



# MSE SURVEY (2018)

## Summary Report

### USAID Jordan Local Enterprise Support Project (LENS)

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# SURVEY OF MICRO AND SMALL ENTERPRISES

## RATIONALE FOR THE SURVEY

“Micro and Small Enterprises (MSEs)--firms with 1-9 employees (micro) and 10-49 employees (small)--are catalysts for economic growth and social progress. A large body of international literature developed over the last 20+ years provides clear evidence for the link between MSE growth and positive economic and social outcomes. MSEs, particularly when formal and growing, are responsible for job creation, unemployment reduction and economic growth (Woldeyohanes 2014). Furthermore, MSE growth leads to reduced income inequality among youth and women, as opportunities for these groups are highest in the MSE sector (World Bank Group 2016).

However, the potential benefits of MSEs are held back by the challenges to growth that they face. MSEs have more difficulty than larger firms in accessing markets, obtaining finance, and taking risks associated with innovation in products or business processes, among other areas. As such, many MSEs operate at a “survivalist” level, often with informal legal status, and do not contribute as significantly to job creation or economic growth as they could (Woldeyohanes 2014).

Although MSEs, particularly in developing countries, remain the least understood firm type, there is a growing body of empirical evidence to address the research question: “what factors contribute to Micro and Small Enterprise Growth?” At least 20 factors considered to be important to MSE growth have been researched in recent years. What has become clear is that MSEs are extremely heterogeneous, and that the determinants of growth vary across sectors, regions and countries, size (micro versus small) and other factors (Bannier and Zahn 2014).”

SOURCE: FAISAL AWARTANI AND BRYANNA MILLIS. “DETERMINANTS OF GROWTH IN MICRO AND SMALL ENTERPRISES: EMPIRICAL EVIDENCE FROM JORDAN.” IN F. BONCHI, F. PROVOST, T. ELIASSI-RAD, W. WANG, C. CATTUTO, & R. GHANI (EDS.), 5th IEEE International Conference on Data Science and Advanced Analytics. PAPER PRESENTED AT THE 5th IEEE International Conference on Data Science and Advanced Analytics, DSAA 2018, Turin, Italy, October 1-3, 2018 (pp.

This report presents high level findings from a 2018 survey replication of a survey initially conducted by the USAID Jordan Local Enterprise Support Project (LENS) in 2014-2015. This earlier survey set the stage for evidence-based activity design on the Project. Although Jordan’s economy is dominated by micro and small enterprises (MSEs), as are most economies world-wide, relatively little was known about them prior to this work. The 2014-2015 MSE Survey sought to better understand Jordanian enterprises and to assess the major barriers and opportunities for growth. The study covered general demographics, workforce trends, firm performance, access to finance, processes and networks, and the impact of the Syrian refugee crisis.

The earlier survey consisted of 86 questions in a double sampling design with stratification. The data gathered representative information for all MSEs operating in the governorates of Amman (excluding the Greater Amman Municipality), Zarqa, Irbid, Karak, Tafilah, and Aqaba (excluding the ASEZA free zone). Although the study was not intended to be national in scope, the target population of the six areas collectively captured 60% of the kingdom’s population and represented a diverse cross-section of the country.

As a complex survey, the 2014/15 research design was undertaken using probability sampling in two phases. In the first phase, 977 geographic clusters were randomly selected from districts in each area. From these clusters, 97,347 households were contacted through door-to-door interviews, of which 10,197 reported owning a business. A representative sub-sample of 6,385 MSEs was drawn in 2014/15, stratified by sector governorate. 4,721 of these MSEs were then successfully surveyed.

The survey conducted by the USAID LENS in 2018 sought to update the findings of the earlier survey, gather more granular-level data on lending and employment, and capture new information relevant to the USAID LENS programs. This report focuses on reporting on the 2018 findings without delving into comparative analysis with previous rounds of surveying. For the most part the findings were similar between the two surveys.

## DISTRIBUTION OF SAMPLE FOR THE 2018 SURVEY

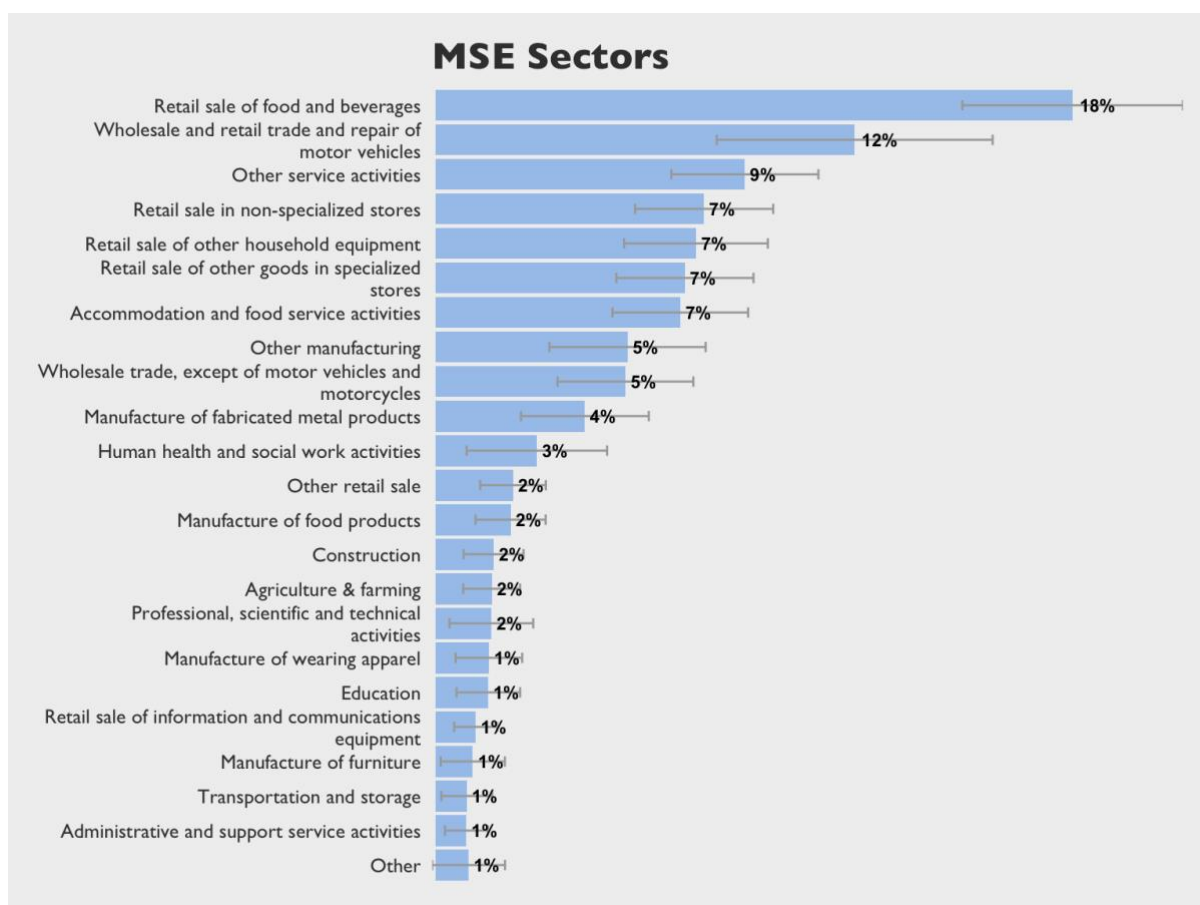
The core 2018 MSE survey resulted 1,699 interviews with Micro and Small Enterprises (MSEs) in Jordan, located in six target governorates. While interviews with the owner were preferred, proxies were accepted if the respondent indicated they were familiar with the business. In all, 1,222 interviews out of the total were conducted with owners.

**TABLE 1: THE DISTRIBUTION OF SAMPLE BY TARGET GOVERNORATE<sup>1</sup>**

	UNWEIGHTED SAMPLE (n=1,699)	ESTIMATED POPULATION TOTAL (t=82,235)	COLUMN PERCENT (%)
Amman [excluding GAM]	227	36,770	45%
Irbid	262	20,229	25%
Zarqa	296	16,644	20%
Karak	332	5,845	7%
Tafilah	323	2,058	3%
Aqaba [excluding ASEZA]	209	690	1%

MSEs principally fall into two large sectors: Retail & Trade (59%) and Manufacturing (14%). If these are further broken down, main sub-sectors include 18 percent in retail sale of food and beverages, 12 percent in trade/repair of motor vehicles, 9 percent in other service activities, and 7 percent in retail sales in non-specialized stores.

<sup>1</sup> Throughout this report, margins of error and confidence intervals are presented at the 95% confidence level. Unless otherwise noted, all figures and statistics in the present report refer to the 2018 MSE survey.



The large majority of all MSEs are owned by (91 percent) and aged 30 or older (80 percent). The average and median age of MSEs owners is 45 years. Most have at least finished secondary education (70 percent), with 15 percent having obtained a bachelor's degree and 13 percent of them have a diploma or associate degree. 81 percent of MSE owners are married and support their families as the primary earners, while only one out of six is single.

**TABLE 3: DEMOGRAPHIC CHARACTERISTICS**

	WEIGHTED SAMPLE (n=1699)	PERCENT (%)
<b>By Sex of the Owner</b>		
Female	5,322	6%
Male	76,913	94%
<b>By Education Level (of Respondent)</b>		
Illiterate (cannot read and write)	1,752	2%
Elementary	5,564	7%
Preparatory	20,084	25%
Secondary	30,176	37%
Diploma/associate degree	10,668	13%
Bachelor	12,404	15%
Higher education	986	1%
<b>By Nationality (of Respondent)</b>		
Jordanian	77,281	94%
Syrian	1,339	2%
Other	3,329	4%

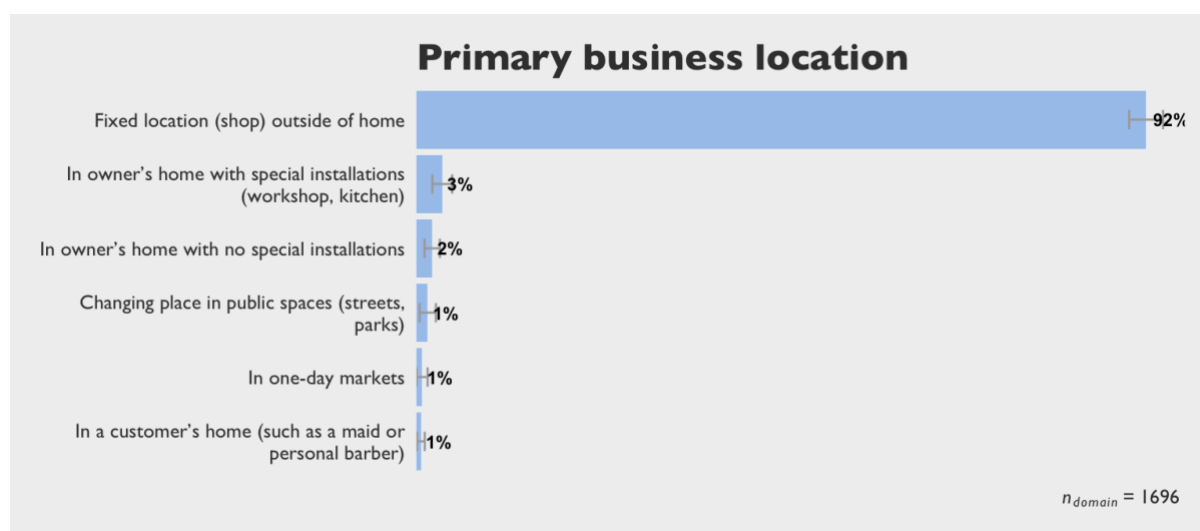
### By Marital Status (of Respondent)

Married	66,810	81%
Single	13,491	16%
Divorced	685	1%
Engaged	673	1%
Widowed	374	0%
Separated	49	0%

## FIRM CHARACTERISTICS

Changes in the general characteristics of firms and their owners were minimal between 2014-2015 and 2018 waves of surveying. The 2014/15 survey found that half of all MSEs had been established in the previous six years, and that the average age of these businesses—formal and informal—was just over 9 years.<sup>2</sup>

96 percent of establishments operate the whole year round. Of the 4 percent who operate seasonally, their businesses typically operate between 4 – 6 months a year. Most operate from fixed locations outside their homes (92 percent), with only 5 percent running their businesses from the owner's home.

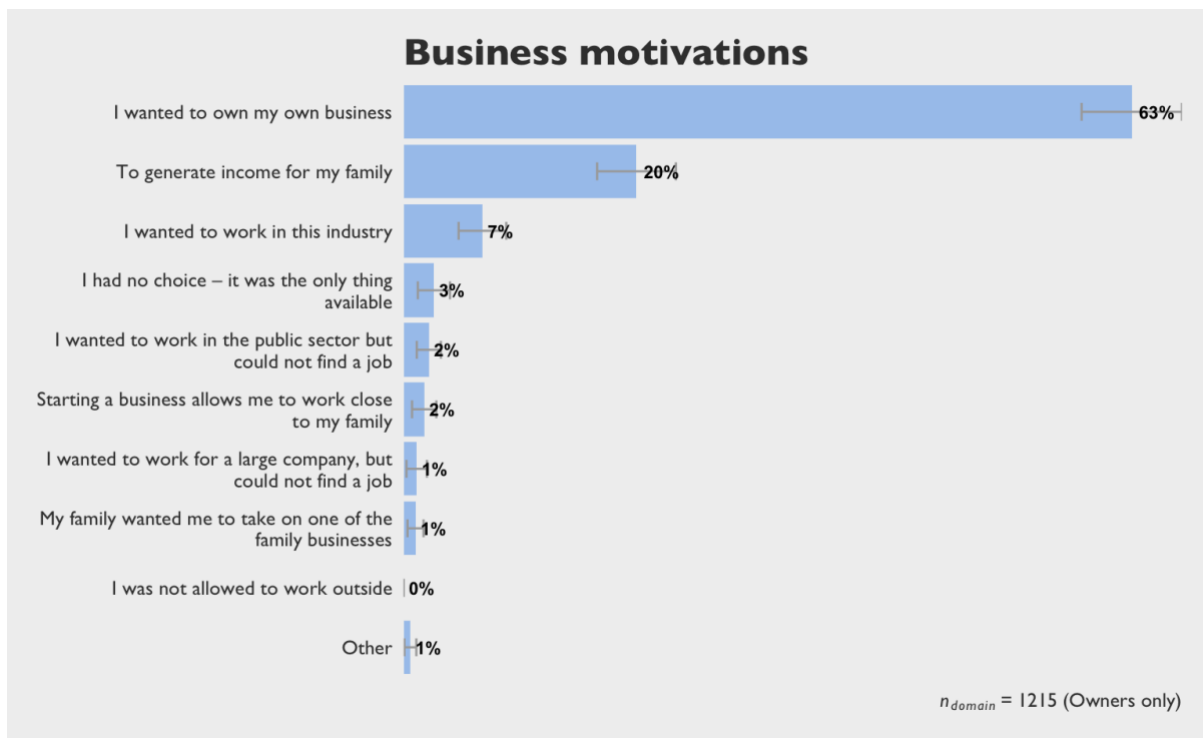


## BUSINESS MOTIVATION

When MSEs owners were asked about what best describes their motivation for starting their own company, the most common response was that they wanted to own their own business (63 percent). The desire to generate income for their families was the second most common motivation (20 percent), followed by 7 percent who stated that they created the business because they wanted to work in the industry. 12 percent of the owners stated that they have another project/business that provides them with additional income.

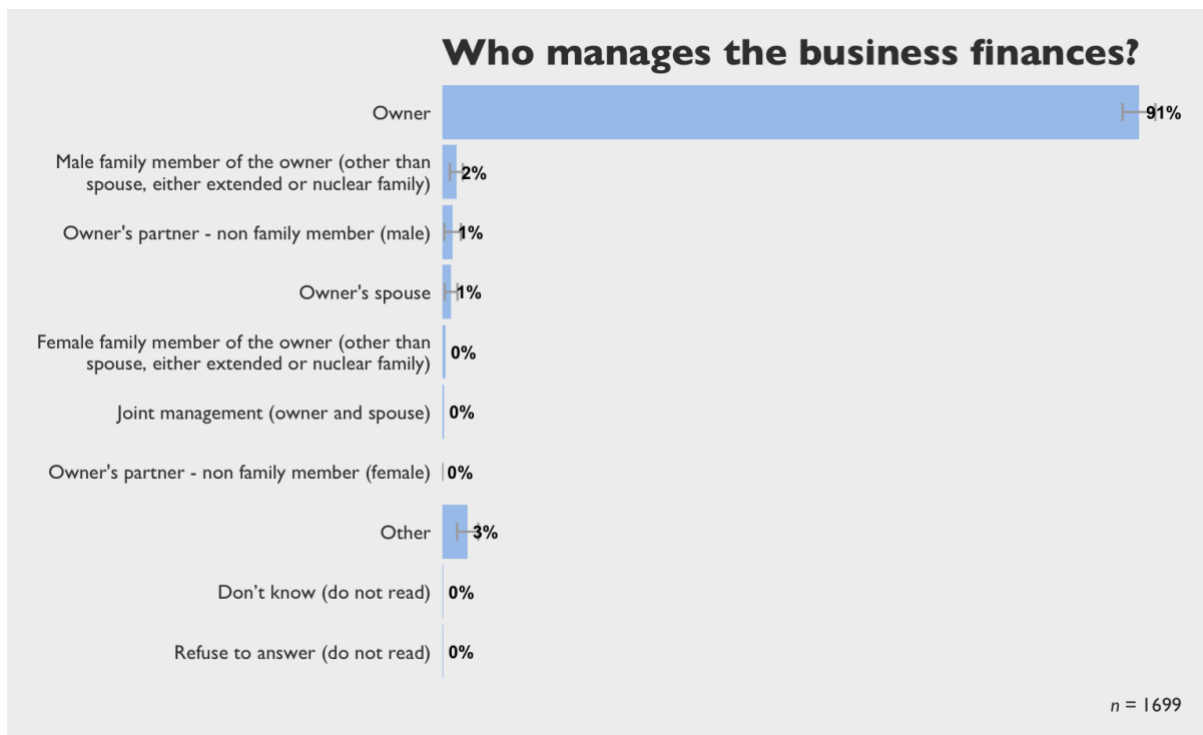
<sup>2</sup> 2014/15 survey figures are presented here rather than for 2018, as the latter's population is defined as 'persistors' who survived 3-4 years in the market. As a result, relying on the 2018 data for the year of establishment is less reliable than the 2014/15 data.





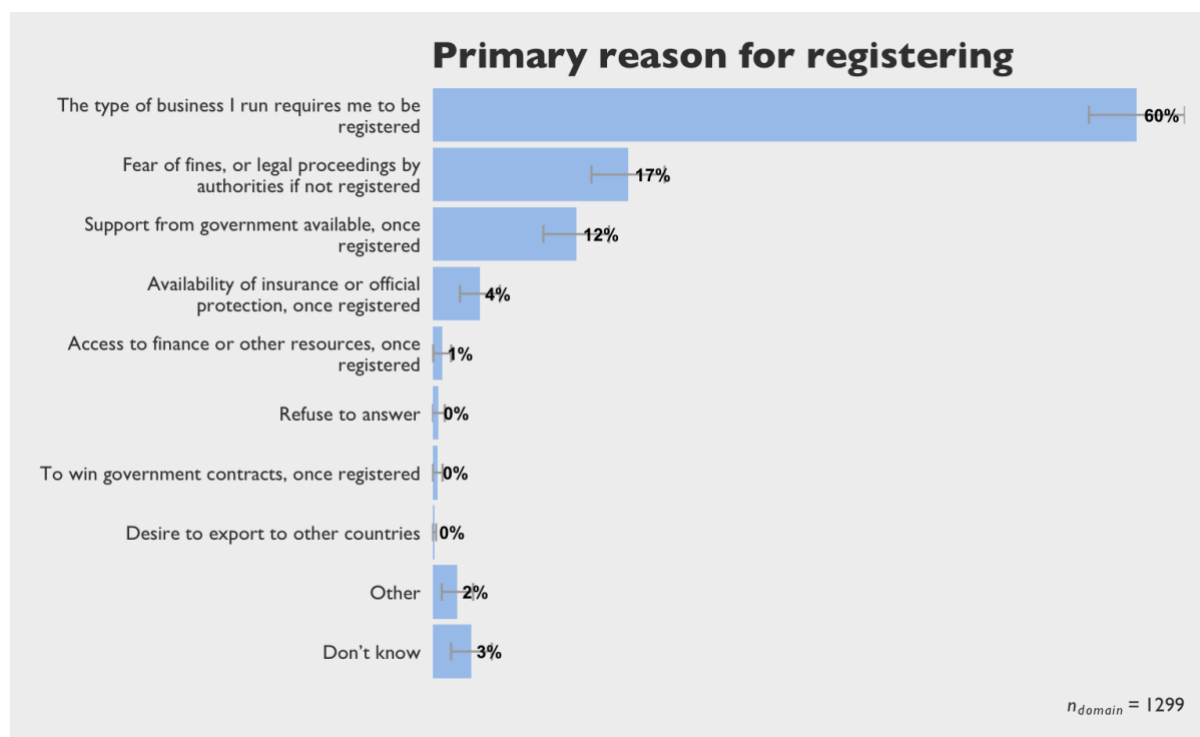
## FINANCIAL MANAGEMENT

Nine out of ten business owners manage the finances of their MSEs directly. Unsurprisingly, larger establishments were more likely to have their finances managed by non-owners.

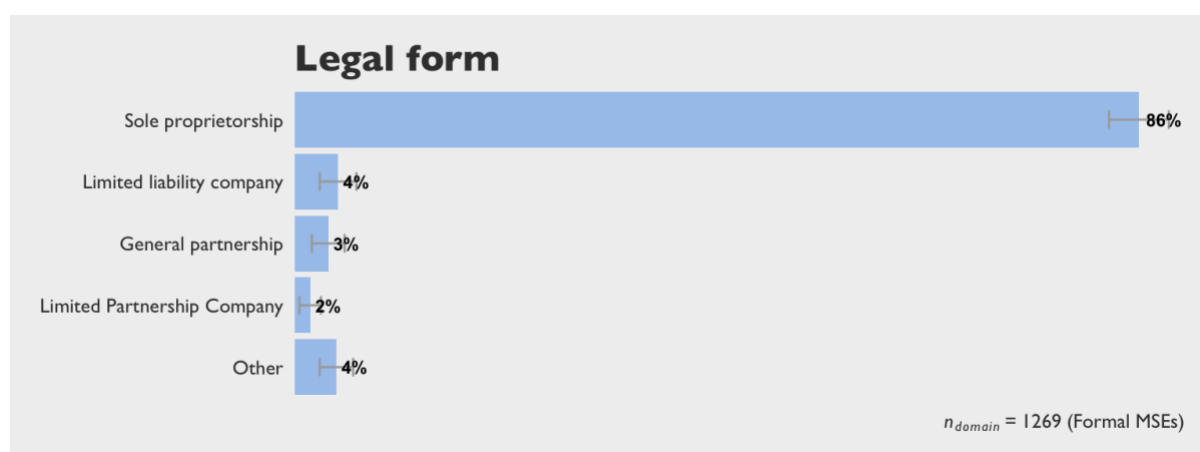


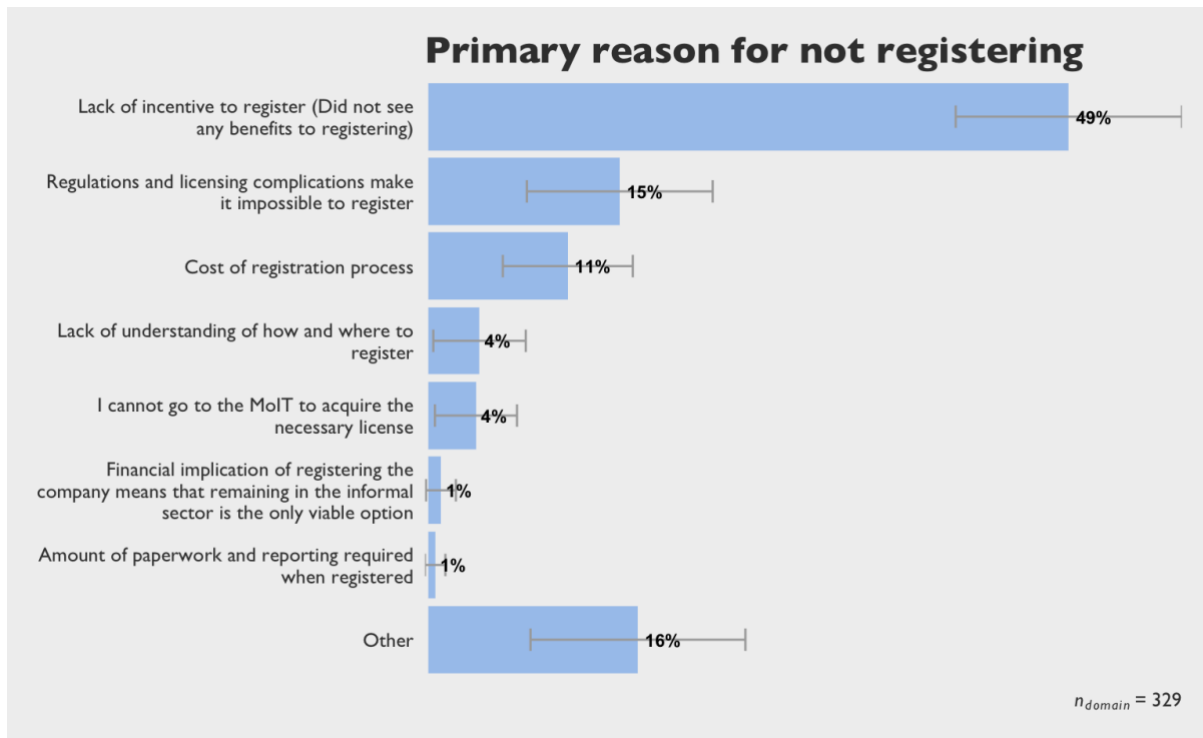
## ESTABLISHMENT REGISTRATION

About 79 percent of MSEs are registered with the Ministry of Industry and Trade (MoIT), a slight increase from 75 percent in the 2014-2015 survey. The majority continue to exist as sole proprietorship (84 percent), followed by Limited Liability Company (4 percent) and others (4 percent). About 78 percent of MSEs registered after the year 2000. The three main primary motives for registration with MoIT were: 1) the type of business requires establishments to be registered (60 percent); 2) the fear of fines or legal penalties by the authorities if the establishment is not registered (17 percent); 3) the support the government provides for establishment once registered (12 percent).



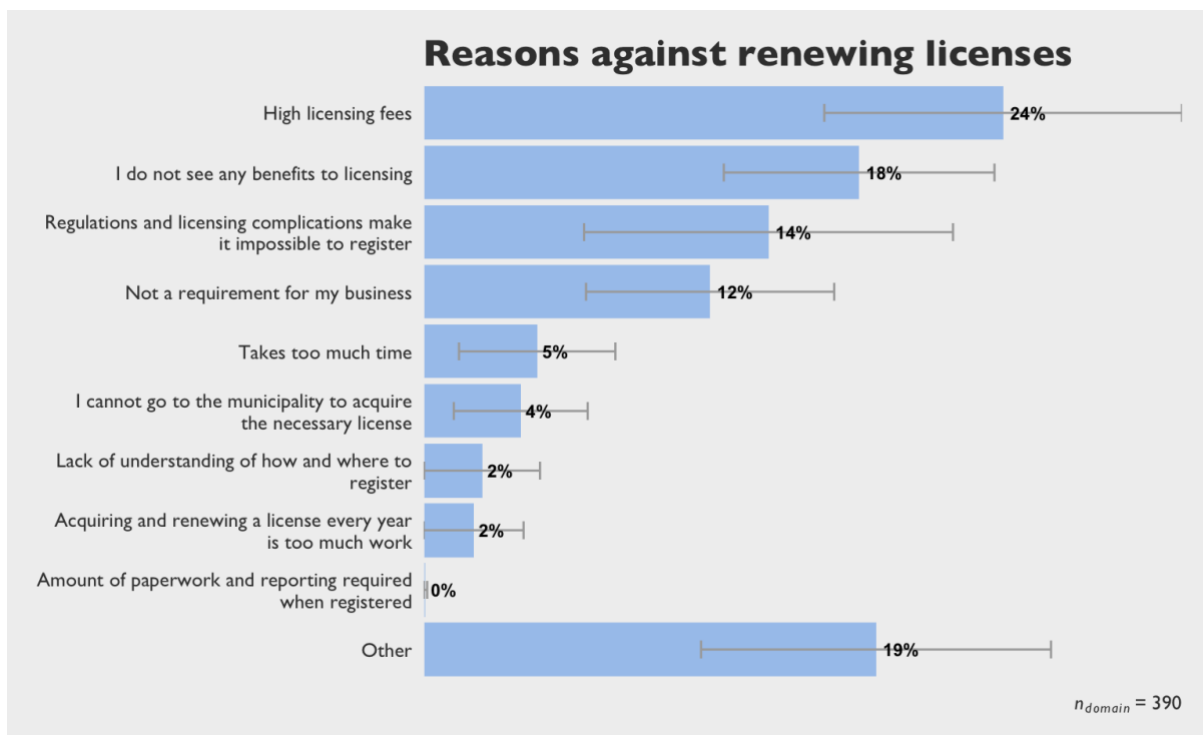
18 percent of the MSEs are not registered with MoIT and the majority cite the lack of incentives to register as the reason for not doing so (44 percent). Additional reasons given for not registering include regulations and licensing complications (13 percent), other (14 percent), don't know (10 percent), and the cost of registration process (10 percent). About one-fourth of MSEs were thus unable or unwilling to share their main reasons for not registering with MoIT.





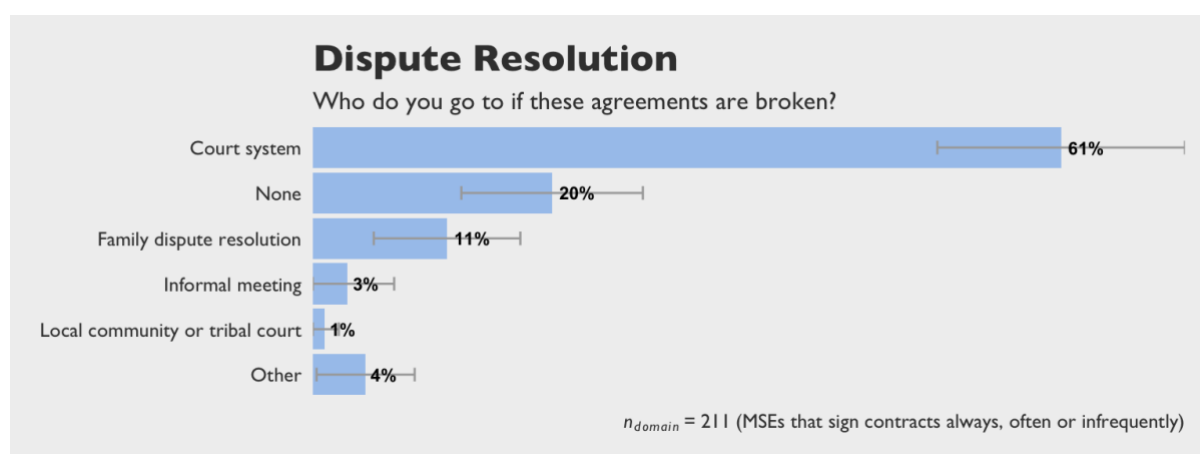
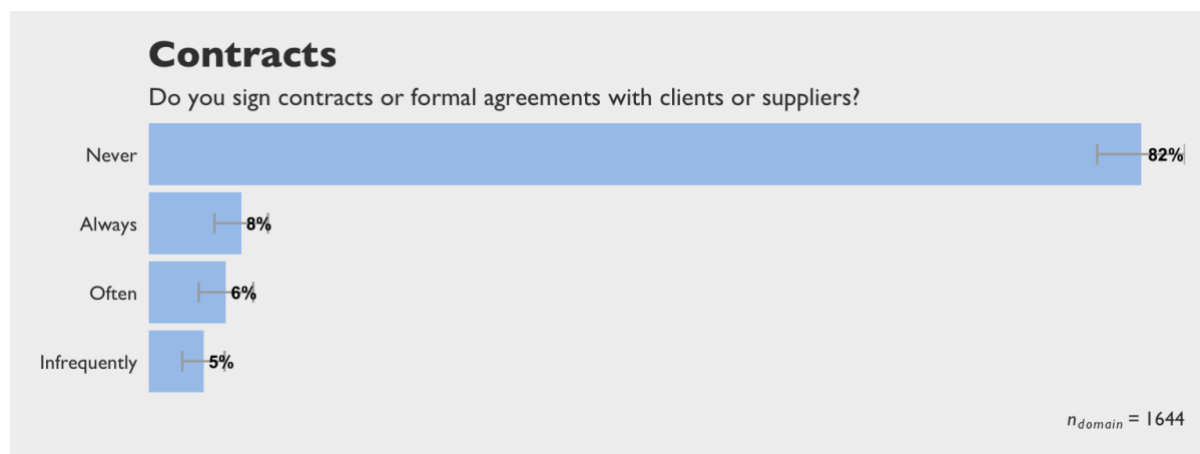
## MUNICIPAL LICENSING

76 percent of MSEs obtained municipal licenses for the 2017 year, including 92% of registered MSEs. For the 21 percent of MSEs that were not licensed, the primary reasons were (in order) the high cost of licensing fees (22 percent), lack of benefits/incentives, and regulations and licensing complications (13 percent). For registered, unlicensed MSEs, the main reasons given were high licensing fees (41 percent) and the fact that it not required for the business (11 percent).



## CONTRACTS

Four out of five MSEs never signed contracts or formal agreements with clients or suppliers. For those who did, 61 percent say they would rely on the court system in the event of a dispute, 20 percent said they would do nothing, and 11 percent said they would engage family members to resolve the conflict privately.



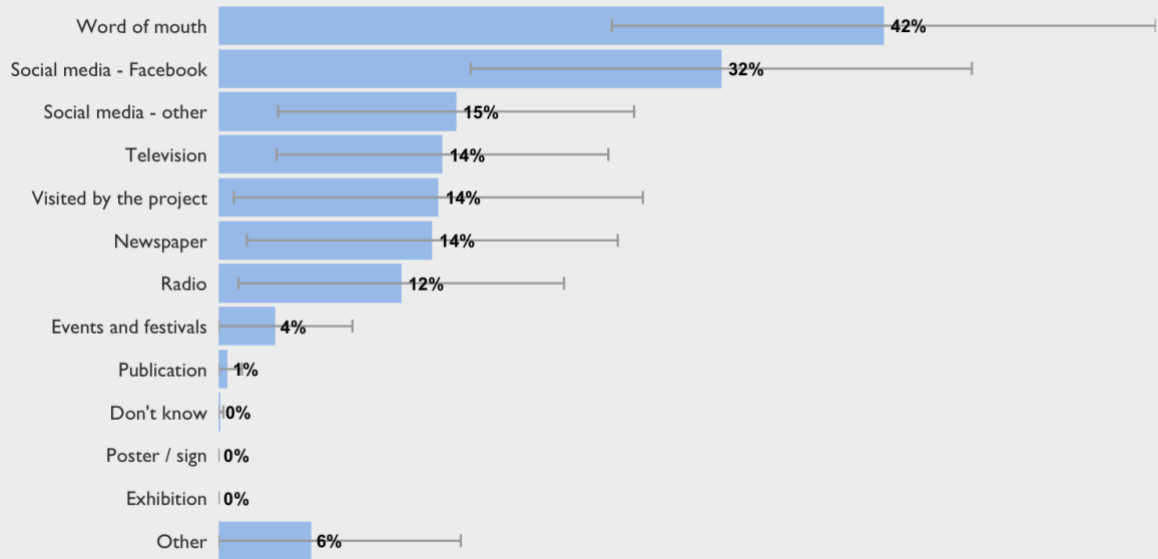
## FAMILIARITY WITH USAID LENS

94 percent of surveyed MSEs were unfamiliar with the USAID Local Enterprise Support Project (LENS). 43 percent of those who were familiar with LENS had known about the project since 2017, learning about the project mostly through the word of mouth, Facebook, and other social media channels. 14 percent said they were familiar with LENS because of a project visits to their establishment.

When probed further on what they associated USAID LENS with, MSEs familiar with the project said they thought of loans (82 percent), grants (48 percent), and equipment (18 percent). The high incidence of association with loan is a surprise, given USAID LENS' work in Access to Finance was generally indirect and through micro-finance institution who offered the loans. However, given the project's numerous finance fairs throughout the country, this result is nevertheless plausible.

## Media Channels

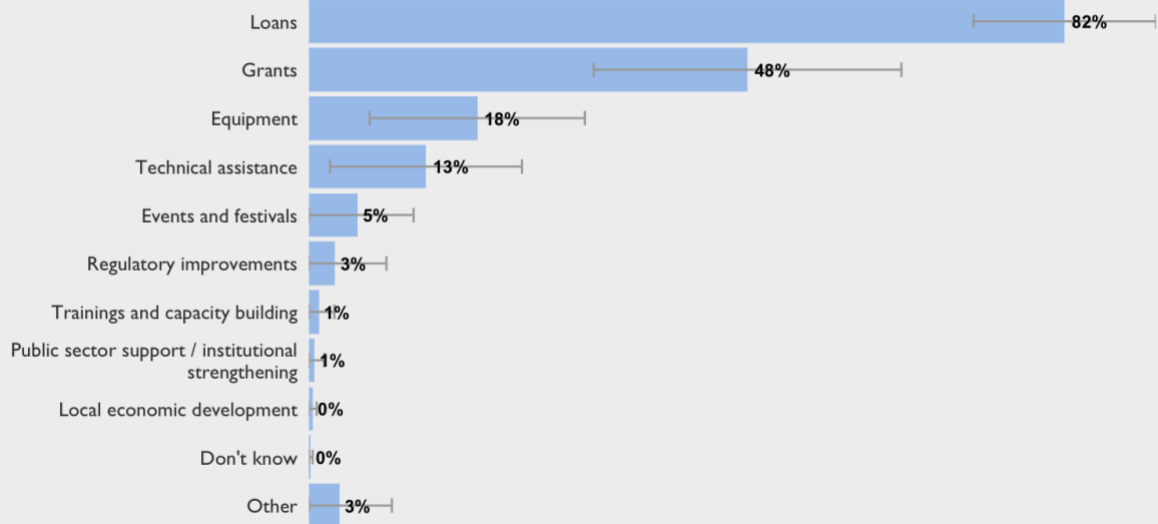
Through which means did you hear about USAID LENS? (multiple selection)



$n_{domain} = 91$  (MSEs familiar with USAID LENS)

## Familiarity with USAID LENS

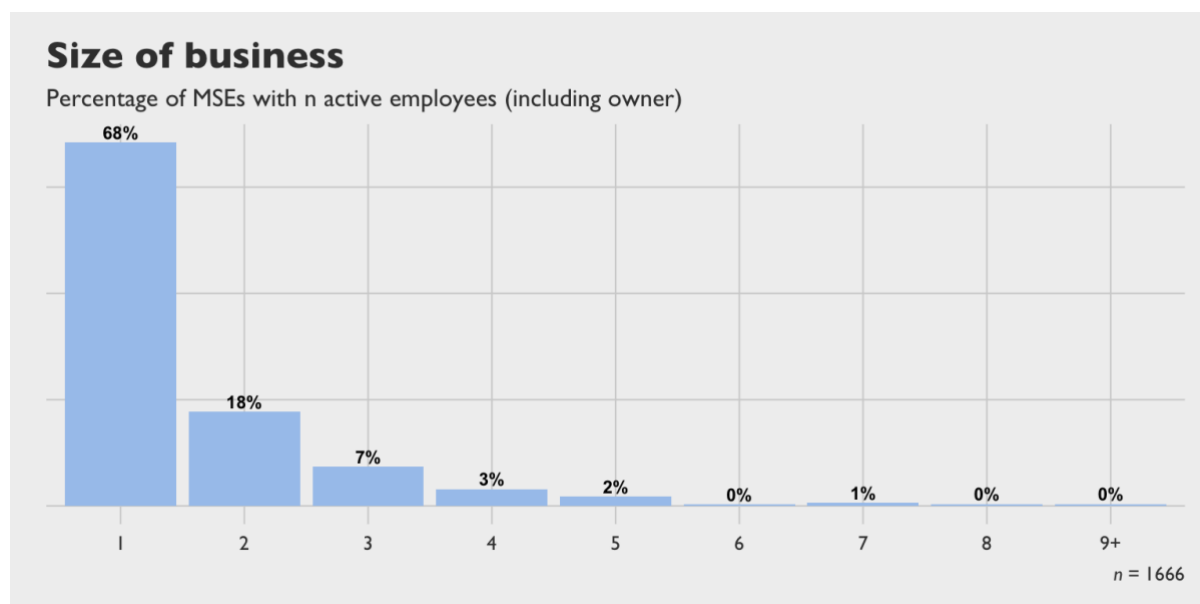
What do respondents familiar with the project associate USAID LENS with? (multiple selection)



$n_{domain} = 91$

## WORKFORCE

The questions regarding workforce were adjusted between 2014-2015 and 2018. Specifically, questions regarding the numbers and characteristics of new hires were changed from covering only the previous 12 months in the first survey, to the previous five years in the second. This provides a more complete analysis of hiring trends, although it makes comparison from one survey to the other difficult.



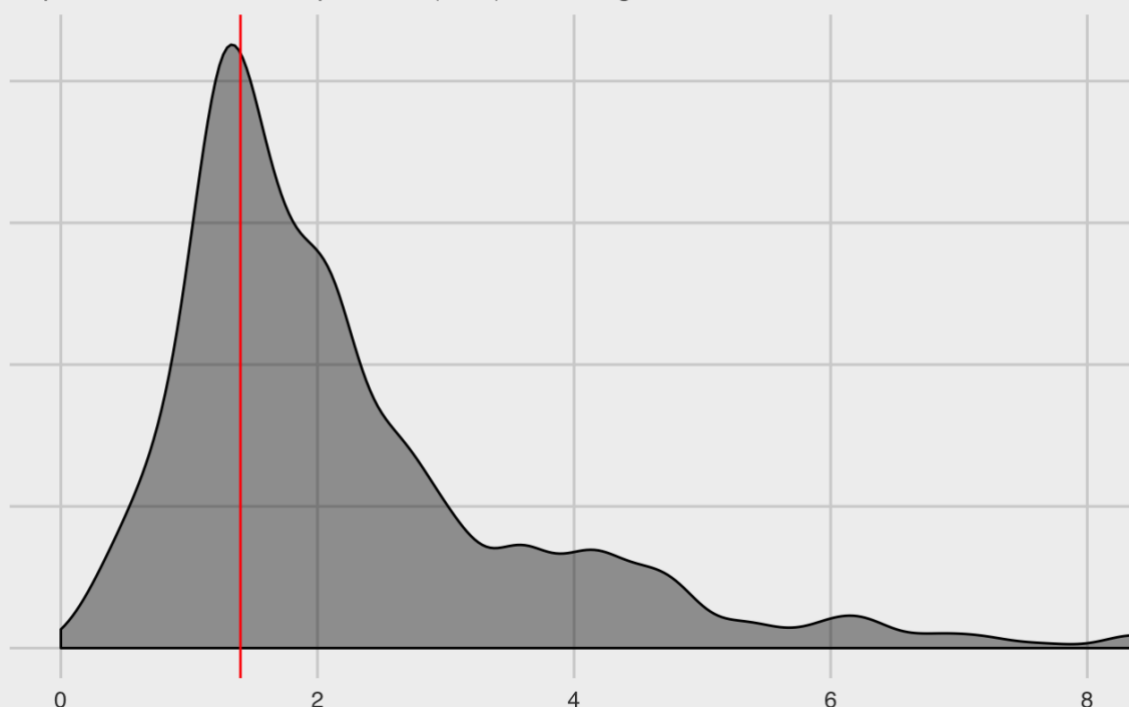
35 percent of MSEs had hired (non-owner) employees within the past five years. Including the owner, the median full-time equivalent (FTE) of employees was 1.4 jobs per MSE. The FTE figure normalizes part-time and seasonal workers against a fulltime employee working 40 hours per week.<sup>3</sup> Only 3% of MSEs have staff below the age of 18. The median employee/owner works nine hours per day, six days per week, and twelve months out of the year.

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<sup>3</sup> Specifically, full-time equivalent for the  $i$ th person is calculated as  $d_i h_i m_i / 480$ , where  $d_i$  is the number of days worked per week,  $h_i$  is the hours worked per day, and  $m_i$  is the months worked per year.

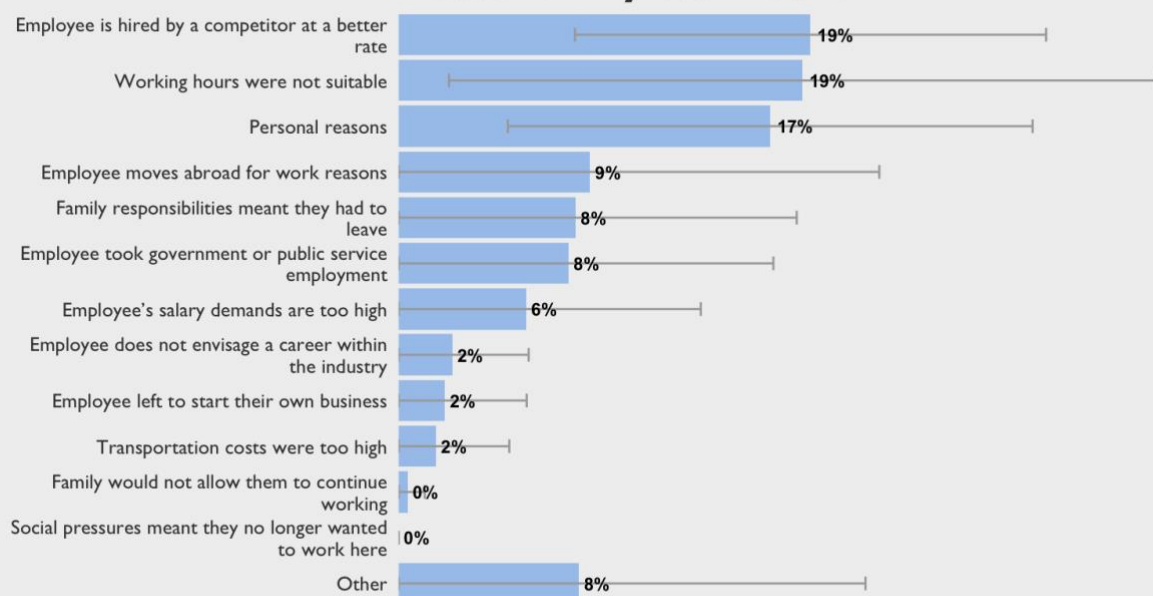
## Empirical Density of Number of Employees

Expressed in full-time equivalent (FTE), including the owner



Of the MSEs that experienced staff departures, 26 percent reported that the primary reason for staff losses were due to personal reasons, 24 percent reported that the employees were hired by a competitor at a better rate, and 8 percent reported that the working hours were not suitable.

## Reasons why staff leave



$n_{domain} = 62$  (MSEs that had staff leave in the past 5 years)

## TECHNICAL ASSISTANCE

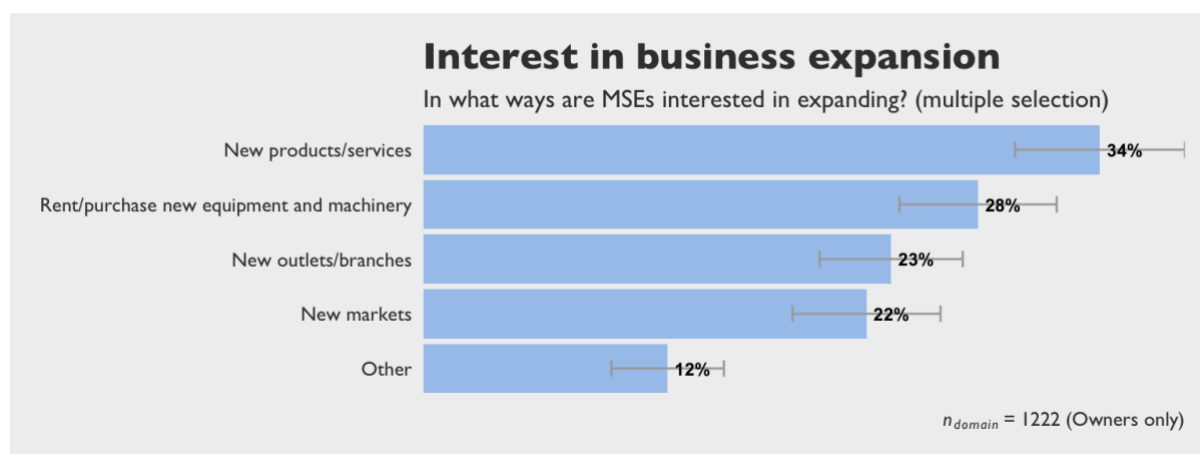
Only 4 percent of all the MSEs reported that they received external technical assistance such as trainings, capacity building, and consultancy services in the past year. Of those who received assistance from external agencies, the largest proportion received assistance from the government (24 percent), followed by business service providers (22 percent). 18 percent cited that they receive assistance from “other” sources. 9 percent cited receiving technical assistance from donor-funded programs.

Of those who received assistance from Business Service Providers (BSPs), 31 percent highlighted their receipt of support strengthening business linkages across different sectors for the purpose of cooperating/working in different business streams. 28 percent reported that they were given marketing services, while 24 percent were provided with business planning services.

## FIRM PERFORMANCE

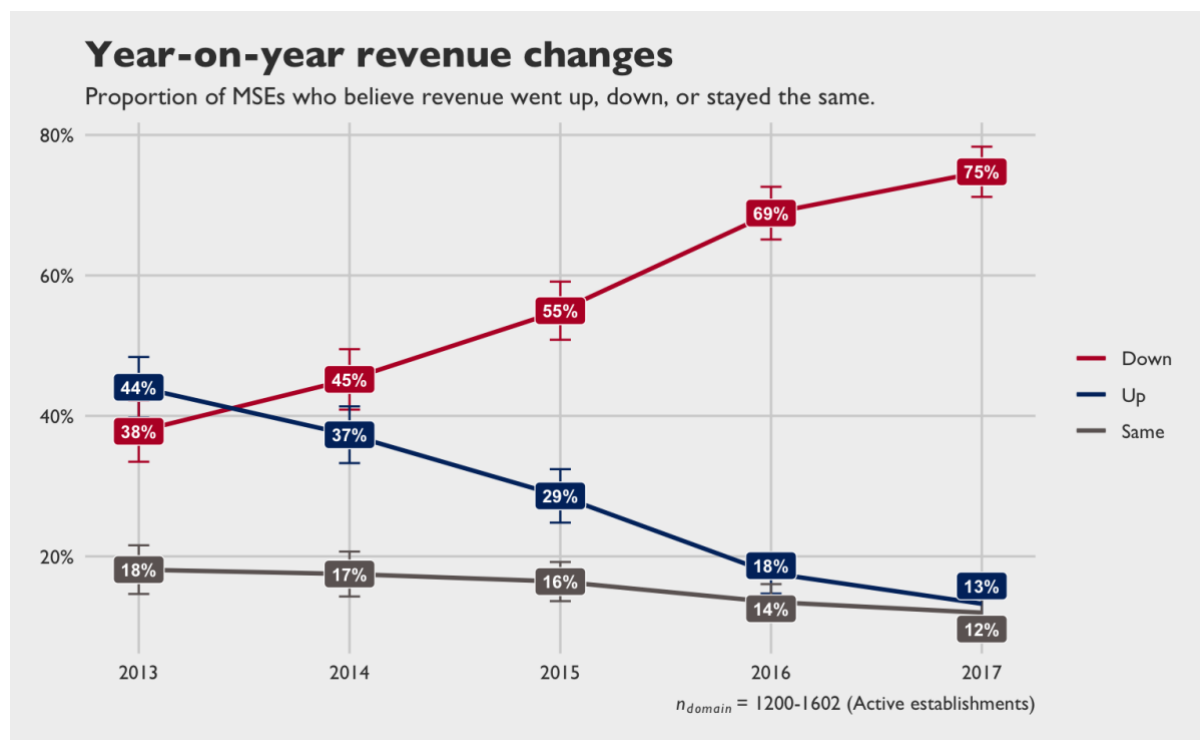
41 percent of all the MSEs expressed interest in expanding their businesses. Of those, the largest proportion said they wanted to produce new products or services (75 percent), followed 64 percent who said they wanted to rent/purchase new equipment and machinery, 56 percent who said they wanted to open new outlets or branches, and 52 percent who said they wanted to venture into new markets.

79 percent of all MSEs state that they plan to continue their business during the next three years. In terms of revenue, 50% of MSEs made less than JOD 500 in a typical month, and 80% made no more than JOD 2,000 in a typical month. Approximately 35 percent of all the MSEs did not know or refused to answer questions related to revenue, underscoring the difficulty with measuring this quantity accurately. 27 percent of MSE owners reported that the business income represents the whole amount of their household income. For 7 percent of owners the business income represents 50 percent of their household total, while for others it was far less.



According to perceptions by MSEs, the economic situation had deteriorated since 2013: Each year saw a higher fraction of MSEs reporting that their revenues decreased compared to the previous year. Furthermore, only 7 percent of all the MSEs save monthly, with a mean amount of JOD 1,151 saved for business that manage to save.



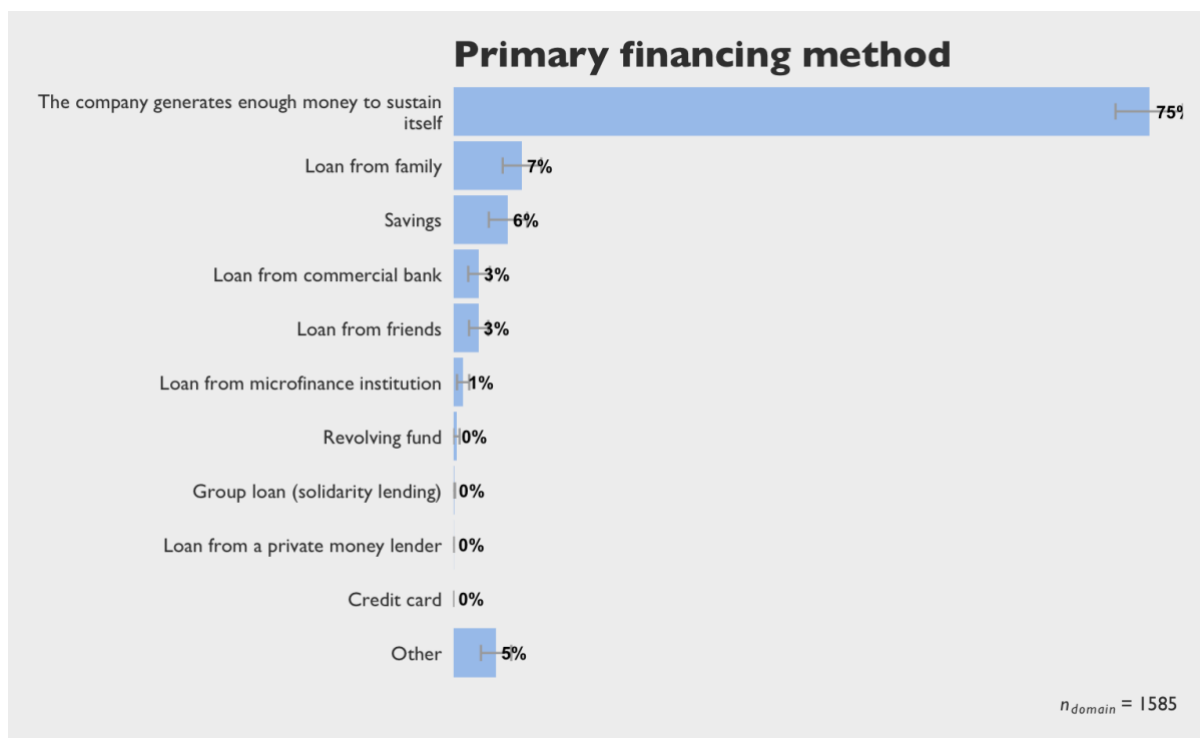


## ENTERPRISE FINANCING

Questions regarding access to finance were also adjusted between 2014-2015 and 2018, addressing firm behavior over the last five years instead of the last 12 months, wherever relevant. Additional questions were also added to this section to better understand borrowing behavior.

The majority of all MSEs reported that the establishment generates enough revenue to sustain their business without any external support (71 percent, compared to 75 percent in 2014-2015). 7 percent of MSEs cited that they financed their business through a loan borrowed from their family, while about 6 percent financed it from their savings. Only 3 percent finance their business through a loan from a commercial bank.

Only 7 percent of MSEs applied for loans or support from financial institutions/banks, a reduction from 9.4 percent in 2014-2015. And when they were asked about the frequency of loan applications, the majority reported that they applied for the loans two times or less (85 percent), while only 13 percent of them applied for loans between three and six times.



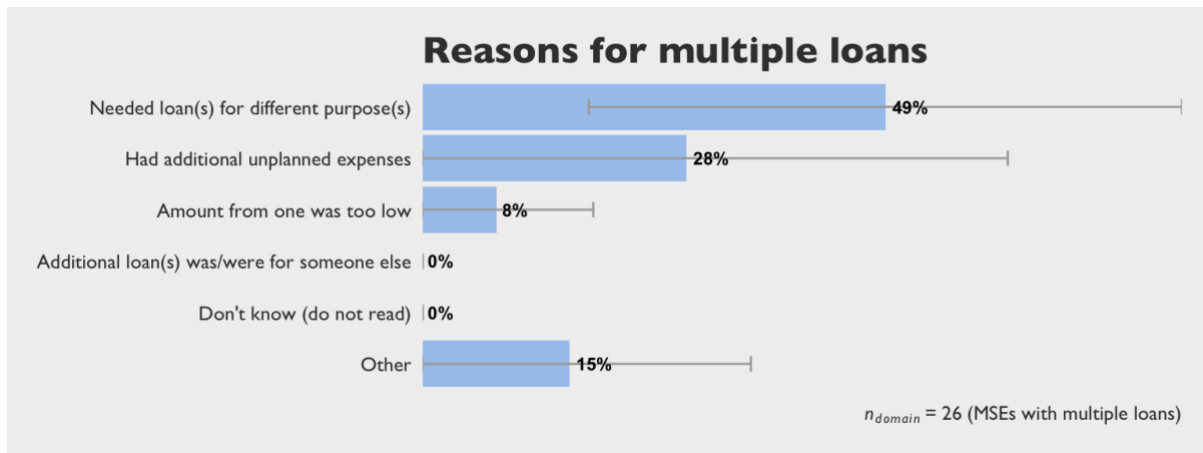
Of those who applied for loans, about 49 percent of them reported that they applied for it from a specific institution because it offered them the best financial plans or prospect. 17 percent stated that the institution they applied to was the only available option in the market. 15 percent of them stated that the potential institution was the best available strategic option. Of those who did not apply for loans or receive any kind of support from a financial institution, their main reasons were: unwillingness to take out a loan (38 percent), religious doctrine and teachings prohibiting loans (25 percent), and fear of inability to repay a loan (11 percent).

Of those who applied for loans but whose applications were not approved, the majority were not able or willing to share the reasons why. 8 percent reported that their loan was not approved because they did not have the required guarantor or collateral, down from nearly 32 percent in 2014-2015, and about 7 percent cited that the justification for the loan application was not acceptable to the financial institution, down from 12 percent in 2014-2015.

For those MSEs who did receive loans from financial institutions, the largest proportion typically used it to improve or upgrade their products for expansion (24 percent, compared to 22 percent in 2014-2015), while 21 percent used the additional resources for working capital—to purchase materials or goods. This number was down slightly from 27 percent in 2014-2015. About 16 percent used the financing to add new products or business activities to the current business line, down from 21 percent in 2014-2015, while 12 percent used the new loan to pay off prior debt.

## REPAYMENT OF LOANS

61 percent of loan applicants had one or more outstanding loans. Of these, the majority had one to two outstanding loans (94 percent), while about 6 percent of them had 3 outstanding loans.

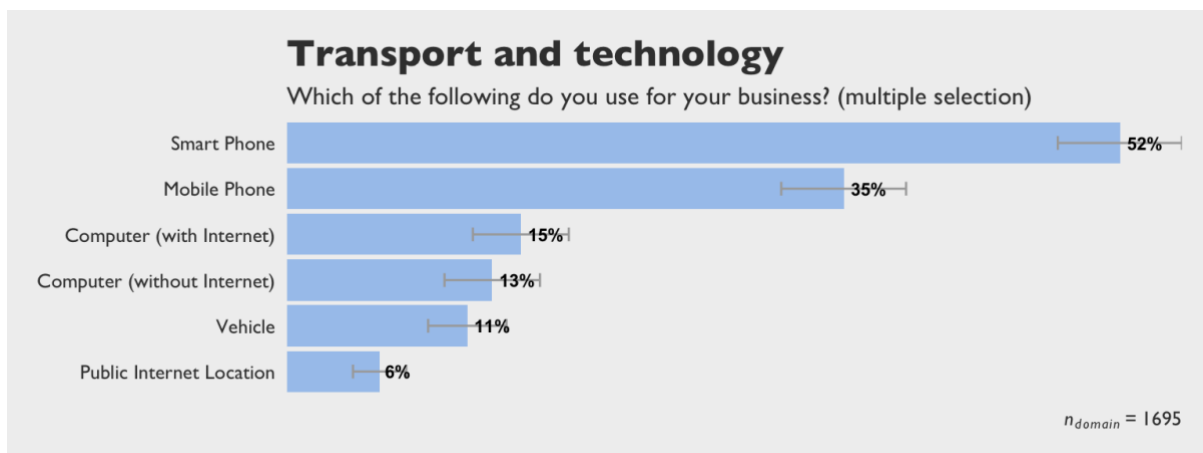


## FINANCIAL SERVICES

Only about 12 percent of MSEs have a bank account, which they used for: 1) ATM (53 percent), 2) In-branch services (41 percent), and 3) Credit/Debit-card – Point of sale services (23 percent). 81 percent of respondents are unaware of mobile financial services, while 10 percent of them were aware of “Zain cash”, 7 percent of “Dinarak”, and 7 percent of “eFawateercom” (7 percent). The MSEs learned about these financial services from the new channels of communication primarily through internet and social media.

## SYSTEMS, PROCESSES, AND NETWORKS

Smart phones and other typical mobile phones are regularly used as part of their business operations by 52 percent and 35 percent of all the MSEs respectively. One sixth of businesses use computers. 17 percent of all the MSEs use social media channels as part of their business operations, and 14 of the whole MSEs use it for personal use only. Only roughly one in ten MSEs regularly use vehicles in their business operations.



## FINANCIAL PLANNING

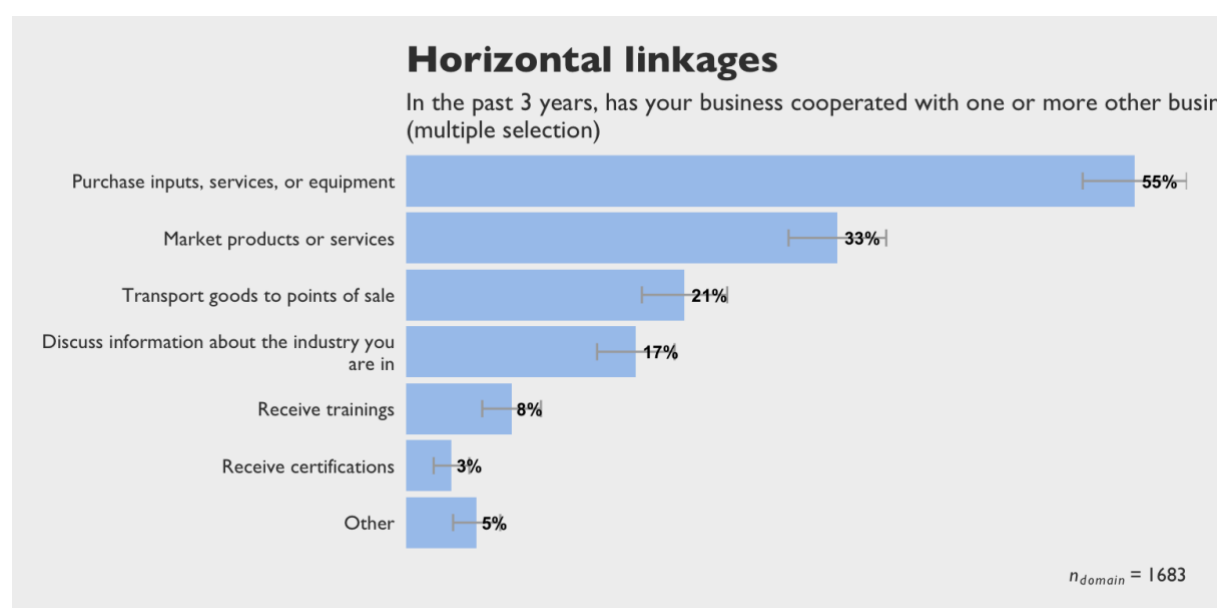
The majority of all the MSEs record their finances manually (74 percent), and about 17 percent of them did not record their finances at all. Only 5 percent record their finances digitally. About 35 percent of all the MSEs compared or examined their performance against their

business goals. These numbers do not differ substantively between those firms that are registered or unregistered.

## MEMBERSHIPS & ACCESS TO NETWORKS

Over half of all the MSEs purchased inputs, services, or equipment from one or more businesses during the past 3 years (54 percent), about 32 percent of them cooperated with other businesses in developing market products or services, and 21 percent of them depended upon other businesses to transport their goods to points of sale. Only 8 percent of all the MSEs receive trainings, and 3 percent reported the cooperation is in receiving certifications such as ISO, and so-forth.

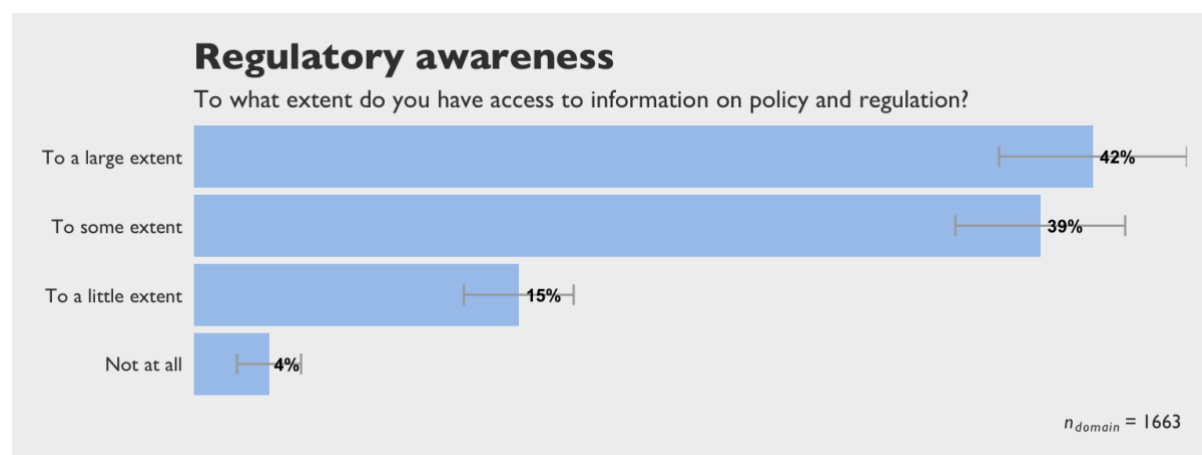
Very few MSEs are part of associations, and their proportion does not surpass 3 percent, with the exception of membership in the Chambers of Commerce (18 percent), Chambers of Industry (18 percent), and Formal trade, business, or professional association (10 percent). Fewer than half the MSEs had the opportunity to meet with mayor or municipal council for their business, although 13 percent did not disclose the information about their participation in formal meetings with mayor or municipal council. The majority of all the MSEs are not familiar with the Local Development Unit and the services that LDUs provide (83 percent). Of the 14 percent that are aware of the unit and its services, they recommended the unit on average at 5.73 on a scale of 1 – 10.



## AWARENESS OF POLICY, REGULATIONS, AND RESOURCES

While 30% of MSEs felt they did not know about the laws and regulations that governed their own establishment, 81 percent did say they felt had access to information on policy and regulation at least to some extent. MSEs reported being most likely go to a lawyer to find out more about a policy matter (24 percent), while about 23 percent said they would rely on family and friends, and 19 percent would turn to their municipality for information. Only 7 percent reported relying on digital sources to find out about information about the policy-related issues. Furthermore, 16 percent reported that they did not have any use for policy-oriented information.

As a signature intervention of USAID LENS was its work on facilitating the home-based business (HBB) policy report, the project sought to learn how many MSEs were familiar with it. When asked, 14 of respondents had heard about the change—not massive, but insignificant either for a regulatory matter. Those that knew about the reform had learned about it from television (41 percent), internet (28 percent), radio (21 percent), and PR events (16 percent).



The survey further inquired about respondent's awareness and use of three separate publications produced by USAID LENS, including the *Startup Guide*, the *Legal Awareness Kit*, and the *MSE toolkit*. While 6 percent of all MSEs reported being familiar with the toolkit, in all, less than a percent of all MSEs reported having used it. Roughly 3% of MSEs reported knowing about the *Legal Awareness Kit*, though similarly, less than one percent had reported using it. The *Startup Guide* had a higher incidence of MSEs who reported using the resource, at 3.4%. Those who had used typically reported having learned about it from TV, radio, and internet, rather than from ministries or chambers of commerce/industry.