

# *ENTREPRENEURSHIP IN JORDAN: FOUNDING AN ADVERTISING BUSINESS<sup>1</sup>*

Amman, Jordan

**T**his is what I want to do! I know it's going to work. The only question is how do I get the money I need to turn my idea into a business?" So concluded Nahla when she presented her proposal for a business venture to her father over ten years ago. The presentation was the final step in her efforts to plan a new advertising agency. For several months she had been consumed with detailed deliberations and preparations to nurture this idea along.

Nahla wanted to start an advertising business that would help clients sell their products and services using a variety of media. She passionately argued that she had the necessary qualifications and qualities to launch such a business and now was the time to act.

Nahla's academic background and previous work experience certainly were appropriate for this line of business. She had obtained her bachelor's degree in mass communication from American University in Cairo, and for two years of her studies she also focused on architecture and interior design. While attending university, Nahla worked for the liberal magazine "Sabah al Kher" and a student newspaper, first as a journalist and then as editor. After completing her studies, Nahla remained in Cairo and was employed by publishing houses in various capacities, ranging from PR and marketing director to product designer. Finding this rigid environment unsuited to her personality and future career interests, she moved back to Jordan and switched her focus to radio and TV. She worked with these media for several years as a producer, scriptwriter and editor but felt unhappy there because the hierarchical structure and stifling work environment left little room for her creative and innovative mind. So, after several years of experience there, she began to explore the possibility of becoming her own boss.

Nahla was too strong-minded, creative and energetic to spend the rest of her life bound by a conservative

hierarchy and rigid management style typical of Jordanian enterprises. She was convinced that an advertising business would be a good outlet for her skills and creativity in design and innovation. Advertising was a growing field in the country and she wanted to establish her own shop. Before approaching her father with the idea, she tested it with some friends and family. She found immediate support for the idea and clear confidence in her abilities. In fact, some friends were so enthusiastic about this possibility that they asked to become her business partners.

The positive feedback encouraged her to proceed with the idea in more concrete terms. Though she did not write a formal business plan, she and her friends had many brainstorming sessions on the viability of the venture. The positive outlook reached in these discussions was further supported by an informal feasibility study she also undertook. Advertising was an emerging business idea in Jordan and she believed it offered many opportunities for new entrants.

The discussions and feasibility study also helped Nahla think through the management team, legal structure and financial dimensions of her business. In terms of management, Nahla recognized that she had no background in managing a business, either administratively or financially, so she approached friends with suitable qualifications and asked them to join her as a business partner. Karim agreed to join as the general manager. Together they asked Khalid to be their designer and Waseem to be their marketing director. Nahla would be the "creative" manager. In addition, they hoped Nahla's father, a prominent businessman and member of the distinguished Jordan Businessman's Association, would agree to join them as his good reputation and family name would lend instant credibility to the new business.

With the partners chosen, they needed to create an appropriate business entity. They agreed to form a limited

partnership. Company registration requirements in Jordan posed no major obstacles. Within two weeks, the registration process could be completed at little cost. A lawyer and family friend agreed to advise them and draft the partnership agreement free of charge.

Not surprisingly, financing proved to be the biggest challenge. Nahla needed a minimum of JD7,000 (US\$9,900) to get the business off the ground. Karim prepared a list of start-up costs ([Exhibit 1](#)) and cash flow projections for the first three years ([Exhibit 2](#) and [Exhibit 3](#)). A list of the possible funding sources available to entrepreneurs appears in [Exhibit 4](#). Nahla and her partners considered three options for financing the business: commercial loans, microfinance credit, and personal savings. Each option had its advantages and disadvantages. Nahla wanted help in weighing the options so she ran her ideas past the most seasoned businessman she knew – her father – to gauge his reaction.

Now, standing before her father, Nahla laid out the details of the business and its cash requirements. She trusted he would help her with the funding or at least give some good advice. He himself came from a family of entrepreneurs. His father had established a successful soap business in the Palestinian areas and had gained a reputation as one of the best businessmen in the region.

The idea of the advertising business appealed to Nahla's father and he reacted positively to her presentation. He recommended that she “bootstrap” the business that is, get start-up capital from the family's personal savings and build the business from there. That said, her business *The Media Group* was started. It began with a computer, scanner, printer, software and some supplies, operating out of the conference room in Nahla's father's office.

Nahla was fortunate to have family resources to finance the business once her father approved the idea. Her capital requirements were not huge since she primarily needed funds just for office equipment and working capital. By launching the business in her father's workplace, she even avoided common office operating costs. Thus the family had sufficient savings to launch the business without external funding.

## Entrepreneurship in Jordan



Given the high unemployment rate among 15 to 24 year olds and the stated emphasis on private sector initiatives (see background information on Jordan in the Appendix), the Government was eager to promote high profile youth entrepreneurship programs. YEA (Young Entrepreneurs Association) and INJAZ (Economic

Opportunities for Jordanian Youth Program) were among the largest initiatives aimed at young people to get them involved in Jordan's private sector, developing them into entrepreneurs and future business leaders. YEA was “a non-profit organization dedicated to promoting and encouraging entrepreneurship in Jordan as well as educating Jordanian business people on the social and economic value of unconventional ideas.” INJAZ was a “school-based youth business skills” initiative funded by USAID that was designed to “empower youth to facilitate their entry into the job market as qualified employees or entrepreneurs.”

The concept of entrepreneurship, and its association with innovative, creative, out-of-the-box thinking, was quite new to Jordan. Neither educational institutions nor workplaces encouraged this type of behavior. Schools' and universities' teaching methods that were based on “rote memorization with direct dissemination of information,” according to YEA literature, leaving little room for critical, independent and creative voices. Likewise, workplaces often perceived innovative, creative minds more as a threat to the hierarchy than as contributors to the growth of the business.

Furthermore, people traditionally expected the Government to serve as the main employer in the country. Many people still saw civil service positions as highly desirable. Private sector activities had been left to small and medium-sized family-owned businesses led by a “merchant” mindset. These businesses sold basic consumer goods and food items with little appetite for risk and innovation. Small and medium-sized businesses with fewer than 100 employees were the norm, constituting 98 percent of Jordan's private sector activities. Many businesses were established under license from the Government. Companies typically were family-held and sons and cousins traditionally followed in their fathers' footsteps.

To encourage innovation and break this pattern, the youthful male president of YEA – a high tech entrepreneur himself – encouraged association members to launch businesses “completely different from their father's business.” He argued that old ways were no longer suitable in today's economic climate and that new businesses should offer innovative products and services.

Nahla's initiative was representative of these changes underway in Jordanian society, where non-traditional policies were encouraged to foster economic growth. However, looking at women's economic activities as a whole, Nahla's case was truly exceptional. A study issued by WID Tech (Women-in-Development Technical Assistance Project) explored women's economic activities in Jordan in 1999. Surveying 5,445 women, it found that 12.5 percent of Jordanian women above the age of 15 worked. Of those, only 12 percent had their own business. About three quarters of those businesses were home-based and informal, not officially registered or licensed.

That meant that only 0.375% of women [(0.125) (.12) (.25) =.375], or 1 out of 266, owned a formal business.

The vast majority of female business owners founded their businesses themselves and operated as sole proprietors. Only 10 percent chose a partnership structure, as Nahla did. Most businesses were in the service sector, engaging in activities traditionally considered female such as handicrafts and embroidery.

The study also found that only a handful of women business owners obtained start-up financing as loans from public or commercial sources, such as money-lenders, banks or other organizations named in [Exhibit 4](#). The top three reasons for the reluctance to approach conventional lending institutions for loans were as follows:

- Opposition to the idea of paying interest (forbidden according to Islamic law)
- High interest rates (sometimes the lender became a part owner)
- Cash required to repay the loan posed too much risk

## Cultural Context

### Women in the Work Force

Earlier it was reported that 12.5% of women over the age of 15 worked. Most of them were employed in the formal sector in salaried positions, so there was little stigma to seeing women in the workforce. Jordan had experienced labor shortages a few decades before and ever since then women were encouraged to work. The economy had dramatically changed since, however, and women's salaries were now a crucial part of household income. The emphasis on education had paid off. Many females felt empowered by their studies and chose a working career.

Despite the relatively liberal attitude towards seeing women at work, women in decision-making positions were still rare. Top positions were largely held by men. Nahla was in a top position in her firm and at times found it difficult to be there. Both clients and employees were not always sure how to deal with her. In the beginning, clients were uncertain of her expertise and capabilities and male employees were confused about taking orders from a woman. As her reputation as a successful business woman grew, however, she was able to overcome these doubts. But the process required much self-confidence and personal stamina.

### Religious Considerations in Jordan

The dominant religion in Jordan is Islam. 92% of Jordanians are Sunni Muslims. About 6% of the population consider themselves Christian. Although Muslims and Christians live peacefully side by side, the

two groups observe a certain segregation in both private and public spheres. Generally there was no inter-marriage between Muslims and Christians, and there were no business partnerships between Muslims and Christians. Many clients decided whether to engage a given firm based on the faith of its owners. In this tightly knit society, it was common knowledge which families adhered to which faith.

Nahla, a Muslim herself, went against these norms and accepted a Christian as her business partner. Although this was considered a most unusual step, her business did not greatly suffer from this arrangement. Some potential clients did stay away – either they did not want to give business to Nahla because she was Muslim or they did not want to give it to her partner because he was Christian. But Nahla's willingness to work with people from different backgrounds made her firm distinctive and that bore fruit in the future. She was able to work successfully with people from vastly different cultural backgrounds, including Koreans and Japanese, when they established themselves in the Jordanian market.

### The Concept of Wasta

Wasta can be defined as “the use of connections for personal gain.” It generally means deriving value from personal relationships, but it can extend to corruption, nepotism and cronyism. Although most Jordanians claim they hate wasta and would like to eliminate it, they also acknowledge they cannot live without it. A survey conducted by the Arab Archives Institute and Transparency International in 2000 revealed this surprising finding: 87% of those surveyed believed that wasta should be eradicated, but 90% also admitted that they would use wasta in their interactions with government, business or other organizations to accomplish their ends.

Government was aware of this problem and during a spring 2002 conference promised to take steps to address the issue. New measures were introduced, ranging from a law forbidding illicit gains to one imposing penalties on the use of wasta. But it is doubtful whether such deeply rooted traditions could be reversed by legislation alone. Jordanian society needed to re-think this social practice which originally developed as a sensible means to resolving tribal conflict.

Nahla agreed that wasta was a serious problem for doing business in Jordan and absolutely refused to “play the game.” Her business likely did benefit from her father's solid reputation, but she believed the growing respect she received in the business community stemmed from her strong business ethics and refusal to participate in wasta.

### **Ten Years Later: Nahla's Story Continues**

Nahla's advertising business survived the next decade and advertising became a much more accepted part of the

Jordanian business world. But this also led to the arrival of many new competitors. 25 agencies were in business when she started her company, but now 150 were operational. Advertising had become a popular profession. Competition was not only advertising companies like her own, but also printing shops that offered design services and international advertising agencies that came to the country to serve multinational clients in the local market. Not everyone in the business was a qualified professional. Many "businesses" were simply solo practitioners with a personal computer and enough software to sell their services to potential clients. Competition thus became a significant factor affecting Nahla's business. It shrank the pool of clients available to her overtures and forced a significant drop in prices. To illustrate the changed environment, consider a typical advertising assignment: a few years ago she could charge JD200 to design a logo for a client, but now that work rarely earned more than JD75.

At times things were difficult, but sheer determination and persistence pulled her through. It took five years to land her first big client. That was a contract with the Korean firm LG (formerly Goldstar Electronics) to help them sell their goods in Jordan. Before that, she barely managed to stay afloat serving the business needs of friends and family. Debts and non-collection of outstanding receivables brought her business to the brink of bankruptcy more than once. She was forced to fire her financial manager and assume financial responsibilities for the business. She hired an accountant, began working with him closely, and got more involved in management and the situation improved.

The LG contract was a true turning point for Nahla's business. It allowed her to hire badly needed staff in marketing and design and enabled her to upgrade aging equipment with top-of-the-line computers, printers and scanners. By 1997, Nahla had paid off outstanding debt and the business was finally stable. She secured large accounts from prestigious clients such as McDonald's. Her successful work with Koreans at LG led to a project for a Japanese client. She had four large clients, 12 stable client accounts and about 10 to 20 "walk-ins" per year. Clients included shipping lines, business development services, beauty industry companies (cosmetics, etc), confectionary companies (pastry and chocolates), embassies and magazines. Most of her clients were from Jordan, but a growing number came from the United Arab Emirates.

Her sales grew from about JD200,000 a few years ago to about JD500,000 (US\$706,000) currently. Profits, on the other hand, decreased from 50-60% of revenues in the early days to 15-30% currently. The business now had eight full-time employees. These included Nahla and her partners, one accountant, a designer, production and technical assistants and an administrative assistant.

Nahla felt the strengths of her company were its experience and reputation, its novel marketing concepts and its creativity. Its weaknesses related to cash flow, as she usually did not have the cash needed to finance new projects. She saw opportunities in a number of new areas where she could parlay her reputation, quality and professionalism. One new role involved serving as a team leader in a \$384 million education reform project for the Ministry of Education. There she was working for a new client – a large Japanese marketing and infrastructure company. The biggest threats were the competition, low prices and the lack of "advertising syndicate" or professional body to enforce ethical and legal standards in the industry.

In recent years the political tensions between Israel and the Palestinians plus the stagnating economy due to the Iraq War affected Nahla's business negatively. Clients were reluctant to spend large sums of money on advertising since consumers had little money to spend on the products to be featured in advertisements.

Nahla met this challenge by focusing on companies that needed large advertising projects of a quality nature on a consistent basis. To fill the remainder of her time, she took on odd projects, smaller clients, and quick little jobs here and there, each of minimal size JD1,000. She saw her competitive edge as her quality work, product concentration, sound reputation and depth of experience.

To further meet this challenge, Nahla began diversifying her business, first by merchandising promotional items and then purchasing public billboards. She entered the merchandizing market by producing and/or selling promotional items at the behest of clients. She offered memorable objects such as pens, clothing and keepsakes that reinforced the message of an advertising campaign and earned her a small margin on each item sold. Then she established a sign/billboard business in college areas around Amman, Irbid and Zarqa. She bought unique signage and rented out billboard space to companies on a monthly basis, designing their posters for display on these signs/billboards. The billboards were unique in style and size, setting them apart from typical billboards on the streets of Amman. She developed these supplemental businesses – the sign/billboard project, in particular – by investing her own cash, borrowing money from family and taking a loan from a commercial bank.

Nahla also enrolled into a Ph.D. program in marketing at the University of Amman and pursued that degree on a part-time basis. Her goal was to complement her practical experience in her advertising agency with broad theoretical knowledge applicable to the marketing industry.

Nahla strongly encouraged women, particularly young Arab women, to consider starting a business. Before launching the venture, she advised that they study the market well, do a SWOT analysis, have at least 5 years

experience in the field and know their competition. She also recommended they begin with sufficient start-up capital. Then...*be strong and bold*. "Success has nothing to do with being a woman or a man," she affirmed. "As long as you are ambitious and know what you want, go for it!" Looking back, she summed up her experience over the years with the frank comment: "Well, I thought I'd have a BMW much earlier!"

### Questions for discussion

1. What entrepreneurial characteristics were displayed by Nahla? Do you think the qualities required of entrepreneurs in Jordan vary from those required in the U.S.?
2. Given her business' rocky start over its first few years, what should Nahla have done differently in assessing the feasibility of her idea?
3. If Nahla did not have family resources to draw upon, which funding option should she have chosen and why?
4. What should Nahla do now to grow her business further?
5. Given the cultural and political context of Jordan, what difficulties are faced by entrepreneurs here? What difficulties are faced by women entrepreneurs in particular?
6. What can Jordan do to increase the likelihood that its women will become entrepreneurs?

## Exhibit 1

### Start-up Costs

<b>The Media Group Start-up Expenses</b>	<u>Jordanian Dinars (JD)</u>	<u>US\$</u>	JD 1 = US\$ 1.412
2 Computers, including software	3,000		
Scanner	850		
Printer	1,000		
Fax / Telephone	800		
Advertising and Marketing	500		
Stationery	300		
Supplies	300		
Registration	250		
<b>Total start-up expenses</b>	<b>7,000</b>	<b>9,887</b>	
 <u>Start-up Assets Needed</u>			
Cash	7,000		
Other short-term assets	0		
Total short-term assets	0		
Long-term assets	0		
Capital assets	0		
Total assets	7,000		
<b>Total start-up requirements</b>	<b>7,000</b>	<b>9,887</b>	
 <u>Investments</u>			
Personal savings from father	7,000		
<b>Total investment</b>	<b>7,000</b>	<b>9,887</b>	

**Exhibit 2**  
**Cash Flow Statement**  
**Monthly Projections for the First Year of Operation**

**The Media Group**  
**Pro Forma Statement of Cash Flow, Year**  
**One**  
**in Jordanian Dinars (JD)      JD 1 =**  
**US \$ 1.412**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash on hand	0	60	20	280	240	570	700	370	140	310	180	270
<u>Cash receipts</u>												
Cash sales	200	300	400	500	800	800	1,000	1,000	1,000	1,500	1,500	1,500
Total cash receipts	200	300	400	500	800	800	1,000	1,000	1,000	1,500	1,500	1,500
<b>Total cash available</b>	<b>200</b>	<b>360</b>	<b>420</b>	<b>780</b>	<b>1,040</b>	<b>1,370</b>	<b>1,700</b>	<b>1,370</b>	<b>1,140</b>	<b>1,810</b>	<b>1,680</b>	<b>1,770</b>
<u>Cash payments</u>												
Salaries (5 partners)*	0	0	0	0	300	300	300	300	300	300	300	300
Social security**	0	0	0	0	30	30	30	30	30	30	30	30
Marketing	80	80	80	80	80	80	80	80	80	80	80	80
Tel, fax, postage	60	60	60	60	60	60	80	80	80	80	100	100
Stationery	0	0	0	200	0	0	0	200	0	0	0	200
Supplies	0	200	0	200	0	200	0	200	0	300	0	300
Equipment	0	0	0	0	0	0	300	0	0	500	500	0
Office furniture	0	0	0	0	0	0	200	0	0	0	0	0
Repair & Maintenance	0	0	0	0	0	0	0	0	0	0	0	0
Catering / entertainment	0	0	0	0	0	0	0	0	0	0	0	0
Travel	0	0	0	0	0	0	0	0	0	0	0	0
Rent	0	0	0	0	0	0	300	300	300	300	300	300
Utilities	0	0	0	0	0	0	40	40	40	40	100	100
Commercial liability insurance	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total cash payments</b>	<b>140</b>	<b>340</b>	<b>140</b>	<b>540</b>	<b>470</b>	<b>670</b>	<b>1,330</b>	<b>1,230</b>	<b>830</b>	<b>1,630</b>	<b>1,410</b>	<b>1,410</b>
<b>Cash position end of month</b>	<b>60</b>	<b>20</b>	<b>280</b>	<b>240</b>	<b>570</b>	<b>700</b>	<b>370</b>	<b>140</b>	<b>310</b>	<b>180</b>	<b>270</b>	<b>360</b>

\* Average salary for an experienced graphic designer was JD 250 per month

\*\* Employers with 5 or more employees had to contribute 10% of gross salary to social security (employee's portion was 5%)

**Cash Flow Statement**  
**Quarterly Projections for Years Two and Three**

**The Media  
Group**

**Pro Forma Statement of Cash Flow, Years Two and Three**

in Jordanian Dinars

(JD)

JD 1 = US \$ 1.412

	<u>Second</u>				<u>Third</u>			
	<u>Year</u> 1st quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	<u>Year</u> 1st quarter	2 <sup>nd</sup> quarter	3rd quarter	4th quarter
Cash on hand	360	1,110	580	450	1,560	1,610	3,061	4,212
<u>Cash receipts</u>								
Cash sales	6,000	6,000	6,000	9,000	9,000	12,000	12,000	12,000
Total cash receipts	6,000	6,000	6,000	9,000	9,000	12,000	12,000	12,000
<b>Total cash available</b>	<b>6,360</b>	<b>7,110</b>	<b>6,580</b>	<b>9,450</b>	<b>10,560</b>	<b>13,610</b>	<b>15,061</b>	<b>16,212</b>
<u>Cash payments</u>								
Salaries (5 partners)	2,400	2,400	2,400	2,400	3,300	3,750	3,750	3,750
Salary (1 admin staff)	0	0	0	0	0	240	240	240
Social security	240	240	240	240	330	399	399	399
Marketing	240	240	240	240	240	240	240	240
Tel, fax, postage	300	300	300	300	400	400	400	400
Stationery	250	250	250	250	300	300	300	300
Supplies	600	600	600	600	900	900	900	900
Equipment	500	300	0	1,500	0	1,000	1,500	1,500
Furniture	0	100	0	200	200	200	0	0
Repair & Maintenance	60	60	60	60	120	120	120	120
Catering/entertainment	0	0	0	0	0	0	0	0
Travel	0	0	0	0	0	0	0	0
Rent	300	1,800	1,800	1,800	2,700	2,700	2,700	2,700
Utilities	300	240	240	300	360	300	300	360
Commercial liability insurance	60	0	0	0	100	0	0	0
<b>Total cash payments</b>	<b>5,250</b>	<b>6,530</b>	<b>6,130</b>	<b>7,890</b>	<b>8,950</b>	<b>10,549</b>	<b>10,849</b>	<b>10,909</b>
<b>Cash position end of quarter</b>	<b>1,110</b>	<b>580</b>	<b>450</b>	<b>1,560</b>	<b>1,610</b>	<b>3,061</b>	<b>4,212</b>	<b>5,303</b>

## Exhibit 4

### Potential Sources of Funding for Entrepreneurs in Jordan

#### Banks

There were about 20 banks in Jordan, both foreign and domestic. This number included commercial banks, Islamic banks and investment banks. Given the lack of capital investment coming from the private sector, the Government – through the Central Bank – tried to facilitate business access to capital through regulating interest rates on commercial bank loans. A further step towards making commercial loans more readily available was the creation of the Industrial Development Bank. This bank specialized in funding manufacturing start-ups. Bank interest rates on loans averaged about 9.5% but they varied from institution to institution.

Islamic banks presented an alternative to commercial banks. In the Islamic faith, it is forbidden to engage in transactions involving interest rates, so Islamic banks make equity investments in the client's business and then capture part of its profits – or share in its losses. In turn, part of the profit (or loss) is transferred to depositors.

#### Venture Capital

Financing start-ups through formal venture capital was a fairly new concept in Jordan, where public market avenues for funding were scarce if available at all. Venture capital firms operating in Jordan such as Foursan Technology Partners and the Jordan Technology Group were still the exception. In the past, entrepreneurs typically approached wealthy families to finance their ventures. This informal approach, however, lacked the formal mechanisms of portfolio investment, due diligence, financial disclosure, etc. that are standard practice in the West.

The obstacles faced by venture capital firms stemmed mainly from the small size of the Jordanian market. There were simply not enough opportunities. Other obstacles included inexperienced management teams and inadequate legislation. For example, despite recent amendments to the Company Law in Jordan, multiple classes of shares were not permitted and mechanisms to protect investors were not addressed.

#### Microfinance Programs

Micro loans were targeted at the low-income segment of the population, and in particular women, to fund micro and small businesses. These loans were typically given on a short-term basis and capped at JD 300 (US\$425) for first-time borrowers. However, the loans could go up to JD 4,000 (US\$5,650) depending on the client's repayment history.

Jordan currently had 4 microfinance institutions with 15,000 active loans totaling US\$9 million. About half of the clients were women. USAID funded the AMIR program (Access to Microfinance and Implementation of Policy Reform) which was a particularly active lending institution offering micro-loans in a sustainable way. Queen Rania and Queen Noor, the current and former queens, supported programs that provided microfinance resources and other services to women to help them start and expand their own businesses.

#### Loan Guarantee Programs

Jordan did not have a government agency like the Small Business Administration in the U.S. However, there was a proposal under consideration for establishing such an agency to provide loan guarantees for small and medium-sized enterprises. In the meantime, the idea of loan guarantees was realized recently via funding provided by the European Union. The agreement made with the Jordan Loan Guarantee Corporation (JLGC) provided loan guarantees to small and medium-sized businesses with fewer than 50 employees.

The loan period was limited to 6 years. Loans of size up to JD 40,000 (US\$56,500) were guaranteed up to 75 percent of the outstanding balance; loans between JD 40,000 and JD 100,000 (US\$141,200) were guaranteed up to 50 percent. There were no costs to the borrower for the guarantee, but the borrower would be responsible for paying interest charges to the bank issuing the loan.

## APPENDIX A

### Background on Jordan

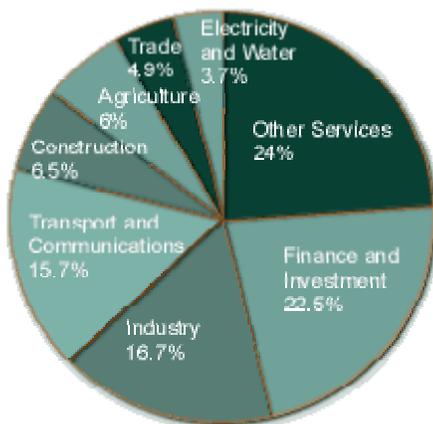
#### Economy

In the early to mid 1990s, when Nahla founded her business, Jordan's GDP was the highest among the countries of the Middle East and North Africa, boasting a growth rate of 16.1 percent. This rather short-lived phenomenon was mainly due to large amounts of capital that Jordanian workers brought back with them to Jordan when they left the Gulf countries following the Gulf War in 1992. Since 1996, however, the GDP growth rate averaged no more than 1.5 to 2 percent per year, and the Iraq War created another source of uncertainty. The steady decline in GDP growth continued despite efforts to stimulate the economy.

The drastic decline in GDP growth rate was closely tied to political events in the region. The precarious situation in the West Bank and Iraq, two important trading partners of Jordan, significantly reduced exports and left Jordan filled with refugees. The first Gulf War and economic recessions in oil-rich neighboring states, where about half a million Jordanians once found employment, forced many to return home. This put intense pressure on the Jordanian labor market and dramatically reduced remittances sent home by Jordanian expatriates. At the same time, the economic difficulties of the Gulf countries led them to discontinue their financial aid to Jordan.

The breakdown of GDP by sector ([Exhibit A-1](#)) shows Jordan's emphasis in terms of economic activities. The biggest sector of GDP was services, followed by industry. Agriculture played a minor role in Jordan because deserts cover more than 91 percent of its land mass and water is scarce.

**Exhibit A-1**  
**Jordanian GDP by Sector**



Unlike many of its neighbors, Jordan does not have oil resources. Its natural resources are phosphate, potash, and shale oil. Accordingly, Jordan's main industries were involved with phosphate mining, petroleum refining, cement, potash, and light manufacturing. The industry sector was growing consistently. Within the value-added manufacturing subsector, the pharmaceutical industry was particularly successful.

In the service sector, tourism at one time seemed very promising, especially after the signing of the Peace Treaty between Jordan and Israel in 1994. In 1997, tourism accounted for 6.6 percent of the GDP. Recently, however, as tourism around the world and in the Middle East in particular suffered, the previous growth rates could not be maintained.

#### Government

In the attempt to boost economic recovery, the Government of Jordan developed strategies focused on private sector development. The Government recognized the important contributions business could make to creating employment and economic growth and sought to enhance the role of the private sector.

As a result, the Government pushed forward the privatization of mining, public utilities and transportation. Although Jordan's economy had always been private-sector-oriented, state ownership was prevalent in these three areas. The privatization program started in 1997 and the restructuring of Jordan's telecommunication industry and transportation sector was well underway.

Further, the Government undertook various legislative and regulatory reforms to stimulate domestic and foreign investment in the private sector. The reforms introduced new or amended legislation on income and sales taxes, securities, insurance, financing and leasing, anti-trust, customs and intellectual property rights.

These reforms also included a new law on company registration. The new "Companies Law No. 22" simplified and facilitated the requirements for registering new companies. It abolished the 15 percent capitalization fee that new

companies used to be charged and gave entrepreneurs more freedom to estimate the value of their fixed assets. The law further allowed the following forms of legal entities for businesses in Jordan: general partnership, limited partnership, limited liability company, limited partnership in shares, public shareholding company, mutual fund company, offshore company and foreign company.

## Labor Market

Out of the total Jordanian population of 5.2 million people, the labor force included 1.15 million people. This number did not include the hundreds of thousands Jordanians who found employment abroad, mainly in the Gulf States.

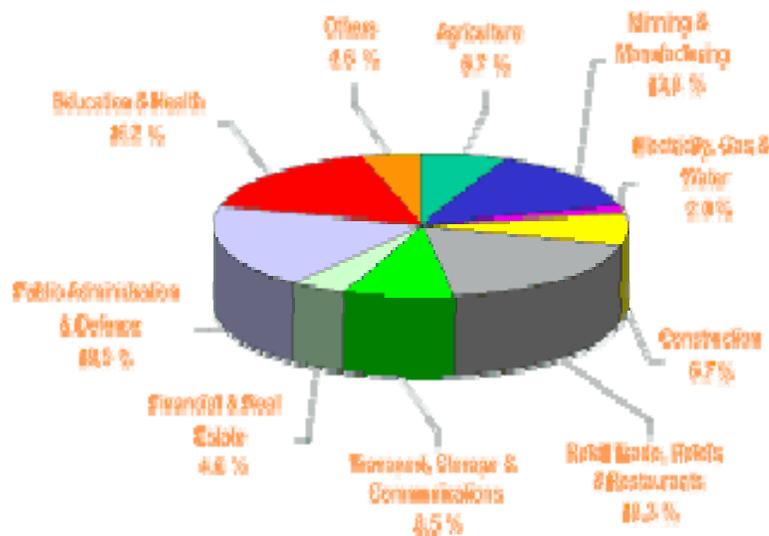
The data from the Department of Statistics showed an unemployment rate of 14.9 percent. Many observers, however, believed the figure was much higher – between 25 and 30 percent. The report further revealed that unemployment for women was 20.3 percent compared to 14 percent for men. The activity rate – the percentage of the population above age 15 who were economically active – was 65.5 percent for men and 12.5 percent for women.

Considering that 58 percent of the population was between 15 and 59 years of age and that unemployment was highest among people aged 15 to 24 years, the unemployment figures represented a pressing issue for the Government. Economic recessions in Jordan and neighboring countries, as well as the political situation in the region, further contributed to an already tight labor market. It was estimated that a minimum of 42,000 new jobs were needed each year to absorb new entrants into the labor market.

Compared to other Middle Eastern countries, Jordan's labor force was highly educated. This fact allowed Jordan to export about one-third of its labor force while at the same time importing unskilled and semi-skilled workers from Egypt and Syria.

The labor force was distributed over the sectors shown in [Exhibit A-2](#). The biggest part was concentrated in the services sector (58 percent) – including retail, finance, health, education and construction. This was followed by industry where 14 percent were engaged. 18.5 percent of the labor force contributed to the public sector and defense. The Government of Jordan was often criticized for its overstuffed civil service.

**Exhibit A-2**  
**Jordanian Labor Force**

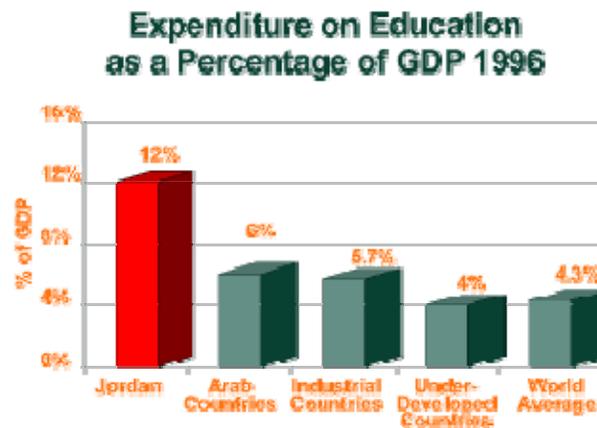


## Education

The Government's priority for improving Jordan's literacy rate and raising education standards over the last few decades had had an enormous impact.

- 89 percent of the population above age 15 was now literate (94 percent of men and 84 percent of women)
- Education was widely available and compulsory until the age of 15
- Education was free for primary and secondary school
- Compared to other countries in the region, education was fairly high quality
- English was obligatory in the school curriculum from early on and was widely spoken

### Exhibit A-3 Jordanian Educational Expenditures



Opportunities for higher education had grown substantially over the previous few years. Whereas in 1987 there were only 4 universities with 29,000 students, Jordan now had 19 universities with 97,000 students. Women were eager to participate in higher education as expressed in the following statistics: in community colleges, women made up 67 percent of the student body. At the university level, they accounted for 45 percent. There was a positive correlation between the high level of education among women and their participation in the labor force.

## ENDNOTES:

<sup>1</sup> This case was written by Susanna Aulbach of George Mason University and Professor Richard Linowes of the Kogod School of Business of the American University in Washington, D.C. It was produced under the auspices of the Emerging Market Development Advisors Program (EMDAP) of the US Agency of International Development (USAID) and administered by the Institute of International Education (IIE). It is intended as the basis for class discussion.