



The 6th meeting of the Arab Techno parks and Incubators Network members , Tunis, 24 December 2019
&
the workshop for Techno parks and Incubators' Managers, Tunis - Tunisia, 25 December 2019

Jordan Start-ups Ecosystem

Place: Tunisia

Date:

Presenter : Sharaf Obeidat



Jordan Private Sector

Overall, Jordan's private sector is defined by a small number of large firms, and a very large number of very small ones, with relatively few medium-sized companies which could act as a conduit between the two extremes. Economic activity in Gross Domestic Product (GDP) terms is dominated by large firms: although enterprises employing fewer than 10 people make up more than 95% of all registered companies, they have little contribution of Gross National Product.

SMEs account for roughly 40% of Jordan's total nominal GDP, with small businesses making up 98% of all operational companies in the kingdom. They also provide employment for around 71% of workers based in the private sector, according to OECD figures and account for 45% of total exports.

The relatively small scale of the economy means that few large corporate enterprises are present. The last official census in 2011 found that 98% of all enterprises are MSMEs, 66 % of which have less than 19 employees. They employ 71% of the total private sector labour force (SMEs 33% and microenterprises 39%).

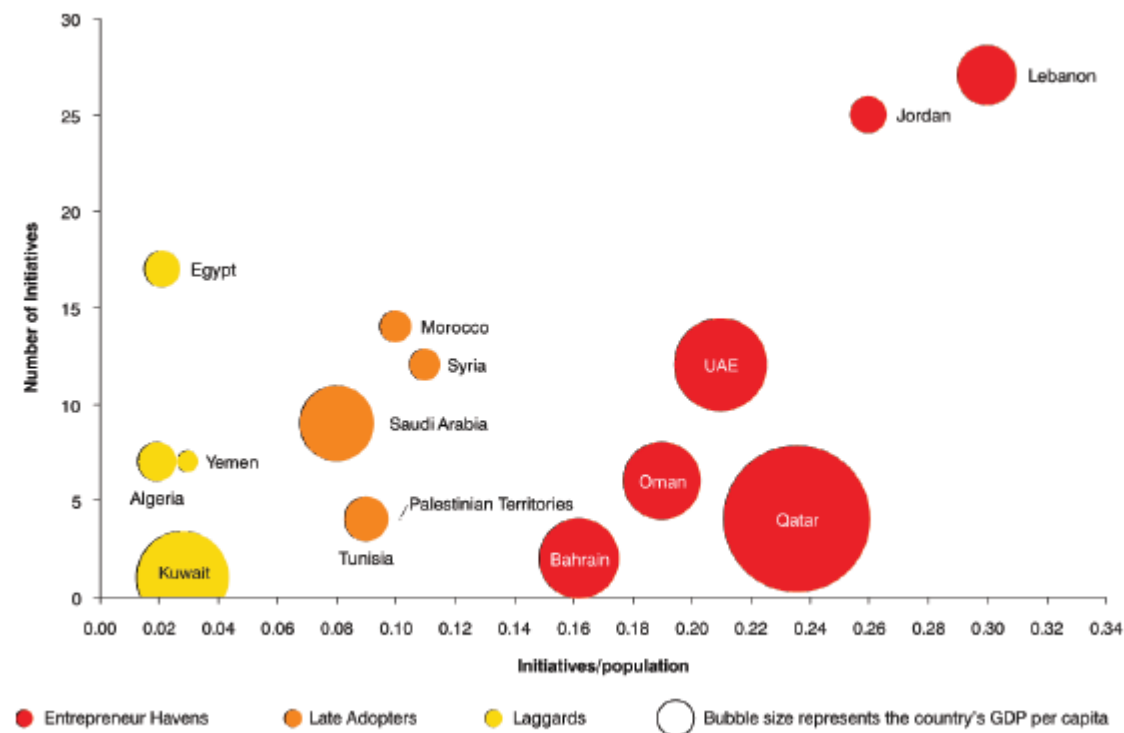
Start up definition in Jordan

- General definition for a startup in Jordan: A new typically small firm, at its early phase of operation, which seeks a sustainable, scalable, profitable and potentially high growth business model.
- Operationalized definition for a start-up in Jordan: A legally independent active company, not older than ten years since formal registration, and operating in one or more high potential / growth sectors.
- Operationalized definition of technology and technology-based start-ups (Technology-based start-ups, TBS): A knowledge-based, legally independent active company, not older than ten years since its formal registration, and operating in one or more ICT commodity or service sectors

Type of enterprise	Employees	Turnover
Micro	1 to 4	≤ JOD 100 000 (EUR 115 438)
Small	5 to 19	≤ JOD 1 m (EUR 1 154 382)
Medium	20 to 99	≤ JOD 5 m (EUR 5 771 912)

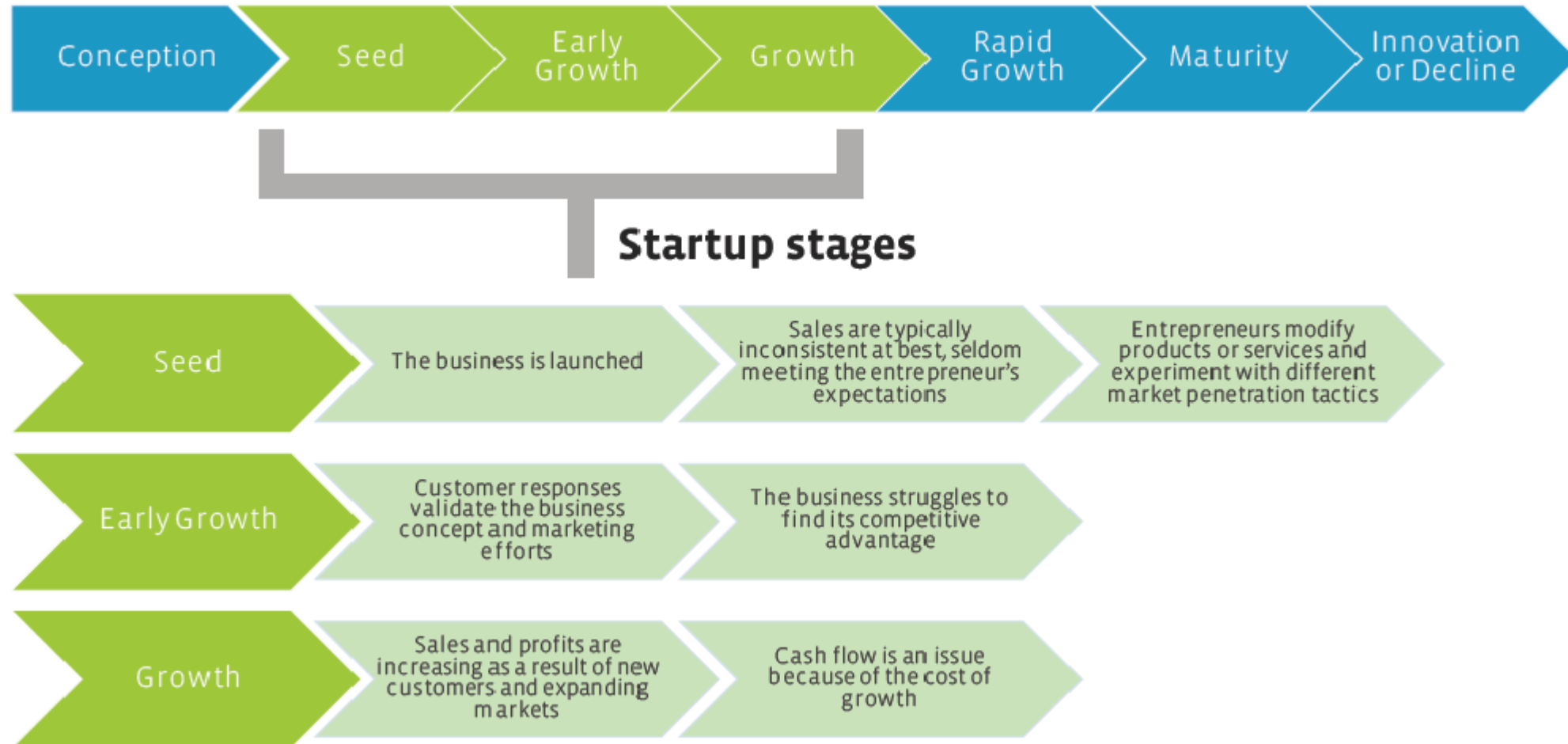
Status Quo in Jordan

Jordan has always been viewed as a country with high levels of entrepreneurial activity. Several dedicated start-up support programs (e.g. in incubation, mentoring and Investment) were launched already in the late 1980s and 1990s before many other countries in the region started establishing such programs.



Number of entrepreneurial initiatives in the MENA Region by Country (1974 – 2010), Booz & Company

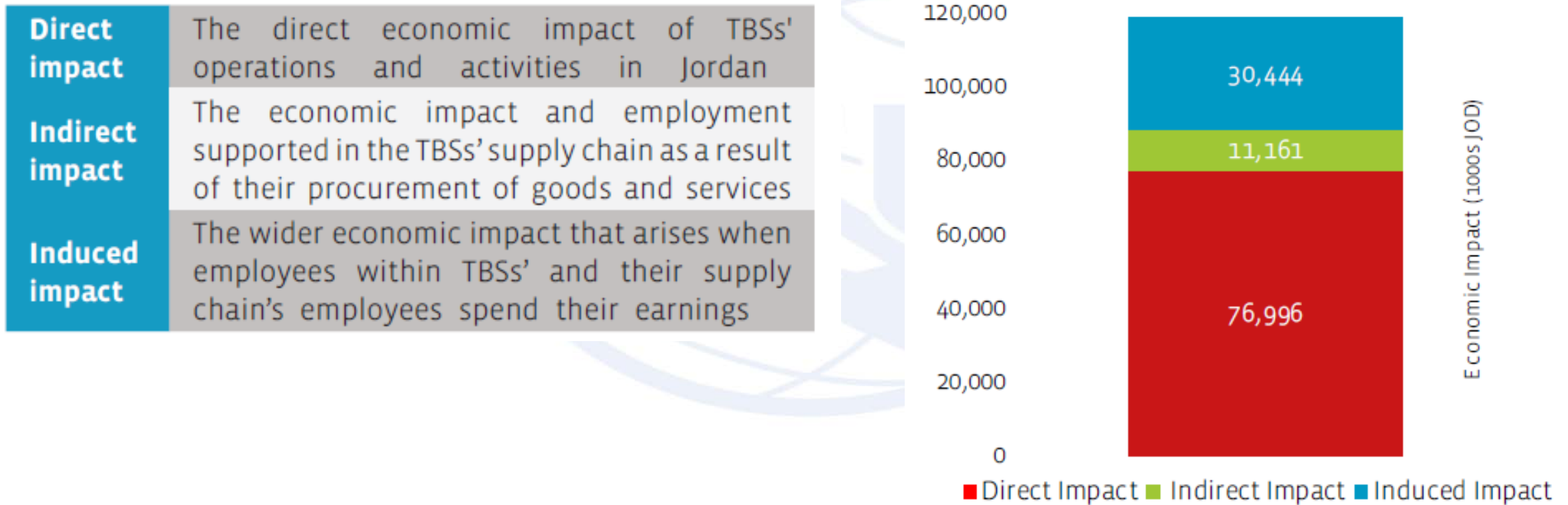
Start up Lifecycle



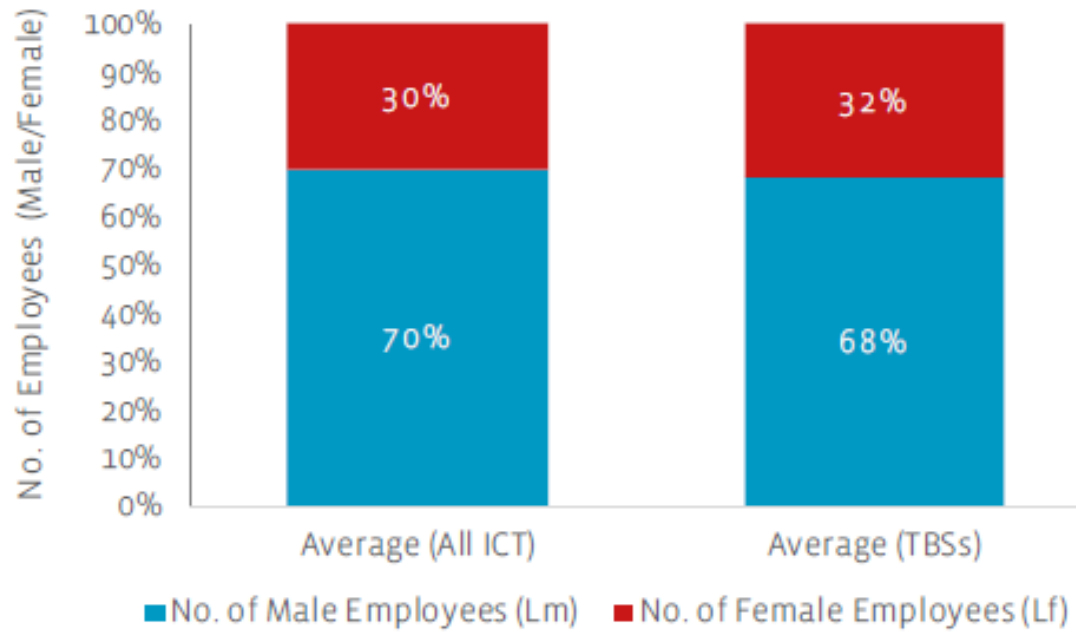
Tech Start-ups Vs Tech-Enabled Start-ups

	Tech startup	Tech-enabled startup
Offering	Develops new technology-based products, tools, or platforms to provide a new or improved offering, could be B2B or B2C	Utilizes/Leverages already developed technologies to provide a new or improved offering, usually B2C
Product development activities	Strong focus	Limited activities, focused mainly on customizing existing technologies to fit the offering requirements
Duration	Longer cycle as more time is spent on R&D activities	Shorter cycle as it takes less time to start providing products and services
Business Model	Business model is entirely dependent on the development of unique (novel) and valuable technology products	Business model is enabled and significantly improved by using technology, and overall performance will be severely impacted if technology is not used
Jordanian Case Studies in this report	DARB, Mellbell, ArabiaWeather, MAWDOO3	Mrayti

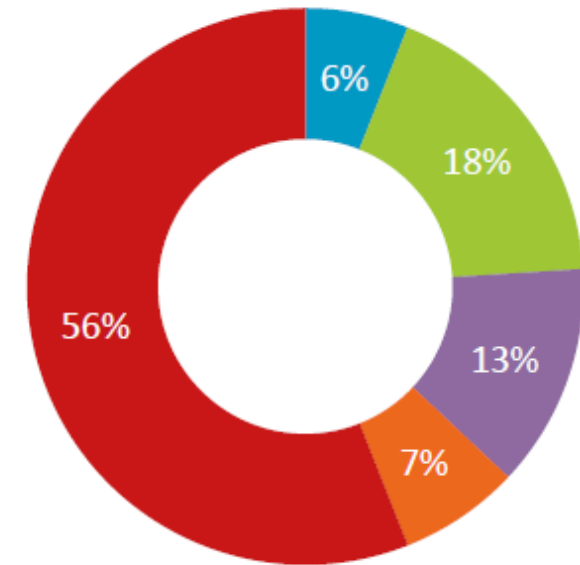
ICT start-ups Economic Impact Model



Employment

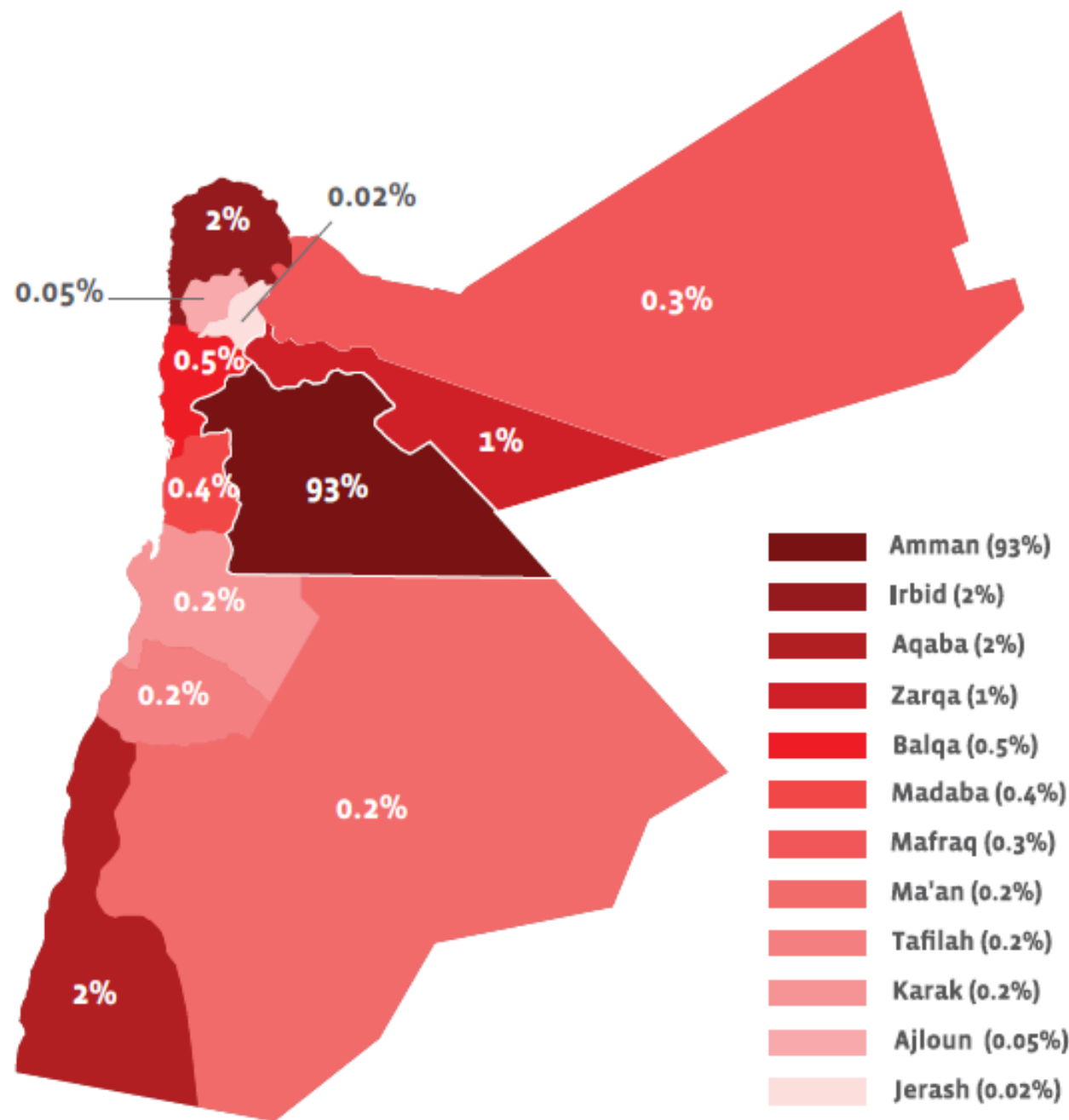


No. of Employees, IMPACT MENA, based on Int@j firm level database



1-4 5-19 20-49 50-99 100-

Share of employment for ICT Sector, DOS data



Understanding the BDS and Finance Needs for MSMEs

Type of MSME	Characteristics	Financial services needs	BDS needs
Necessity-oriented micro enterprises	Pursue self-employment out of necessity to supplement the family income or for their-own survival versus the pursuit of an opportunity. These are mainly home-based businesses in the food processing sector.	<ul style="list-style-type: none"> • Non-collateralised working capital loans • Longer term micro-finance loans for investment in small scale equipment, without the need for collateral requirements • Basic financial literacy to understand the types of finance available. • Access to Nano-loans (short 1-2 days finance) for primarily working capital: In the region and globally this has been through Fintech solutions which primarily analyse device and behavioural data (social connections, texts and calls, merchant transactions, app usage, and personal identifiers) to make real time credit decisions. 	<ul style="list-style-type: none"> • Basic business management skills • Basic systems to improve efficiency e.g. book keeping • Buyer identification, sales and distribution • Support to meet formalisation requirements • Information regarding registration, licensing and tax • Skills development, largely focused on technical aspects of the business offering.

Understanding the BDS and Finance Needs for MSMEs

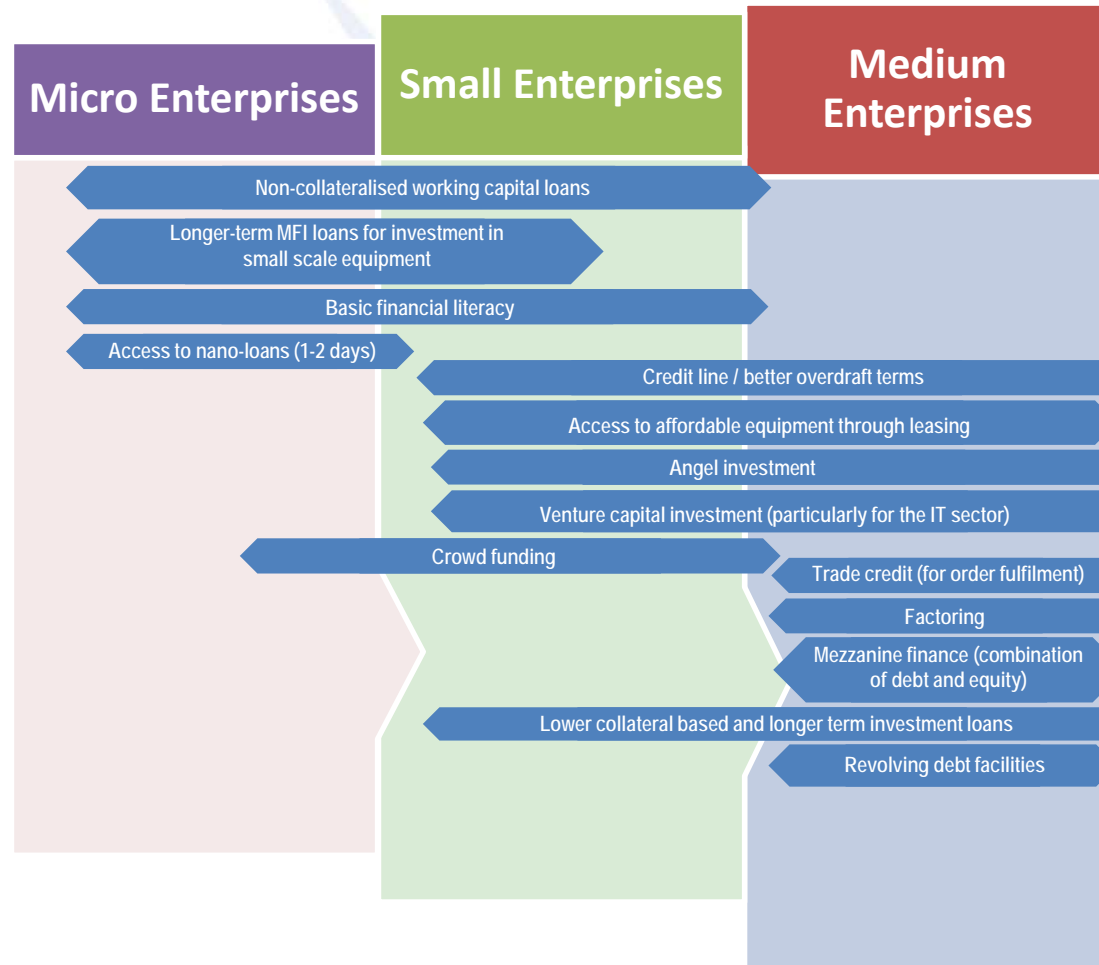
Type of MSME	Characteristics	Financial services needs	BDS needs
Growth-oriented MSMEs	Perceive an economic opportunity to expand their client pool and grow market share. Willing to commit resources and take risk in order to grow.	<ul style="list-style-type: none"> • Credit line / better overdraft terms: This is critically important for businesses in the food processing and tourism sectors that face sudden demand for finance, especially for order fulfilment • Access to affordable equipment through leasing • Equity investment – especially for firms requiring investment and business building skills which will take a longer period of time to mature, when revenues are often not stable • Debt and equity for high potential growth firms – particularly in the IT sector, with capacity for high returns in a short time frame 	<ul style="list-style-type: none"> • Support to meet formalisation requirements. • Sales and marketing: new product development, branding, trade shows, e-commerce, certifications • Business processes: legal, accounting and payroll, etc. • Skills development, both technical and increasingly managerial

Understanding the BDS and Finance Needs for MSMEs

Type of MSME	Characteristics	Financial services needs	BDS needs
Established industry SMEs	Have an established customer base but are looking to expand their geographical area or branch out to offer new products to its customers	<ul style="list-style-type: none"> • Trade credit – particularly for order fulfilment to meet the needs of companies at the “top of the value chain”. • Invoice discounting – primarily aimed at companies with solid base of customers but are facing cash crunch, particularly working capital finance • Cheaper combinations of debt and equity primarily targeted at young high-growth firms seeking expansion capital and less dilution of control • Lower collateral based and longer term investment loans from primarily the banking sector • Revolving debt facilities – that is payments of borrowings based on revenues of the firm. Often these are not collateralised but payments and particularly interest payments are based on the revenues of the company 	<ul style="list-style-type: none"> • New product development, business intelligence, export requirements, data consulting, trade shows, e-commerce • Networking and innovation-seeking • ICT and digitalization • Lean manufacturing of processing and personnel e.g. middle-management to manage complex structures and systems efficiency (HR, accounting, legal, digital) • Enterprise risk management e.g. climate change

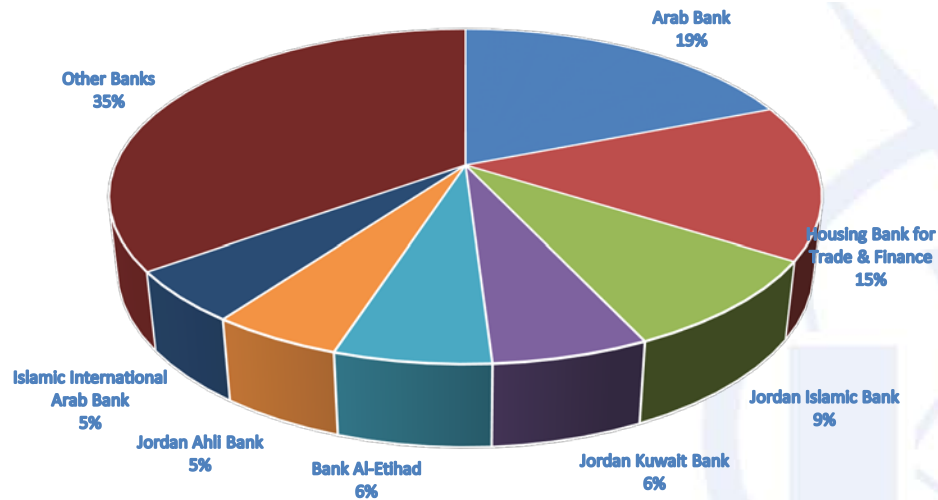


Financial instruments required to match needs



A Well Capitalised Banking Sector

Total assets within Jordan's banking sector

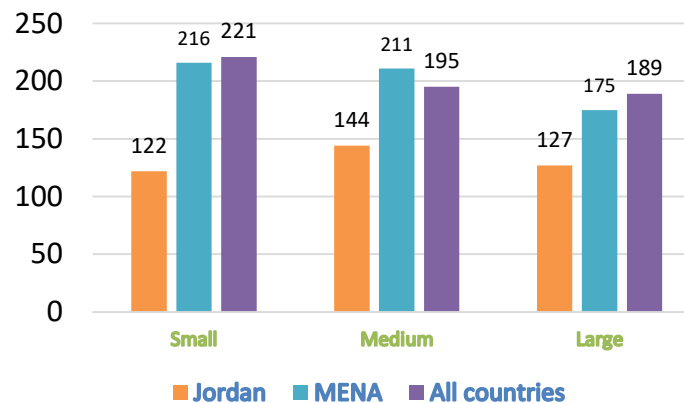


Source: Jordan Association of Bankers, 2018

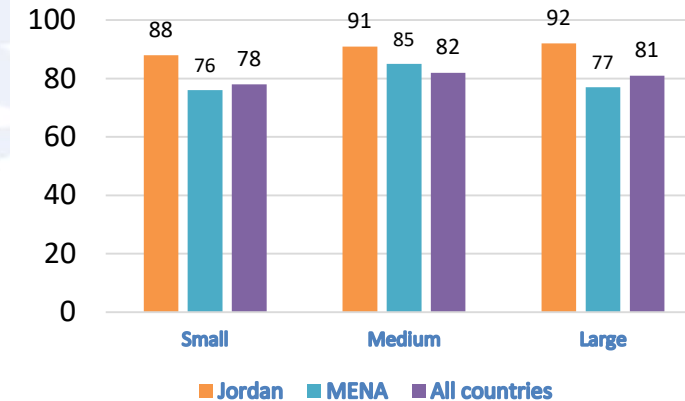
- Highly concentrated banking sector - three largest banks holding over 43% of banking assets

Collateral is required for a high proportion of bank loans to MSMEs, and is much higher than MENA or global averages.

% of SME loans requiring collateral



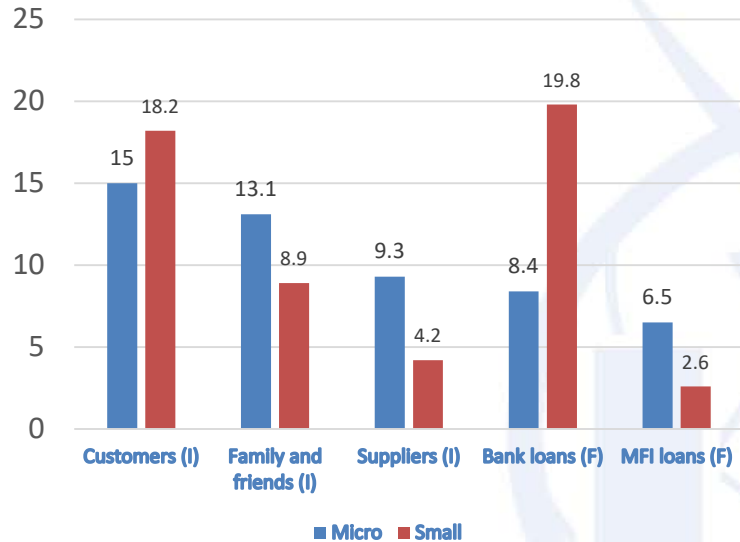
Value of collateral as % of loan amount



Source: World Bank Enterprise Survey, 2014

....which does not translate into MSME financing

Figure: Main financing source for MSMEs (% of enterprises)



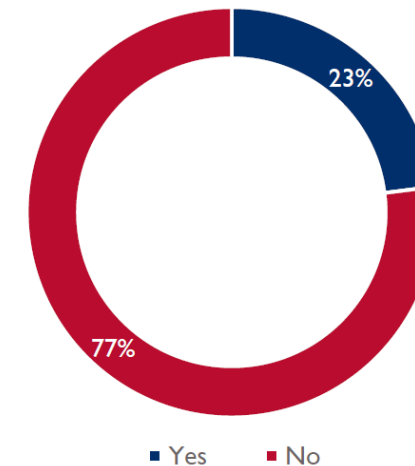
Source: EBRD, Note: (I)=informal source, (F)=formal source

- Less than 25% of all micro and small enterprises even bother to apply for a loan from the banking sector
- Based on discussions with banks the make up around 23% of credit applications

- Less than 20% of all small enterprises and only 8% of all micro enterprises are able to access finance from the banking sector

In the past 12 months have you applied for a loan for your enterprise/project or received financial support from a financial institution/bank?

(Shown: percent businesses surveyed n=1830)
All findings are rounded to the nearest percent

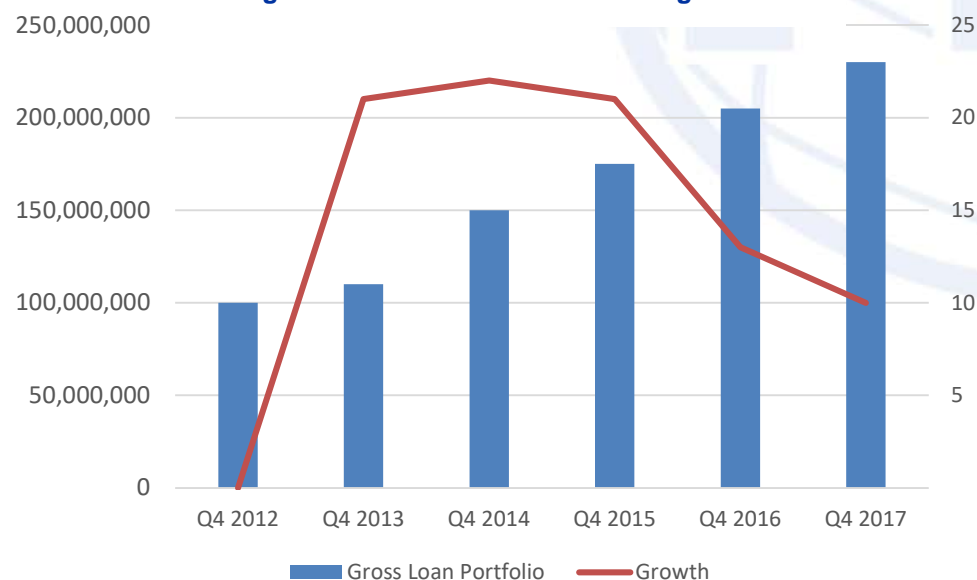


Jordan 2017 Private Sector Survey

The micro-finance sector remains small

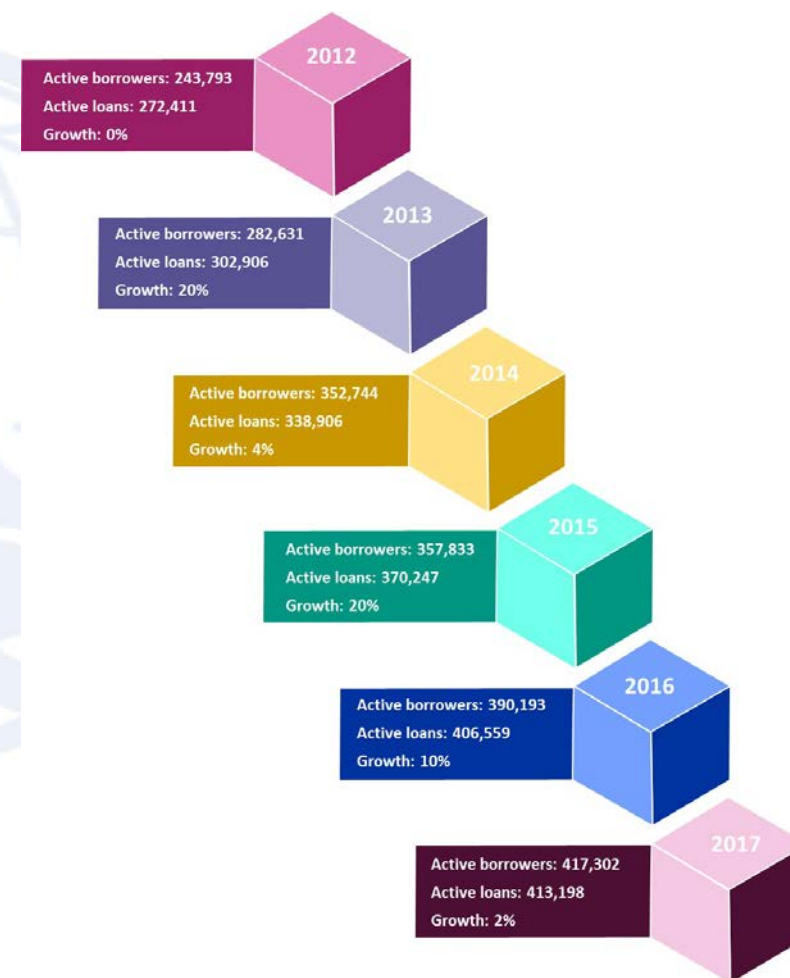
- Currently 11 microfinance institutions (MFIs) registered – 2 are Sharia compliant
- Estimated 20 plus institutions provide informal micro-finance credit but not registered with the Central Bank
- 186 branches in total - well distributed throughout the country (*less concentration Amman - 32% of MFI branches located in the capital compared to over 60% for bank branches*)
- Micro-finance sector remains small only 417,300 active borrowers (87% are estimated to be women) and a total credit portfolio of JD 227 million – represents less than 1% of GDP in 2017.

Figure: Gross Loan Portfolio through MFIs



Source: Tanmeyah Annual Report, 2017

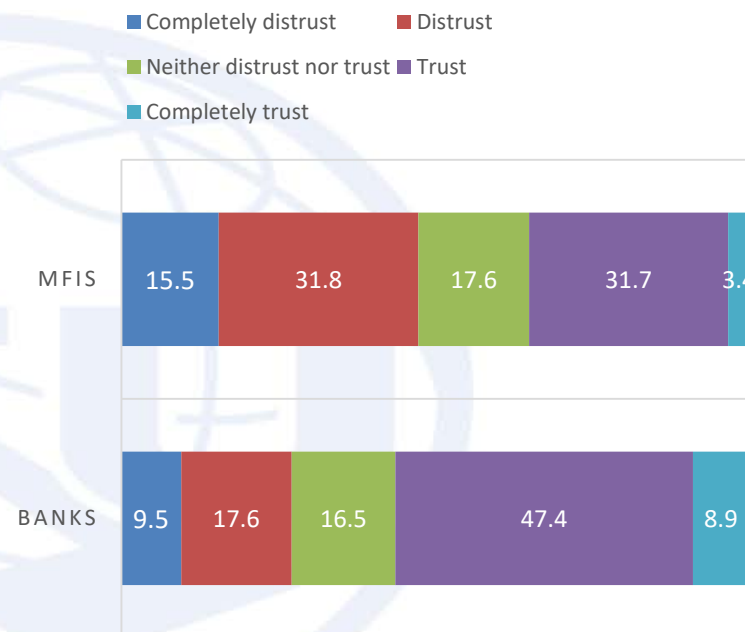
Figure : Growth of the Microfinance Sector 2012-2017



.... and is also struggling to deliver products that meet the needs of the MSE sector.

- *Average loan sizes have risen by 15% per annum over the past three years to JD 920*
- *Significant spread of interest charged depending on the size of loan:*
 - *Smaller loans (JD 200 – 500 loan mark) around 18%,*
 - *Larger JD 50-100,000 interest of around 9%.*
- *Lack of product variety: customisation based on different business types, capital structure, tenor, and cash-flow requirements or innovation not there*
- *MFIs credit committees are often unwilling to extend grace periods - lead to loan delinquency rates due to delays in structuring this debt.*
- *Limited capabilities to serve small enterprises: Lacks the credit policies, procedures and clearly identified credit limits to service this segment of the market.*

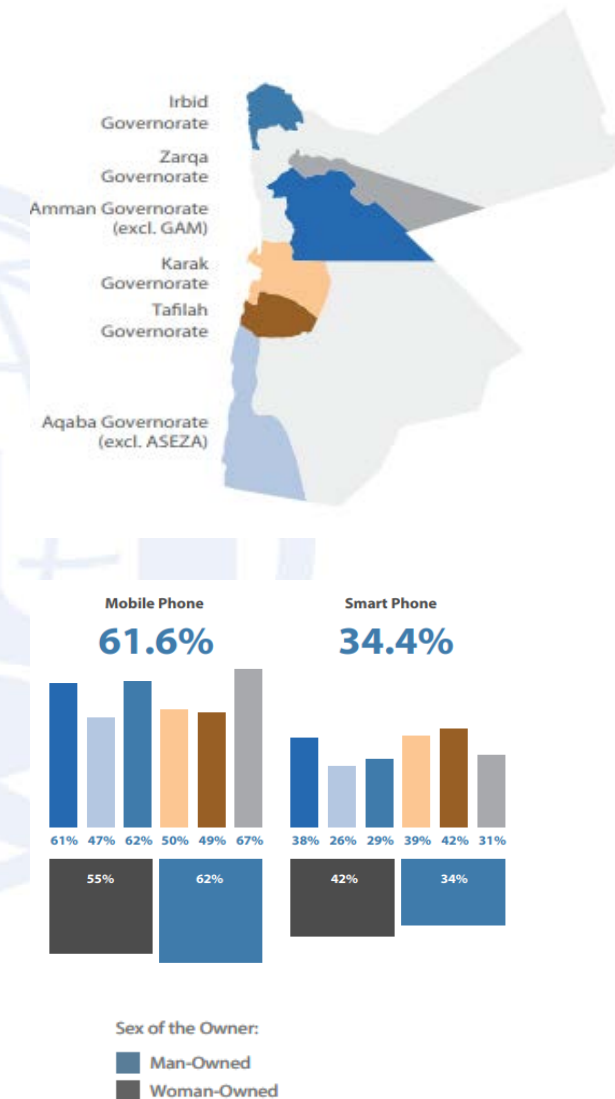
Figure: Trust in MFIs and banks (% of adults)



Non-bank financial sector

Mobile Financial Services

- Mobile banking is increasing from a small base – around 2.1% of adults were using mobile banking services at least once a year by 2017
- Number of POS (Point of Sale) terminals to enable digital transactions low at only 31,900 for the entire country – against over 150,000 formally registered MSMEs
- New mobile financial wallet services emerging:
 - *Zain Cash*
 - *Mahfazati*
 - *Dinarak*
 - *AyaPay*
- Ability to access non-collateralised and more digital enabled products, may offer a window of opportunity for MSME financing.

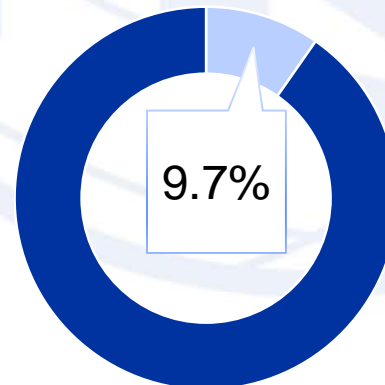


Source: USAID LENS, 2016

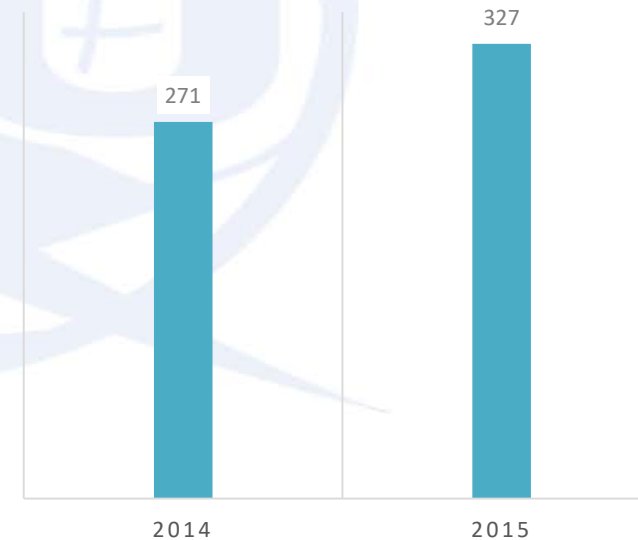
Leasing may provide opportunities for MSMEs

- Valuable tool for MSMEs access productive equipment to modernise their operations without the need for collateral
- Almost 10% of registered SMEs have used leasing products, and a further 20% were interested in taking it up in the future (*EBRD*)
- Equipment and machinery for MSMEs to improve productivity forms a tiny 5% of the market.
- High Non-performing loans (NPLs) for the few companies that have tried to introduce MSME machinery leasing products
- VAT is charged on equipment lease payments but not on loan payments making financing through leases relatively more expensive than traditional loan products

% of registered MSMEs that have used lease financing



Total assets of leasing companies (JD millions)



Source: EBRD MSME Survey, 2016

Private Equity and Venture Capital provide limited opportunities for MSMEs

- Private equity funds are of a scale that is not suitable for MSMEs - high transaction costs and detailed due diligence requirements which MSMEs struggle to meet
- Deal sizes on average well above US\$ 100,000 (although the smallest investments through funds such as Oasis 500 aimed at technology start-ups can go as low as US\$ 50,000)
- Limited scope for all but a handful of specialist technology focused MSMEs to benefit from this type of financing
- Equity is typically less used than debt instruments without collateral - ease of recovery of funds, and overcoming complexity around exiting equity positions within small but potentially profitable businesses
- Investors in funds are taxed twice, once at the fund level (through the investment vehicle that is making the investment) and then again upon receipt of profits at the investor level

Incubators and Accelerators provide opportunities to only few MSMEs

Incubators - *focused on very early stage businesses, providing services as well as smaller quantities of seed capital, in exchange for equity*

- Few outside of Amman:
 - ShamalStart in Irbid and Mafraq
 - TTI operates in Irbid and Kerak and targets women in ICT
- Truvalu one of the few to provide low quantities of debt with incubation but are generally the exception.
- The market crowded by donor financed initiatives that provide grants and in general distorts the market for finance and difficult to discover sustainable commercially led business models.

Accelerators - *set timeframe in which individual companies spend a set amount of time along with coaching, mentorship, and opening opportunities for new business relationships, as well as some seed investment*

- Most successful include Oasis500 supporting over 150 start-up MSMEs and raising over US\$ 8 million of seed investment.
- Typically companies survive and continue growing from seed to Series A stage of investment
- Struggled to find wider cross sections of MSMEs outside of the technology space and companies based around Amman.

Angel Investor Networks remain underdeveloped

- Individuals provide risk capital directly to small, private, often start-up firms
- Limited information about the market's size, scope, the type of firms that raise angel capital
- Angel investors in Jordan can be categorised:
 - Focused on technology companies and developing high return / growth strategies
 - High net worth individuals who invest in more mature, less risky companies, with a regular dividend with the possibility of a sale
- Angel investments are done on an ad-hoc basis and with limited partnerships with angel networks either in the region or internationally.
- Few initiatives emerging such as Beyond Capital and Jo-Angels
 - By 2017 Jo-Angels had around 10 investors (individuals and firms) with professional service providers such as legal and accounting firms – but mainly for Amman based firms in the cleanTech and IT sectors
- Minimum investments of above US\$ 50,000 for ideation stage and over US\$ 100,000 for the start-up stage.

What do we mean by Business Development

Category	Main activities
Market Access	<ul style="list-style-type: none"> • Marketing • Market linkages • Trade fairs and product exhibitions • Development of samples for buyers • Market information • Subcontracting and outsourcing • Marketing trips and meetings • Market research • Market space development • Showrooms • Packaging • Advertising
Infrastructure	<ul style="list-style-type: none"> • Storage and warehousing • Transport and delivery • Business incubators • Telecommunications • Courier • Money transfer • Information through print, radio, TV • Internet access • Computer services • Secretarial services
Policy/advocacy	<ul style="list-style-type: none"> • Training in policy/advocacy • Analysis and communication of policy constraints and opportunities • Direct advocacy on behalf of MSMEs • Sponsorship of conferences

BDS Definition continued

Category	Main activities
Business Linkages	<ul style="list-style-type: none"> • Linking MSMEs to input suppliers • Improving supplier's capacity to provide regular supply of quality inputs • Facilitating the establishment of bulk buying groups • Information on input supply sources
Training and technical assistance	<ul style="list-style-type: none"> • Mentoring • Feasibility studies and business plans • Exchange visits and business tours • Franchising • Management training • Technical training • Counselling / advisory services • Legal services • Financial and taxation advice • Accountancy and bookkeeping
Technology and product development	<ul style="list-style-type: none"> • Technology transfer / commercialisation • Linking MSMEs and technology suppliers • Facilitating technology procurement • Quality assurance programmes • Equipment leasing and rental • Design services • Export literacy

BDS actors in Jordan

Category of BDS provided	Main actors
Market Access	<ul style="list-style-type: none"> • Associations • Chambers • Consulting firms • Support projects and programmes
Infrastructure	<ul style="list-style-type: none"> • Associations • Donor and government projects • Consulting firms • Incubators and accelerators
Policy/advocacy	<ul style="list-style-type: none"> • Associations • Chambers • Consulting firms • Support projects and programmes
Business Linkages	<ul style="list-style-type: none"> • Associations • Support projects and programmes • Consulting firms • Incubators and accelerators
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MSMEs BDS needs

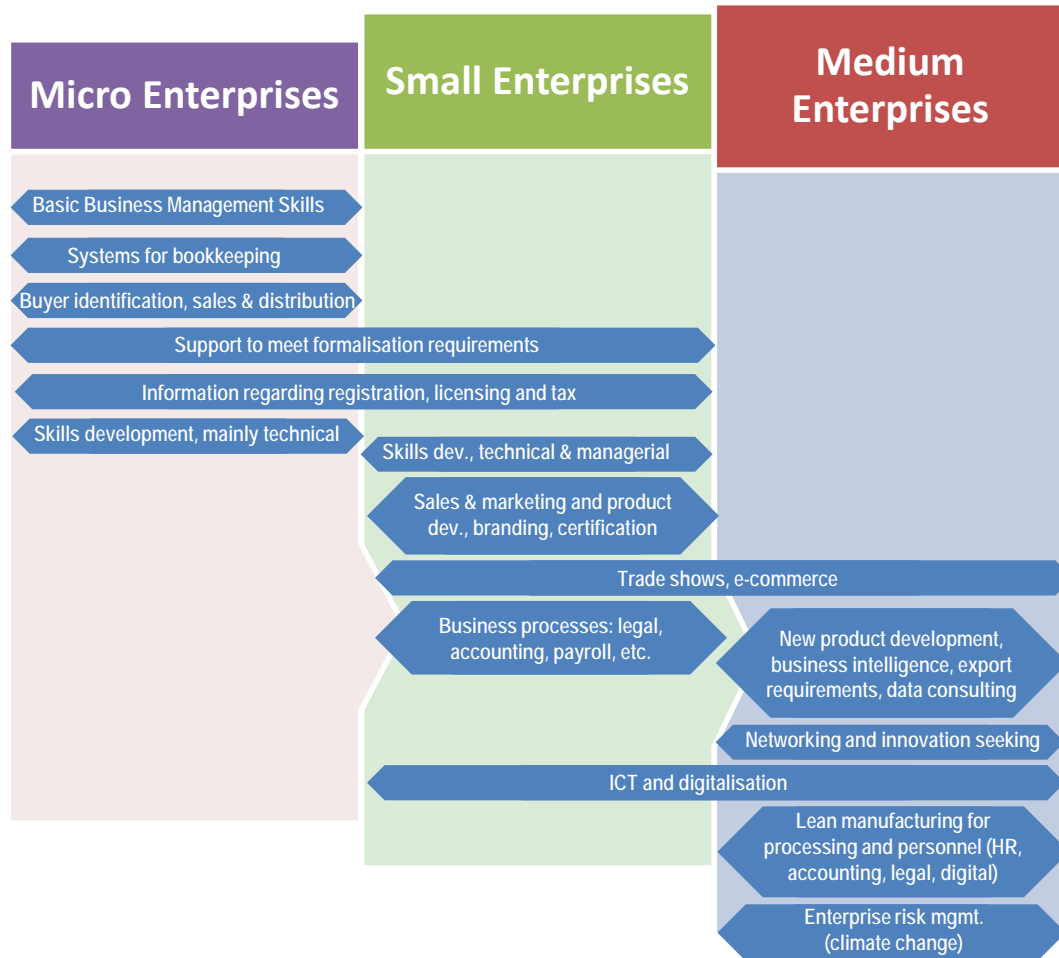
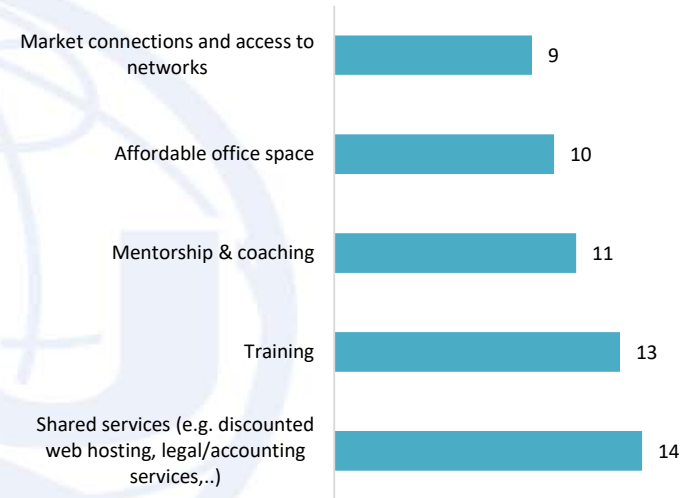


Figure: MSMEs perceived need for BDS



Source: EBRD MSME Survey, 2016

BDS supply meets limited need

- Low usage of BDS
 - Only about 5% of businesses in the micro segment receive any kind of business support (USAID LENS, 2016)
 - Less than 12% of micro businesses are part of an association (USAID LENS, 2016)
- BDS support increases with enterprise size
 - EBRD Survey (definition up to 250 staff) found that 40% of MSMEs use BDS (EBRD MSME Survey, 2016)
- Little understanding of what BDS is and how to get access to it
 - Big variation across sectors and enterprise size
- Limited use of paid services (low willingness to pay)
 - Heavy subsidy
 - Limited value seen by MSMEs

BDS for MSMEs driven by projects and programmes

- The fact that MSMEs are not receiving BDS does not mean that there is no need or demand for their services, but:
 - They are unable to pay for services directly or upfront
 - Other approaches have not been tried at scale
- Dependent on the sector, different options are available
 - Micro businesses, incl. HBBs, are more likely to receive BDS via donor programmes
 - In the ICT sector more likelihood for paid services but needs to be tailored
 - Tourism sector presents opportunity for commercial BDS, but most of what is available is funded through donors



Thank you