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# **Formalisation of Informal Enterprises: Unveiling the Roots of Informality**

## **National PPD Outcome Report**

ECONOMIC AND SOCIAL COUNCIL OF JORDAN (ESCJ)

Supported by

EMPLOYMENT IN JORDAN 2030 (EJ2030) PROJECT

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## Acronyms

CCD	Company Control Department
E4DE	Entrepreneurship for Sustainable Development and Employment
EJ2030	Employment in Jordan 2030
ESCJ	Economic and Social Council of Jordan
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HBBs	Home-based Businesses
ICT	Information, Technology and Communication Sector
ILO	International Labour Organisation
JSF	Jordan Strategy Forum
KIIs	Key Informant Interviews
LLCs	Limited Liability Company
MENA	Middle East and North Africa
MSMEs	Micro, Small and Medium Enterprises
NAF	National Aid Fund
PPD	Public Private Dialogue
SMEs	Small and Medium Enterprises
SSC	Social Security Corporation

## Executive Summary

Informal enterprises are an expression of Jordanian innovation and entrepreneurship. They are partly established in response to a difficult business environment and prevailing and challenging economic conditions. Although data on informal enterprises is limited, this sector of the economy is significant in terms of the number of informal enterprises and the people they employ. However, due to their lack of access to various formal business enablers, informal enterprises face barriers to growth and development.

There are advantages and disadvantages to owning and managing an informal business in Jordan. The decision to formalise is based on several factors. Typically, the benefits of potential business growth for informal enterprises outweigh the benefits of avoiding taxes and administrative costs. The challenge for the government and the formal business community is to find ways to encourage informal businesses to take the necessary steps to formalise, thereby supporting business growth and the development of the Jordanian economy.

While many informal enterprises are unaware of the steps they need to take to formalise, and many informal enterprises and entrepreneurs have inaccurate assumptions, the challenge to formalisation is not limited to awareness. Primary research, including key informant interviews (KIIs) with stakeholders and experts from the public, private and non-profit sectors, as well as secondary research conducted by GIZ in preparation for a public-private dialogue (PPD), identified a number of government-related challenges that foster informality. These include:

- High tax rates and lack of exemptions and incentives.
- Rigid company formation and associated legal and financial compliance requirements.
- Costly and time-consuming registration and licensing requirements.
- High social security coverage costs.
- Lack of a definition for start-ups.
- Lack of formal representation of the informal sector and informal enterprises.

Based on the research, two main approaches were developed and included in a Synthesis Paper presented at two validation workshops with the public and private sector: (a) awareness-raising among informal enterprises on the requirements, incentives, exemptions, and benefits associated with formalising, and (b) the possibility of formally representing the informal sector and informal enterprises in Jordan.

Although there was general agreement that informal enterprises could benefit from awareness-raising efforts, the discussion on formal representation indicated that such an approach was considered premature, especially given the participants' lack of familiarity with the informal economy and informal enterprises. Faced with such a fundamental challenge, participants in both workshops agreed on the need to define terms associated with informal enterprises, including the informal economy, and to collect sufficient data on such issues as a precursor to more advanced policy discussions on informal enterprises and formalisation.

This outcome report summarises the results of the PPD session held on 6 March 2024 and its agreements. In the session, PPD delegates agreed on the importance of establishing a coordinating committee on formalisation and proposed to anchor it in the Economic and Social Council of Jordan (ESCJ). The committee will then (a) agree on approaches to consolidate, structure, coordinate and strengthen outreach efforts on formalisation, and (b) agree on initial requirements for defining informal enterprises and collecting relevant data.

## Introduction

Jordan is a predominantly services-based economy in which micro, small and medium enterprises (MSMEs) comprise 99.5 per cent of all enterprises.<sup>1</sup> The Kingdom has faced numerous economic and political challenges in recent years. The most prominent of these is the closure of borders and trade routes with neighbouring countries, Syria, and Iraq, significantly affecting trade and the economy, severely limiting the export of products and services and the imports of critical inputs such as oil. The Syrian refugee crisis has also placed significant pressure on public services and utilities. Additionally, austerity measures as a result of the global financial crisis have limited government investment and the maintenance of vital safety nets.<sup>2</sup>

**Table 1: MSME size distribution and employment contribution**

Size in % of no. of Total Enterprises*				Employment
Micro	Small	Medium	Large	MSME % of total employment
87.7	10.2	1.6	0.5	31

SOURCE: United Nations Development Programme (2021) [Micro, Small and Medium-Sized Enterprises in the Arab Region: Structural Vulnerabilities at a Time of Multiple Shocks](#), UNDP. \* Calculations based on the MSME Economic Indicators Database, SME Finance Forum, IFC, 2019. MSMEs are formal.

MSMEs and entrepreneurs in Jordan face significant hurdles to setting up and growing their businesses due to challenges associated with the broader economy, the business-enabling environment, and other business enablers (e.g., access to finance and talent). The business-enabling environment in Jordan has been identified as a significant challenge for the private sector and investors, with enterprise set-up costs and an unstable regulatory framework comprising a significant disincentive to business establishment and investment.<sup>3</sup> Access to finance can also be difficult for entrepreneurs and MSMEs, with banks preferring to lend to the government and large enterprises. Only some ten per cent of credit is extended to SMEs.<sup>4</sup> A GIZ study on MSME financial inclusion indicates that only 6.9 per cent of MSMEs in Jordan have an outstanding line of credit with a financial institution.<sup>5</sup>

Jordanian enterprises typically also lack sophistication and innovation, spending less than enterprises in the Middle East and North Africa (MENA) region on research and development and employing a less competitive and educated workforce.<sup>6</sup> Other challenges include the lack of incentives for start-ups and venture capital, rigid company formation, maintenance, and closing requirements, and an occasionally ambiguous tax regime posing a significant risk and disincentive for enterprise formation and growth.

It is within this context that informality arises. Informality has many dimensions. These include:

- **Informal economy.** The International Labour Organisation defines this as “all economic activities by workers and economic units that are—in law or practice—not covered or

<sup>1</sup> World Bank [Indicators website](#), viewed 4 September 2023.

<sup>2</sup> See The Guardian (2018) “[Jordan: thousands protest against IMF-backed austerity measures](#),” 3 June.

<sup>3</sup> Government of Jordan (2019) [Turning the Corner: Jordan’s Path to Growth](#), Ministry of Planning, Amman.

<sup>4</sup> European Investment Bank (Ed.) (2022) “[Banking in Jordan: Financing corporates and SMEs in the era of COVID-19. Evidence from the EIB bank lending survey](#)”, *Regional and Country Studies*, EIB, Luxembourg.

<sup>5</sup> GIZ (2022) [MSME Financial Inclusion Study in Jordan 2022](#), GIZ.

<sup>6</sup> World Bank [Enterprise Surveys](#).

insufficiently covered by formal arrangements”.<sup>7</sup> This definition recognises that many parts of the economy can operate informally. It includes the economic units (i.e., businesses, cooperatives, or social enterprises) that employ hired labour.

- **Informal sector.** This term is used less but typically refers to the part of the overall economy considered informal.
- **Informal enterprises.** This typically refers to businesses that have not fully complied with their legal and regulatory obligations. This includes enterprises operating on a spectrum of informality that have either not formalised or formalised to some extent but not entirely (e.g., registered but not licensed and without the necessary permits or certificates).<sup>8</sup>

While there are different estimates as to the size of the informal economy and its contribution to the Gross Domestic Product (GDP) in Jordan, estimates from 2020 indicated that Jordan’s informal economy contributed 25 per cent to the national income.<sup>9</sup> Some studies on the size of the informal workforce estimated, based on ILO data, that there were 1.207 million informal workers in Jordan, over 90 per cent of whom were males. While some of these informal workers work for informal enterprises and are micro-entrepreneurs, many also work for formal enterprises but are uncontracted and/or not covered by social security.

Data on informal enterprises is limited in Jordan, and there are no accurate estimates of the country’s overall number of informal enterprises. Informal enterprises in Jordan typically avoid contracts and large transactions, are self-financed, and rarely have accounting and administrative systems.<sup>10</sup> They usually “operate at a low level of organisation, with little or no division between labour and capital as factors of production”, with labour relations that are “based mostly on casual employment, kinship or personal or social relations rather than contractual arrangements with formal guarantees”.<sup>11</sup>

Owning and managing an informal enterprise in Jordan has advantages and disadvantages. In some cases, running an informal enterprise is a survival strategy. Rather than being a long-term career decision, running an informal business brings much-needed income to the family. However, many people have operated informal businesses for many years.

The decision to formalise is based on many factors. The challenge for the government and the formal business community is to find ways to encourage informal businesses to take the steps needed to formalise. This will support business growth and the development of the Jordanian economy.

Formalising informal enterprises in Jordan offers substantial economic benefits. This process not only fosters business growth, contributing positively to Jordan’s economic landscape, but also initiates transformative changes. Businesses undergoing formalisation are poised to create new

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<sup>7</sup> See ILO website, [Informal Economy and Atypical Forms of Employment](#), viewed 4 September 2023.

<sup>8</sup> Informal enterprises are “to be understood in a broad sense as referring to any unit engaged in the production of goods or services for sale or barter” and which includes units operated by single individuals working for themselves (and also with the support of unpaid family members), adding that “production activities may be undertaken inside or outside the business owner’s home, and they may be carried out in identifiable premises, unidentifiable premises or without a fixed location”, with vendors, home-based workers, and taxi drivers also considered enterprises. See ILO (2013) [Measuring informality: A statistical manual on the informal sector and informal employment](#), ILO, Geneva

<sup>9</sup> “Informal economy constitutes around 25 per cent of national income”, [The Jordan Times](#), February 2, 2020.

<sup>10</sup> Sobh, B. (2019) [“State of the Informal Sector in Jordan: Opportunities for Integration”](#), *Policy Paper*, USAID, Amman.

<sup>11</sup> United Nations Statistics Wiki, [D.2.1. Informal sector enterprises](#).

jobs and enhance employment opportunities. Additionally, consumers will likely benefit from improved services and products. Moreover, this transformation expands the tax base, potentially increasing government tax revenue.

The informal sector can substantially contribute to an economy and, in many countries, is the main contributor to national incomes, employing most of the workforce and with informal enterprises comprising most of all enterprises. Adequate representation of the informal sector is critical to ensuring proper recognition and support for informal enterprises. There are various examples of informal sector representation globally, with the informal sector and informal enterprises represented through various member-based organisations, including associations, unions, and cooperatives, enabling dialogue, collective bargaining, mobilisation and negotiation, and policy advocacy between the informal sector and informal enterprises on the one hand, and the government on the other.<sup>12</sup>

While the degree to which government recognition of the informal sector and informal enterprises varies, governments recognise informality for several reasons, including as part of efforts to pave the way towards formalisation, to extend a level of social protection to informal workers,<sup>13</sup> to adhere to spatial and urban planning requirements (and limit the harm caused by hawkers and squatters), and as a response to the popular demands of informal workers and enterprises.<sup>14</sup>

Table 2 below presents a range of examples from international experience on how to support the formalisation of enterprises categorised into four groups: (1) simplify registration and licensing procedures and compliance, (2) create incentives, (3) productivity enhancements, and (4) enforcement and compliance. The identification and design of strategies for enterprise formalisation is based on the identified national drivers of informality and the willingness of government, business and other social partners to respond.

The table below also presents the dialogue and voice as a crosscutting strategy for enterprise formalisation. This is particularly relevant in Jordan, where there are no representative organisations for informal enterprises.

**Table 2. An integrated approach to promoting the formalisation of enterprises.**

Simplify registration and licensing procedures and compliance	Create incentives	Productivity enhancements	Enforcement and compliance
Information and awareness on registration. Creation of one-stop-shop for registration. Simplified legal status for MSMEs. Simplified procedures and requirements for small entrepreneurs (e.g.,	Access to social insurance scheme for informal business owners and workers. Creation of public procurement opportunities for MSMEs. Providing access to finance through formal	Business development services. Measures to enhance innovation and technology transfer between large and small enterprises and business linkages.	Use of tailored approaches to support weaker enterprises to gradually comply with the law (e.g., information and advice). Enforce applicable rules for stronger enterprises through effective and deterrent sanctions.

<sup>12</sup> Carré, F. “Defining and Categorizing Organizations of Informal Workers in Developing and Developed Countries”, *Women in Informal Employment: Globalizing and Organizing*, WIEGO Organizing Brief No 8, September 2013, 16.

<sup>13</sup> González, D. (2022) [Monotax: Bridge to formality and social inclusion](#), Inter-American Centre of Tax Administrations

<sup>14</sup> David et al. (2013) [Managing Informality: Local government practices and approaches towards the informal economy – Learning examples from five African countries](#), SA LED Network

preferential tax regimes, access to social insurance).	finance (e.g., government credit lines). Annual presumptive tax for small enterprises.	Measures to promote skills training for workers in small enterprises. Strengthening links with association and cooperatives.	
<b>Dialogue and Voice</b>			
Assess the needs and priorities of actors in the informal economy and support social partners to provide relevant services and represent actors in the informal economy.			

SOURCE: Adapted from ILO (2021) "[Enterprise Formalisation: An Introduction](#)", *Thematic Brief 1*, ILO, Geneva

## Context

Consultations with government and business representatives have highlighted several critical issues. These issues are briefly summarised below.

### 1. The cost and benefit of formalisation

Consultations with representatives from the government and the business community (including key informant interviews and focus group discussions held with informal enterprises and entrepreneurs) highlight that men and women who own and manage informal enterprises are constantly weighing the costs and benefits of formalisation. The costs are too high for many, and the benefits are difficult to see.

A recent ILO (2023) study found that all (i.e., 100%) surveyed informal businesses preferred to remain informal because they feared the tax burden. Some 75 per cent also feared the administrative burden of formalisation, while 25 per cent saw no benefits to formalisation. None of the respondents had exported any products or services. Moreover, none of the surveyed informal enterprises provided their employees with social security or any benefits, with the high costs of social security contributions considered a significant disincentive to formalising.<sup>15</sup>

A 2019 USAID study on informal workers and enterprises in Jordan found that most informal enterprises are one-person businesses that are self-financed. They do not keep accounting records, are unsophisticated in their marketing and have incomes hovering around the minimum wage. Most informal operators wanted to remain informal.<sup>16</sup>

Female-owned enterprises are more likely to be informal than those owned by men. They are also more likely to be home-based businesses (HBBs). Like other informal enterprises, female-owned informal enterprises avoid formalising due to taxes and other associated costs and because they are unaware of the potential benefits of formalising.<sup>17</sup>

There are advantages to both remaining informal and formalising. The advantages to remaining informal include avoiding taxes, registration, licensing and compliance fees, social security costs, the time required to satisfy such requirements, and the flexibility to establish and close businesses relatively quickly and easily.

<sup>15</sup> ILO (2023) [The potential role of exports in promoting formalisation and decent job creation for youth in Jordan](#), ILO, Amman.

<sup>16</sup> Sobh, B. (2019) "[State of the Informal Sector in Jordan: Opportunities for Integration](#)", *Policy Paper*, USAID, Amman.

<sup>17</sup> Arab Renaissance for Democracy and Development (2021) "[Women's Informal Employment in Jordan: Challenges Facing Home-Based Businesses During COVID-19](#)", *Women's Advocacy Issues Policy Brief*, Volume 3, UN Women.



The advantages to formalising can be more numerous for enterprises and include the ability to benefit from social security coverage, legally import and export goods and services, access to finance from financial institutions (i.e., banks), access to government procurement, obtain certifications to improve the quality of their goods and services, improve their overall competitiveness and grow their business, and afford better working conditions for their owners and employees.<sup>18</sup> Additionally, formalisation, associated fees, and other costs can lead to a more comprehensive and higher quality of public services and social security coverage for broader society, where policy formulation and application are fair and equitable.

A significant challenge in encouraging formalisation is that the benefits of company formation and adherence to associated legal requirements are unknown to large population segments. A lack of incentives leads to a large informal economy and many informal enterprises, mainly microentrepreneurs and microenterprises, including HHBs, not seeking to formalise and foregoing significant associated benefits.

## 2. The challenges of registration and licensing

Informal enterprises encounter several challenges in the business-enabling environment.<sup>19</sup> These include:

- **Awareness.** Many informal enterprises are unaware of the requirements to formalise.
- **Burdensome costs.** It can be costly to be fully licensed, with licensing sometimes requiring approvals from entities such as the Jordan Food and Drug Administration, the Civil Defence, the Ministry of Environment, the Greater Amman Municipality and other municipalities. Larger companies, such as Limited Liability Companies (LLCs), also require financial and legal representation with the government. This is a significant cost, especially for nascent enterprises with insufficient capital who have not yet validated their business potential.
- **Time-consuming processes.** The fulfilment of all requirements to fully register and license can be burdensome for informal enterprises, with multiple approvals, government visits and time required for approvals comprising a burden for some enterprises, especially those lacking the time and geographically isolated.

Representatives from the government and business community confirmed the above challenges. There is considerable scope to streamline these registration and licensing procedures and reduce costs. While several government agencies are reforming these processes, more can be done.

The government has offered several incentives to enterprises. This includes exempting HHBs from licensing fees for the first three years of their operation. Limited Liability Companies and Private Shareholding companies are also exempt from sales tax on the initial JOD 40,000 in revenue or two years of operation, whichever comes first. The National Aid Fund (NAF) supports those with registered enterprises with a capital of JOD 3,000 and under operation for less than two years. Governmental bodies have also made some company registration and licensing procedures available online (as with the CCD), reducing the time required to establish and operate companies.

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<sup>18</sup> For example, see Rand, J., and N. Torm (2012) "[The Benefits of Formalisation: Evidence from Vietnamese Manufacturing SMEs](#)", *World Development* 40(5).

<sup>19</sup> Annex 3 elaborates on faced challenges during the registration, licensing, and insolvency processes.

### 3. A safety net for informal businesses and their workers

A lack of formal job opportunities motivates many women and men to start an informal business. Thus, it is essential to ensure that these people are adequately protected. NAF is the primary social assistance facility in Jordan, with the most extensive cash transfer programme.<sup>20</sup> NAF supports approximately 220,000 households in Jordan through cash and in-kind assistance. Many informal enterprise owners who benefit from NAF fear that registering their business automatically terminates NAF assistance.<sup>21</sup> While NAF has explained this is false, it is a pervasive impression.

Social Security employer contributions for employees, funding pension and work injury coverage, especially for start-ups, constitute a significant cost, potentially disincentivising business formalisation and growth. The Social Security Corporation (SSC) subsidises social security contributions for business segments and individuals previously uncovered by social security, including unregistered waged workers, the self-employed in the agriculture, transportation, and tourism sectors, HBBs and MSMEs through the Estidama++ programme.

### 4. Recognising and growing start-ups

While in many countries, informality is predominantly characterised as survivalist in nature (i.e., informal enterprises are a response to a lack of formal employment), Jordan has another category of informal enterprises. These are new start-up companies in the information, technology, and communication (ICT) sector. While the size of this sector is unknown, many of these enterprises have chosen to avoid registering in Jordan and instead register in other jurisdictions (e.g., the British Virgin Islands).

Start-ups in Jordan are not uniquely and adequately defined and, therefore, cannot transparently and systematically avail of government incentives and benefit from investment. A lack of an enabling regulatory framework surrounding start-ups often leads to start-ups registering outside of Jordan in offshore jurisdictions and registering locally as branches of a foreign company, enabling companies to avoid registration and licensing fees, taxes, and social security contributions.<sup>22</sup>

### 5. Lack of organisation and representation

Informal enterprises in Jordan are unorganised and unrepresented. While the formal business community is officially represented in Jordan by the Jordan Chamber of Commerce and the Jordan Chamber of Industry, informal enterprises have no such recognition. The current regulations for business organisation and representation prohibit their formal membership in chambers. This poses a challenge to policymakers and business development programme managers and can also challenge PPD processes.

However, there have been previous attempts to create a regulatory basis for the formal representation of informal enterprises that can be built upon. In 2014, multiple public and non-

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<sup>20</sup> ILO website [Social Protection: Jordan](#), viewed 4 September 2023.

<sup>21</sup> NAF has also made time-bound and capital-based exemptions (24 months/over JOD 3,000 of capital) for some self-employed individuals, permitting them to continue to receive cash assistance prior to the termination of their allocated assistance.

<sup>22</sup> Based on the input of legal and entrepreneurship experts interviewed for this report. Also see GIZ (2019) "[Jordan's Startup Economy: Assessing the economic contribution and potential of tech and tech-enabled startups.](#)"

public entities in Jordan, the Jordan Chamber of Industry and the General Federation of Trade Unions developed a working document entitled “Towards a National Framework for the Transition to a Formal Economy in Jordan.”<sup>23</sup> This document laid the groundwork for developing a national framework to formalise the informal economy.<sup>24</sup> It recognised the informal sector and the rights of informal workers. It encouraged unrepresented sectors of the informal economy to establish representative unions that collectively negotiate with the government on their behalf. The document also called for dialogue between the government and other sectors on the informal economy, providing a strong precedent for a PPD.

## Other obstacles

Several other obstacles typically lead informal enterprises to remain informal. Chief among these are the relatively high tax rates, an occasionally complicated and ambiguous tax regime, and a lack of awareness about taxation requirements, which have been cited as significant challenges disincentivising formalisation. There is ample international evidence on how tax reform can encourage registration with tax authorities and increase tax revenue.<sup>25</sup> However, at this stage, the Government of Jordan has not indicated it is willing to introduce such measures. Another obstacle is the challenge of business closure. Company closing has been cited as a costly, time-consuming, and risky process, with companies commonly bearing costs long after they have initiated closing procedures. Additionally, insights from the key informant interviews and focus group discussions have shown that coordination between government entities in licensing and registration can be improved. The issuance of regulations, including incentives and exemptions, can be uncoordinated, leading to incomplete applications and precluding enterprises from benefiting from various arrangements.

## PPD Objectives

The overarching objective of the PPD has been to engender agreement between the public and private sectors on approaches to advance the formalisation of informal enterprises, enabling dialogue between representatives of the public and private sectors on the pain points, and requirements to operationalise such approaches. The PPD aimed to consider, recommend, and agree on:

1. **Establishment of a committee** to advance the agenda for the formalisation of informal enterprises and keep members apprised of their respective activities as they relate to the informal sector and informal enterprises and coordinate on such activities.
2. **Approaches to consolidate, structure, coordinate, and increase awareness-raising efforts**, focusing on the requirements and benefits of formalising, and specifically incentives provided, including exemptions, subsidies, and technical assistance. Ministry of Industry, Trade and Supply can advise on the way forward and lead the awareness-raising efforts along with Jordan Chamber of Industry, Jordan Chamber of Commerce and in cooperation with other entities like the municipalities and business associations.

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<sup>23</sup> Participants included the Ministry of Labour, the Ministry of Planning and International Cooperation, the Social Security Commission, and the Department of Statistics.

<sup>24</sup> “Towards a National Framework for the Transition to a Formal Economy in Jordan”, 2014.

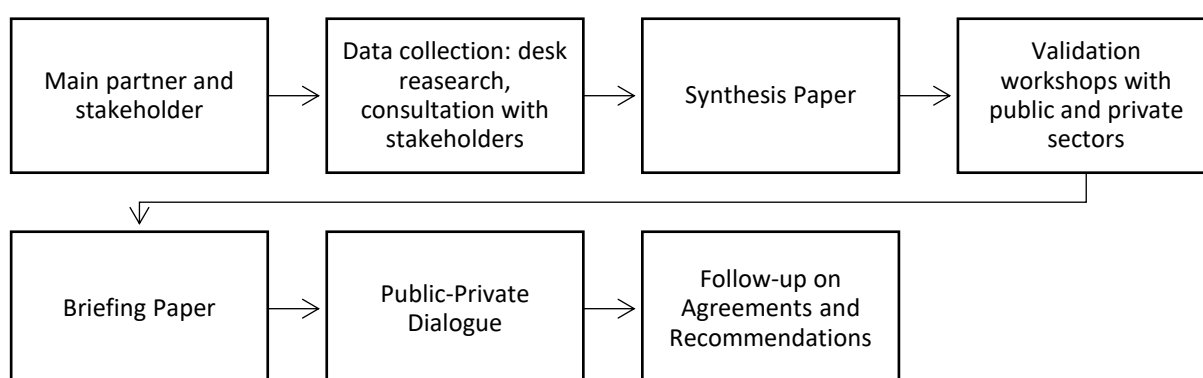
<sup>25</sup> Gaarder et al. (2021) “Enterprise Formalization: Tailored registration, tax and social security requirements for MSEs”, *Thematic Brief 3*, ILO, Geneva.

3. **The initial requirements to define informal enterprises** and other related aspects (ex: informal economy) and to collect the **necessary data** on informal enterprises, including the number, profile, and distribution of informal enterprises.

## PPD Methodology

Considering the importance of arriving at a consensus and relevant recommendations through a PPD, an inclusive and evidence-based methodology was developed to serve the PPD's objectives and engender agreements. In line with the established methodology and process for PPD (illustrated in graph 1 below), the tasks commenced in June 2023 with a desk review and research, and analysis of existing literature, followed by bilateral meetings with key stakeholders.

**Graph 1: PPD Process**



After conducting the desk research and undertaking 19 bilateral interviews with identified stakeholders (refer to annex 1), A total of 18 informal enterprises were surveyed, with enterprises spread out throughout the North, Center, and South of the Kingdom. The survey asked various questions to assess the enterprises' degree of informality, their knowledge of licensing and registration requirements, their profile, degree of sophistication, and other aspects (ex: sources of funding, dealings with government, etc.). The survey was supplemented with two focus group discussions were implemented one with 11 formal early-stage start-ups and another with 13 informal enterprises.

Then a synthesis paper was developed to succinctly outline the perspectives of both the private and public sectors. This paper underwent thorough discussion and approval at validation workshops attended by representatives from both sectors. Following the recommendations made during these workshops, a briefing paper was prepared to outline the agenda for the final Public-Private Dialogue (PPD) session.

## PPD Outcomes

Following the discussion at the validation workshops on the aforementioned and the proposed approaches to raise awareness for, and formally represent, informal enterprises, three main approaches were proposed as part of the PPD: (a) agree on the establishment of a committee or structure to coordinate on the formalisation of informal enterprises, (b) agree on approaches to consolidate, structure, coordinate and increase formalisation outreach efforts, and (c) agree on the initial requirements for the definition of informal enterprises and collection of relevant data. The proposed approaches, discussion surrounding them undertaken as part of the PPD, and associated agreements to operationalise them are presented below.

### a. Coordination

An additional challenge noted was the lack of coordination among stakeholders on the topic of informal enterprises, with a suggestion to form a committee-like structure of stakeholders to coordinate activities related to informal enterprises. This need was especially evident given that there is no mechanism to formally represent informal economy actors and informal enterprises and to facilitate advocacy with the government, with the result that public sector actors are usually unaware of the challenges facing the informal economy and informal enterprises and their needs to formalise, leaving the formalisation agenda uncoordinated and lacking the necessary impetus.

**PPD Recommendation:** PPD delegates agreed on establishing a coordination committee anchored at the ESCJ, comprised of public and private sector representatives, with the objective of advancing the agenda to formalise informal enterprises, including operationalising the agreed approaches. it was agreed that while the council does not have executive powers similar to those of government ministries, its neutral mandate enables it to lead the activities of the committee and coordinate between relevant stakeholders in an impartial manner.

The committee can include representatives from the following entities:

Public Sector	Private Sector
Ministry of Industry, Trade and Supply (MoITS)	Jordan Chamber of Industry (JCI)
Company Control Department (CCD)	Jordan Chamber of Commerce (JCC)
Ministry of Digital Economy and Entrepreneurship (MoDEE)	Amman Chamber of Commerce (ACC)
Income and Sales Tax Department (ISTD)	Amman Chamber of Industry (ACI)
Ministry of Labour (MoL)	ICT Association in Jordan -Int@j
Ministry of Local Administration (MoLA)	Business and Professional Women Association (BPWA)
Department of Statistics (DoS)	Amam Ventures
Social Security Corporation (SSC)	
Greater Amman Municipality (GAM)	

## **b. Data and Definition**

The lack of consistent definitions and data on informal enterprises makes it difficult for the government and the business community to accurately assess the challenges and needs of informal enterprises. The lack of a common definition of SMEs in Jordan was also identified as a challenge. Participants therefore noted the need to formally define the informal sector and informal enterprises, and to generate additional data on the subject in order to structure more evidence-based policies and interventions.

**PPD Recommendation:** PPD delegates noted the challenges in accurately assessing the informal economy and informal enterprises, and the need for the Department of Statistics (DoS) and other public sectors to work together to address such challenges, including defining informal enterprises and relevant terms, and collecting the necessary statistics and data to guide policy formulation. Although no concrete agreement was reached on this proposed action, it was agreed that such an approach should be taken forward as part of the newly proposed role of the committee (see point a.).

## **c. Awareness**

Despite past and ongoing efforts to raise awareness among informal enterprises on how to formalise, representatives from both the public and private sectors have highlighted the importance of organising and implementing awareness raising activities. Such efforts should shed light on the incentives, exemptions and penalties associated with formalisation or remaining informal, and on the technical assistance provided mainly by the government and chambers to enterprises once they have been formalised. These activities should be complemented by considering the improvement of incentives and technical assistance provided by chambers.

**PPD Recommendation:** The lack of effectiveness of previous outreach efforts to increase the formalisation of informal enterprises was highlighted in the PPD. Therefore, delegates agreed on the need to raise awareness among informal enterprises, including those in more geographically isolated areas of Jordan. Delegates noted that many informal enterprises are not only unaware of the requirements for formalisation, but also of the incentives for formalisation, including incentives, subsidies, etc.

Awareness-raising efforts should involve all relevant actors, including municipalities and civil society, to ensure adequate outreach, and should include both general and more targeted awareness-raising initiatives according to the type and sector of informal enterprises. It was agreed that the issue of awareness-raising should be discussed and taken forward as part of the newly proposed role of the committee (see point a.).

## Annex 1

A wide range of government, business and civil society organisations were consulted in the PPD process. In addition to formal entities, informal enterprises were consulted through a focus group discussion (FGD) and the distribution of a questionnaire that collected information about their profile, awareness of, dealings with, and levels of formalization.<sup>26</sup>

The table below lists consulted entities during the research phase:

Ministry of Industry, Trade and Supply (MoITS)  
Company Control Department (CCD)  
Ministry of Digital Economy and Entrepreneurship (MoDEE)  
Income and Sales Tax Department (ISTD)  
Ministry of Labour (MoL)  
Ministry of Local Administration (MoLA)  
National Aid Fund (NAF)  
Department of Statistics (DoS)  
Jordan Chamber of Industry (JCI)  
Jordan Chamber of Commerce (JCC)  
Amman Chamber of Commerce (ACC)  
Amman Chamber of Industry (ACI)  
Social Security Corporation (SSC)  
ICT Association in Jordan -Int@j  
Greater Amman Municipality (GAM)  
Business and Professional Women Association (BPWA)  
USAID Economic Reform Activity  
USAID Iqlaa  
Amam Ventures

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<sup>26</sup> A total of 18 informal enterprises were surveyed, with enterprises spread out throughout the North, Center and South of the Kingdom. The survey asked various questions to assess the enterprises' degree of informality, their knowledge of licensing and registration requirements, their profile, degree of sophistication, and other aspects (ex: sources of funding, dealings with government, etc.).

## Annex 2

Regarding registration, licensing and insolvency procedures, an analysis of key informant interviews (KIIs), focus group discussions (FGDs), and a questionnaire fielded to informal enterprises and early-stage startups<sup>27</sup> yielded the following results:

**Lack of Awareness and Knowledge:** neither enterprises nor government (MoITS front-facing staff) are fully aware of registration and licensing requirements. This is further complicated by the misalignment between enterprise activities and available International Standard of Industrial Classification (ISIC) codes, forcing registrants to undertake activities not in line with registered activities,

**Regulatory Misalignment, Instability and Lack of Transparency:** Jordanian laws related to business and investment don't communicate with each other, leading to confusion and incentives and exemptions that are not activated, effectively disabling potential for one-stop-shops. Regulations are also perceived as unstable, frequently changing, and creating an uncertain business environment. Signing pledges to not break the law when registering and/or licensing are also common. Regulations are also not always transparent or properly enforced—in the case of the ICT sector, although they are tax exempt, this is not the case with capital gains, with ICT companies making exits forced to pay taxes although they are technically supposed to be exempt.

**Absence of (Clear) Definitions:** Startups face difficulties with company registration types, especially LLCs, due to significant legal and financial costs. The lack of a 'startup' or MSME definition exacerbates this issue, leading to confusion and misalignment with international standards. Private Shareholding company type is the most optimal for startups, as LLCs only provide equity and not shares, but have a JOD 50,000 capital requirement, prohibitive for many startups. Share options for employees do not exist automatically, but need contracts and courts to enforce them, unlike international practice where employees obtain and can sell a certificate. In the case of bankruptcy of LLCs, government still seizes private property, with burden on entrepreneur to remove government hold.

**Predominance of Sole Proprietorship:** business owners choose sole proprietorship for its simplicity and cost-effectiveness, but this doesn't separate the owner from the business entity, making the owner fully liable for all debts, a significant risk and challenge.

**Costly and Time-Consuming Licensing:** licensing can be expensive, especially with requirements from entities like the Jordan Food and Drug Administration (JFDA). The process can also be lengthy, with some taking several days to years. Licensing can also be perceived as disorganized and not reflective of the diverse needs of enterprises, including in entities such as the Greater Amman Municipality (GAM) is.

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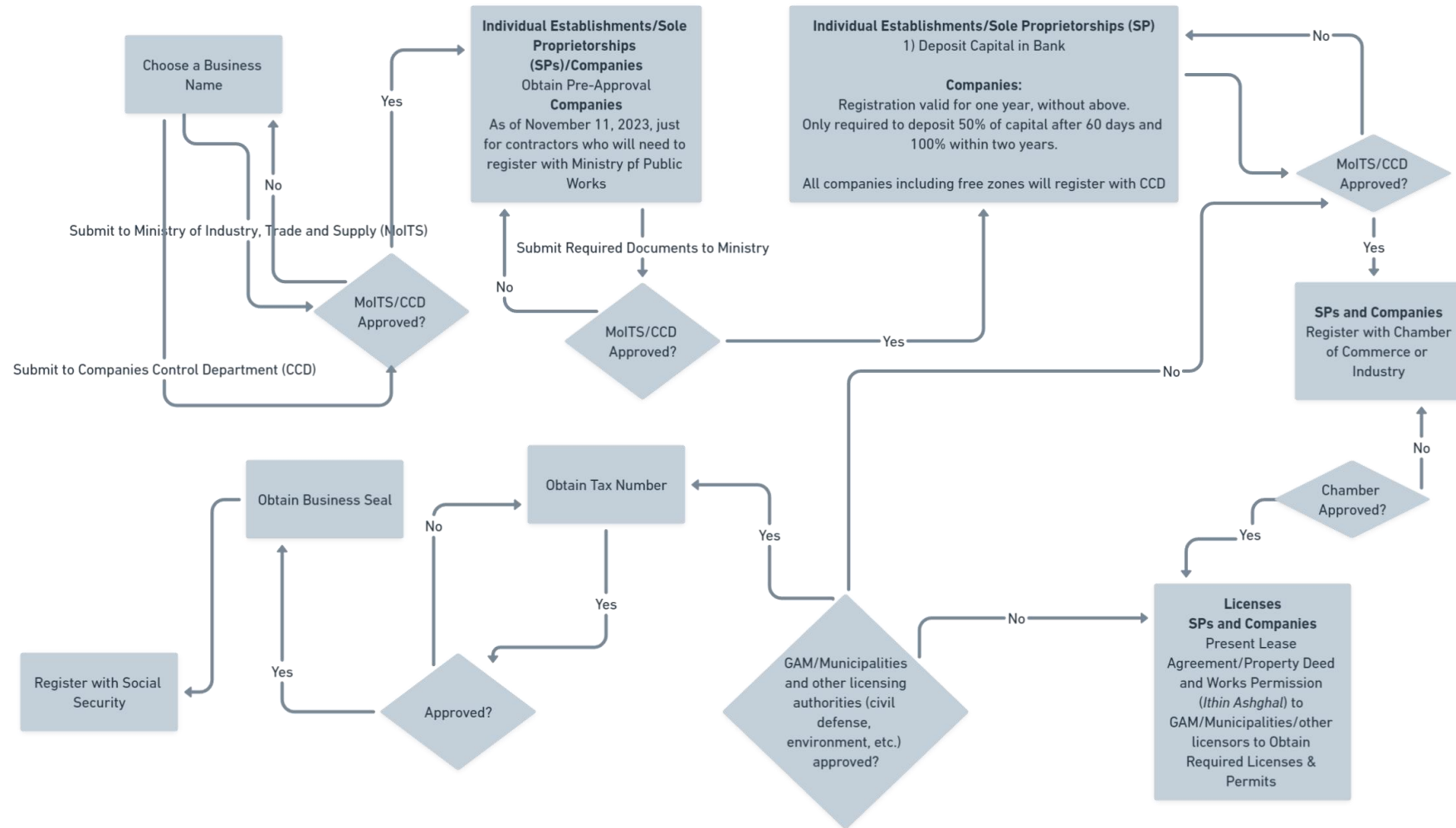
<sup>27</sup> A total of 18 informal enterprises were surveyed, with enterprises spread out throughout the North, Center, and South of the Kingdom. The survey asked various questions to assess the enterprises' degree of informality, their knowledge of licensing and registration requirements, their profile, degree of sophistication, and other aspects (ex: sources of funding, dealings with government, etc.). The survey was supplemented with two focus group discussions were implemented one with 11 formal early-stage startups and another with 13 informal enterprises.



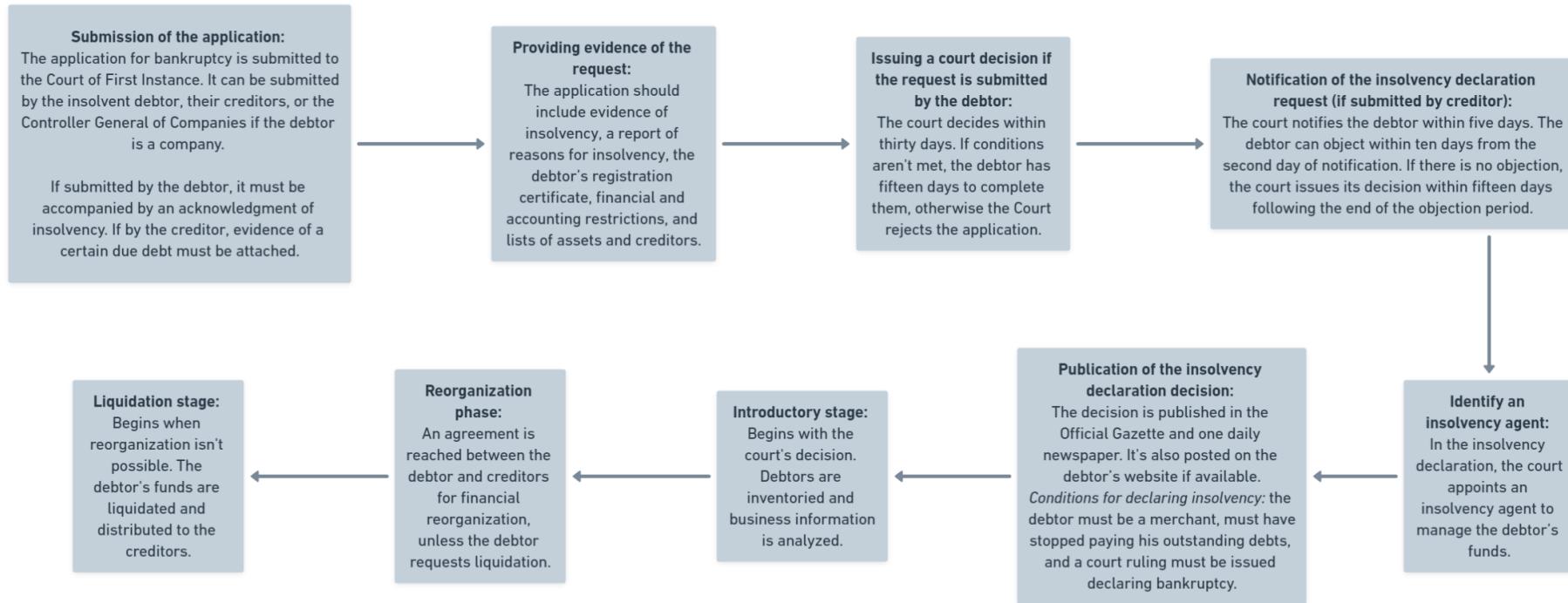
**Challenges with Online Services:** while online registration services exist, they are not fully virtual. Issues like lost application data and unclear follow-up procedures further complicate the process.

## Annex 3 Registration, Licensing, and Insolvency Process flows

Figure 1 Registration and Licensing Process Flow



**Figure 2: Insolvency Process Map**



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