

SAWTOUNA

Sawtouna is Jordan's first institutional public policy advocacy effort focused on improving the regulatory environment for Small/Medium Enterprises and Start-ups through legislative and structural reforms. "Sawtouna" strives to reduce the burdens associated to doing business in Jordan, and to make grassroots entrepreneurship commonplace in the Jordanian business environment. The project works on eliminating the exclusivity of starting a business; making entrepreneurship an accessible concept to all socio-economic strata. Our efforts for this year created a solid, reputable, and effective advocacy body for SMEs and Entrepreneurs.

Simplifying Licensing and Registration

Why should we make starting a business easy? The easiest answer is that burdensome entry procedures lead entrepreneurs into the informal economy where businesses do not pay taxes, and do not experience any of the benefits that regulations are supposed to provide. Workers at these companies do not have health insurance, and are not registered for social security. These businesses will not have access to bank loans, or be able to use the judicial system to resolve disputes.

Women, on average, constitute 75% of workers in the informal sector, and so are an especially sensitive target group. The informal economy increases corruption as government employees have many opportunities to receive bribes.

Licensing and registering a business is the first step to having your own business, all types of companies, whether limited liability, public shareholding, or sole ownership must at a minimum receive a certificate of incorporation from the Ministry of Industry and Trade, a registration certificate from the Income and Taxation Department, and a Career's license from the Municipality.

These licensing and registration can take anywhere from 3 days to 6 months and costing each year on average between JD 50 and JD 300 for a company to license a business. The government of Jordan has been working to reduce these requirements over the past several years, but compared to countries such as Australia and Canada which require only 2 procedures to register a business, there is still a long way to go.

According to Doing Business Report, it is clear that Jordan has taken long strides in making it easier to start a business. The Ministry of Industry and Trade worked to simplify company registration procedures, and launched a One-Stop-Shop in 2004 significantly reducing the time it takes to start a business.

At present, the company registration process is automated and information and forms can be accessed over the Internet. While the Ministry anticipates accepting registration forms over the internet, the investor is still required to sign an application to make the registration legally binding and final since there is no official body in Jordan authorized to authenticate electronic signatures.

Within the registration and licensing process, not all sectors area uniform. Certain industries only require registration at the Ministry of Industry and Trade, the Municipality, and the Tax Department. Others require licenses from the Ministry of the Environment, the Ministry of Education, and many others.

Issues with Licensing

Based on the legislation, and the focus groups, several major challenges are seen in the steps:

(i) Absence of clear guidance – it is often difficult to map out and understand the multitude of steps that must be completed in order to license a business. Certain professional associations have clear guidelines that are not published on the internet, or must be purchased. Ministries often do not have access to these guidelines to publish or provide entrepreneurs.

(ii) Excessive time to obtain a license – Similar to the registration process, inspections and pre-approvals from Ministries are often the most significant cause for delay. Committees and inspections required take up the most time before a business can be licensed. This is especially the case from the Ministry of Environment.

(iii) Red tape and illogical requirements – Certain sectors have requirements on the owners of the business (such as health certificates, or industry-specific experience) so there is confusion between the investor and the operators of the business. For example, the owner of a travel agency must have had 2 years experience in the business.

(iv) Lack of coordination – Between government departments there is no coordination. Copies of forms are not transferred between organizations but are rather the responsibility of the entrepreneur. The Jordan Investment Board has a One-Stop-Shop that includes representatives from a variety of organizations with two main caveats that entrepreneurs during discussions complained about:

- (i) they are not delegated with the proper authority from their institutions and so are not authorized to make decisions on-the-spot and must return to their Ministries
- (ii) Many entrepreneurs believe that the JIB is only for foreign investors – when in reality it is for both Jordanian and Foreign investors. The OSS at JIB on average takes 21.8 days to register a company. The OSS that is located in the Ministry of Industry and Trade only deals with registration and not licensing, and the name of both the MIT and JIB OSS causes some confusion – since only registration can be completed at the Ministry.

(v) Irrelevant Costs from Association Memberships– While licensing costs are often manageable, certain professional associations require membership such as the Chamber

of Industry, and the Chamber of Commerce that focus group attendees feel does not provide adequate services to justify the costs. Membership of a chamber of commerce or a professional association is a pre-condition for the business to be licensed by a municipality. Membership fees for a chamber represent half of the cost of establishing a new business. Membership in the Chamber of Industry and Trade, and the Chamber of Commerce is viewed as an unnecessary burden to some small and micro-entrepreneurs who comprise over 75% of the membership. Most agreed that membership should be optional and not required by the municipality.

The optional membership (voluntary) is a widely spread act all over the world. Recently, many countries are reforming their legislation to make the Chambers membership a voluntary activity that does not impact the association of the business (Slovenia recently In May 2006, the Slovenian parliament adopted the new Law on Chambers of Commerce and Industry (LCCI). According to the new LCCI, membership of the Chamber of Commerce and Industry of Slovenia will no longer be compulsory but will become voluntary for companies). There is unanimous agreement that the Chamber of Trade and Industry, and the Chamber of Commerce provide few to no services to the small and micro enterprise sector, and that some of the entrepreneurs, if given the choice would not become members. Specifically, entrepreneurs acknowledged that if they were involved in the import or export sectors, that the Chambers provided letters of introduction to foreign embassies, or certificates of origin to exporters. A percentage of small and micro enterprises are not in these sectors however, and derive no visible benefit from their membership.

Introduce temporary business licenses

Temporary business licenses, let entrepreneurs get on with operating businesses in standard commercial and manufacturing sectors before the final license is approved. This would require changes of the relevant regulations at the municipal level for licenses and inspections. Countries around the world with the fastest and cheapest procedures do not require licenses and inspections for new businesses before they start operations. Rather they require licenses only for sector specific activities (e.g. liquor store) once the business has started. Algeria, France and Honduras allow this.

While registering for municipal taxes the entrepreneur could also receive a temporary operations license. This license would last 6 months and be replaced by a regular one on inspection by the municipal authority. With this simple reform, starting a business would take weeks, not months. In ASEZA this is already the case. Periodic, and generally random, verification takes place after the business has begun to operate. Exceptions to this occur when public safety, often food production or service, are involved, and preapprovals may be deemed necessary.

The Ministry of Environment creates its regulations based on a mandate in the Environmental Protection Law No. 1 2003 that delegates authority to the Ministry to set

environmental policy. Article 17A grants the rights for instructions to be issued regarding industrial projects. Currently the Ministry reviews all residential, commercial, industrial and similar projects into categories to decide whether an Environmental Impact Assessment is required. Then the investor prepares an EIA if necessary and the committee then reviews it and issues a decision.

The Environmental Impact Assessment Regulation can be changed by a decision through the Council of Ministers and does not need parliament's approval. There is no minimum meeting schedule for the committee required to review the projects from the Ministry of Environment, and there have often been complaints of this being a lengthy process.

Action: Currently the Companies Control Directorate has a Committee for Reviewing the Companies Law No. 22 for 1997. *Sawtouna* should formally request that the Minister places them on the committee as a civil society voice. Through this committee such actions as temporary licenses can be discussed.

Action: Lobby with the Minister of Industry and Trade and the Minister of the Environment to change Article 4 of the Environmental Impact Assessment Regulation No. 37 for the year 2005 to allow for provisional or temporary licensing for projects before full approval is given for the EIA.

Action: Lobby with the Minister of Environment to create a technical committee to define in detail clear criteria – to be made available to the public - for screening projects to define EIA requirements as stated in Article 8 of the Regulation No. 37 for the year 2005.

Sawtouna's Events

Our aim from Sawtouna's events is to tie each of the panel member's experiences to the best ways to advocate with government for change. The four topics Sawtouna is working on this year will be used as examples to show the best ways to advocate with government. The four topics Sawtouna is working on are stated below for reference,

Four Topics selected for this year:

1. Introducing temporary business licenses: Temporary business licenses let entrepreneurs get on with operating businesses in standard commercial and manufacturing sectors before the final license is approved
2. Enable electronic registration: In public administration, technology can create a unified database of business information shared across municipal offices and government agencies.
3. Impose a "silence is consent" rule: In Jordan if the applicant does not hear back from the Ministry the license is considered denied; the exact opposite of the "silence is consent" rule considered international best practice.

4. Remove Owner requirements: Certain industries require the existence of technical skills by the owner, rather than the technical operators of the business.

