

# **Policy Analysis Paper**

**Policy Name:** Formalizing Micro & Small Home-Based  
Businesses Outside Amman

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**Date: 8-9-2015**

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## Introduction

The aim of this document is to provide an analysis of the policy that regulates working from home for businesses outside the boundaries of the city of Amman. It is prepared to give the Local Enterprise Support Project (LENS) the tools and information needed to address this topic in collaboration with policy makers at the government and other stakeholders. It also aims at assessing the options available to pursue this policy and suggest an action plan to implement it.

The analysis for this policy includes the following elements:

1. A definition of the problem that this policy addresses, the definition specifies in addition to what the problem being discussed is, the root causes of this problem.
2. The goals sought after by this policy.
3. The options proposed to address the problem as defined.
4. Assessment of each proposed policy intervention option including an assessment of the costs and benefits associated with each one, and an assessment of the possibility of implementing each option.
5. A specification of the suggested policy and the reasons of selection.
6. A proposed action plan to pursue the home-based policy outside Amman including the following:
  - Activities
  - Person/entity in charge
  - Timeframe
  - Needed resources, including meetings, workshops, focus group discussions...etc.
  - Deliverables

## Methodology

The methodology used in preparing this policy analysis constituted of the following:

- Conducting desk research on the different models for regulating work from home in different countries around the world, these countries included the United States of America (including different federal systems), Egypt, United Arab Emirates (Sharjah), Saud Arabia, Oman, Pakistan, Kuwait and Bahrain. The research constituted understanding the following elements related to regulating work from home:
  - Types of businesses allowed
  - Employment
  - Signage
  - Storage
  - Utilized area
  - Sales and marketing
  - Inspection mechanisms
  
- Interviews with stakeholders to develop an understanding of the problem and its causes, the size of the problem, and the available options to regulate work from home. Interviews were conducted with officials from the Ministry of Municipal Affairs, Greater Amman Municipality, Jordan Food and Drug Administration, Municipality of Irbid, and Municipality of Zarqa.
  
- A workshop with the technical team of LENS to discuss the problem definition, policy stakeholders and their characteristics, priority of policy, policy options and to develop an action plan.
  
- Focus group meetings with stakeholders, the purpose of those meetings was to collect information about the characteristics of businesses that work from home, the challenges they encounter, the reason for not formalizing and other issues.

## 1- Problem Definition

As a requirement to obtain a formal trade (vocational) license from the municipality in Jordan, entrepreneurs starting up their businesses are required to submit a leasing contract for a facility in trade-zoned areas or in similar zones, according to the Instructions issued by the Ministry of Municipal Affairs based on the Vocational Licenses Law number 28/1999. However, this puts a cost burden on micro and small entrepreneurs in their start up phase which in many cases lead them either to quit the idea of starting the business or to work informally and thus deprive them from the potential of growth and the government from the fees and taxes collected from these businesses.

This challenge is more visible among professionals who work in the knowledge-based activities (such as accounting, graphic design, translating...etc.) where the type of business doesn't affect the surrounding tenants or change the structure of the working areas, and at the same time does not require a large or especially designed space to work from. This challenge is mainly visible among women who in addition to the extra cost face difficulties in transportation and in staying away from home for long periods, as well as among youth who try to keep their spending under control especially in the critical early stages of their work. Based on USAID LENS MSE Survey Zarqa governorate in specific has around 535 informal businesses operating from home, 32 of which are registered and licensed, and generally operated by woman. Most of those businesses are found in the areas of Electrical/plumbing, manufacturing of wearing apparel, or construction.

In 2011, the Greater Amman Municipality (GAM) issued legal instructions that allowed certain types of activities to work from home under certain conditions. However, the scene outside Amman is vague, because while some municipalities issue licenses for businesses that work from home, it is not clear if this is a legal act and there is no clear set of conditions that regulate issuing such licenses. Greater Zarqa Municipality is currently issuing licenses for home based businesses informally without adopting to the instructions published and followed by GAMs professional licensing scheme. Whereas in Irbid, businesses are not allowed to operate from houses, and in the cases entrepreneurs who work from home apply for a license they are asked to provide a leasing contract for a property in a business-zoned area while they can still work from home. This adds extra cost on these entrepreneurs without any clear benefits.

## 2- Policy Goals

The main goal of this policy is to help formalize and regulate the work from home for businesses outside Amman. This will be done through issuing the suitable legal tool that allows municipalities outside Amman to issue trade (vocational) licenses for businesses that meet certain conditions, where the municipalities will promote the adopted regulations to the local community and motivate them to become formal home-based businesses. The proposed framework will define the following:

1. Types/ sectors of business that can operate from home.
2. Conditions for working from home including:
  - a. Zoning
  - b. Area utilized
  - c. Recruitment of labor
  - d. Inspection
  - e. Signage and marketing
  - f. Inventory
  - g. Visitors
3. Restrictions on operating from home.
4. Procedures for applying to a home-business license.
5. The plan to implement this policy.

**Doing this** will encourage young entrepreneurs and women in their endeavors to start-up business, and benefit from growth opportunities by reducing the cost burden on MSEs, which would ultimately lead to increased market competitiveness

### 3- Policy Options

The options available to regulate working from home outside Amman are as follows:

**Option 1:** Allowing all types of micro and small businesses to operate from home, this means any business that has up to 10 employees in all sectors.

**Option 2:** Allowing women and youth-owned businesses only to operate from home, this means registered businesses that are fully owned by women, and/or by entrepreneurs below a certain age (40 years for example).

**Option 3:** Allowing knowledge-based businesses only to operate from home, this means only businesses that depend on people's knowledge and personal skills and do not use equipment or machinery for manufacturing products or goods.

**Option 4:** A combination of option 2 & 3, where knowledge-based businesses owned by women and/or youth are allowed to work from home under certain conditions.

**Option 5:** Doing Nothing

## 4- Policy Assessment

In this section, proposed policies will be assessed based on three factors:

1- Cost incurred by implementing the proposed policy, in this case the cost elements are:

- a. Loss of revenue by owners of commercial and industrial properties as a result of not renting or selling their properties to businesses that work from home.
- b. Cost of inspection by government entities for the new businesses that work formally from homes, this includes mainly the cost of hiring new inspectors by the different government entities in charge outside Amman.
- c. The revenue lost by non-home based businesses due to competition from businesses that work from home who have lower cost structure due to circumventing paying the rental cost.
- d. The impact that home-based businesses will have on public interested represented in three elements; health, environment and safety.  
The assessment of these costs is done using the following keys:  
---: High Cost  
--: Medium Cost  
-: Low Cost

2- The benefits expected from implementing the policy, in this case the benefit elements are as follows:

- a. Increase in government revenues as a result of paying registration and licensing fees by formal businesses.
- b. Increase in taxes paid by businesses that work in the formal sector.
- c. Increase of employment opportunities as a result of higher growth potential of formal businesses.
- d. Decrease in poverty as a results of increased income which are linked directly by availability of decent job opportunities.  
The assessment of these policies is done using the following keys:  
+++: High Revenue  
++: Medium Revenue  
+: Low Revenue

3- The possibility of influencing a change to adopt the proposed policy, this was assessed using the following keys:

- : Highly unlikely
- : Unlikely
- +: Possible
- ++: Very likely

Policy Option	Costs				Benefits				Possibility of Policy Change Highly Unlikely= -- Unlikely= - Possible=+ Very Likely=++
	Loss of Revenue	Cost of Inspections	Revenue lost by non-home based businesses	Impact on Health, Environment and Safety	Increase in Income from fees and municipal revenue	Increase in tax collected	Increase in Jobs	Reduction in Poverty	
<b>1- Allowing all types of micro and small businesses to operate from home</b>	--- Due to the sheer number of expected new businesses	-- Although the expected increase in number of businesses, the number of inspectors will not increase commensurately due to risk-based nature of business inspections	- This will not lead to increase of number of new businesses, it will just formalize some of them. Otherwise, the competition is already there	--- Given the large number of businesses and the high-risk nature of some of the industries, the cost of this might be high	+++ Due to the sheer number of expected new businesses	++ Despite the sheer number of expected new businesses, yet the expected increase in tax is not equally large due to the small size of businesses	++ Although the number of new businesses is expected to be high, yet the size of benefiting businesses doesn't allow for hiring a high number of employees.	++ Although the number of new businesses is expected to be high, yet the size of firms benefiting from this does not help in generating much revenue to households or workers	-- - It is very hard for the government to allow opening the door for all types of businesses due to the high-risk associated with some of the sectors, especially in manufacturing and food-processing. - No other country allowed home-based work for all types of businesses - There is a high possibility of abusing the system by people who don't actually practice the profession, but use it as an investment opportunity or just aim to minimize their operation costs.
<b>2- Allowing women and</b>	--	--	-	---	++	++	+++	++	--

<b>youth-owned businesses only to operate from home</b>	Most of existing informal businesses are owned by youth and women, therefore the cost is still high but less than opening the system for all businesses	Although the expected increase in number of businesses, the number of inspectors will not increase commensurately due to risk-based nature of business inspections	This will not lead to increase of number of new businesses , it will just formalize some of them. Otherwise, the competition is already there	Given the large number of businesses and the high-risk nature of some of the industries, the cost of this might be high	Most of existing informal businesses are owned by youth and women, therefore the revenue would still be high but less than the revenue generate from opening the system for all businesses	Although the number of expected businesses is less, yet it's not much less due to the fact that most of informal businesses are owned by youth and women and hence the tax collected will not be much less			<ul style="list-style-type: none"> <li>- It is very hard for the government to allow opening the door for such a wide range of businesses due to the high-risk associated with some of the sectors, especially in manufacturing and food-processing.</li> <li>- No other country allowed home-based work for such a wide range of businesses</li> <li>- There is a high possibility of abusing the system by people who don't actually practice the profession, but use it as an investment opportunity or just aim to minimize their operation costs.</li> </ul>
<b>3- Allowing knowledge-based businesses only to operate from home</b>	- The number of businesses in the knowledge based sector is still	- The type of businesses in this sector is usually of low-risk nature, therefore it's need for	- This will not lead to increase in the number of new businesses , it will just	- Due to the low level of risk of businesses in this area, it's impact on public	++ The increase in number of businesses is not at the same level of the two other	++ The increase in number of businesses is not at the same level of the two other	+ Knowledge-based businesses are usually not labor intensive	++ Although knowledge – based businesses are not labor-	++ It is in general acceptable to the government to allow service and knowledge-based businesses to work from home, they impose less risk in general and are easier to control. Because if this, GAM allowed 42 professions, most of which are in these areas to operate from home.

	relatively high, but in general their need for space is less than other types of businesses	inspection is much less	formalize some of them. Otherwise, the competition is already there	interest is generally low.	options, however the fees for such types of businesses are generally higher than those of handicrafts and small manufacturing businesses	options, however these types of businesses usually generate more revenue and hence profit than those of handicrafts and small manufacturing businesses	, therefore they don't generate a lot of work opportunities.	intensive usually yet they usually pay higher wages, which offsets the lower number of jobs	
<b>4. A combination of options 2 and 3- Allowing knowledge-based businesses for women and youth (below age of 40)</b>	- It is widely believed that most of businesses in this area are already owned by women and youth, therefore the impact will be similar to the	- The type of businesses in this sector is usually of low-risk nature, therefore it's need for inspection is much less	- This will not lead to an actual increase in the number of new businesses ; it will just formalize some of them. Otherwise, the competition	- Due to the low level of risk of businesses in this area, it's impact on public interest is generally low.	++ Because most businesses in this area are already owned by women and youth, the impact will be very similar to the previous option.	++ Because most businesses in this area are already owned by women and youth, the impact will be very similar to the previous option.	+ Knowledge-based businesses are usually not labor intensive , therefore they don't generate a lot of work	++ Although knowledge – based businesses are not labor-intensive usually yet they usually pay higher wages,	+ It is in general acceptable to the government to allow service and knowledge-based businesses to work from home, they impose less risk in general and are easier to control. However, limiting it to women and youth might make it subject to abuse by those who don't fall under this category, yet they will use it to bypass their inability to start their own businesses

	previous option		n is already there				opportunities.	which offsets the lower number of jobs	
<b>5- Doing Nothing</b>	- In general, a lot of people prefer to work in the informal sector to minimize the cost of operation which space rental constitutes a major part of, therefore keeping the current status will not incentivize them to work formally	- There won't be an increase in the cost of inspection in this case	- The informal businesses already exist and their competition impact on the ones who work informally will remain the same	--- The businesses in the informal sector work without any form of monitoring, therefore their impact on the public interest is high	No impact	No Impact	No Impact	No impact	No policy change is needed, however the opportunity cost is high. According to a study conducted by the UNDP and Ministry of Planning and International Cooperation in 2013 under the title "The Informal Sector in the Jordanian Economy", estimated that the informal employment constituted 44% of the total employment in Jordan. Keeping the current status means a growth in this percentage, and deprives the economy from the advantages that working under the radar screen would generate.

## 5- Recommended Option

Based on the analysis matrix above, it is clear that options 3 and 4 (Allowing knowledge-based businesses only to operate from home and Allowing knowledge-based businesses for women and youth respectively) are the most plausible ones given the government willingness to adopt them and their affordable costs and still high benefits.

However, the option of restricting the knowledge-based businesses to women and youth might lead to abusing the policy by those who don't fall under these categories. Moreover, defining an age for the "youth" category might be a daunting issue because of the presence of different definitions for this age bracket. Finally, the policy would be difficult to be implemented when the entrepreneurs who fall under the "youth" definition depart from this age bracket.

Therefore, the recommendation is to pursue the development and implementation of a policy that allows entrepreneurs who work in knowledge-based sectors to work from home under specific conditions, these conditions which should be specified in discussion with different stakeholders should include the following elements:

- a. Zoning
- b. Area utilized
- c. Recruitment of labor
- d. Inspection
- e. Signage and marketing
- f. Inventory
- g. Visitors

The policy should also specify the procedures that should be followed in licensing home-based businesses outside Amman.

## 6- Action Plan

Activity	Responsibility	Timeframe	Needed resources/ Budget (Estimate)	Number of meetings/worksho ps/focus groups (If applicable)
<b>1- Conduct secondary research on regional and international models for home-based businesses</b>	Policy Advisor	July 1- 31		
<b>2- Conduct focus group meetings (with home business owners in Zarqa and Irbid and with municipalities)</b> Objectives of focus group meetings are to: a. Collect Data b. Verify Information c. Discuss required policy changes	LENS	August 1-31	US\$ 1,200	3 (One with women working from home)
<b>3- Conduct interviews with key stakeholders including MoMA, GAM, Zarqa and Irbid Municipalities to introduce and discuss the idea</b>	LENS + Policy Advisor	August 1-31		
<b>4- Prepare a concept paper about home based businesses</b>	Policy Advisor	September 1-15		
<b>5-Present concept paper to MoMA</b>	LENS	September 15 –30		
<b>6- Conduct Policy Analysis to identify cost, impact and options</b>	Policy Advisor	September 15 – October 30		
<b>7- Conduct workshop to present findings and</b>	LENS	November 2015	US\$ 2,500	1

<b>discuss options</b>				
<b>8- Draft legal tool</b>	Legal Advisor*	November – December 2015		
<b>9- Approve legal tool</b>	Government under MoMA's leadership	January – March 2016		
<b>10- Launch an awareness campaign for citizens to inform them about the possibility to work from home</b>	Municipalities with support from LENS	April 2016		
<b><u>Deliverable:</u></b> <ul style="list-style-type: none"> <li>- Minutes of focus group meetings with stakeholders</li> <li>- Concept note on the subject of home based businesses to be presented and discussed with key stakeholders</li> <li>- Policy analysis report to identify cost, impact and options to formalize home based businesses outside Amman</li> <li>- Workshop to discuss options</li> <li>- A draft legal tool<sup>1</sup> to formalize home based businesses outside Amman</li> <li>- An awareness campaign for citizens</li> </ul>				

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*The legal advisor will draft the legal tool (law, bylaw, instructions) that formalize the policy<sup>1</sup>*