants did not really know how they would win the opportunity to sell to larger

Table Four
Entrepreneurship and Low-Impact Participants

Number of Participants	3	12
Service		6
Commercial		4
Production		2
Male		3
Female		9
Urban		12
Rural		0
Ave Years in Business		12.1

companies (i.e., how to get the attention of decision makers in larger firms). Such an exercise requires strategic marketing skills and access to reasonably sophisticated business information that participants simply did not or could not really conceptualize (e.g., Question: How would you get to the larger companies you wish to sell to? Answer: on the bus).

3.3.3 Stimulating the MSE Sector

Low-impact business representatives felt there was a need for business development services, better access to larger loans, and more education about the demands and rewards of MSE activities. When queried about a lack of marketing skills, participants identified the need for formal skill development, the need for connections or relationships with larger firms, and finally, the credibility to deal with larger business owners.

3.4 Business Development Support Service Providers (BDSS)

Six BDSS experts participated in one focus group session representing equally MFIs, business development agencies, and business associations (see Table Five)

3.4.1 Entrepreneurship

For BDSS providers, entrepreneurs have a combination of characteristics which include being able to take risks, provide business leadership, creativity and initiative, belief in one's self, the ability to sell products or services, being able to spot business opportunities, and finally, the capacity to evolve with changing market demand. Entrepreneurs as business owners need to be able to plan, organize, manage, supervise.

Table Five

Business Support Service Providers

Number of Participants	6
Business Development	2
Microfinance	2
Business Associations	2
Male	2
Female	4

BDSS providers see many rewards to business ownership, including independence, income, social status, flexibility of work hours, and the ability to take advantage of future opportunities wage employment may not permit.

According to BDSS providers the ideal entrepreneur should have a feasible and unique idea that relates to their experience, and one they strongly believe in. The

ideal entrepreneur should also have a healthy respect for failure, but insist, that success is possible. Finally, this person should have a good plan for turning an idea into a profitable business (both in a start-up or expansion situation).

With respect to the economy, the ideal MSE should create jobs and provide a needed service or product in the local market. The ideal business could equally replace an imported product or supply a product or service to an export-oriented company and thus, have local economic multiplier effects.

3.4.2 Business Linkages

BDSS providers saw increased business linkages between micro and small enterprise and medium and large businesses as a critical factor in the development of a more sustainable and stronger Jordanian economy. Linkages were conceived in two ways.

First, BDS providers noted a lack of both intra-sector, or same sector links (e.g., between medical labs and pharmaceutical manufacturers) and inter-sectoral or links between businesses in different sectors (e.g., bottle manufactures and pharmaceutical companies). They also pointed to the need for geographically intense or agglomeration economies. Participants felt, however, it would be difficult to replicate the kind of intense inter-firm relationship found in places like Northern Italy or Silicon Valley because of the unique factors and historic economic conditions that combined to grow them in the first place.²²

3.4.3 Stimulating the MSE Sector

BDSS participants felt that the government must continue to reform policies supporting sound macroeconomic conditions, work to improve regional political stability, and decrease the bureaucratic barriers faced by businesses of all size. Participants thought that helping develop an enterprise culture where entrepreneurs and would-be entrepreneurs better understand the trade-offs between paid employment and enterprise ownership was also critical.

Despite negative sentiments towards the potential success of artificially creating more intense inter-firm activity, participants suggested several possible interventions. These included a strong MSE sector association, cooperative small and micro business marketing effort, and programs to help increase the quality and productivity of MSE as input suppliers. Participants also ventured the possibility of strategic support of inter-business linkages through a variety of programs, including direct linkage programs or better access to business information. They suggested that such programs may be suited to specific geographic zones such as QIZ, special economic zones, around universities, or in tourist areas. To this end, they suggested that decentralized government MSE support capacity was also important (e.g., local economic development offices).

Participants concluded with the belief that innovative business finance can play a strong role in developing MSE activity. Much as venture capital has played a pivotal role in proving the fundability of high-tech ventures in Silicon Valley, participants, thought that specialized venture funding focusing on the entrepreneur and business ideas, rather than available collateral, would go some ways to “proving” the market for small business finance.

3.5 Youth/Students

A group of twelve university students associated with the INJAZ were selected to participate in the youth/student focus group (see Table Six). Through their association with INJAZ, students focus group participants have had some exposure to various types of businesses either through volunteer work with companies or through participating in various INJAZ program activities.

²² The Northern Italian district of Emilia-Romagna is world renown for its small business sector which is characterized by intense inter-business linkages. Linkages are such that several separate firms will collaborate and cooperate on the design and production of a single product. The firms, in essence, form a highly efficient production unit each with distinct yet collaborative division of labor. In Silicon Valley, high tech firms benefited originally from proximity to Stanford University and its focus on practical business applications of computer engineering. Later as a cluster of high technology firms grew, venture capital firms began to form to support ventures.

If it is made in Jordan... I am sure that they (the producers) cheated somewhere...and the product will just not be all that good...

Student Focus Group Participant

3.5.1 Entrepreneurship

Entrepreneurship for students was understood much as it was for the other focus groups. Students had an excellent grasp of the risks and rewards involved in business, both in terms of the commitments and opportunity costs involved. Students differed in some respects as they focused more on personal issues such as lack of experience, the need for courage, ability to withstand “get-a-good-job” pressure from family and friends, and business intelligence.²³

Students seemed to grasp the need to be strategic about business, to plan, and to look for support that could improve their chances of success (e.g., business development services). Students also understood the significant time commitment involved in starting a business and voiced the need to be patient with a new venture.

MSE business rewards were largely the same as with the other groups, though students were more acutely tuned to self-fulfillment, acquiring social status, building business empires, and to becoming famous business persons. On the other hand, the risk of failure also loomed large. Enterprise ownership implied both financial risks and possibly losing status within families and amongst friends. Not surprisingly, students believed that there was less than desirable moral support for enterprise ventures.

3.5.2 Business Linkages

For the most part, students were well-versed with the basics of business management. This allowed them to articulate basic marketing and sales strategies and to see both the advantages of linking to larger businesses and the ways of doing it. Students were keenly aware of the need to have quality products and services. They expressed their belief that Jordanian products are perceived as being of inferior quality which puts products from Jordanian MSEs at an immediate competitive disadvantage as suppliers to larger, more quality conscious companies.

Table Six
Student Focus Group Participants

Participants	
Number of Participants	12
In School	10
Graduated	2
Female	8
Male	4
Scholastic Participation	
Engineering	4
Science	1
Business	2
Computers	4
Other	1
Post Scholastic Baccalaureate Degree Plans	
Obtain Masters Degree	1
Obtain Ph.D.	2
Obtain job in a company	7
Start a business	1
Not sure	1

²³ Student participants, in fact, showed a surprisingly high level of entrepreneurial knowledge despite their relative inexperience and belief to the contrary.

Linking to large companies or exporting was thought to be key to producing good quality products and services. Students believed this because they feel that the small domestic market cannot support the volumes of sales required to develop quality products. Students also suggested that companies may want to produce lower quality goods for the lower-income sectors of the population and higher quality for export or the domestic middle-income class and large business markets.

Linking with larger businesses would also require access to strong financial support, good production skills, and greater overall management capacity than the students thought they had. They also believe that taxes and business regulation were problematic to MSE development and growth (although they could not articulate specific concerns).

3.5.3 Stimulating the MSE Sector

The students strongly believe that supporting entrepreneurship in Jordan must focus on business education. They believe that Jordanian students need basic exposure to business skills at the high school level and more practical, hands-on business curriculum at higher levels. Students were adamantly in favor of greater choice in selecting career paths at universities (i.e., matching interests with educational opportunities).

The students suggested some kind of financial support for student start-ups (e.g., a living wage), as well as for business development services aimed at young entrepreneurs (e.g., business information, marketing support, and vocational training). Women also noted the need for business training and support service adapted to the specific needs of an oriental culture, as opposed to western style programming. Finally, students were very interested in meeting and hearing of successful youth entrepreneurs.

3.6 Stakeholder and Focus Group Work Summary

Stakeholder interviews and focus group work provided invaluable insights to the challenges and potential of MSE development in Jordan. In addition to the many substantive ideas, five context-building ideas emerged suggesting important programmatic emphasis for MSE support interventions.

3.6.1 MSE Risk-Return Awareness

There is a general lack of awareness in Jordan about the possibilities offered by MSE ownership. Clearly, the perceived risk and reward trade-offs between unemployment, low-wage employment, and MSE ownership are not systematically understood. Moreover, many cultural barriers stand between many and MSE activities. General and targeted MSE promotion, clearly stating the benefits and challenges of enterprise ownership is required.

3.6.2 Lack of Good Business Ideas

Being aware of the advantages of MSE ownership is a critical first step for business formation and development. Without sound ideas of the types of businesses that will prosper, however, the likely result is investments in many low impact and few high-impact businesses. Again, both kinds of businesses are valuable, but if MSE sector development interventions are to yield economy-building results, entrepreneurs will need to have access to basic enterprise education and business information to make informed investment choices. This is not to say

interventions should prescribe the kinds of businesses that form. Rather, information and education will allow entrepreneurs to make decisions based on market needs.

3.6.3 Lack of Enterprise Motivation

A good idea, like awareness, is often not sufficient motivation for many to invest in a business. Some form of motivation may be required to tip entrepreneurs into action. At a general level, interventions would best target income and social security issues, for example, access to self-contribution pension funds with affordable minimum monthly investments. For high-impact businesses, special regulatory status and tax treatment for MSE in targeted sectors or areas may be required.²⁴ Access to a variety of finance is required and may involve some up-front subsidization to the financing institution, but not to the MSE.

3.6.4 Capacity as MSE Managers

Clearly, business management capacity is both necessary to the development of the MSE sector and in great demand by entrepreneurs. Given the cost and difficulty of providing effective capacity development services to a large number of entrepreneurs, self-selecting programs for low-impact businesses that require significant client contribution act to “screen-in” the most serious and motivated entrepreneurs.²⁵ Programs for high-impact business need be designed to support strategically important sectors or areas, such as those outlined in Jordan Vision 2020.

3.6.5 Credibility

MSE sector credibility-building has two critical roles. First, it is an integral part of positively affecting the growth of an enterprise culture in Jordan. This can include associational support from widely respected religious leaders, the state, or private sector institutions (e.g., a popular religious social activist’s stamp of approval on MSE ownership, or non-MSE support television advertising not directly attributable to government agencies). Second, targeted credibility support can also help MSEs confront specific issues such as government relations and access to credit.

²⁴ Necessarily, all tax treatments would need to be considered *vis a vis* possible contravention of trade treaties and/or conventions to which Jordan is a signatory.

²⁵ Community economic development specialists estimate that most effective business capacity development programs for MSE can achieve at best 30% to 40% self-sufficiency. Basic capacity development programs in marketing and organization can reach 70% to 80% self-sufficiency.

Table Seven Programmatic Emphasis		
	Low-Impact	High-Impact
Awareness	<ul style="list-style-type: none"> • Broad-based marketing programs aimed at promoting positive aspects of enterprise ownership while dispelling negative aspects. 	<ul style="list-style-type: none"> • Targeted marketing program (e.g., within a specific sector or area) promoting specific MSE opportunities.
Ideas	<ul style="list-style-type: none"> • General enterprise education and accessible business information (e.g., education via high schools and/or adult education programs, business registries, basic local economic data for demand studies made available through local development offices.). 	<ul style="list-style-type: none"> • General enterprise education, accessible business information (e.g., education via high schools and/or adult education, business registries, basic local economic data for demand studies made available through local development offices). • Specific sector MSE and medium/large business linkages programs.
Motivation	<ul style="list-style-type: none"> • Provide income security incentives and access to social security benefits equal to low wage government employment (e.g., access social security benefits and especially a pension plan). 	<ul style="list-style-type: none"> • Improve operating environment facilitating MSE formation (e.g., tax credits, investment credits, special regulatory treatment for targeted MSE investments).
Capacity	<ul style="list-style-type: none"> • Access to basic "soft" business management skills courses (e.g., competitive, subsidized self-selecting business development services for a limited number of direct business development services or user-pay business development services). 	<ul style="list-style-type: none"> • Access to business development services for targeted sectors or areas. • "Soft" business management education available to all disciplines at higher level education institutions (e.g., colleges, universities, and vocational training facilities).
Credibility	<ul style="list-style-type: none"> • Religious and/or government support promoting MSEs as an acceptable employment option. 	<ul style="list-style-type: none"> • MSE support organizations (e.g., MSE Business Association). • University programs for MSE development. • Commercial bank products and services for MSE.

Part 4 – DEVELOPING THE MSE SECTOR IN JORDAN

1.0 Introduction

There is no doubt that MSEs can play a valuable economic development role in Jordan. High-impact MSEs, for example, can quickly fill important niches in the domestic economy and are also potential exporters. Low-impact businesses provide invaluable local products and services and can provide important inputs to larger businesses.

But MSE business formation and/or expansion have not been as profound in Jordan as in other countries. Our analysis of the Jordanian enterprise structure identifies three characteristics that limit the sector's vibrancy:

- A low number of small businesses in the economy;
- Insufficient linkages between micro- small- and large enterprise; and
- Too many of the same types of micro businesses.

These defining elements contribute to an MSE sector which is less vibrant than desired from both an employment and an economic development perspective.

The origins of the underdeveloped MSE sector are not necessarily clear, though obviously the unique social and cultural development of Jordan – particularly the strong role of the central government as an economic agent – influence what can be described as an *employment* as opposed to an *enterprise* culture. More recently, the lack of capital, particularly for small business, difficulties in accessing business information, limited small business management capacity/experience, and an increasingly global economy have combined to slow the growth of an enterprising class in Jordan.

2.0 Strategic Directions

Jordan needs to strengthen its micro and small enterprise culture. This will require broad-based programs promoting MSE ownership while providing some degree of business development support, and perhaps some forms of financial motivation. It will also require changes to MSE regulatory structures (and associated costs) as well as changes to the legal system, particularly as related to movable property as collateral laws and small claims courts.

Second and more complex, business development services supporting high-impact businesses and/or intense MSE-larger business linkages are required. This strategy is based on the fact that high-impact MSEs generally results in the establishment of numerous low-impact businesses. Since it is inconceivable that effective direct MSE business development services can be affordably extended to all wanting or even needing such support, BDS interventions must be highly targeted to specific sectors or areas.

Cognizant of resource limitations, our general programming recommendations implicitly suggest limited direct support to low-impact enterprises. The focus on high-impact

MSEs is based on the following considerations.

- High-impact MSE activity has greater economic value than low-impact;
- Under the right conditions, low-impact MSE activity is an outcome of high-impact MSE vibrancy;
- Targeted services are more likely to yield immediate and demonstrable successes which will help justify longer-term program investments; and
- Meaningful MSE support programs cannot reach particularly large scales due to functional and inevitable budget constraints.

Finally, in order to ensure programming encourages market discipline, both to intervention agencies and MSEs alike, and to maximize the sustainability of interventions, it is imperative that programming be as demand-driven as possible.

3.0 Program Recommendations

With these contextual observations in mind, we recommend that MSE interventions to improve the vibrancy of the Jordanian MSE sector, its job and wealth creation potential, and the demand for microfinance capital:

- Strategically support pockets of vibrant MSE; and
- Encourage the development of a dynamic MSE enterprise culture.

We propose two strategic programs to carry out these goals.

3.1 Community Economic Development Offices – To Grow Vibrant MSE Activity

To support MSE sector vibrancy, we recommend the creation of *Community Economic Development Offices* (CEDOs). Fashioned after the successful Community Futures program of the Canadian federal government, CEDOs will support direct business development services (BDS) and local or sectoral economic development activities.²⁶ They will act as local/regional information hubs linking clients with market opportunities through business linkages and business ideas/opportunities identification and with a range of other financial and non-financial services (e.g., microfinance credit, sector specific management information, or exporting information).

CEDOs will be small and market-driven and will work together to develop common products and services yet allow for specific local economic development needs (e.g., the provision of consulting services targeting a locally important business sector).

²⁶ Other examples include, CRECER in Guatemala, a regional BDS organization for fair trade organizations in Central America, Mexico and the Caribbean, and the Alexandria Business Association in Egypt.

CEDOs will have two specific objectives:

- To strengthen local capacity for MSE sector development; and
- To stimulate high-impact business creation and agglomerations of intense *inter-business linkages* in their local economy.²⁷

The center piece of CEDO initiatives will be the Business Opportunities Program which will seek to support the creation of agglomerations of vibrant MSEs. It will offer three specific services:

- ***Business Support Consulting***
One-on-one direct capacity and business development services will be designed and offered to a limited number of high-impact businesses (established firms and start-ups). We anticipate demand for management consulting services and MSE management training. These services will be tailored to meet the needs of the CEDO's client base and contingent upon demand. They could focus on a specific sector or on a particular MSE management need (e.g., hard or soft management capacity development courses).²⁸ Services will be highly targeted to businesses that can contribute to an intensification of high-impact MSE activity either sectorally or geographically.²⁹
- ***Business Opportunities and Linkages Program and Database***
The business opportunities linkage program and data-base will provide a system for prospecting new business links, tracking existing linkages, and evaluating past linkages. The data base will also track new market opportunities identified by CEDO staff and include an entrepreneur database which will maintain a roster of existing MSEs and would-be entrepreneurs for matching purposes. Staff will work with existing and would-be entrepreneurs to link them with business opportunities or possible inter-business sales.

²⁷ It is important to note the distinction between local or community business development versus many municipal government business development offices. Where the former attempts to build a diverse and vibrant economy by working primarily with local businesses and resources, the latter often focuses on attracting outside business to the local economy. The difference is community economic development building versus what is known as "smokestack chasing". Smokestack chasing can have two negative effects. First local governments are constantly held hostage to businesses that have no local affinity and may use the threat to leave as leverage for continuous regulatory and tax benefits. Second, non-local businesses typically (though not exclusively) often have less concern for local labor rights, the environment, etc..

²⁸ The Toronto Community Business Centre, for example, provides business management courses for the food products sector. *Centro de Encuentros y Dialogos* in Mexico, by contrast, provides marketing courses for micro businesses. CRECER of Guatemala offers product specific services (e.g., low temperature ceramics production, sales, and transporting).

²⁹ The only caveat to this general recommendation is that direct BDS should be available to those low-impact businesses that seek them out and are willing to bear a significant portion of the costs of the services. It may be necessary to establish access to loans for low-income people to pay for BDS services.

The program's linking and idea generation services will provide clients for CEDO business support services and create demand for micro credit and other financial services.

- **Business Information Services**

This service will provide entrepreneurs with up-to-date information on such things as regulatory changes, tax regimes, export opportunities, general economic data and reports relevant to MSE management and business planning.

The CEDOs will act as both a magnet to draw in existing and would-be MSE entrepreneurs. They will seek to provide targeted support to strategic pockets of MSE activity as a means to both increase sector vibrancy and demonstrate the economic and business value of MSE activities. Based on the theory that low-impact business growth is positively correlated to high-impact business growth, the CEDOs will focus on strengthening high-impact small businesses while simultaneously supporting greater linkages between business of all sizes.

We recommend that CEDO services take a venture capital approach, committing to assist a limited number of small, high-impact businesses over a long period of time (much in the way venture capitalists would work with investees – see Appendix Four). This intensive approach links the long-term success of the CEDO with client business success. Partial service remuneration to the CEDO and CEDO employees could also be linked to client performance (e.g., some kind of fee-for-service based on equity appreciation of companies assisted).

We recommend a three-year pilot program with three or four CEDOs in strategic municipalities. Offices would be independent of, but necessarily linked to local and regional government authorities. Existing MSE support organizations could be converted to take on the broader CEDO mandate.

As direct business development services are the most intrusive, expensive, and complex interventions recommended, two significant pieces of up-front work will be required before specific programming details can be determined. One will be to identify and undertake a business census of high-impact business sectors or locations to be supported. The second, will be a demand survey of business support services.³⁰ Finally, we recommend a full assessment of government MSE regulation and taxes as a prelude to proposing a rationalization of government intervention in the sector. The objective of this study would be to remove unnecessary barriers to and reduce the costs of MSE formation and operation.

Expected results of the CEDO program include:

- An increase in the number of high-impact MSE; and
- An increase in the linkages between micro, small, medium, and large businesses.

³⁰ Vision 2020 offers seven sectors as key to the development of the Jordanian economy. This provides a starting place to examine which sectors or areas may be the most susceptible to linkage programs.

More tangibly, the program will result in several strong pockets of demonstration MSE activity and serve to support long-term, positive changes to the Jordanian enterprise culture.

3.2 MSE Business Council – To Grow a Dynamic MSE Enterprise Culture.

Long-term development of the MSE sector will require more profound changes to the *enterprise culture* in Jordan. To support this, we propose the creation of a membership-based MSE Business Council with two primary tasks:

- To oversee activities related to the development of an enterprise culture in Jordan; and
- To represent micro and small business entrepreneur interests to government and other potential supporters at all levels.

The overall goal of the MSE Business Council will be to create a more entrepreneurial business culture. Functioning much like other business associations, the Council will support and promote the interests of MSEs at a strategic level, complementing the on-the-ground, hands-on work of the CEDOs.

To begin, the MSE Council will have four main program thrusts: a national MSE communications program, education programs to promote MSE ownership as a career option, government relations, and the provision of group insurance programs, pension plans and other services that individual businesses are unlikely to be able to access on their own.

- ***National communications strategy***

The MSE communications strategy will seek to develop a long-term, high-profile, country-wide awareness of the benefits and importance of MSE ownership. The initiative will require significant planning and investigation but should, at the most general level, link personal interests of MSE ownership and national development. It will consist of some form of national communications strategy that clearly describes the positive benefits and challenges of MSE ownership (e.g., that income is often greater than at low-paying government jobs). As noted earlier, such a program would benefit from religious and social/cultural sponsorship to increase credibility.

We recommend two initial activities: a series of annual MSE trade shows as a means to promote both businesses and MSE ownership, particularly among youth; and a national awards programs for inspirational MSE owners, by age, gender, sector, etc.. The awards program can play a key role in the communications strategy including a number of high-profile events (awards dinner, Entrepreneurs' Week, sponsorships and endorsements).

- ***Micro and small business enterprise management education***

Developing MSE culture with requisite skills is not a short-term task. Given that over 30% of Jordan's population is still quite young, education institutions can play a vital role in creating greater MSE capacity. Enterprise education should begin in high school

as a regular, if modest part of each level of instruction. In higher education institutions, full MSE management courses should be offered to complement professional and or vocational training programs. Training should focus on soft management skills from business vision and opportunity identification and refinement (e.g., business planning), to harder management skills such as organization, human resources, marketing, as well as introductions to MSE finance and accounting.

For more immediately results, however, a limited number of direct MSE business development programs should be offered at CEDOs.

- ***Representation to government and other potential supporters***

Representation to government and other potential supporters will play and increasingly important role as the Jordanian MSE sector seeks to grow. This is particularly true if business regulatory, tax, and related legal changes are sought to reduce barriers to MSE sector vibrancy. Sector representation can also play an important role in securing new sources of investment.

Although rarely achieved easily, organizing together as a sector will allow Jordanian MSEs to become an important driver of economic growth as it is in many other countries.

- ***Private sector managed pension funds and insurance schemes***

Addressing the issue of long-term financial security and MSE ownership can go a long way in growing and securing the future of the Jordanian MSE sector. To begin, we propose two concrete initiatives, which although could take some time to establish, should significantly increase the attractiveness of the sector. The first recommendation is the establishment a private sector pension plan for MSE owners and workers. Such a program strikes directly at the long-term income insecurity of MSE ownership and the sentiment that any low-paying job with a pension is better than enterprise ownership. The plan would be a privately managed, for profit venture, with members (e.g., MSE owners) making modest monthly contributions.

The second program is to establish an affordable insurance scheme for MSE workers and owners. Affordable group insurance for life, health, and disability could be considered and would go some way to improve the financial insecurity of MSE owners.

Not only would the pension and insurance programs increase the financial security of MSE owners and workers, they could also serve as very concrete services to attract the participation of MSEs in an industry association or other forms of community (for example, access to services could require Council membership).

3.4 Research Recommendations

3.4.1 Business Development Services Inventory and Evaluation

Due to the short length of the current assignment, we were unable to fully explore the number, type, and effectiveness of existing business development services. As we assume that programming recommendations may be administered by existing business development agencies, a survey and evaluation of existing BDS services is vital. The survey could be undertaken concurrent with a program start-up activity

3.4.2 Business Survey

Basic data on businesses – size, industry, type, and location – similar to the standard industrial code data, is imperative to the development of MSE sector programming.³¹ Indeed, such data will prove useful for a variety of economic and industry sector purposes. Importantly, it will provide baseline data from which to assess the impact of AMIR and its various programs.

3.4.3 Business Linkages Study

In this and other AMIR documents and programming (e.g., the Backward Linkages program), we have assumed poor linkages between businesses, based on expert knowledge. While likely correct, it is difficult to fully understand the implications of this observation without a more complete picture of the dynamic, or lack thereof, between firms of different sizes and types. Thus, we recommend a more focused study to dissect the relationship between micro, small and large firms in Jordan in strategic sectors (e.g., those chosen for business development services programming). The study would bring together focus groups of large and MSE businesses owners, with and without significant MSE business linkages.

3.4.4 Regulatory Change Survey

Finally, we recommend a full review of the regulatory costs of MSE activities, the establishment of a small claims courts related to MSE needs, and the moveable property law as a means to improving MSE borrowing capacity. The study could be based on the 1998 “Policy Environment for Financial Services to Micro and Small Enterprise in Jordan”, with advances updated and new recommendation made as they relate to MSE regulations.

³¹ The Jordanian Department of Statistics provides the number of enterprise by location. Business data by sector, size, or type is currently not available.

Part 5 – NEXT STEPS: PROJECT DESIGN

We suggest a two phase design for moving forward with the recommendations. The first phase of the implementation plan should focus on clarifying recommendations and priorities, designing an overall program approach, and developing detailed implementation plans for specific programs. The second phase will consist of program start-up planning and implementation.

1.0 Phase One – Planning

Lead by a committee of local economic and business development experts, the Planning phase will have six main steps:

- Formation of Experts Committee;
- Select local project management consultant;
- Committee prioritizing recommendations in the report;
- Program feasibility research and design of selected programs;
- Non-program research;
- Detailed implementation plans for specific programs.

This phase will focus on the design of the overall project and project management. It should take approximately eight months (See Table Eight).

Table Eight
Phase One Planning Overview

	Month	One	Two	Three	Four	Five	Six	Seven	Eight
Experts Committee formed		X							
Program mgmt. consultants selected		X							
Prioritization of programs		X	X					X	
Contract Program feasibility and design teams		X							
Program feasibility research and design			X	X	X	X	X	X	
Contract non-program research		X							
Non-program research			X	X	X	X	X	X	
Detailed implementation plans						X	X	X	X
Contract program implementation teams								X	X

The approximate cost of Phase One depends upon how much of the work can be undertaken by AMIR staff and how much needs to be contracted out. Regardless, the complex nature of Jordanian culture and customs lead us to recommend that follow-up to the recommendations be done by a team of Jordanians, with Enterprising Solutions Global Consulting, or a similar consulting firm, being contracted to provide critical input to program design and development processes.

2.0 Phase Two – Implementation

Phase Two consists of program implementation. The Experts Committee (see above) will make the final selection of programs to be developed. Table Nine outlines, in general terms, the time commitments for each the programs recommended. It also notes possible evaluation measures. A comprehensive budget for Phase Two will be developed as a part of the Detailed Program Design activities in Phase One (see above Table Eight).

Table Nine
Phase Two - Program Implementation

	Development Phase	Start-up Phase	Total Duration Of Program	Potential Evaluation Measures
Community Economic Development Organizations – Vibrant MSE Activity				
• Targeted direct business development services	10 months	6 months	Based on success Ongoing	• Number of businesses served. • Success of businesses.
• Business Opportunities Program	6 months	6 months	Based on success Ongoing	• Number of linkages.
• Business Information Services	1 year	6 months	Based on success Ongoing	• Number of businesses served. • Success of businesses.
MSE Business Council – Enterprise Culture Development				
• Long-term Promotion of Enterprise Culture	1 year	6 months	Ongoing	• Number of MSE start ups.
• Create MSE Business Council	8 months	1 year	Ongoing	• Business council established and funded for three years.
• Inspirational Annual MSE Awards	4 months	2 month	Annual Event	• Media coverage of Award.
• Annual MSE Trade Shows	6 months	2 month	Annual Event	• Participation rates by students.
• Regulatory and Tax Considerations	8 months	1 year	Ongoing	• MSE tax changes.
• Higher Education MSE Management Skills for Professional and Vocational Programs	1 year	6 months	Ongoing	• Number of students taught. • Number of businesses started by students.

Again, we believe this should be led by experienced, locally knowledgeable teams, supported, where necessary, with consultants familiar with the program applications (preferably with Jordanian and or regional experience).

PART 6 – CONCLUSIONS

Our study concludes that the micro and small enterprise sector (MSE) in Jordan lacks the kind of vibrancy required to be the driver of economic growth as it is in many other countries. At the level of the potential entrepreneur, there is a need to promote MSE development as a viable employment option. Concomitant to greater awareness of enterprise opportunities, there is a need to increase access and exposure to MSE management capacity training.

These longer-term development interventions are necessarily offset by the need to increase MSE sector vibrancy in the short to medium-term. To do this, we believe that efforts should focus on high-impact businesses, *or those businesses which create the greatest amount of economic benefits beyond income to their owners*. Indeed, we believe that the fate of the MSE sector is positively correlated to the success of high-impact businesses.

Supporting high-impact MSEs will require a number of targeted business development services. Given the lack of MSE sector vibrancy, we conclude that in some cases entrepreneurs will need to be linked to, or matched with specific business opportunities through the Business Opportunities Program. At the same time, ancillary services such as access to appropriate small and micro enterprise risk capital and credit will be required to support the sector's growth and development.

We conclude that specific MSE programs will best be managed by CEDOs at the local level to ensure appropriate program design and delivery. Conversely, we believe that culture-changing programming be left to a national MSE sector organization.

Given the relative youth of the workforce and their generally high skills and educational level, Jordan has a number of strong comparative economic advantages. With the right type of encouragement, support services, and some patience, the MSE sector can become an important driver of economic growth in Jordan, as it has been in many other countries.

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APPENDICES

Appendix One – Stakeholder Questionnaire and Stakeholder Interview Summaries

1.0 Introduction and Overview of Project

1.1 Introductions

I would like to learn more about you and your institution. First, to help you understand our work and who I am, I would like to introduce myself. Please do ask any questions if I am not clear.

Enterprising Solutions Global Consulting (ESGC) is small company with offices in Mexico, the US, and Canada. We specialize in microfinance and small business technical assistance and capital market development, in Latin America, the US, and Africa.

I am part owner of ESGC and I specialize in microfinance and small business enterprise development both at the program and direct business support services level.

Our clients include export companies, multilateral banks, foundations, and capital suppliers

1.2 Describe project

This is the first part of what we hope to be a two phase project. In this part we are investigating and proposing the design for a micro and small enterprise multiplier program; or a program that will help stimulate the creation and strengthening of MSE in Jordan. The strengthening of the sector is also intended as a means to stimulate demand for microfinance institutions.

My company has been selected to undertake this work due to our somewhat unique experience and expertise in both microfinance and small business development.

1.2.1 Objective of the project

The objective of the project is to:

Evaluate the Jordanian business structure to determine those interventions which will increase microenterprise development and ultimately the demand for microcredit.

The outcome of the project will be a proposal for the creation of a program to stimulate MSEs in the Kingdom.

1.3 Objective of the interview

We want to hear your opinion on MSE development and conditions in Jordan. We want to understand your perspective on the relative strengths and weakness of MSEs, and some of the things you think could be done to strengthening the sector.

1.3.1 Describe interview format

As I have certain contract requirements, I would like to ask if you would mind my suggesting an interview format:

- 1) First I will ask a couple of specific questions;
- 2) This will be followed by a rating schema of factors contributing to the success of the MSE sector;
- 3) Finally, I have a couple of more general questions that require free range thinking.

1.4 Questions

- 1) What are the defining characteristics of MSEs?
- 2) What are the defining characteristics of a successful MSE?
 - a) A MSE that is good for its owner;
 - b) A MSE that is good for the economy.
- 3) What factors combine to make good operating conditions for the MSE sector?
 Lets take these factors, add some we have thought of, and rate them. We are trying to get at the importance of each factor relative to each other. Rate factors on a scale of 1-10, where 1 is the lowest (worst) and 10 is the highest (best) rating (go to table below).
- 4) Would you like to expand on where you think lie the most significant barriers to MSE development?
- 5) What would you do if you were in charge of national MSE development in Jordan?
- 6) Do small companies interact with large companies in Jordan and what are the challenges for such business relationships?
- 7) Are there any MSE programs or policies you have knowledge of that you think are good and worth investigation if not replicating.
- 8) Do you think there are any specific financial products or services Jordanian MSEs require?

Micro and Small Business Development in Jordan		
Factors	Rating	Comments
Cultural Barriers		
Business Support		
Access to Business Information		
Access to Business Finance		
National MSE Policy and Programs		
Municipal MSE Policy and Programs		
Other		

Appendix Two - Stakeholder Interview Summaries

This appendix provides an overview of Stakeholder interviews held in late August and early September. Each review features main comments of interviewee categorized by subject type (found at the beginning of each sentence).

1. Rula Dababneh, Project Management Specialist - Micro Enterprise, USAID

- Business Creativity: MSEs lack creativity, defined as less understanding of opportunity.
- Business Development: lack management and technical skills, no business vision; few expansion plans.
- Product Quality: lacking.
- Education: lack of general education holding MSEs.
- Risk Aversion: need security over wages and pensions.
- Regulatory environment: is hostile (fees, red tape, etc.).
- Taxes: formal businesses pay taxes (stamp duties), have signs, visibility, credit access.
- Taxes: informal businesses no tax, no visibility etc.

2. Ibrahim Osta, Consultant, formerly with SAVE

- MSE sector will need to economically active population entering in the work force.
- Demographics: 75% of the population is under 25 years of age.
- Demographics: next ten years only 10% of the workforce will retire, where are the jobs going to come from?
- Demographics: over 300,000 jobs required every year for new entrants to workforce.
- Economic Development: GDP is not growing very much.
- SME Finance: may need marketing program at the MFIs to saturate demand.
- SME Finance: may need to go for more than the low hanging fruit.
- Opportunities: many skilled and semi-skilled niches go unfilled (e.g., accountants, computer technicians for small businesses etc.).
- Cultural Causes: some types of work not seen as suitable to Jordanians.
- Taxes: assessments can be informal and often result in costly appeals which does not encourage business formalization.
- Infrastructure: urban environments not conducive to agglomeration and concentration of small businesses (e.g., pedestrian malls, souks, etc.). Zaqra has something of a center, Irbid less, Amman a small one.
- Infrastructure: Jordan needs small business development by district (e.g., boutique agglomeration).
- Public Relations: national MFI and MSE campaigns by credible organization.
- Infrastructure: link efforts of Chambers of conferences, business development centers etc.
- Define SME difference between sustenance and growth visions.

3. Reem Nejdawi Fariz, Director, Small Business Development Center, Amman.

- Define MSEs: generate employment, earn profit, perpetually successful activities.
- Define MSEs: the owner is the key to the business.
- Economic Development; economic conditions are an exaggerated excuse for poor performance and there are many simple managerial and marketing inefficiencies that could be addressed in most MSEs.
- Culture: the entrepreneur from within.

- Business Development: three key skills -- communications in all aspects of business; management efficiency; economic environment.
- Women work a double day, extra family responsibilities adds stress to business stress.
- Economic Development: rural communities have trouble selling within their community (privacy?) as many prefer to go to the nearest large center to shop (despite same price/quality).
- Economic Development: Jordan has a small market (exports are then more important!!).
- Culture: women tend have sewing, knitting, mini-market, hair salon, child care business as they can be operated within cultural norms impressed on women.
- Culture: some jobs are more common for men (e.g., plumber, mechanic, blacksmith, carpenters).
- Culture: men are less motivated.
- Risk Aversion: regular wages are preferred.
- Risk Aversion: predicable work conditions and times.
- Risk Aversion: government and big business jobs offer low wages, some social security (e.g., pensions), but not much else!
- Risk Aversion: need to see some models of how a successful SME can provide benefits to owners.
- Programs Suggestions: MSE training programs
- Programs Suggestions: Unite people in common cause/vision etc. (e.g., SME Association).

4. Halin F. Abu-Rahmeh, Managing Director, Jordan Trade Association, Amman and Fareez Barakat, Marketing Manager, Jordan Trade Association, Amman

- Economic Development: 50% exports to non-traditional trading partners (i.e., non-former trade protocol trade partners such as Iraq).
- Business Development: successful companies need professional distribution chains, international packaging standards, good delivery systems, strategic planning and professional marketing programs.
- Business Development: strategic alliance with foreign companies to sell abroad (e.g., Jordanian pharmaceuticals firm sells Japanese product in generic drug market in the US).
- Economic Development: take advantage of relatively well educated and low cost professional management and technical skills class.
- Economic Development: QIZ are not particularly dependent on future free trade areas they are operating under relatively tax free environments now.
- Finance: the classic capital gap -- if you need \$20,000 or less there are some sources. If you want more than this but less than a couple of million, none is available. There is little leasing, no factoring, ephemeral access to venture or private equity capital. There is little start up capital, almost no working capital, but some asset purchase capital.
- Regulatory: can not use moveable assets as loan guarantees.
- Program Suggestions: business development training of managers.
- Program Suggestions: some form of business mentoring.
- Program Suggestions: MSE sector needs assessments/linking.
- Program Suggestions: data collection on sectors.
- Program Suggestions: linking established exporters with local SME suppliers.

5. Qais M. Al-Qatamin, Executive Director, Jordan Micro Credit Company, Amman

- Culture: loans -- no culture of regular repayments and repayment in general.
- Culture: MSE are not managed professionally (from a conventional perspective).
- Demand: there is no problem with demand and market is not limited .

- Economic Development: development is affected greatly by political disruptions.
- Impact Assessment: to be efficient need to understand impact better.
- Legal: no low collateral lending (i.e., 150% value of collateral to loan size).
- Economic Development: transaction costs to population ratio density needs to be low.
- Business Development: business skills are low. MSEs needs capacity development.
- Economic Development: no agglomeration effects of businesses types in a location.
- Economic Development: through promotion of stronger MFIs, especially via client credit ratings information sharing and systems (esp. collections).
- Economic Development: through promotion of MFI products and services.
- Business Development: BDS on a sustainable basis.

6. Awin Nabulsi, Al Jidara Investment Services, Amman

- Business Development: women run MSEs are different then men run businesses.
- Business Development: SME owners typically have good technical skills but often lack conventional business management skills.
- Business Development: SME owners may lack conventional business management skills but may have valuable unconventional skills which can be refined.
- Business Development: usually have cash flow management problems (need to understand advantage to investment approach).
- Economic Development: economic development varies by geographic region: some areas are good for agglomerations others are not without major changes to urban infrastructure.
- Culture: borrow credibility for MSE sector development from strong private sector institution (e.g., Arab Bank).
- Culture: people don't want to deal with neighbors cause they will get richer than me!
- Culture: people care about what other say and about social accountability.
- Economic Development: develop a campaign to promote awareness of small business opportunities.
- Economic Development: get religious leaders to bless the MSE concept.
- Economic Development: Aqaba as a model that is safe for politicians and one that can then be used as a concept for local economic development.
- Business Development link BDS and MFIs.

7. Rafael Jabba Jr., Executive Director Cooperative Housing Foundation

- Finance: MFI larger loans to meet the nature of demand.
- Business Development: more marketing required, clients don't know much about strategic marketing.
- Regulatory: government regulation is stifling.
- Economic Development: QIZs and universities have generated some natural linkages between small and larger businesses (e.g., sewing shops for the former latter and copies for the latter).
- Economic Development: MSEs lack creativity (e.g., truck stop example).
- Business Development: quality issues across the board: no quality assurances.
- Regulatory: government should simplify tax code for MFIs and small business
- Finance: MFIs should allow for larger loan size.
- Finance: MFI credit bureau will allow access to utilities records as means to check credit.

8. Dr. Ghaith H. Fariz, Director, Social Productivity Program Unit, Ministry of Planning

- Finance: MFI market is still large and only the easy part has been tapped.
- Finance: MFI a certain part of poor population will never be part of the micro credit market.

- Economic Development: only a certain percent of the population will be entrepreneurs.
- Business Development: need to somehow fertilize the ground for more micro and small business success.
- Program: Youth Corps of Jordan, a youth program linked to enterprise development.
- Economic Development: needs to be demand driven promotion of the MSE sector.
- Program: Ministry of Labor has a program where it pays the training costs of youths as new employees.

9. Mariy Ibdah and Mohammad Asfour, Business Multiplier, Jordan Investment Board, Zaqra

- Program: EJADA is a EU supported program to assist and support SMEs via a loan guarantee fund and technical assistance.
- Program: Business multiplier to link small with medium sized business, no strategy other than to contact companies in Zaqra and see if the need inputs etc. Then will contact smaller companies. One year trial. A data base is to be the result identify outsourcing needs.
- Program: United Nations Industrial Development Organization, MTI, Dr. Hindawi.
- Business Development: quality issues.
- Economic Development: Jordanians have relatively high level of technical skills. Many are engineers without proper business training.
- Program: tap capital and expertise of returning ex patriots.
- Program: JIB focuses on seven sectors: Medical, Pharmacy, Information and Communications Technology, Garments, Dead Sea products, Mining, and Tourism.
- Economic Development: there are 50,000 plus engineers in Jordan. That is a significant percentage around 5% of the workforce! Mostly men (75%)
- Economic Development: Women are well represented in the medical and pharmaceuticals industries.
- Program: Engineers Association make loans to members.

10. Basseem Khanfar, General Manager, Microfund for Women, Amman

- Business Development: micro enterprises have very basic organization and business skills.
- Finance: MFI new products being considered include more seasonal loans, individual loans, loans for small assets, professional loans, and fast working capital loans to fill orders or take advantage of opportunities.
- Culture: religious reluctance to paying interest.
- Business development: micros are netter at selling than marketing.
- Economic development: urban lending is relatively easier than rural lending due to skill sets and networking opportunities.
- Economic development: connect rural markets with urban markets to maximize rural advantage.
- Regulatory: empower and capacitize local government to act to benefit local economic growth.
- MFI formalize MFI sector.
- Program: DEF does not target best people and subsidized loans which is counter productive.
- Culture: people are afraid of loans because it represents a real risk to family well-being and have a hard time understanding the value of the loan.
- Economic development: interest on savings is still high and encourages savings and not credit.

11. Amer Hadidi, Co-Manager, Firm Level Operations, Jordan-United States Business Partnership

- Jordan-US Business Partnership is a \$15 million, 4 year program to enhance small and medium sized enterprise in Jordan with objectives to increase employment and sales to the US and other non-traditional trading partners. Provide direct business development services, 8 local and

international consultants (volunteer). Businesses receive short assessment (4 to 8 hours) and are presented to board who approves consulting services.

- Programs: JABA, INTAJ, Fruit and Vegetable Vendors Association, Textiles Industry, Marble Industry Association, 12 associations in total (three JUSBP helped to establish).
- Programs: Industrial Development Directorate has programs to assist SMEs to improve quality assurance and registration processes (modeled after the Economic Development Board of Trade in Taiwan).
- Program: Industrial Development Bank (9% owned by government, 18% by EIB) provides long-term loans to leading industries (e.g., tourism). Technical assistance and research of \$5 million for Southern Jordan (e.g., small loans to villages and social development projects).
- Programs: linkages workshops introducing SMEs to world of subcontracting.
- Business Development: skills, human resources, pricing, timing, quality and volume are the main issues.
- Finance: lack of capital for small businesses which have no collateral.
- Finance: retail banking sector is not interested in MSE lending and is focused on individual client product and services (e.g., credit cards, mortgages etc.).
- Finance: there is very little venture capital available: Jordan Tech Group, Hermes of New York, some British money.
- Program: professional MBA for business people.
- Economic Development: family business predominate and do not have modern management methods.
- Business Development: soft skills in management are not good, technical skills are decent.

12. Ra'ed A. Bilbessi, CEO, inta@j, Amman

- int@j is a business association for the information and communications technology sector with 80 plus members (of a total of 120 potential members). Objective is to build on the intellectual capacity of Jordan. Data collection role (e.g., how big is the sector, how many players etc.), plus lobbying for industry interests.
- Business development: 95% of businesses are family owned and not designed for career paths of individuals.
- Business development: salaries are ok but not great, no profit compensation.
- Business development: MSEs often price big jobs poorly, win contract on price, can't do the job and in the end cost clients more than may have.
- Finance: lack of financing for MSEs -- some VC Hermes, EFC in Cairo, Jordan Venture Projects (is tiny \$500,000 in capital), Ibtkra of New York also small interest, some local angel investors but not many.
- Economic development: stop "brain drain" to Gulf states.
- Program: Ideas Int@j, Intel, University of Jordan to establish a incubator for IT at the U of J, provide tech support, business support, computing lab etc.
- Economic development: people don't know that they have the right to a good standard of living, don't know to demand good education and health services for their children, and don't know that there are opportunities beyond the pitiful salaries and security some traditional jobs have... it is our job to show them the way to get their rights, many through MSE opportunities.

Appendix Three – Focus Group Questions

High-impact Business Focus Group

1. What is entrepreneurship? What does it mean to be in business? What are the rewards of having your own business?
2. What are the risks, challenges, and constraints facing MSE owners?
3. Imagine you are a bag manufacturer. A long-time client has asked you to produce a new backpack bag she wants to sell to the student market in Europe. She has sent you a sample of the bag. How will you produce the bag?

Now assume that you have the contract, the bags are in production and selling quite well. Your client places a larger order for next year, just as the government decides that exporting manufacturers must source 50% of their inputs from Jordan, not including water and power, what would you do?

4. Write a list of 3 to 5 businesses that you think could be successful in Jordan?
5. How would you promote entrepreneurship in Jordan?

Small and Micro Businesses Focus Group

1. What is entrepreneurship? What does it mean to be in business? What are the rewards of having your own business?
2. What are the risks, challenges, and constraints facing MSE owners?
3. Imagine you have a product you think you sell to a large company. How would you go about identifying and then selling to a large company?
4. You have an opportunity to start a business selling to a large business. They have offered you a contract that will guarantee a six months worth of work but have made no promises after that. Would you take the offer? Why or Why not?
5. Write a list of 3 to 5 businesses that you think could be successful in Jordan?
6. How would you promote entrepreneurship in Jordan?

Questions for Business Development Service Providers Focus Group

1. What is entrepreneurship? what does it mean to be in business? What are the rewards of having your own business?
2. What is the ideal business or entrepreneur to support (from both the perspective of the business owner and general economic development).
3. Write a list of the most successful 5 direct and indirect business development programs that could support the small and micro business sector in Jordan.
4. Write a list of 5 businesses you think could be successful in Jordan?
5. How do you think the large and medium companies could work with micro and small businesses to provide import substitutes and other products?
6. How could we promote entrepreneurship in Jordan.

Questions for Student Focus Group

1. What is entrepreneurship? What does it mean to be in business? What are the rewards of having your own business?
2. What are the risks, challenges, and constraints facing you when considering self-employment (personal and external factors).
3. You have an opportunity to start a business selling to a large business. They have offered you a contract that will guarantee six months worth of work but have made no promises after that. Would you take the offer? Why or Why not?
4. Imagine you have a product (a bag) you think you can sell to a large company. How would you go about identifying and then selling to a large company.
5. Write a list of 5 businesses you think could be successful in Jordan?
6. What do you think would encourage more Jordanians to start their own business?

Appendix Four – How Venture Capital Works

Risk capital has been around since the development of the joint stock companies such as Dutch East India Company and the Hudson Bay Company. More recently, an organized risk capital sector formalized in the US during the late 1950s with the emergence of the venture capital industry. More active and readily available during good economic times, or periods of relative capital liquidity, risk capital has a reputation for focusing on high growth markets. It has enjoyed its greatest notoriety during the last fifteen years as it financed the explosion of the high tech sector. It is less well known that risk capital is at work in almost every sector of the economy – anywhere market information imperfections and immature financial infrastructure obscure market potential.

The classic organizational form of risk capital is the venture capital fund. Most venture capital funds are incorporated separately and typically have a life span of ten years. In the United States, funds are normally incorporated as limited liability partnerships (LLPs). In Mexico, the form is usually a *Sociedad de Inversión C A* (SINCA) although *Sociedades de Inversiones de Objetivos Limitadas*, also exist. In order to avoid taxation, many venture capital funds incorporate as private companies in the Grand Cayman Islands, Panama, or other offshore banking centres.

Fund owners generally are investors who place small portions of their investment portfolios in venture capital funds as a means to diversify their overall holdings. Not surprisingly, investors are typically large institutions – such as foundations, insurance companies, pension funds – or wealthy individuals able to risk a percentage of their overall portfolio for the potentially lucrative returns offered by risk capital. Indeed, prudent asset management requires some risk capital diversification for large portfolios.

Fund owners contract professional managers to operate their funds. The managers receive management fees of 2-3% of the fund's assets over the first few years of the fund or until investments begin to mature, after which they are remunerated by carried interest, normally in the 20% range. Many managers also own a small part of the fund, motivating them to seek greater returns as they have a personal stake in the fund's success.

Unlike mutual funds where investment managers take a passive investment role, venture fund managers are selected for their ability to work with companies to protect or maximize investments. Fund managers represent investors on company boards of directors although involvement varies by degree. In the case of poorly performing companies with potential, fund managers will spend as many as 30 hours a month working with company management (Zider, 1998). In the case of well-run companies, managers may invest as little as five hours of their time a month.

Funds typically invest in specific industries or sectors. Venture capitalists, renowned for their involvement in the highly publicized biotechnology and high technology sectors, also invest in more established sectors such as food and retailing (Zider, 1998). They not only provide start-up investment, but also invest in new product development, productivity enhancements,

troubled companies, and those on their way to initial public offerings. The critical factor for venture capitalists is to participate in opportunities where relatively small investments can lever rapid and large returns within three to five years, although seven years is not uncommon.