

The Adequacy of the Jordanian Regulations in Regulating the Operation of Small and Medium-Sized Enterprises

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Abstract

Small and medium-sized enterprises (SMEs) play a prominent role in the national economic growth and employment, provided they do not experience legal obstacles. This research aimed to investigate the adequacy of the current Jordanian legislation in promoting the operation of small and medium enterprises in Jordan and to identify its shortcomings, which may threaten their continuity. This study used a descriptive and analytical comparative legal approach to investigate global trends in small- and medium-sized company regulation, including the UN Commission on International Trade Law directives. The study also examined Jordanian legal frameworks, particularly those pertaining to companies and trade. The research discussed this issue in two sections. The main question was whether the laws regulating SMEs were adequate. The study concludes that although these projects can be partially covered by current legislation, their particularity and uniqueness necessitate the creation of special regulations that provide extra incentives and maintain their sustainability. As a result, the study suggests amending the Trade Registry System No. (130) of 1966 and the Jordanian Companies Law No. (22) of 1997, among other existing legal frameworks, and to dedicate special provisions that cater to the requirements for the success of these enterprises.

Keywords: *Small and Medium-Sized Enterprises, Implied Trust Company, Sole Proprietorship, Limited Liability Company, Private Shareholding Company, Trade Registry, Business Sector*

INTRODUCTION

Small and medium-sized enterprises have an integral and positive role in bolstering the national economy, as their effects are reflected in society economically and socially. Their huge impact manifests in local capital localization, new job opportunities, and indirect support to major projects. However, despite the widespread of small and medium enterprises in Jordan, they face many challenges centered around the legislative frameworks governing their operating system, as these problems directly affect their regulatory issues such as their registration and licensing, management mechanisms, financial support, financing, expansion strategies, distribution of profits and losses, etc.

Generally, an enterprise is a legal entity possessing the right to conduct business on its own, and it is mainly established to gain profits, for self-employment, to contribute to the process of sustainable economic development, or to help others through social institutions. It has revenues, assets, and employees below a certain threshold and incurs liabilities. Enterprises typically start as an idea that becomes a project and is formally recognized by following legal registration requirements. They may occasionally adopt a non-official structure that operates beyond government oversight. Countries commonly urge entrepreneurs to register their enterprises to officially avail themselves of various benefits. Enterprises generally face several challenges, some related to financial aspects such as funding and others to material aspects such as management, distribution of revenues, and risk bearing.

Most previous studies on SMEs in Jordan focus on the economic and developmental aspects of the enterprises in boosting the national economy and reducing unemployment. Still, their legal aspects have not been addressed yet. Al-Nsour (2015) claimed that SMEs play a moderate role in developing the local community level (76.67%) and the economy (87.33%) in Balqa Governorate. Al-Abdullah and Adous (2017) found that SMEs reduce poverty and unemployment to a medium degree. Samawi, Al-Bakhit, and Hiasat (2020) reported that these enterprises improved Jordanian female entrepreneurs' economic, social, educational, and cultural status.

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As for the Arab studies that dealt with the legal nature of SMEs, they discussed the economic aspects and the legal protection of issues related to intellectual property at the national and global levels. The lack of studies at the Jordanian or regional levels dealing with small project legal issues also raises a problem.

Research Problem

Small and medium-sized enterprises SMEs are widespread in Jordan, but most operate informally and randomly due to the lack of special texts regulating their work. Often, when trying to register these companies legally, they are subject to trade laws or corporate laws, even though they are small projects that have their privacy. Therefore, most entrepreneurs hesitate to register their enterprises or neglect their legal obligations. Therefore, it is necessary to raise this issue; special statutes must be created to protect SMEs and regulate their operation, especially since they have a prominent role in the national economy.

This research seeks to raise this problem by discussing and answering the following questions:

1. Is it possible to create legal frameworks that accommodate this specificity of SMEs? Or does the legislation in Jordan need an amendment to accommodate these enterprises?
2. What are the limits of liability the law imposes on the partner in small and medium enterprises for their debts and obligations?
3. What obstacles hinder the flourishing of small and medium enterprises in Jordan?

Research Importance

Given the illegal spread of some small and medium enterprises in Jordan and the call to legalize them, light must be shed on the SMEs' challenges. The importance of this research lies in the call for creating special laws that regulate the work of enterprises in terms of registration, licensing, management mechanisms, financial support, financing, expansion, distribution of revenues and losses, and liquidation. Establishing legal texts to regulate them will encourage many to establish these projects and will thus support the national economy.

Objectives

This study attempts to pinpoint some of Jordan's legislative shortfalls concerning small- and medium-sized enterprises regulations. In light of the international directives of the United Nations Committee on Trade Law, the legal texts governing the operations of SMEs in Jordan will be reviewed to assess their suitability, as well as potential obstacles for these projects. Additionally, these texts will be examined to determine the extent to which they are appropriate, given the unique nature of these enterprises' operations and the need for revisions that align with international laws.

METHODS

An analytical and descriptive comparative legal approach was used in this study since it best met the goals of the investigation, especially when it came to examining the state of small and medium-sized enterprises (SMEs) in Jordan today. In compliance with the International Guidance of the United Nations Trade Law Committee, the analysis will concentrate on looking at relevant legal texts and offering a thorough description to develop a legal viewpoint or suggestion for improving the efficacy of these enterprises in Jordan.

This research was divided into three sections: the first presents the concept of SMEs in Jordan compared to international models, the second highlights the legal problems facing these projects in Jordan, and the third deals with the most important legislative amendments proposed for operating SMEs in Jordan.

Section One: The Concept of Small and Medium Enterprises

Small and medium-sized enterprises SMEs are defined differently in every country. Several criteria are considered, such as the economic sector in which it operates, the legal structure adopted by the SME, the number of employees, the size of the invested capital sales volume, value-added criterion, technology criterion, and production capacity. Although definitions vary from country to country, they all have in common that they

are independent enterprises that are not part of larger ones, as they are typically owned and managed by their owners, who typically perform the majority of the work - if not all

SMEs are considered one of the largest business sectors in the world, constituting 95% of the total business and economic activities. Official figures and statistics indicate that small and medium-sized enterprises play a vital role in Jordan, representing 95% of the business sector and 70% of job opportunity providers. SMEs contribute to 40% of the GDP

Small and medium-sized enterprises SMEs are projects that have 5-20 workers, and their total assets or sales volume is less than 1 million Jordanian dinars annually. Medium-sized enterprises have 21 to 100 employees, and their total assets or sales volume is between 1 million and 3 million Jordanian dinars The Jordanian Foundation for Economic Enterprise Development classified small and medium-sized enterprises in Jordan into three sectors: industry, trade, and services. Each sector includes three categories: micro, small, and medium, all of which vary in number of employees and annual revenues.

Small and medium-sized enterprises have the following characteristics:

It provides limited services and/or goods compared to major projects in the country.

It faces intense competition within the country, usually from other small or medium enterprises operating in the same sector.

These projects expect to reach the largest segment of consumers in society, but the reality indicates that they usually depend on a specific and small number of consumers.

Depends on a specific geographical scope.

Be owned and managed by its owner.

They are usually more vulnerable to loss than major projects because they are new to the market and economic sector. Studies indicate that less than half of these projects continue operating for over five years

These projects face some obstacles related to their ability to obtain government support and funds due to the lack of a legislative umbrella governing them.

Section Two: Legal Obstacles Challenging SMEs in Jordan

Medium-sized and small enterprises are typically the result of an informal idea that has developed, evolved, and been put into practice by its owner. In an attempt to develop or sustain his initiative formally, the project owner may face several frustrating scenarios pertaining to registration, funding, adherence to employment criteria, marketing, accounting management, and competition.

Legal Frameworks for Registering Small and Medium Enterprises

Small and medium-sized enterprises often experience a range of obstacles that may impact their sustainability and growth, forcing them to look for new partnerships or funding avenues. Whenever possible, it is essential to obtain an official business license. Governments often encourage small enterprises to obtain a business license. Proponents contend that granting licenses for these businesses harmonizes corporations with regional legal systems, improves revenue collection, reduces the possibility of fraud, creates legally responsible and recognizable entities, and gives the government vital data regarding the types, sizes, and owners of these businesses

In this context, we raise the following questions: Is there a special legal framework developed to align with the nature of SMEs in Jordan, or do the existing legal frameworks adequately incorporate the concept of SMEs, encompassing them within their regulatory purview?

The fundamental procedure for licensing small and medium-sized enterprises is registering them under specialized authorities as sole proprietorship general partnership companies, limited partnership companies, simple commandite partnerships, limited liability companies, or Private Shareholding Companies. However, due to the specificity of SMEs, their owners mainly register them as sole proprietorship in the form of limited

liability companies. Some sole proprietorship companies are owned by merchants. Some believe granting legal status to SMEs enhances their financial performance and allows them to make decisions within an unspecified, flexible framework.

Others claimed that obtaining a legal license would offer SME owners legal protection when they abide by laws and rules that protect people's health and safety. This would prevent its owners from violating laws that could expose them to legal repercussions. Furthermore, some contend that legal registration of SMEs protects the property rights trademark of these companies, regulating the rights and obligations of the contracting parties and providing an umbrella of legal protection if these companies enter into contracts with third parties to provide goods or services for them, maintaining labor relations.

Moreover, registering SEM legally facilitates compliance with trade and company laws, mitigating the risk of tax evasion and associated fines. Deciding to register an SME as a limited liability company reduces the risk for the business owner by separating personal financial accountability from the company's. Maintaining thorough business records simplifies financial administration and creates opportunities for obtaining funding from banks and other financial organizations. Small and medium-sized businesses can use banking services and apply for commercial loans. Registering these companies allows them to enter bids and reach the market faster, thus increasing profits and obtaining technical support from government agencies and civil society institutions.

However, deciding the legal structure for SMEs is affected by several factors, including the nature of the investment, its purpose and size, the financial capacity of its founders, the degree of government intervention and the established tax benefits, organizational capabilities, and the required administrative skills.

However, SMEs can be registered under the following forms: Sole proprietorship, limited liability company, and private shareholding company.

Registering the SMEs as individual entrepreneurship within the Trade Register System of 1966

The provisions of the Trade Law and the Jordanian Trade Registry System of 1966 required that any enterprise to be granted legal rights and that the company owner to be granted the title of trader shall register in the trade registry and follow the required procedures. Basically, the company's owner must first submit a trade profession declaration clarifying the details of the trade he practices. When all the due eligibility conditions are fulfilled, the owner is given the status of a trader. Accordingly, the acquisition of trader status confers legal statuses upon individuals in charge of small and medium-sized enterprises distinct from non-traders. As such, they are subject to applicable laws and regulations and should maintain the commercial books required by the nature and scale of their business. Notably, the Trade Law exempted individuals carrying out petty trade or small jobs from such requirements.

The Trade Law has specified the importance of the trade registry by stating that it “enables the public to obtain comprehensive information about all merchants and commercial institutions in the Kingdom,” as it constitutes a tool for publicity and all its contents are effective against third parties. The Trade Registry System, in Article 2 thereof, defines a trade registry as “a registry organized at the Ministry under the supervision of the register monitor, where all data concerning traders’ names, addresses, certificates, and procedures done to the registry including confirmation of any mortgage or detention, waiver or any other legal actions a trader wishes to confirm in the registry.”

It should be noted that the trader also abides by the Trade Names Law No. (9) of 2006. When registering its trade name.

Registering SMEs as a company subject to the provisions of the Jordanian Companies Law

Individuals may tend to register their enterprises under the rules of Companies Law to escape the legal consequences and obligations resulting from acquiring trader status under the Trade Law. However, this scenario is not as easy as it sounds for several reasons. For example, the nature of small and medium-sized enterprises requires a special kind of company that considers its assets, number of employees, and financial and

managerial capacity. Companies Law typically imposes special obligations for all types of companies; therefore, the limits of partnership, for instance, should be identified along with the liabilities they are subject to.

SMEs can be better registered as Implied Trust Companies and Limited Liability Companies.

SMEs as an Implied Trust Company

The implied trust company is defined under Article (49/a) of the Jordanian Companies Law as: “a commercial understanding organized between two persons or more, its operations shall be carried out by an apparent partner who shall deal with third parties. The Implied Trust is limited to the special relationship between the partners. The existence of such a company between the partners may be proven by all means of proof.”

Some scholars argue that small and medium-sized businesses, which are typically owned and run by one person, are best suited for the structure of an implied trust company. The laws regulating this business allow SMEs to grow and bring new partners. Besides, the structure of its contract protects the rights of the parties. Article 52 of the Jordanian Companies Law specifies that: “The Implied Trust Agreement shall specify the rights and obligations of all partners therein towards each other and towards the Company and the manner in which profits and losses are to be distributed among them.”

As for the nature of the relationship between the implied trust company and a third party, the law explicitly stipulates that this type of company does not have a corporate identity, violating the general rule stipulated in Article (4) of the Companies Law. Only an apparent partner in the implied trust company deals with third parties, mainly the company's director or enterprise owner. The silent partners' relationship will only be with the apparent partner under the contract concluded between them and shall not be involved in daily operations following the text of Article (50) of the Companies Law: “The silent partner in an Implied Trust Company shall not be considered a merchant unless he personally carries out commercial transactions.”

However, if a dispute arises between a third party and the apparent partner, the latter solely shall be held liable towards the third party. The legislator has provided one exception in which the silent partner bears joint legal responsibility, which is the case if the silent partner discloses to others the existence of the partnership or the company. Article 51 of the Jordanian Companies Law states that: “. . . .Should a partner therein confess to the existence of such a Company or should he notify others of its existence, the Company may then be considered as an existing Company, and the partners therein shall become jointly responsible towards third parties.”

In a decision by the Jordanian Court of Cassation No. 2774/2022, it was stated: (..Jurisprudence further asserts that within an implied trust company, the entity is considered non-existent until the partners formally communicate its existence to others. This implies that if a manager enters into a contract with a third party using his name, the company's legal status remains non-existent for the third party, even if the third party is implicitly aware of the involvement of the partners. However, even if the company doesn't meet all of the formal requirements, it will lose its status and become a legitimate general partnership company if one of the partners discloses the company's existence to a third party and presents it as a separate legal entity, signs contracts on the company's behalf, conduct agreements in front of a notary as official contracts, or issues an act affirming the company's existence).

We argue here on what criterion an implied trust company can lose its status and be deemed a general partnership company. There isn't a clear standard for this kind of scenario. Nonetheless, the court has total authority to determine the standards by which an implied trust company is categorized as a general partnership, and this decision may depend on the company's different activities.

The judiciary holds that the competent court, not the adversaries, should have the authority to define the parameters of a case and applicable law. The latter is mostly responsible for providing facts and supporting documentation. The court has the power to determine the facts and apply the law based on its discretion of the company's characteristics.

SMEs as a Limited Liability Companies

Owners of SME companies may tend to register their company as a limited liability company due to the characteristics it enjoys. This type of company is typically composed of two persons or more, and the company's liability is independent of the liability of every shareholder. Its assets and property are liable for its debts and obligations. Additionally, the liability of any of its shareholders for these debts, obligations, and losses is limited to his shares in the company.

It is worth noting that the Jordanian legislator has introduced practical amendments to the Jordanian Companies Law, specifically the texts pertaining to limited liability companies. This legislative framework aimed to accommodate new methods through which individuals are encouraged to invest part of their capital under a legal umbrella that limits their liability solely to the invested funds. Under the new amendments, a limited liability company can be registered under the properties of one person (an indirect method of establishing a Sole proprietorship).

Accordingly, it can be said that the limited liability company, when established, is subject to the individual will and objective conditions as required in civil law. But in terms of its economic activity, it is subject to the legal system pertaining to the limited liability companies.

The advantages of this type of company structure are definitely strong enough to persuade owners of small and medium-sized enterprises to choose when registering their company. One significant benefit is the limited liability of partners, which limits their liability to the amount of their capital contribution or share and protects their assets. Moreover, this business model gives the lone partner exclusive administrative authority, doing away with the requirement to follow company law's formalities regarding managerial choices and business-related procedures. This autonomy allows the partner to make decisions that align with the organization's goals with a certain amount of flexibility and promptness.

In addition, owners of small and medium-sized enterprises typically strive to improve their companies, and this organizational structure mainly facilitates business growth. The owner may opt to register the company as a limited liability company, which allows him to alter the business from an individual structure to a collective one by including new partnerships. This helps in increasing the company's capital through simple and efficient processes.

It is worth noting, and according to the companies system of 2008, the registration fees defined by the Companies Monitor Department is "two per thousand capital value of the company with limited liability or from the value of any increase in it, provided that the minimum fee that meets when registering is not less than two hundred and fifty Dinar in addition to other additional fees as required.

Section Two: SMEs Management and the Distribution of Profits and Losses

Typically, the merchant manages his enterprise and may hire staff to help run his company. But if he violates any rules set forth by trade laws, he bears full liability for the legal consequences. Meanwhile, his employees are subject to contractual liability with the merchant under the Labor Law.

However, if the partners opt for an implied trust company structure, the contract concluded between them determines the grounds pertaining to the company's management and how profits and losses are distributed. As for the nature of the relationship between the partners and the third party, as we previously stated, the apparent partner is the one who will deal with the third party and bears responsibility for any violations before the rest of the partners and the third party.

Regarding the management of the limited liability company, the Companies Law has regulated this by explicitly stipulating in Article (60) that: "The Company shall be managed by a manager or Management Committee whose members shall not be less than two and not more than seven, whether they are shareholders or others, following the Company's Memorandum of Association for four years. The Memorandum may provide for a shorter period. The Management Committee shall elect a chairman, a deputy chairman, and those authorized to sign on behalf of the Company." The legislator emphasized in Article 61 the responsibility of the company manager to the Company, the shareholders, and others for any violation of the provisions of the Law, the

regulations issued in pursuance, the Company's Articles and Memorandum of Association, and decisions issued by its General Assembly or Management Committee.

In terms of the one-person limited liability company, the sole partner or a representative chosen by him is permitted to oversee it. Small business owners usually oversee their projects to increase revenues, but sometimes, they employ managers to run the company's operations and make project choices. This is where things go wrong: the appointed manager sometimes overreaches authority and makes choices without consulting the company's founding partner, resulting in losses. The sole partner (owner) will be liable for the manager's decision in certain situations. However, the manager is held liable for their negligence under legal jurisprudence.

The distribution of profits among the shareholders in the limited liability company was specified under Article 57/c/3 of the Companies Law. In sole proprietorship companies, the owner typically gains the profit and bears the losses.

Liability for Debts of Small and Medium Enterprises

Small or medium enterprises typically aim to achieve profits, and due to their small size, they tend not to diversify the base of creditors, supply, and customers. It also relies heavily on payments from its customers. Therefore, they often face cash flow problems and a higher risk of default due to the absence of a major business partner or late payments from their customers.”

This, in turn, as explained by the United Nations Committee, exposes it to failure. Also, these financially distressed small and medium enterprises may themselves be customers of other enterprises, the failure of the former causing other enterprises in the supply chain to falter. These ventures simply falter, resulting in their inability to fulfill their legal obligations, in whole or in part.

Article 365 of the Civil Code specifies that All of the obligor's property stands as a security for the performance of his obligations, and all creditors stand *pari passu* in respect of such security”. The Jordanian legislator clarified the traditional forms of protecting creditors and ways to collect their debts and that small and medium enterprises, if their owners carry out their business in an informal and unorganized manner, will generally be subject to the general principles contained in the Civil Code when talking about the issue of debts and their collection.

However, discussing the liability of SMEs for their debts will fall outside the purview of the general principles contained in the Civil Code because some of their owners prefer to operate within the boundaries of the formal national economy and register these projects under related systems.

Small and Medium Enterprises as Sole Proprietorship

We have previously stated that when small and medium enterprise owners register their establishments as Sole proprietorships, they acquire merchant capacity. However, when the merchant fails to fulfill his debts, he is held responsible for paying those debts from his own assets. Article (316) of the Jordanian Trade Law stipulates, "Any trader whose financial affairs are in difficulty and who ceases to pay his commercial debts may be declared bankrupt. The use of illegal means by the trader to service his debts shall be failure to pay and shall be deemed to be evidence that his affairs are in trouble.” However, with the Jordanian Insolvency Law coming into force, the legal texts related to preventive composition bankruptcy were suspended, and the bankrupt is rehabilitated, and all his rights were restored. The law defined “insolvency” as “The trader failure to regularly pay his commercial debts or his total obligations incurred on him exceed the total value of his assets.” The law explicitly stated that:

The provisions of this law apply to any person who carries out an economic activity, including:

Legal persons, including civil companies and government-owned companies.

Traders who own sole proprietorship.

Registered professionals licensed to work following the provisions of applicable legislation

The law also regulates the procedures for declaring insolvency and the request submitted therefor, regardless of whether it is from the debtor himself or from his creditors and the legal effects resulting from the issuance of a court decision declaring insolvency, and the extent to which that decision is subject to appeal in addition to issues related to creditors and insolvency agents and the stages of insolvency procedures and inventory of funds and liquidation and the insolvency completion procedures.

Returning to the registration procedures for Small and Medium Enterprises (SMEs), the lack of familiarity among SME owners with legal documents, court processes, and Insolvency Law regarding debts can lead to hesitancy in registering officially due to fear of potential consequences. In case of non-payment and failure to meet obligations, these owners may lean towards relying on the legal provisions for fulfillment outlined in the Civil Code rather than navigating the lengthy procedures associated with insolvency laws.

Small and Medium-sized Company as a Company

As was previously said, an implied trust company is created based on an agreement among the parties rather than having a separate legal entity or legal personality. Because the contract serves as the parties' governing law, partners typically set conditions regarding securing debts. It should be noted that third parties will sue the apparent partner if he fails to fulfill his obligations. However, the Companies Law considers the remaining partners to be in solidarity with the apparent partner in paying and fulfilling debts if they declare the existence of the company or issue anything disclosing its existence.

Still, if SMEs are registered as a limited liability company, the company, with its assets and funds, is responsible for the debts and obligations resulting from it, and the partner is not held responsible for those debts, obligations, and losses except to the extent of his shares in the company. Additionally, the company's system determines the mechanism for bearing losses.

The Jordanian legislator recognized the legal personality of the one-person limited liability company that successfully completed the registration procedures under the applicable laws. The lawmaker has distinguished between funds allocated for the business's activities and the owner's funds, establishing the latter as a separate and independent financial standing. Accordingly, a partner's responsibility can be determined per the provisions contained in the Companies Law and its jurisprudential spirit. However, the one-person limited liability company offers protection to the owners by mitigating financial risks in the event of its failure. The company is solely liable for the debts, contrary to sole proprietorship, where the merchant is typically liable for business-related debts and liabilities.

There is always an exception at the practical level, as a dispute may arise between the partner in the limited liability company and the company if the partner fails to pay the required capital. In a decision by the Jordanian Court of Cassation No. 6536/2021, it was stated: (...since the second discretion party signed the contract in his capacity as the authorized signatory for the first discretion party, who also stands as an adversary to the plaintiff in his capacity as the sole partner in the company and responsible for its management, and it has been established that the second party did not fulfill their entire capital share as mandated by Article (53) of the Companies Law and that his liability falls within the limits of the amount paid 25,000 out of 50,000 dinars. Therefore, the plaintiff's dispute is valid and consistent with the provisions of Article (834) of the Civil Code). However, the partner's liability in this decision is not joint according to what the Court of Cassation in its general body decided following Principal No. 2680/2018.

It is worth noting that if SMEs decide voluntarily to be liquidated as a solo - limited liability company, the company liquidation system for 2021 will be applied to them. This system defines the "company" as "any of the companies stipulated in the law except for joint-liability companies, simple commandite partnerships, and civil companies."

The law explicitly stipulates in Article 3 that the system's provisions will be applied "to the company in cases other than those subject to the provisions of the Insolvency law and the regulations issued pursuant thereto." Accordingly, the solo-limited liability company is subject to the provisions of this law.

Section Three: The Proposed Legislative Amendments Pertaining to Regulating Small and Medium-Sized Enterprises in Jordan.

The Legal Challenges Facing the Establishment of Small and Medium Enterprises

Despite the prevalence of small and medium enterprises in Jordan, they are still experiencing numerous challenging scenarios, such as the formation and registration procedures, accounting issues, and the inability to deal with government agencies due to the inadequate expertise of the owners of these projects, in addition to challenges related to financing and marketing aspects.

Furthermore, there are legal challenges, such as the lack of legislative rules regulating the work of these enterprises. Regardless of the legal form these SMEs take, a set of complex obligations and relationships fall on the shoulders of the owners of these enterprises. For instance, labor relations within the enterprise are subject to the Jordanian Labor Law No. (8) of 1996 and its amendments, obligations and duties related to insurance contributions and workers' injuries are traced to the Social Security Law No. 1 of 2014 and its amendments, obligations related to tax are traced to the Law Income Tax No. 34 of 2014 and its amendments and General Sales Tax Law No. 6 of 1994 and its amendments, and we cannot ignore the laws and regulations related to professional licensing and municipal regulation, such as the Professional Licensing Law No. 28 of 1999 and its amendments. SMEs must also fully adhere to all legal texts related to the facility's inspection by the authorities specified in the relevant laws to ensure their adherence to the regulatory and technical requirements and conditions. In short, these SMEs' hard life cycles may lead to their faltering early or operating illegitimately.

Given the significant impact of SMEs on the domestic and global economy, the United Nations Commission on International Trade Law has taken the initiative to develop a set of recommendations through successive meetings of the Working Group I: Micro, Small, and Medium Enterprises, which would enhance the work of these enterprises through an organized framework regulating their operation from establishment to liquidation. This attempt seeks to reduce the burdens imposed on the owners of these enterprises and limit the procedures required by national legislation, which constitute a restriction on registering these projects and giving them official character.

Furthermore, the United Nations Commission on Trade Law issued several recommendations pertaining to SMEs, most notably the UNCITRAL legislative recommendations on limited liability enterprises and the UNCITRAL legislative recommendations on the insolvency of small and medium-sized enterprises (2021), which were prepared by the Fifth Working Group of UNCITRAL (on insolvency law) and adopted by UNCITRAL. At its fifty-fourth session in 2021.

We have previously stated that Jordanian laws mandate commercial registry registration for individuals establishing enterprises; however, the issue of subjecting owners of small and medium enterprises to compulsory registration may lead to their reluctance to register their enterprises, particularly when they get acknowledged with associated burdens and challenges. For instance, the owners of SMEs are obligated to pay annual registration and renewal fees, even though the project's annual revenues may not meet expectations. Accordingly, one of the most important recommendations made by the United Nations, which the Jordanian legislator must take into account, is to reduce the financial burdens imposed on SMEs by making registration in the trade registry free (whether in the case of registration for the first time or in the case of annual renewal to increase the number of registered small and medium enterprises and supporting them. Recommendation 41 stipulates that: "The law should establish fees, if any, for business registration and post-registration services at a level that is low enough to encourage business registration, in particular of MSMEs, and that, in any event, does not exceed a level that enables the business registry to cover the cost of providing those services."

Creating an environment conducive to entrepreneurship in Jordan requires organizing the work of SMEs in a manner consistent with business governance and the accompanying application of rules related to discipline, transparency, independence, accountability, and responsibility, in addition to justice. Among the international efforts in this field are those of the Organization for Economic Cooperation and Development (OCDE), which developed a set of rules that frame corporate governance and sought to help countries, especially developing

countries, adopt the concept of good governance. The organization has developed a set of principles for corporate governance, the most important of which is the necessity of having an appropriate legal and regulatory basis, as the structure of these projects must increase transparency and market efficiency and comply with the rule of law, and clearly define the division of responsibilities between the various bodies charged with supervision, control, regulation, and implementation.

Proposed law for encouraging small and medium enterprises

Although businesses in Jordan are subject to a framework that allows individuals to regularize their initiatives formally, the legislator has not enacted any regulations that would lessen the financial burden associated with the investment.

While the Investment Environment Law of 2014 aims to promote foreign and domestic investment through incentives such as tax and customs duties, its provisions regarding small and medium-sized enterprises (SMEs) are general and do not address the legalization and governance issues specific to these projects. Furthermore, the law does not clarify the procedures for registering and overseeing such initiatives. To solve these issues, the previously mentioned legal texts have been applied.

It should be noted that the law directly addresses the SMEs in a solo Article in Article (8) of it, stipulating that: “Upon recommendation of the Council, the Cabinet may grant any additional advantages, exemptions or incentives to any economic activities, including small and medium enterprises or any economic activities in a specific geographic area in the Kingdom, provided that the decision determine the conditions and procedures of their grant and to be published in the Official Gazette.”

As a result of the shortcomings of these texts, a draft law regulating the investment environment in Jordan was proposed. One of the reasons for it was “developing and establishing procedures that encourage business and economic activities, attracts investments, and the competitiveness of the economy in a manner consistent with the government’s policy in organizing the investor’s journey in Jordan,” in addition to “Maintaining the legislative stability regulating investment following specific provisions.” The draft law granted small and medium enterprises the right to benefit from the same exemptions granted to large companies. It linked the incentives to their contributions to development requirements, Jordanian employment, and local added value.

Despite the above, the texts of the draft law still fall short of covering all issues related to the work of small and medium enterprises, from their registration to liquidation.

Furthermore, Article (15/a) constitutes a real obstacle to small and medium enterprises in light of the legislative amendments, which states that: “ If the legislative or regulatory provisions have been amended or changed and the said amendment or change resulted in a negative impact on the Investor whose Investments in one project amount to five million Dinars or more, or the said investor has employed three hundred and fifty Jordanians or more, then he has the right to request that the provisions above shall not apply against him for a period of seven years from the date of fulfilling any of the two said conditions.” This Article is primarily designed for large investors, with eligibility criteria tied to the size of the Jordanian workforce engaged in the project or the overall investment value. Unfortunately, this exclusionary approach leaves small and medium enterprises beyond the purview of this Article, thereby adversely impacting the stability of their operations.

Considering the goals of entrepreneurship as stated in the National Strategy Plan 2021–2025, Jordan must immediately begin enacting several legal amendments. The amendments above should prioritize the elimination of obstacles impeding project operations and promote cooperation with the public sector to enhance the country's economy. Considerable modifications that align with the national strategic plan are necessary to enhance the economic environment for startups. For entrepreneurship to succeed, best practices that support an environment conducive to business must be adopted. This entails proposing amendments to relevant legislation, such as those that deal with social security, taxation, and customs.

Apart from the previously mentioned aspects, the contemporary focus on governmental transformation and the advancement of the public sector emphasizes the significance of examining and revising the laws that oversee public administration in alignment with the legal international framework to eliminate any overlaps or

conflicts and assure clarity and practicality in implementation. Especially since the legislation quality index in Jordan still needs to be improved, according to available statistics, which indicate that despite the great progress Jordan has achieved in the legislation quality index, it reached .23 in 2020 compared to 0.03 in 2019. Therefore, it is essential to enhance small and medium-sized enterprises' compliance with laws, rules, and operational instructions while preventing these legal frameworks from becoming a barrier to their commercial operations.

Finally, establishing a national Jordanian platform has become essential to provide an ideal working environment for small and medium-sized businesses until legislative reforms are enacted in the appropriate legal texts. This portal should serve as a thorough one-stop shop for information, similar to the Arab platform for small and medium-sized enterprises connected to the UN/ESCWA. It would make information about funding sources, national laws, and company establishment procedures easily accessible and navigable for all parties involved. The goal is to compile all laws pertaining to different facets of these initiatives into one accessible location for quick access.

CONCLUSION

The study focused on demonstrating the adequacy of Jordanian law in regulating the operation of small and medium-sized enterprises. We raised a question about whether this legal organization is sufficient to regulate the operation of these projects. The answer was inevitably no. Nevertheless, we found that small and medium enterprises in the Hashemite Kingdom of Jordan play a prominent role in the Jordanian national economy; thus, Jordan has enacted legislation that regulates the national economy in addition to launching a reform plan and the national strategic plan 2021-2025 for the general policy of entrepreneurship. However, this study shed light on the real scenarios small and medium-sized enterprises encounter in Jordan, highlighting the obstacles that the country's current legal system may present.

RESULTS

Although the government acknowledges the crucial role of small and medium-sized enterprises, it hasn't yet eliminated the legal obstructing their entry into the organized economy market or supported their sustained operation. Notably, the main source of these challenges is the legislative structure that governs the registration of these initiatives within the current legal framework, as the Jordanian Trade Law governs the registration procedures. Company Law governs the corporate activities. Owners of these projects are typically subject to a set of responsibilities and legal ramifications, leading them to opt to operate their projects informally, forgoing the assistance that numerous sectors would provide if their operations were to be regulated.

The lack of a specific legal framework governing these projects' operations raises several questions about how profits and losses are managed and allocated. Although government agencies have released guidelines for small and medium-sized enterprises, the Central Bank of Jordan has not publicly endorsed these guidelines. Many aspects of these projects remain unresolved due to the Central Bank's lack of comprehensive regulation, especially those concerning management, profits, losses, and debts. As a result, the rules that apply to the particular kind of small or medium project (be it an organization or a business) become essential in defining how these projects are run and how matters of debt, revenue, and losses are resolved.

RECOMMENDATIONS

Based on the results, we recommend raising legal awareness regarding entrepreneurship and its governance among owners of small and medium-sized enterprises in Jordan and improving their ability to create and carry out project plans that align with the broader reform initiatives and Jordan's strategic entrepreneurship plan. Furthermore, we suggest applying global experiences—especially those of the Arab Republic of Egypt and the United Arab Emirates—to inform the process of establishing the operations of small and medium-sized enterprises. This entails resolving issues with taxes, customs, registration, labor, and inspection processes to create a more favorable environment for these businesses to succeed.

We hope that official authorities will expedite the SME registration process to stop the spread of illogical economic activity detrimental to the country's economy and society. We support the introduction of major modifications to the draft law that will regulate environmental investment. The amendments should address

SMEs' unique requirements by including provisions for their management, registration, and incentives to support and encourage their legal operations.

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