3. **Insurance Sector Analysis**
The insurance sector plays one of the key roles in securing both individuals and businesses and their endeavors. Without an efficient, effective, and strong insurance sector the economy lacks an important element to achieve stable growth over a long period of time.

The following scheme shows the methodology applied to analyze the sector:

The insurance market is split between life and non-life products. Non-life insurance consists of accident and health, and property and casualty insurance segments, while the life insurance consists of mortality protection and annuity.

Prior to analyzing Jordan’s insurance sector, it is helpful to understand how the insurance business functions, in particular the supply chain perspective (see the following figure). Insurance is a risk transfer mechanism, by which risk is transferred from one entity to another (insurance company), in exchange for a premium. An insurer is a company selling the insurance to a policyholder- the person or entity buying the insurance.

The insurance premium is the actual amount of money charged by insurance companies for active coverage, called the premium. Reinsurance is insurance for insurance companies. Reinsurers take on a part of the risk that insurers assume from their private or commercial clients. Insurers need reinsurance because some losses would be too expensive for them to carry on their own.

Therefore, to mitigate risk, insurers typically reinsure part of their portfolio through reinsurers. Reinsurance is generally sold directly or indirectly through a reinsurance broker. Reinsurance Brokers are intermediaries paid by the reinsurer. Reinsurers may also reinsure- referred to as “retrocession” or “re-reinsurance”.

Moreover, insurers may sell directly to the insured or through intermediaries such as agents, brokers or banks, or outsource loss adjusting and loss assessment activities.
3.1 History

The first insurance company was established in 1951 called Jordan Insurance Company. In 1956, the Association for Jordan Insurance Companies was established and held responsible for regulating the sector. Historically, the insurance sector has always been dominated by the private-sector. During the fifties, there was an increase in cars and marine transportation since Jordan was forced to discharge goods at Aqaba port. As a result, the need for providing coverage in these fields has led to the establishment of more insurance companies.\textsuperscript{117}

In 1965, the first insurance law was passed, and the number of competitors began to grow. Between 1972 and 1976, seven new insurance companies were established. In the year 1980, five new companies entered the market. Consequently, with an overcrowded market, between 1985 and 1989 there were series of mergers. In 1987, the Unified Compulsory Insurance Office was created with the responsibility of insuring all vehicles, on behalf of insurance companies.\textsuperscript{118}

The role of this office was to assign a company to every motor third party policy issued, and then allocate them to all of Jordan's licensed insurers equally. In 1989, a high Royal Decree was issued to establish the Jordan Insurance Federation (JOIF), which also functions as a managing authority for the insurance sector.\textsuperscript{119}

The turning point was in 1995, when the insurance sector was reopened to investors, with a minimum capital requirement of JD 2 million. This was considered a low minimum requirement and shaped what the insurance industry is today. With little regulation, nine new businesses were formed in the following two years, leading to lower prices and wider coverage.\textsuperscript{120}

In 1999, the Insurance Commission (IC) was established by the Insurance Regulatory Act No. 33 of 1999. This administrative and financially independent organization aim is regulating and supervising the local insurance sector.\textsuperscript{121}

The main objective of the IC has been “to protect the rights of the insured and the insurance beneficiaries and supervise the solvency of the insurance companies to provide adequate insurance coverage for such rights.”\textsuperscript{122}

In terms of the compulsory Motor Third Party Liability Insurance (MTPL), a major change was made in 2004. Domestic insured for compulsory MTPL were given the choice to select a licensed local insurer from a list, where before the decision was allocated equally. Before 2004, neither party had a choice; since 2008 the applicants only do, although the insurance companies do not have the right to reject a new client.

In 2007 and 2008, three new companies were established to form a competitive environment of 29 companies. This year, one insurance company has restructured into an investment firm, leaving the insurance sector in Jordan with 28 licensed insurers, of which only one is specialized in life insurance. Ten are specialized in general insurance, and the remaining 17 are composite insurance companies, meaning they engage in both life and general insurance. A steady rise in capital requirements has been observed during the last decade.\textsuperscript{123}

\textsuperscript{117} Jordan Insurance Federation, Insurance sector- Historical background
\textsuperscript{118} ibid.
\textsuperscript{119} Ibid.
\textsuperscript{120} Jordan Insurance Federation
\textsuperscript{121} Jordan Insurance Commission, Jordan Insurance Business Annual Report 2008
\textsuperscript{122} Ibid.
\textsuperscript{123} The specificity of the insurance market in Jordan reflects the one common denominator for Islamic world: some of insurance companies function in accordance with the principles of Islamic law, ethnically known as Shariah. It is derived from the Quran and the Sunnah. Takaful is an Islamic insurance concept, which is grounded in Islamic muamalat (insurance transactions) and observes the rules and regulations of Islamic Law. Islamic countries have favorable demographics, rising income levels, and a demand for Shariah-compliant products. Worldwide Takaful market is USD 3.4 billion, but is estimated to double by 2012. The Islamic asset management is an essential component to support projected industry growth and development. Currently, three insurance companies offer Takaful Insurance products with an accumulated market share of 7%. Source: Insurance Society, CIMB-Principle Islamic Asset Management Presentation by Zeid Ayer, and Islamic Insurance: Trends, Opportunities and the Future of Takaful, March 2008
3.2 Recent Performance and Initiatives of Jordan’s Insurance Sector

There are 28 insurance companies in Jordan that together generated a total of JD 333 million gross premiums in 2008, up by 14.1% in 2007.

The following figure shows that in 2008, non-life premiums accounted for JD 297.2 million, up from JD 262.5 million, and life insurance amounted to only JD 35.9 million from JD 29.2 million the previous year. An increase in premiums of 12.7% was observed from 2006 to 2007, and the expected gross premiums for 2009 are around JD 350 million.124

Figure II.3.1: Total Premiums In Jordan (JD 1000's)125

The sector contributed 2.46% of the GDP in 2006, 2.49% in 2007, and employed 3,142 people in 2008, up 6.5% from the previous year.126 In addition, in 2008 there were 461 licensed agents, 70 brokers, 42 loss-adjusters, and 10 Third Party Administrator companies.

Moreover, there were 13 Actuaries, 17 insurance consultants, 9 reinsurance brokers, and 11 bancassurance initiatives.127 In the past 2 years, observable decreases in premium prices occurred as a result of the highly saturated market. In 2007, the return on equity was 1.5% and in 2008, 4.6%, making it difficult to service the capital base, especially for highly capitalized companies.128

Despite regulatory encouragements for mergers and acquisitions, the market is considered highly saturated due to the large number of companies and considerably small market size of about 6 million people. To promote mergers, which would allow for bigger players to develop in the market, many incentives are available on a case-by-case basis.

Unfortunately no mergers have been finalized in over 20 years. The market share based on premiums in 2008 was: motor insurance accounts for 41.8%, medical insurance 19.6%, fire and property damage 14.2%, marine and transport 7.9%, life insurance 10.8%, and the remaining classes 5.7%.129

The following figure indicates that over the past few years, motor insurance and medical insurance has experienced the fastest growth in terms of premium income. Although the motor insurance has the largest marketshare and is growing, these premiums are the least profitable.130

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125 Annual Statistics, Jordan Insurance Commission,
126 The Insurance Fact Book, Insurance Information Institute, 2009
127 Annual Statistics, Jordan Insurance Commission, 2008 A
129 Ibid.
130 Ibid.
The top performing companies in terms of gross written premium inside Jordan include: Arab Orient Insurance, Jordan Insurance, and Arab German Insurance. There is no leader in terms of market share of written premiums, and no company holds more than 10% of the market share. Arab Orient Insurance holds 9.67% of premium market share, Jordan Insurance a close second with 9.19%. In terms of the market share of profits there are clear leaders. Jordan Insurance with JD 8,460,008 profits in 2008 holds 42% of the total market share of profits and Islamic Insurance holds 35%. In 2008, 13 insurance companies in Jordan generated losses.\textsuperscript{132}

Recent Initiatives in the Sector

There is a study on compulsory medical insurance for those working in the private sector prepared by the Insurance Commission. It focuses on the coverage of in-patient medical treatments up to a certain level. This has not been finalized, but would likely raise the awareness for the need of such insurance.

Additionally, initiatives have been taken in regards to income taxes, and to treat life insurance as a social security. The IC is encouraging to develop an Exempt-Exempt Taxed (EET) system for life insurance, which would only postpone income from tax. The first “exempt” refers to the tax deductibility of employer and employee contributions, and the second “exempt” refers to investment earnings being exempt from taxation. The “taxed” refers to the ultimate taxation of retirement pensions and other benefits at the time they are paid to the employees and beneficiaries.

The EET system is a form of taxation of pension plans, whereby, contributions are exempted, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation.

Furthermore, the IC’s goal is to increase awareness in the basic principles and concepts of insurance. A campaign has been implanted with ads and flyers that use a cartoon figures to easily explain the needs for insurance. IC is also working on the MTPL, to link insurance rates with road accidents, which will be implemented soon, according to IC Director General HE Dr. Basel Hindawi. Linking insurance premiums with drivers’ traffic records will be determined. Insurance companies will comply with these mechanisms as compulsory insurance system of “reward and punishment” will contribute in reducing traffic accidents as drivers with safe driving traffic records will pay less, while drivers with bad traffic records will pay more when insuring their vehicles. Currently this issue is being discussed as a priority with

\textsuperscript{131} Annual Statistics, Jordan Insurance Commission, 2008

\textsuperscript{132} Additionally, Jordan Insurance Company and Arab Life and Accident Insurance Company are the only two insurance companies with foreign branches with total premium income from foreign branches reached JD 11.9 million in 2008, up from JD 10.7 million in 2007. The branches of Arab Life are located in the West Bank and JIC’s are in UAE and Kuwait. Source: Jordan Insurance Federation, Annual Insurance Business Report 2008
the Prime Ministry and it should not take long for this new regulation to pass. Moreover, the last few years have also witnessed the adoption of new distribution channels like bancassurance, selling insurance and banking products through the same channels, direct marketing and e-insurance. Jordan’s insurance market depends on the direct sales approach where the insurers take the responsibility of developing sales. To that effect, the creation of dedicated direct sales force is currently a trend in the market.133

3.3 Results of the Michael Porter’s Diamond Analysis of Competitiveness

The model by M. Porter analyzes the industry using four dimensions or attributes of promoting the creation of competitive advantage134:

- **Demand conditions**: nature of home demand.
- **Factor conditions**: nation’s position in factors of production such as skilled labor force and infrastructure.
- **Firm strategy, structure, and rivalry**: how companies are created, organized, managed and the nature of domestic rivalry.
- **Related or supporting industries (RSI)**: presence or absence RSI that are internationally competitive.
- **Two additional variables**: government and chance.

Data Gathering

The data for Jordan’s Second Competitiveness Report 2008-2009 was collected in a standardized way. A special survey consisting of multiple-choice answers and several open-ended questions was designed. The key determinant in designing the survey was to reflect M. Porter model of competitiveness. It was distributed to over 60% of the stakeholders of the insurance industry (in terms of premiums written), including key industry leaders of local insurance companies.

Additionally, information on the Jordanian insurance sector was collected through individual meetings with selected key stakeholders. Other key sources of information were a desk study and expert’s knowledge. In order to have an open and unbiased discussion about the key issues in the sector, the special roundtable session was organized at the Ministry of Planning and International Cooperation’s premises. Again, key stakeholders were invited and participated.

3.3.1 Demand Conditions

The greater the demand in the home market, the greater the pressure on firms to innovate and create new products. Firms are likely to sell superior products because of high demand. This higher quality is an important element to producing competitiveness and leads to a national advantage.

**Domestic Demand**

The domestic demand consists of the following: 42% of premiums come from motor coverage accounts, 20% from medical insurance, and fire and property damage at 14%. The remaining demand is for products such as marine, aviation, credit, life, etc.135 In a truly competitive market, the comfort for a customer buying a financial product is that the regulatory system will provide him an environment of trust.

The three particular identifiable risks that the customers face includes: the bankruptcy of the provider, failure to understand the product resulting in a purchase of an inappropriate product, and the failure of the product to meet its perceived performance.

These issues have particular significance in life insurance. Life insurance products are more complex and it is not feasible for an average customer to fully understand the product and its features, for these purchases are rare; the individuals have little experience and understanding of insurance products.

These are the reasons why it is crucial to have a feedback from customers in order to react and adjust to their changing needs and their feeling of security in dealing with insurance products. The following figure illustrates that most analyzed companies survey local and international customers on the quality of their experience in the insurance sector in Jordan, and they do it at least once per year.

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134 More on M. Porter methodology see II.1. Introduction
PART II: COMPETITIVE POSITION OF ANALYZED SECTORS

3. INSURANCE SECTOR

Figure II.3.3: Frequency of Local Customers Surveyed

Home Demand Composition

In Jordan, the low awareness for the need of insurance results in an unsophisticated consumer. Jordan's demand is hindered by the cultural and religious factor, where 92% of the total population is Muslim and many believe insurance is unnecessary because society should help any victims.

The cultural factor is a major disadvantage for the insurance stakeholders, as the survey pointed out. With low risk awareness in Jordan, the risk-management concept is not well understood as one of the risk transfer mechanisms. Many have the impression that insurance claims lead to disputes and are often a complicated process. Nevertheless, Muslims understand the fact that they live, trade and communicate with open global systems, and they no longer ignore the need for banking and insurance.

Size and Pattern of Growth

Besides the disadvantages on demand from culture and religion, the main reason for the low demand is the market size and demographics. The Kingdom of Jordan is a notably resource-poor, with limited agricultural land, no oil resources, and considerably scarce water. Jordan's only natural resources are potash and phosphate. Over 80% of the population is urbanized, and it is one of the youngest among lower-middle income countries, with over 35% under the age of 14.

Jordan's population in 2008 reached over 6 million inhabitants. The median age is as young as 23.2 for females and 24.6 for males, and much of the population does not yet have a need for insurance. These young generations will be the next potential customers for the insurance sector and many recognize this advantage. More than 70% of stakeholders surveyed, perceived this situation as favorable in the future, since young people are more educated and may recognize the need for financial products such as insurance. In addition to the demographics and population, low disposable income hinders the demand of insurance products.

The stakeholder survey indicated that most players in the insurance sector find the disposable income the least attractive reason for being based in Jordan. The GDP per capita reached the level of USD 3,641 in 2008 and an official unemployment of 12.7% in 2008 show that much of the population's basic needs have not been met. With solid development policies and high capital inflows over the last five years, Jordan has managed to achieve above-average results compared to other countries in the region.

The stakeholder survey also indicated that 79% of insurance organizations find the political stability the most valued advantage of being based in Jordan. Nevertheless most players feel that the demand for insurance products will remain the same, as indicated in the next figure. Only 35% felt that the demand for insurance products will increase in the near future. This may signalize a stagnant growth.

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136 Insurance Stakeholder Survey, 2009
137 Islamic Insurance, with Modern Approach to Islamic Banking, by Aly Khorshid,
138 Jordan Department of Statistics
139 Own calculations: GDP of USD 21.3 billion divided by 5.85 million Jordanians by the end of 2008 (according to the Central Bank data)
140 Central Bank, Annual Report 2008
Insurance is a complicated product that relies on word of mouth; therefore, insurance companies are not educating their customers sufficiently about their products and services. Most people do not spend the needed time to study the policy to understand what is covered and what is not and then demand all claims to be paid. The insurance stakeholder survey indicated that companies in Jordan spend on average 1-2% of gross written premiums on marketing and advertising. In a market where building awareness and demand is a constant issue, this shows that more marketing initiatives may be appropriate.

### 3.3.2 Factor Conditions

Jordan's insurance industry faces a mix pool of resources that shapes its competitive position. While the physical infrastructure is comparably high, the country has not yet been able to fully tap its talented human capital for use in the industry.

#### Human Resources

Jordan's insurance market is known as a source of qualified insurance professionals. Many of the markets that were recently opened to foreign investors, like Syria and Saudi Arabia, relied on the Jordanian insurance workforce. The stakeholder survey indicated that 35% of the insurance businesses in Jordan see brain drain, the migration of skilled and experienced employees, as an issue for their organization which compromises the organizations ability to train and retain quality workers. Another 43% see it as a slight, but present problem.

Despite the problem of the brain drain, Jordan Insurance Commission has launched a series of professional training courses in cooperation with the Chartered Insurance Institute (London) and Bahrain Institute for Banking and Finance (BIBF). As a result better-qualified insurance professions are available. Many Jordanian employees succeeded in obtaining professional certificates through these training courses.

Thanks to those initiatives, to a large extent, Jordan insurance companies have no difficulties in finding Jordanian workforce to fill all classes of vacancies starting from clerical to senior managerial posts. However, some technical underwriting posts are not that easy to find. The stakeholder survey showed that 64% of firms are able to offer sufficient compensation to attract the best Jordanian employees. Motivation schemes in the Jordanian insurance sector are based on a combination of bonus, “career path”, and commissions.142

Senior managers are motivated by a number of tools, starting from self actualization through the success of the organization they manage, appreciation and acknowledgment of the board and the shareholders, to their efforts through bonuses, and stock options in a very limited cases. When asked to indicate the motivation scheme that has been implemented, bonuses were the most popular. The following figure illustrated the different motivation schemes currently implemented.

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141 Insurance Stakeholders’ Survey 2009
142 Ibid.
Lastly, insurance professionals in Jordan, have a great respect to the system, to their work, to the social values, and can be characterized as being disciplined and goal oriented. However, they are not sufficiently paid. The factor conditions, in regard to the average low salaries and low disposable incomes are greatly interconnected here. Additionally, failure is painful to all, especially to senior management who is held responsible for most failures; nonetheless, the market has witnessed the rebounds of a few companies that were previously branded as failures. Nevertheless, the system can accept change and respects good performers.

Physical Resources

Almost all of the physical resources that an insurance company would require to operate are available in Jordan. The communication sector, which witnessed remarkable developments in the last few years, enhanced the efficiency of insurance companies. The backbone of the industry, which is the Information Technology Systems, are available in Jordan and more than four companies provide advanced software solutions to insurance companies. Insurance companies can easily plan, implement, and develop their information technology infrastructure with the most modern and up-to-date IT networks and infrastructure. Despite the available IT systems, the stakeholder survey indicated that 30% of organizations use “average” information system to manage their insurance business. Of the remaining stakeholders, 40% identified their IT systems are very advanced, and 30% stated they are world class. Since IT systems are a great tool to improve efficiency and profitability, this signalizes that some of the firms have room for improvement.

Knowledge Resources

In Jordan, insurance is not included in any form in schools’ curriculums. However, risk management and insurance is a degree that is currently being granted by one university. Actuarial Science is a degree offered by another school, the University of Jordan.

Figure II.3.6: Yearly Training Expense Per Employee (JD) 144

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143 Ibid.
144 Insurance Stakeholder Survey 2009
Insurance training centers in Jordan can be characterized as small, uncreative, and not competitive when compared to other regional well-known insurance institutions, to the extent that the Insurance Commission of Jordan imports such services from regional and international countries.

Of the stakeholders surveyed, 36% spend JD 200-500 on average per employee on training. Another 36% spend over JD 500, and the remainder between JD 1-200. Furthermore, in terms of human development, Jordan has positive results based on consistent levels of spending—more than 25% of GDP—on human development (education, health, pensions, social education) in 2008. In 2003, the Government launched a modernization program, designed at overhauling the basic education system to support the needs of a knowledge-based economy.

In terms of quality, Jordan ranks above international averages in science, but still below average in math. The remaining agenda’s aims are to improve higher quality education and to take advantage of the very young population to transform Jordan from a small lower-middle income, into a modern knowledge-based economy. The figure below illustrates the quality of business schools in Jordan, as identified by the stakeholder survey. It is clear that a modernization program is very much needed, as most viewed the quality of business schools as average.

Figure II.3.7: Quality of Business School In Jordan

When the disposable income will rise, the need for insurance products and services will most likely grow. Most of the stakeholder survey respondents (80%) claimed that they plan to increase the number of insurance products that they offer, within the next 12 months. Although they predict that the demand for current insurance products will remain the same, by offering new insurance products, the demand may grow.

Figure II.3.8: Number of Insurance Products Planned To Be Offered In the Next 12 Months

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146 Ibid.
147 Insurance Stakeholder Survey 2009
Capital Resources

Jordan's insurance market is over capitalized and insurance premium represent more than 137% of the capital and 100% of the owners' equity. Historically, insurance companies in Jordan were mostly owned by families, however, until fairly recently the market was able to notice some corporate takeovers by banks. An example is Arab Bank who took the initiative of owning the majority of an insurance company. A third bank, Jordan Islamic Bank, established Islamic Insurance Company, in the year 1996, to be the first Islamic insurance company in the country.

Captive insurance companies, insurance companies established with the specific objective of insuring risks from their parent group, do not exist in Jordan despite the fact that a regulatory framework is in place for this type of activity. Investments in the industry are mainly, bonds, stocks, real estate, and cash deposits. Due to the strict investment regulations in Jordan, the investment policies of the companies are similar to a large extent, and the financial impact is generally felt by all players.

Infrastructure

Communications in Jordan occur across many media, including telephone, radio, television, and internet. Jordan's telecom infrastructure is growing at a very rapid pace and continually being updated and expanded, and industry remains the most competitive in the Middle East.148

Jordan's only seaport is the Red Sea's port of Al Aqaba on the Gulf of Aqaba. The port has one container terminal and over 20 modern berths divided into sections for general cargo, phosphates in bulk, and potash and fertilizers. Jordan's road network links the capital city Amman, with all parts of the Kingdom and its neighboring countries. There are two major highways: the north-south Desert Highway which runs from Amman to Al Aqaba and the east-west highway which connects Al Mafraq to the Iraqi border. In addition, there are around 1,100,000 cars registered in Jordan, with around 700-1000 accident related deaths per year.

Payments

With the exception of mega accounts where Premium Payment Warranty (PPW) is incorporated in the policy wording, the market practices regarding the mode of premium payments are rather relaxed. Corporate accounts mostly pay on account without a clear payment schedule. Terms of premium payments for individual or small corporate accounts are more organized and are either on cash up front basis or based on post dated cheques. In both cases, the mode of payment is agreed upon in advance, unlike with the big corporate accounts.

3.3.3 Firm Strategy, Structure, and Rivalry

The way a firm and industry sets and creates goals, and the way they are managed, are important factors in determining their level of success. The following chapter looks at the industry's strategies, structures, and competition among existing firms, to determine if competitive advantage is created and weather or not it can be improved.

Strategy

Company goals are mostly determined by the ownership structure and the motivation of owners, which are normally represented by the return on equity and market penetration. Strategies in Jordan's insurance sector are suitable to the level of market development and demand size. Internal communication seems to be a major threat to the efficiency of management labor relationships. Strategies are developed downward, with little involvement from lower managerial levels. As such, implementation faces difficulties, the action plans mismatch the overall strategies and existing strategies are kept in the hands of senior management.

In the insurance stakeholder survey, when asked if a strategy for the insurance sector exists, 60% responded that it does exist, and is correctly focused on the right issues, but is only partly implemented. An additional 20% felt that a strategy exists, but is completely focused on the wrong issues.

Promotional tools that are frequently adopted by insurance companies in Jordan range from advertising, public relations, direct selling, and sales promotions. Nevertheless, personal selling is considered to be the most effective promotion tool in the market, supported by other tools like advertising and backed by quality customer service after a sale.

148 For more on IT see 3.3.4. Related and Supporting Industries
The figure below is a result from the insurance stakeholder survey, which illustrates the need for a common marketing and promotional strategy in order to increase the awareness and demand, previously discussed.

**Figure II.3.9: Common Marketing and Promotion Effort**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not exist</td>
<td>40%</td>
</tr>
<tr>
<td>Exists, but is focused on the wrong issues</td>
<td>30%</td>
</tr>
<tr>
<td>Exists, is correctly focused on the key potential markets, but nothing is happening</td>
<td>20%</td>
</tr>
<tr>
<td>Exists, is correctly focused on the key potential markets, and is implemented</td>
<td>10%</td>
</tr>
</tbody>
</table>

In regards to a strategy for the distribution channels, the acquisition ratio (commission paid to gross written premium) of the market, does not reach 5%, which is considered low. 11 bancassurance agreements are currently active in the market with little effect on the demand so far.

With some companies, these agreements are hardly covering the expenses paid to initiate a project, while with other companies it is a truly promising area, especially for the life bancassurance products. Lastly, e-insurance is not yet developed in Jordan, as only one company is prepared to sell a complete product on line, while the other trials merely represent the first step towards personal selling.

**Structure**

New regulations have assisted the industry in becoming a more transparent sector. The separation between Chairman's and General Manager's role in addition to the structure of the board where one third of the board members must be independent members are the most important steps towards more transparency and corporate governance.

The regulations have also changed some aspects of the relationship between the Board of Directors and Management, setting clear areas of concern and interest for each, making the responsibility and accountability clearer for both. In general, organization structures of Jordan insurance companies can be characterized as functional where technical departments are separated by branches of the businesses they write. A common structure would have a finance and administration department, and a sales and marketing department, in addition to the technical departments.

It is important to note that is regards to the ownership structure, many the insurance companies in Jordan are family owned, making it difficult in the restructuring phase of a merger. This is hindering the corporate development of many firms. Moreover, the insurance sector in Jordan respects authority and seniority. An open dialogue is usually in place amongst the industry. Jordan Insurance Federation is considered the house of all insurance companies.

The Banking and Insurance Professional Union represents insurance professionals with minimal impact on the general direction of the industry. Among industry leaders, 50% indicated that the insurance companies do a mediocre job of cooperating on a regular basis.

Although cooperation exists, there is much to be improved. Lastly, the quality of private-public dialogue is not entirely equal, as the government usually has the upper hand and the companies are only reacting to the directions the government efforts are steering the market towards.

In the last ten years, the market has been flooded by regulations that were not welcomed by all the companies, nonetheless, companies had to always abide by and follow the regulations. To say the least, the gap between what the government wants the market to be, and what it actually is, is large.

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149 Insurance stakeholders' Survey, 2008
150 Ibid.
Rivalry

The insurance industry in Jordan consists of a number of players and providers with a mix of price, specialization, and quality. The current 28 companies competing over a small market, with an average market share of 3.57%, make the competition landscape crowded and lacking a clear direction. As the market leader is less than two standard deviations away from the average market size, price remains the major driver of competition. As such, insurance services in Jordan are under the threat of becoming commodities rather than sophisticated financial products.

In the stakeholder survey, the majority 64% responded that the price of a service is the most important among insurance companies. Personal networks and relationships are also very important, as all surveyors either identified them as the most important, or very important to be competitive in the sector.

Nevertheless, competition among insurance companies in Jordan is not necessarily driven by the quality of the service. Only 7% indicated quality as very important, and 29% as somewhat important. The remaining responses showed that the insurance industry in Jordan is not driven by quality. The insurance industry has not experienced rivalry as a driver of innovation until the early 2000s, when it started witnessing new initiatives in terms of product development and methods of operation.

In general, market propositions and offerings are based on basic statistics and managerial judgment, with limited dependency on actuarial studies or market research to sense the demand. However, these initiatives were limited and cannot characterize the market. They have been adopted by a limited number of companies, none of which can be considered a real market leader due to the fragmented market. The service quality of claims handling and settlement, have been improved a lot during the past few years thanks to the fierce competition and strong word of mouth effect in the market.

Lastly, the insurance industry is protected from international competition to a certain extent. By law, Jordanian properties must be insured with local insurance companies. Nevertheless, it is becoming a major threat to local insurers that risks, especially large ones, are insured regionally or internationally, but fronted by local companies to overcome the legal restrictions. Fronting is a critical issue nowadays in the industry, where premiums are transferred to other countries and local companies compete over a very thin margin of fronting fees, which in many cases does not exceed 1% - 2.5%.

This margin is not enough to cover the managing expenses and exposure to big losses, as insurers will continue to be legally liable in front of the insured, despite the fact that their role is limited to the issuance of the policy as part of the formalities.

3.3.4 Related and Supporting Industries

The insurance industry has several supporting industries that it relies on. Whether the related and supporting industries are developed influences the level of success of the insurance sector.

Banks

The number and quality of the banking sector directly affects the insurance sector as it facilitates the insurance processes and can be utilized as a distribution channel, especially in bancassurance. Jordan’s fairly well-developed financial sector is dominated by banks, with more than 20 banks. The government owns no commercial banks but does own five specialized credit institutions focused on agricultural credit, housing, rural and urban development, and industry.

Information Technology

IT systems are important to insurance companies. There are more than four IT companies, in Jordan, that provide advanced software solutions to insurance companies. Insurance companies can easily plan, implement, and develop their information technology infrastructure with the most modern and up-to-date IT networks and infrastructure. Many of the top firms have automated their processes because of such specialized software. 63% of the IT systems used to manage the insurance companies are advanced, cited the respondents of the stakeholder survey. This suggests that the industry recognizes the need for great IT systems to remain competitive, but also shows that there is room for improvement. Only 30% responded that their IT systems are world class.
Credit Bureau and Rating Agencies

For credit insurance to be established in a country, the credit bureau is an essential prerequisite without which this branch of business cannot be found. In Jordan, this type of supporting services is absent due to many reasons, but most importantly the privacy of banking information. Many efforts have been put towards establishing a Credit Bureau, none of them, however, succeeded due to the obstacle of data protection. Not many organizations exist that provide objective, third party standards and certification, like rating agencies, for the insurance sector institutions in Jordan. Most of them focus on ISO certification rather than specialized financial strength ratings, which is more relevant to the industry and measures the claims paying ability of an insurer. The stakeholder survey identified that 64% of the correspondents felt that an organization that provides objective, third party standards and certifications, like rating agencies, does not exist in Jordan. The remaining said they do exist, but of very poor quality and high cost.

Actuaries

An actuary is a business professional who deals with the financial impact of risk and uncertainty. They have a thorough understanding of financial security systems, with a deep knowledge of focus on their complexity, mathematics, and mechanisms. For pricing and reserving, insurers need actuaries with high quality and experience. Actuaries evaluate the likelihood of events in order to minimize loses, associated with uncertain unexpected events, such as death. Since many events cannot be totally avoided, it is helpful to take measures to minimize their financial impact when they occur. The overall quality of the actuaries is not high in Jordan, as the stakeholder survey indicated. Over 70% rated actuaries as either of very poor quality or of mediocre quality. Only 15% consider them to be world-class. This implies that insurance companies mostly depend on external actuaries licensed by the Insurance Commission, however, located outside the country. Another implication is that the strive towards developing new products are always faced with either a lack of quality data or poor actuarial rationale, on which the future expected losses are based.

Risk Surveyors and Loss Adjusters

Insurance risk surveyors, also known as risk consultants, and risk control surveyors work for general insurance companies, brokers, or firms of specialist surveyors. Their focal role is to advise about risk based on their technical and good practices knowledge. Loss adjusters also are necessary to adjust losses and advise. Loss adjusters investigate insurance claims by interviewing all parties involved in inspecting property damage for example, to determine the extent of the company’s liability. The quality of loss adjusters is better than actuaries, the stakeholder survey showed, as 50% classified them as almost world-class. Many insurance companies around the world prefer their claims adjusters to have a 4-year college degree preferably in business related fields, however having a degree in liberal arts is acceptable as well. In Jordan, loss adjusters must have a license from the Insurance Commission to practice their work.

Third Party Administrators

A third party administrator (TPA) is an organization that processes insurance claims for a separate entity. It is a way of outsourcing the administration of the claims processing, since the TPA is performing a task traditionally done by the company providing the insurance. TPAs are an important part of indirect insurance business. The stakeholder survey showed a diverse opinion about the quality of TPAs in Jordan. Some thought the TPAs are of great quality and directly contribute to their system’s competitiveness, while others believed that local TPAs are poor quality and constrain the system’s competitiveness. The response from the stakeholder survey indicated that intermediaries are considered mediocre at best, as 55% of the stakeholders pointed out.

Reinsurers

No local reinsurer is available in Jordan, and only foreign companies are currently present. Major foreign reinsurers are Munich Re, who owns a stake in Jordan Insurance Company. Swiss Re and AXA also own a stake in Middle East Insurance Company. The capacity that is offered to the market comes from regional reinsurers like, Arab Re, TRUST Re, ARIG, BEST Re, Takaful Re and from international reinsurers like Allianz, GIC, Mapfre, Hannover Re, SCOR, and AXA among others. In general, the market does not suffer from capacity scarcity except for the earthquake peril where

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151 Becoming a fully credentialed actuary requires passing a rigorous series of exams, usually taking several years. In some countries, such as France, most study takes place in a university setting. In others, such as the U.S. and the UK, most study takes place during employment. In Jordan, although one university grants a degree in actuarial science, there is not any local specialized body in offering credentials to actuaries.
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it may face some difficulties in obtaining enough capacity. The size of the market and the taxation system are the main reasons why reinsurers prefer other regional countries as a base in the Middle East and North Africa. Bahrain, Dubai, and recently Qatar, succeeded in creating the investment environment for the largest worldwide reinsurers to operate from their countries. Qatar Financial Center, Bahrain Financial Harbor, Dubai International Financial City are true examples of environments that attracted international players.

3.3.5 Other Variables: Government and Chance

The role of the government is to encourage companies to raise their performance, sometimes by enforcing strict product standards. The standards can stimulate easy demand for advanced products and focus on specialized factor creations. Additionally, the government should ideally stimulate local rivalry by limiting indirect cooperation and enforcing antitrust regulations.

Government

Overall, there appear to be significant concerns among the industry in the role that the government is playing in regulating and promoting the insurance industry. Only 8% of industry leaders polled that the government sees the insurance sector as a priority and is actively working to support the system’s strategy. Most, 62% feel that the government sees limited in the development of the insurance sector for the economy. More than 54% of respondents indicated that tax rates are unreasonably high and suffocating the system, and 23% found the taxes to be higher than in other economies, but justified. The remaining 23% indicated that the taxes in Jordan are in line with other economies. Contrary, when asked to evaluate the role of the regulatory environment as a particular advantage of being based in Jordan, 46% indicated this as an advantage but 23% indicated that there was not advantage from the regulatory environment. Around 62% of respondents indicated that the IC is doing good job, dealing with the effects of the global financial crisis.

When asked to evaluate the overall efficiency of the government in assisting the insurance sector in Jordan, the survey regarding the efficiency showed that the government needs to be more efficient.

The Government and the National Agenda

The government has been fairly successful in the execution of the National Agenda in regards to the insurance sector. The Executive Program to implement the National Agenda for 2007-2009, has set a number of policies with the intention to enhance the competitiveness of the insurance sector. The government has managed to combat money laundering with more regulation. Now every company must have an anti-money laundering officer who sends regular reports. Also, external auditors are required to submit a certificate stating the extent to which the company has complied with the instructions related to anti-money launderings.

A successful legal framework has been established for new types of insurance companies. Instructions of licensing and supervision for the reinsurance of non-operating foreign insurance companies in the Kingdom, has been established. Instructions of licensing reinsurance companies and reinsurance offshore companies have been put into effect. Additionally, there is a drafted proposal for the establishment of a fund for the protection of the beneficiaries of insurance activities in the event of bankruptcy.

With an improved profession qualification program, the Executive Program for 2007-2009 has been mostly executed. Many studies have been conducted on professional liability, disaster insurance, agriculture insurance, etc., but no changes have resulted from such studies. Furthermore, the initiatives that have not been executed include: regulating the contractual relationships (in particular intermediaries), unifying capital requirements with international standards, and establishing a database to provide information concerning the insured and the compensation paid to them.

Chance

By nature, insurance is affected by chance as the transfer of risk can be thought of as a guaranteed small loss to prevent a large, possibly devastating loss from an unplanned event. The major natural hazards affecting the Hashemite Kingdom of Jordan are earthquakes, drought, and desertification. In general, the capacity to deal with natural hazard risk in Jordan is still predominantly at the response focus stage and is in need of strengthening in several areas, to bring it more in line with contemporary risk reduction practices.
In the absence of a disaster risk reduction policy, the inclusion of risk information into the development planning process is not happening on a consistent level.

The inevitability of earthquakes in this region, coupled with rapid urban growth, makes the implementation of a comprehensive and holistic urban risk reduction program for Jordan a definite imperative. To that effect that the Insurance Commission, in cooperation with Jordan Insurance Federation, is currently in the process of drafting a proposal to establish a National Earthquake Fund, where private dwellings are compulsory insured against earthquakes.

3.4 Results of the Benchmarking Analysis - in Search of Best Practices

Three regional countries and three countries outside the region are chosen for benchmarking, which is used to provide a snapshot of the insurance business, and allows for better understanding of where the industry is in relation to other countries. The main goal of the benchmarking is to search for best practices that are later used for the gap analysis (distance between Jordan and selected best practices, enabling the insurance industry to compare its actual performance with its potential performance).

The regional countries selected as benchmarks include:

- Oman,
- Bahrain, and
- UAE.

For international benchmarking the countries are:

- the UK,
- Germany, and
- Denmark.

For the purpose of comparison, the sector is evaluated among various indicators in relation to competitiveness. This leads to conclusions on the competitiveness of Jordan’s insurance sector.

The following is a summary of the results from the benchmark analysis. Recent developments of each country, their individual best practices, as well as rationale for selecting them as benchmarks, are discussed. Finally, a selection of benchmark countries indicators will be compared in order to conclude with a gap analysis. In economically free societies, governments allow labor, capital and goods to move freely.

The 2009 Index of Economic Freedoms by the Heritage Foundation measures ten components of economic freedom, with scores ranging from 0 to 100, where 100 represents the maximum freedom. Ten component scores are then averaged to give an overall economic freedom score for each country. Below tables serve the purpose for initial comparison between selected benchmark countries and Jordan.
## Table II.3.1: Economic Comparison Between Regional Benchmarks\(^{152}\)

<table>
<thead>
<tr>
<th>Item</th>
<th>Jordan</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Freedom Score</td>
<td>65.4 Jordan score increased by 1.3 points since last year, reflecting substantial increase in business freedom.</td>
<td>74.8 Bahrain is ranked 1st out of 17 countries in the MENA region. 64.7 UAE scored 2.2 points higher with high levels of freedom from labor, corruption, and trade. 67.0 Decline in freedom from corruption that offset an improvement in business freedom.</td>
</tr>
<tr>
<td>Business Freedom Score</td>
<td>68.9 The overall freedom to start, operate, and close a business is restricted by Jordan’s regulatory environment. Despite efforts at reform, bureaucratic obstacles and delays persist.</td>
<td>79.6 The absence of income or corporate taxes except oil. Flexible employment regulations (young population). 57.4 Strict regulatory freedom and minimum capital requirements remain high. 63.3 Oil revenue has driven the economy; reforms to diversify and broad-based economic development has not succeeded. Oman has low tax rate; no income tax on individuals; foreign (&gt;70%) subject to a top corporate rate 30%.</td>
</tr>
<tr>
<td>Government Size</td>
<td>56.9 Government spending equaled 37.9% of GDP.</td>
<td>79.4 Government spending equaled 26.2% of GDP. 86.3 Government spending of 21.4% of GDP. 61.1 Government spending equaled 36.0% of GDP.</td>
</tr>
<tr>
<td>Financial Freedom</td>
<td>60.0 The government has brought supervision and regulation into line with international standards. The insurance sector is small but open to foreign competition.</td>
<td>80.0 Bahrain is a regional financial hub. Sector accounts for over 25% of GDP. Since September 2006 more flexible law introduced. 50.0 Efficient and competitive financial sector offering a full range of products. 20% tax on foreign bank profits. Government announced it will reopen insurance sector. Two stock markets are open to foreign investors. 60.0 New legislation adopted in recent years. In 2000 law, limited investment in foreign securities, raised capital, rejection of candidate for senior positions.</td>
</tr>
</tbody>
</table>

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\(^{152}\) 2009 Index of Economic Freedom, Heritage Foundation
Table II.3.2: Economic Comparison Between International Benchmarks

<table>
<thead>
<tr>
<th>Item</th>
<th>Jordan</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>65.4 Jordan score increased by 1.3 points since last year, reflecting substantial increase in business freedom.</td>
<td><strong>UK</strong></td>
</tr>
<tr>
<td>Economic Freedom Score</td>
<td></td>
<td>79.0 10th freest countries in the world and 4th in Europe.</td>
</tr>
<tr>
<td>Business Freedom Score</td>
<td>68.9 The overall freedom to start, operate, and close a business is restricted by Jordan's regulatory environment. Despite efforts at reform, bureaucratic obstacles and delays persist.</td>
<td>89.9 Opening a new business is easy and fast. Bankruptcy proceedings are easy and straightforward.</td>
</tr>
<tr>
<td>Government Size</td>
<td>56.9 Government spending equaled 37.9% of GDP.</td>
<td>40.3 Government spending has been rising since the 1990's, totaling 44.6% of GDP in 2009.</td>
</tr>
<tr>
<td>Financial Freedom</td>
<td>60.0 The government has brought supervision and regulation into line with international standards. The insurance sector is small but open to foreign competition.</td>
<td>90.0 Strong Property rights and legal system. The insurance market is the world's third largest and most large foreign insurers are present, accounting for significant market shares.</td>
</tr>
</tbody>
</table>

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153 2009 Index of Economic Freedom, Heritage Foundation
PART II: COMPETITIVE POSITION OF ANALYZED SECTORS

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3.4.1. Benchmark Countries Development

The benchmark countries developments are used to identify the best practices within each individual country. These best practices will later be used in a gap analysis, to determine the position of Jordan in regards to the best practices and to its overall competitiveness.

Bahrain

In 2007, the total gross written premiums grew by 34%, with life and savings products growing by 38%. Insurance penetration was at 2.0% in 2007. Total gross reinsurance premiums amounted to BD73.3 million (USD 195 million) in 2006.\textsuperscript{154} Reinsurance and retakaful companies grew by 30% from year 2007 to 2008, mainly because of the entrance of Hannover Re in the reinsurance market.

Additionally, with a total of 1,394 employees in the insurance industry, up by 14% from 2007, of those employees one third are Non-Bahraini, many of which are Jordanian.

Bahrain has a good reputation and prominent position as an international financial and insurance center. Bahrain Insurance Association promotes the interest of the 43 members by enhancing insurance awareness in the region.\textsuperscript{155} Additionally, the Insurance Learning Center is considered one of the largest specialized insurance training centers in the Middle East, offering Chartered Institute for Loss Adjusters (CILA), Certificate of Insurance Practice (CIP), and Association of the Chartered Insurance Institute (ACII), among many others. Furthermore, Bahrain is home to the Gulf Insurance Institute, which aims at serving the growing needs for human capital development in the sector.

In April 2005, Bahrain distributed the Insurance Rulebook, which set out detailed licensing and operational regulations for both conventional and takaful insurance businesses. The Insurance Rulebook contains many new requirements for insurance firms operating in and from Bahrain and stands ready to provide guidance to the industry. A recent report by the Financial Sector Assessment Program (FSAP), a joint venture between the International Monetary Fund and the World Bank, recognized the comprehensiveness of this regulatory framework.

To attract global insurers, the Central Bank of Bahrain (CBB) has modified the capital requirements for branches of overseas insurance firms by acknowledging the support provided to the branches from their foreign parent company. Branches of overseas insurance companies would not be required to pay a minimum amount in capital, but would continue to maintain solvency margins of USD 1.3 million for general insurance and USD 1.1 million for life.

Further recent initiatives include the introduction of compulsory health insurance for expatriates and projects, by the CBB, aimed at increasing R&D, education, and training. The University of Bahrain and a UK university are jointly setting up a center of excellence for the academia and research of the insurance field.\textsuperscript{156}

Bahrain’s insurance sector has a competitive advantage in the region, although it is not very competitive worldwide. Regionally, it has become competitive in recent years mainly because of their extensive insurance education and institutes, the Insurance Rulebook, modified capital requirements, and introduction of compulsory health insurance for expatriates.

\textsuperscript{154} 2nd Mini Guide to Insurance Markets of the Middle East and North Africa
\textsuperscript{155} Bahrain Insurance Association
\textsuperscript{156} 2nd Mini Guide to Insurance Markets of the Middle East and North Africa

Key rationale for selecting Bahrain as a benchmark

The country is at the same stage of development as Jordan, although it is much more vibrant, with a 20% insurance premium growth rate each year, for the past five years. In addition, it is an efficient sector with profitability growing year-to-year. Bahrain is an attractive country for investors and its competitive environment is similar to Jordan’s, with 25 local companies and 11 foreign insurance providers of which 7 are licensed takaful firms. The reinsurance market consists of five registered companies, of which one is a retakaful organization. Human resource factor is a major advantage for Bahrain as they have some of best-qualified people and education in the region, for insurance.


**United Arab Emirates (UAE)**

UAE, relative to other countries in the Middle East and Africa, has a moderately attractive insurance market for foreign insurers. Compared to the region, UAE has a high per capita GDP and a sound economic outlook, although high inflation remains a problem. Government policies are likely to remain constant over the long term.

The UAE’s total population is growing quickly. In terms of the competitive landscape, non-life segment has seven foreign operators offering products in the UAE. Meanwhile, the life segment has three foreign operators. Of these three firms, two (AXA and AIG) also offer non-life segment lines. Similar to Jordan, the UAE is characterized by a very small life segment and a somewhat larger non-life segment but still low overall penetration.

The UAE insurance market is split between onshore and offshore, with the former governed by an Insurance Commission and the offshore governed by the Dubai International Financial Center (DIFC). In January 2007, MOE issues tougher regulations on insurance brokers in order to further improve the standards of the industry. That same year an insurance commission was also established.\(^{157}\)

Recent initiatives in the insurance sector have been the establishment of a federal health insurance authority to regulate the health insurance industry across the UAE. Although not finalized, the establishment of the authority is close. Compulsory health insurance for expatriates and their dependants was introduced in Dhabi in January, 2008. These expatriates are the source of most life premiums, which account for 16% of the total insurance premium market.

Lastly, in the United Arab Emirates, regulations do not require companies to adhere to solvency regulations but rather only meet minimum capital requirements. UAE has a more competitive insurance sector than Jordan, but is moderately attractive worldwide. It’s main competiveness is driven from the long-term financial risk, high GDP per capital, good policy continuation, and a favorable tax system.

**Oman**

The Cyclone Gonu of 2007 left many Omani insurers and regulators still trying to rationalize their operations after this experience. Luckily the cyclone dissipated at sea, reducing the damage that could have been caused if it dissipated on land. Nevertheless it still caused between Omani rial (OMR) 3-4 billion in economic loss, of which OMR 245 million (approximately USD 600 million) was insured.\(^{158}\) The cyclone event proved that the insurance industry performed well as they maintained customer service and claims handling.

The insurance companies were really put to the test and they proved to be reliable and professional. In Oman, with an even smaller population than Jordan, 2.6 million, before the disaster most people were skeptical of the benefits of insurance.

In Oman there is a high concentration on the quality of business and key players support growth through their strong balance sheets and ratings to permit

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\(^{157}\) Ibid.

\(^{158}\) Ibid.
slightly higher retentions. Additionally, with diversified sources of revenue, the insurers are generally supportive and pragmatic viewpoint of the Sultanate’s government agencies. Specifically, insurers take great comfort from the supervisory infrastructure that supports the local insurance sector. The Capital Market’s Authority (CMA), is one of the most respected regulators in the region. This reputation was further strengthened by the events of Cyclone Gonu, when the y showed patient efforts to codify international best practices. The CMA is respected because of their view on the market and understanding that the future of the insurance sector will be characterized by competition, driven by liberalization and globalization.

Furthermore, the CMA urges local insurance companies to adopt international best practices and to be prepared for increasing competition from the foreign insurance companies. It also plans to develop regulatory and managerial systems for a comprehensive insurance network and to spread insurance network awareness among the segments of the community.159

A new body of insurance law similar to the 2003 applied insurance regulations in Saudi Arabia is expected to be implemented in the near future. The laws seek to incorporate all insurers and introduce sensible minimum and risk-based solvency requirements. The CMA will not impose any unnecessary restrictive requirements on the local industry that could get in the way of its successful development. In June, 2008, the CMA introduced a unified motor policy to help unsophisticated buyers compare offerings from different insurance companies. The difference between Oman’s unified motor policy and Jordan’s, is that some insurers adopted a much more selective approach to motor underwriting, with higher tariffs for young and accident-prone drivers. Furthermore, the CMA has changed certain regulations to direct government business toward the national insurance companies, even if they are more expensive than the foreign ones.

In 2008, the creation of the Oman Re was finalized to support strong financial local markets. Although it is unlikely to end the reliance on foreign reinsurers, since no start-up reinsurer can take all the risk associated with the energy and infrastructure, it is a milestone for the insurance sector. Some Omani insurers are increasing their levels of activity by expanding into other markets. For example Oman United Insurance has currently moved into Qatar. The smaller Omani insurance companies understand that the only realistic way to stay competitive will be to merge with a local competitor to combine their human and financial resources.

Although Oman is not very competitive worldwide, in the region it is one of the leaders in the insurance industry. Oman’s unified motor policy allows insurers to select the appropriate premiums to charge, making it more competitive and profitable than in Jordan. Next, the creation of a local reinsurer, Oman Re, and the trend of local insurers to offer their products abroad, has increased the overall competitiveness of Oman’s insurance sector.

**United Kingdom**

One-fifth of its net premium income comes from overseas business. 1,017 companies are authorized by the Financial Services Authority (FSA) to carry out insurance business in the UK, of which 762 carry out general business only 209 carry out long-term business only, such as life insurance, and 46 specialize in both general and long-term business. Larger insurance or financial services groups own many of these companies. Whereas, top 10 general insurance groups account for 71% of the business written, while the top 10 life and pensions insurance groups account for 80% of the business written.160

The FSA approach to regulation is risk-and evidence-based, as well as, principles-based. Working with stakeholders, they have undertaken numerous initiatives over recent years to ensure a proportionate regulation that is supported by a cost benefit analysis.

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159 2nd Mini Guide to Insurance Markets of the Middle East and North Africa

160  Financial Services Authority, Insurance Sector Briefing, 2008
The FSA has three strategic goals: promoting efficient, orderly and fair markets; helping retail consumers achieve a fair deal; and improving business capability and effectiveness. Since January 14th, 2005, the FSA is also regulating the motor industry. This regulation now covering more than 5,000 motor dealers, has focused on the FSA’s “treating Customers Fairly” principles that should be representative of the motor dealers trading style.

Lloyd’s of London, a British insurance market, is perhaps the least regulated insurance entity in the world, when it comes to its products. This is one of the main reasons Britain is a world leader in the insurance business. Lloyd’s is not an insurance company but rather an environment. It has the freedom to set rates and write new kinds of insurance, while foreign insurance firms are busy meeting local standards and gaining regulatory approvals. This has made Lloyd’s an innovative force in the insurance industry.

As the founder of insurance, the UK has one of the most competitive insurance sectors in the world. The FSA ensures proportionate regulation that is supported by a cost benefit analysis, even for the motor industry. The FSA also lowered solvency rates when worries regarding the financial crisis arose, in order to stimulate business. Additionally, Lloyd’s of London, the most successful insurance society, is completely unregulated. They set their own rates and write any new kind of insurance.

Germany

A distinctive feature of the German insurance sector is the degree of integration within the financial services industry. Germany pioneered the “allfinanz” concept and most of the main players are members of groups that include banking and investment management arms. But, this integration has left the German insurers more exposed to the impact of what is primarily a banking crisis than many of their counterparts in other countries. Already market leader Allianz has felt the need to sell off its Dresdner Bank subsidiary.

Additionally, there are more than 430 insurance companies registered in the Federal Republic of Germany, employing around 245,000 employees. Of this 40 are subsidiaries of foreign companies. Competitive pressures will continue to drive consolidation in the German insurance sector. The main goal of the merger activity within Germany has been to gain economies of scale, and to consolidate a business position. The German government’s plans to lower or even eliminate capital gains taxes on German shareholdings, are likely to accelerate this trend of consolidation, but will also open the market to foreign players.

In regards to insurance education, actuaries are very high quality and the current rules for the German Actuarial Society require an actuary to pass more than 13 exams. This highly developed process adds much value to the sector. Recently, Germany’s government agreed plan to order some 50 million units of flu vaccine units will immunize 25 million people against the H1N1 swine flu. Next, the health ministers will develop a coordinated plan of action. This includes making sure that insurance companies pay for the flu shots for the eligible people such as, health workers, the aged, pregnant and chronically ill people are expected to be immunized first.161

This is one example of a more regulated insurance market, which has lead to a decrease in the sector’s competitiveness. Overall, Germany has a very competitive insurance sector. Although stagnant growth, the insurance penetration is very high. Being home to the largest Reinsurers and having a highly developed educations and certification for insurance professionals makes Germany one of the most competitive insurance markets in the world.

161 www.dw-world.de, Germany plans to order 50 million swine flu vaccination units. July, 2009
Denmark

Denmark has one of the highest insurance densities in the world. On average each citizen spends USD 5,048 on insurance products a year. The insurance market is USD 27,771 million in 2007, and although the effects of the financial crisis have been felt in Denmark, a slight growth is expected.162

The Danish insurance industry is regulated by the Danish Supervisory Authority of Financial Affairs. Danish companies do most stock insurance business. Some government-owned insurance companies sell motor insurance, fire, and life insurance and handle the government’s war-risk insurance program. In Denmark, third-party auto insurance, workers’ compensation, nuclear power station insurance, hunter’s liability, dog liability, third-party aircraft liability and mortgaged property insurance are compulsory. The two primary pieces of legislation affecting the insurance industry are the Insurance Companies Act and the Insurance Contracts Act. The first contains regulations for establishing and operating insurance companies, and describes the public supervision of the insurance business. The second governs relations between insurance companies, policyholders, and claimants.163

In Denmark it normally takes five years of study at the University to become an actuary, with a focus on statistics and probability theory. By Danish law, the responsibility for the practice of any life insurance business must be taken by a formally licensed actuary. In order to be approved as an actuary, three to five years of professional experience is required. Denmark has a very competitive insurance market and has one of the highest insurance densities in the world. On average each citizen spends USD 5,048 on insurance products a year. The insurance market is USD 27,771 million in 2007, and although the effects of the economic crisis have been felt in Denmark, a slight growth is expected.

Source: International Insurance Fact Book 2009-2010, Insurance Information Institute

3.4.2 Further Benchmark Countries Analysis - Indicators

The benchmark indicators are analyzed and compared to further check if Jordan’s insurance market is competitive. The key areas for development can be extracted from the results, in order to increase the sector’s competitiveness (see also II.3.6. Gap Analysis).

Penetration Ratio

The figure below compares Jordan’s penetration ratio to the region. The penetration ratio shows the contribution of the insurance sector to a country’s GDP.

Figure II.3.10: Penetration Ratio For Jordan And Regional Benchmarks164

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162 International Insurance Fact Book 2009-2010, Insurance Information Institute
163 www.finansraadet.dk, The Danish Financial Supervisory Authority
164 International Insurance Fact Book 2009-2010, Insurance Information Institute
The MENA region has a growing insurance sector although it is not a significant contributor to the country's GDP compared to the world 7.5% average penetration ratio. The main reasons for the low penetration, besides the low disposable income of some nations, are Shari’a’s sensitivity and the lack of awareness of life insurance products. Although the culture and religious factors may play a significant role, Bahrain and UAE, who have similar cultural and religious factors, have much higher penetration ratios.

This clearly signifies that Jordan has the potential to grow and increasing the penetration ratio, as this will increase the sector’s competitiveness. Jordan needs to build awareness and create a need for this type of insurance product if it wished to be more competitive. Overall, the insurance sector in the region is not very competitive worldwide. Compared to the rest of the world, the region still has a long way to go before it can attain comparable levels of penetration. The figure below clearly illustrates this.

Figure II.3.11: Insurance Penetration As a Percentage of GDP for All Benchmark Countries

Insurance Density

Density measures the average amount of money spent on insurance products by a single person in a given country. In the next figure Jordan is benchmarked against insurance density. Compared to the region, Jordan’s insurance density is low, mainly because of the lower disposable income. It will be difficult to increase Jordan’s competitiveness in the sector, without an increase in the density. With the current low average spending per person on insurance products, the sector is not very competitive in the global market.

Figure II.3.12: Insurance Density for All Benchmark Countries

Although the competitiveness of Jordan’s insurance market is low, the current low levels of demand, as measured by penetration and density levels, undercapitalized supply, and the legal and regulatory environments are improving.

In the table below, Jordan is benchmarked with insurance industries in the region and internationally. Not all countries track the same set of indicators; therefore, there are some blanks in the table. The data shown is the last available year and each number is individually sourced from country specific resources.

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165 Ibid.
166 Ibid.
Table II.3.3: Benchmark Comparison Between Selected Countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Jordan</th>
<th>Region</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bahrain</td>
<td>UAE</td>
</tr>
<tr>
<td>Insurance Market Size (USD millions)</td>
<td>407</td>
<td>370</td>
<td>3,555</td>
</tr>
<tr>
<td>Life (USD millions)</td>
<td>41</td>
<td>108</td>
<td>617</td>
</tr>
<tr>
<td>Non-Life (USD millions)</td>
<td>366</td>
<td>264</td>
<td>2,938</td>
</tr>
<tr>
<td>Concentration Ratio Life</td>
<td>75.1%</td>
<td>NA</td>
<td>35%</td>
</tr>
<tr>
<td>Concentration Ratio Non-Life</td>
<td>32.8%</td>
<td>NA</td>
<td>35%</td>
</tr>
<tr>
<td>Min capital req. (USD millions)</td>
<td>35</td>
<td>13.3</td>
<td>13.61</td>
</tr>
<tr>
<td>Number of companies</td>
<td>28</td>
<td>36</td>
<td>48</td>
</tr>
</tbody>
</table>

The insurance market sizes, calculated by the value of gross written premium in a given year, in the international countries, are not comparable to Jordan. From the region, UAE has a much larger insurance market, mainly because of the larger and more diversified economy in addition the growing expatriate population. By introducing compulsory expatriate health insurance, the market size has grown significantly. Often, compulsory health insurance can increase a country’s insurance market size, leading to a more competitive market. This is one of the main reasons Denmark enjoys such a large insurance market size.

The concentration ratio for life insurance products is a percent of gross written premiums of the top four companies. For example, in Jordan, the top four companies' share is 75.1% of gross written premium for life insurance, leaving the remaining 14 companies compete over a mere 24.9% of the market. The higher the concentration ratio, the greater market concentration and clear market leaders are presented. In regards to competitiveness, usually the lower the concentration ratio the better. Only Oman has a higher concentration ratio for life insurance products than Jordan. Therefore, Jordan is not very competitive compared to the region and the world.

For the non-life insurance products, Jordan is much more competitive as far as concentration ratio is concerned (32.8%), it is more competitive than UAE, Oman, and Denmark. Furthermore, the minimum capital requirements are used to keep competitors out, but are not good in regards to increasing competitiveness. High capital requirements to open a new insurance company may protect many underperforming firms, and prevent market leaders from entering. Jordan has the highest minimum requirement from regional benchmarked countries. As for international countries, there is no specific minimum amount of capital, as the regulations require a level of solvency margin and a minimum capital requirement related to the written premiums or claims paid.

3.5 Other International and Regional Market Trends and Developments

The search for best practices and trends that may shape the insurance sector in Jordan continues in the following chapter. Some key international and regional trends are taken into consideration, being a source for a gap analysis in the next chapter.

International Trends

Growing Position of Life Insurance

Insurance and risk management make up an immense global industry. According to the latest Swiss Re Sigma Study, world insurance premium income grew by 3.3% in 2007 (adjusting for inflation), reaching USD 4.06 trillion. The growth was primarily driven by the life business in industrialized and emerging markets.

The global non-life premium has decreased by 0.7% (adjusting for inflation), totaling USD 1.7 trillion in 2007. By contrast, life insurance continued to expand with world life insurance premiums increasing by 5.4% to USD 2.4 trillion in 2007.\(^{167}\)

\(^{167}\) Swiss Re Sigma Study 2008, No. 3
Insurance penetration calculated as a premium percentage of gross domestic product (GDP), globally reached 7.5% in 2008, of which 60% was related to life insurance, and the remainder related to non-life insurance. In 2008, the insurance penetration was highest in Ireland, the UK, France, Korea, and Switzerland, amounting to 10-20% of the total GDP that year. The only exception was Luxemburg, with a close to 35% penetration. Overall, the global insurance market grew by 7.6% in 2007, reaching a value of USD 3,688.9 billion.

Industrialized Countries Leading the Sector

Despite local unexpected events that have affected the industry as a whole, the industrialized countries continue to dominate the global insurance markets, accounting for most of the world premiums. The following figure shows that the United States has over 30% of total world premiums, followed by the United Kingdom with 11.42%, and Japan with 10.46% in 2008.

Potential for Expansion

Even though the insurance market is dominated by the industrialized nations and premiums on a per capita basis remain very low in most parts of the world. It indicates an excellent opportunity for the growth of premiums of insurance products of all types. While it will take many years for underdeveloped nations to begin spending significant amounts on insurance products, much of the world is still undoubtedly a fecund field for expansion.

Innovative Sector

In the past few years, the global insurance market has been focused on innovation, market led initiatives, best practices, improvement of legal frameworks and regulatory structures, and HR development. Some observed changes include security ratings as prerequisites for new insurance business and their credibility given the financial crisis.

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168 Insurance Information Institute, The Insurance Fact Book 2009
169 Ibid.
170 Swiss Re, Sigma No. 3/2008
171 Insurance Information Institute, The Insurance Fact Book 2009
Back to the Basics and Fundamentals Trend

A trend of “going back to the basics and fundamentals” has been observed worldwide. This includes adequate claims reservation, prudent underwriting practices, and a guarded approach in entering non-traditional insurance products. The global financial crisis has affected the industry, as it has many others. As a result, higher costs from fraudulent claims and a higher rate of lapse and deployment of payments, particularly in the life-sector, have been observed. Much of insurance company earnings are obtained from annuities and other retirement and investment products, along with the profits or loses that insurance underwriters bring in on their own assets and reserves. The 2008 stock market meltdown had a significant effect on profits and assets at life insurance companies.

Mergers and Acquisitions

Recently, new regulatory changes have amplified competition in the already very competitive insurance industry. There were 747 mergers and acquisitions in the global insurance industry in 2007. The immense mergers and acquisitions created financial services mega-companies. Many companies now offer a complete range of financial services and products to their customers, and insurance is only a part of the services offered. As a result, banks are slowly gaining market share in the sale of insurance products, particularly annuities and life insurance. Investment companies are eager to sell insurance to their customers; like Merrill Lynch, now part of Bank of America group. Subsequently, banks are not aggressively acquiring insurance agencies and competition will only become more intense.172

Regional Trends

The MENA region has gained international attention. Global insurance premiums in the region have been rising substantially year-to-year. In 2008, the premium volume in the MENA region was USD 14.5 billion, with a population of 334 million. In terms of portfolio structure, life insurance contributes only 20% in the MENA region, while the remaining 80% is non-life insurance. Compared to emerging markets that have 55% share of life insurance, and a world average of 60%, the region is struggling with building awareness and demand for life insurance products. Furthermore, the regional density - which is measured as insurance spending (premiums) per capita - is low (USD 45), with a penetration of only 1%. The world average density amounts to USD 608, with a 7.5% penetration. Additionally, life insurance dominates the global insurance market and accounts for 60% of the market’s value worldwide, but in the MENA region it remains under-developed.173

The purchase of life insurance products is strongly influenced by the perceptions of whether or not a certain product is compliant with Shari’a. Just like conventional financial products, life insurance is alleged to have prohibited elements of uncertainty, gambling, and interest income. Uncertainty lies in outcome of the insurance contract, which is not yet known at the time it is created. Gambling refers to the notion that the insured may gain large amounts of profits from the insurance coverage if no claims are collected. And the interest refers to non-shari’a-compliant interest-bearing instruments. Next, a limited awareness of insurance and its benefits are partly driven by cultural factors, such as the reliance on the extended family network. It is also influenced by structural factors, such benefits by the state in the event of death or disability.

New Products in Health and Life

The growth drivers of the MENA region are buoyant economies, emerging markets, and the ongoing infrastructure improvement. Additionally, new products in health and life have seen significant growth.

Market Structure Development

Other trends include the privatization of state owned companies. Of course the problems of reinsurance over-dependence and portfolio composition remain significant obstacles for the region. Furthermore, competitive re-insurers, pricing adequacy, and fragmented markets make it difficult for some companies to survive. With better litigation and improved tax systems- the industry will experience further growth.

172 Insurance Information Institute The Insurance Fact Book 2009
173 Ibid.
Financial Centers and Training
A trend of emerging financial centers of Dubai, Bahrain, and Qatar has been observed. Despite low awareness and enforcing regulations, the insurance sector is growing because of these financial hubs. Additionally, HR and professional skills are developing and more MENA countries are becoming members of WTO and GATS.

Foreign Investment
Further growth in the region is fuelled by a combination of factors. In regards to the macroeconomic growth of the region, above-average levels of foreign investment will stimulate the demand for insurance. Many countries in the region, especially the energy-rich countries of the Gulf, are experiencing large investments in infrastructure and increasing international trade across the region. These factors will create strong demand for insurance coverage.

Compulsory Insurance and State Pension Funds
The recent emergence of motor insurance and health compulsory insurances in many countries in the region will drive the demand for insurance on the retail side and make these the largest classes of insurance in the marketplace. Other government privatization programs will further develop of the insurance sector, since entities that were self-insured in the past will now require insurance coverage. In the future, the anticipated restructuring of state pension funds will also lead to rising demand for life insurance, pension products and long-term savings products.

Growing Takaful Insurance
There lies a great opportunity in the growing global demand for takaful insurance. Market analysis estimates the global takaful market to reach USD 7.7 billion in 2012, but must overcome significant challenges to reach this goal. The Gulf Cooperation Council (GCC) region will be a leading market for takaful growth. Takaful managers and experts from around the world met in Dubai for the fourth World Takaful Conference in April 2009. Despite the financial crisis, industry players are optimistic of continued growth in a sector, whose potential still remains largely untapped as takaful is growing 35% faster than conventional insurance worldwide. In spite of challenges related to the lack of awareness, the long-term outlook on takaful insurance remains strong. These include shifting demographics and increasing earnings, as well as a change in social attitudes towards insurance, and growing consumption levels.

Policy Briefs on Corporate Governance
Another recent initiative was in March 2009, when Hawkamah Institute for the Arab Forum of Insurance Regulatory Commissions (AFIRC) and Corporate Governance announced the release of the Policy Brief on Corporate Governance for the insurance Industry for the MENA region. The recommendations enclosed in the Policy Brief will create the foundation for creating a minimum standard for the MENA insurance sector as approved upon by the region’s insurance regulators.

174 World Takaful Report 2009, Ernst & Young, 2009
3.6 Gap Analysis

The following gap analysis is a description of a distance between Jordan and selected best practices. It is a useful business resource assessment tool enabling the insurance industry to compare its actual performance with its potential performance. The source for the description of AS-IS in Jordan, as well as, best practices used in gap analysis are derived from previous chapters’ analysis and description.

Table II.3.4: Benchmark Comparison Between Selected Countries

<table>
<thead>
<tr>
<th>No.</th>
<th>Benchmark (best practice)</th>
<th>AS-IS Jordan</th>
<th>Gap Analysis – description</th>
<th>Source of Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Countries adopt national earthquake funds, national flood funds, hurricane, natural disasters, etc. to better prepare for catastrophes.</td>
<td>Work is currently under process to put the National Earthquake Fund into effect. However, the process has not reached the regulatory phase, which is expected to face some challenges due to the compulsory nature of the project.</td>
<td>Does not yet exist in Jordan.</td>
<td>International Trends/</td>
</tr>
<tr>
<td>2.</td>
<td>Many countries adopt a relationship marketing approach to promote long-term relationships with customers and strengthen the social, financial, and emotional bonds with customers, in a way that increases the switching cost and allow companies to charge a premium for their brand name.</td>
<td>Customers’ relationships are looked at as being transactional rather than long-term partnership. As such, the cost of acquiring customers is high, while the switching cost is relatively low.</td>
<td>Jordan insurance companies have a minimum marketing approach to promote long-term relationships with customers.</td>
<td>International Trends/ UK, Germany, Denmark.</td>
</tr>
<tr>
<td>3.</td>
<td>Financial strength rating prerequisites for new insurance businesses. Internationally, companies are rated, so that the customer is aware of what risks he is taking by insuring with one company and not another.</td>
<td>Financial strength rating is currently an optional exercise. No Financial Strength Rating Agency is in the country, although some use the services of international rating agencies.</td>
<td>This is very weak in Jordan.</td>
<td>International Trends.</td>
</tr>
<tr>
<td>4.</td>
<td>Adequate claims reservations. Many international countries control the insurance markets through random checks of books to ensure that reserving mechanisms are prudent, and reserves are adequately allocated.</td>
<td>Reserving is a regulated side of the business. Actuarial certification of the adequacy of reserves is a must. The IC introduced «Reserves Allocation Instructions». Insurers have to abide by the regulations.</td>
<td>There are doubts by market players about the adequacy of the reserving, most importantly the Incurred But Not Reported (IBNR) reserves, which are subject to the experience and judgment of the management of the company.</td>
<td>International Trends.</td>
</tr>
<tr>
<td>5.</td>
<td>Prudent underwriting policies. Other insurance markets worldwide have more improved underwriting skills through education and training.</td>
<td>The market is still immature as far as underwriting techniques are concerned. Competition and commercial considerations mostly determine the price. Little sophisticated underwriting efforts are exerted. This is mainly due to three factors: Lack of underwriting skills, unavailability of historically reliable data on which the underwriting decision is taken, and competitive and cutting prices practices.</td>
<td>Data is unavailable for which the underwriting decision can be made. Small market with many players approaching the same market segments.</td>
<td>International Trends.</td>
</tr>
<tr>
<td>No.</td>
<td>Benchmark (best practice)</td>
<td>AS-IS Jordan</td>
<td>Gap Analysis – description</td>
<td>Source of Best Practice</td>
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<tr>
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<tr>
<td>6.</td>
<td>Mergers and acquisitions. Other countries have clear tax incentives and lower operating fees.</td>
<td>No clear incentives to encourage merges and acquisitions in a very fragmented market.</td>
<td>No clear incentives in Jordan, although encouraged by the government.</td>
<td>International Trends/ UK.</td>
</tr>
<tr>
<td>7.</td>
<td>Increasing number of bancassurance. Many countries have lenient regulatory requirements for these projects. Additionally, they have efficient communication with customers to deliver the message related to the value of buying insurance products through banks.</td>
<td>Projects are in place.</td>
<td>Despite the fact that such projects exist, they are not effectively stimulating demand in Jordan.</td>
<td>Regional/ international trends.</td>
</tr>
<tr>
<td>8.</td>
<td>There exist developed financial centers in Dubai and Bahrain.</td>
<td>Emerging financial centers do not exist in Jordan.</td>
<td>Emerging financial centers do not exist in Jordan.</td>
<td>UAE, Bahrain.</td>
</tr>
<tr>
<td>9.</td>
<td>Compulsory health insurance. Medical insurance is the highest growing line of insurance and in many countries like Denmark and Germany is it compulsory. In Bahrain and UAE compulsory health insurance for expatriates has been introduced.</td>
<td>There is only private health insurance limited to companies willing to pay for their employees or private individuals who can afford it.</td>
<td>Compulsory health insurance does not exist.</td>
<td>International and regional trends.</td>
</tr>
<tr>
<td>10.</td>
<td>Restructuring of state pension funds. The new law of Social Security, which will cap the pension salary.</td>
<td>The social security system is under revision for amendment creating a golden opportunity for insurance companies. Life insurance companies will have a new market (individuals who wish to buy pension products over and above the maximum pension salary the Social Security Scheme offers; and this is a big market.</td>
<td>Life insurance companies must prepare its systems, products, and sales strategies to meet the expected demand.</td>
<td>Regional trends/ Bahrain.</td>
</tr>
<tr>
<td>11.</td>
<td>Policy Briefs on corporate governance. UK has offers and policies that are transparent and customers are well informed of what they are buying.</td>
<td>The industry is blamed for not educating customers and not making them aware of the contracts.</td>
<td>Policies are not transparent and customers are not well informed of what they are buying.</td>
<td>UK</td>
</tr>
<tr>
<td>No.</td>
<td>Benchmark (best practice)</td>
<td>AS-IS Jordan</td>
<td>Gap Analysis – description</td>
<td>Source of Best Practice</td>
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<tr>
<td>12</td>
<td>Elimination of solvency regulations. Sensible minimum requirements and risk-based solvency rates exist in Oman and no solvency rates in UAE. There are also much lower ones in other parts of the world, than in Jordan.</td>
<td>Solvency margins are not risk based, qualitative aspects of the business are not well considered.</td>
<td>High solvency rates that are not risk based.</td>
<td>UAE/Oman</td>
</tr>
<tr>
<td>13</td>
<td>Unified motor policy with higher rates for young and accident-prone drivers. In most countries it is a fee business environment and insurance companies set their premiums, often based on a driving record and traffic accidents.</td>
<td>Motor third party liability is priced by the government.</td>
<td>A free business environment for the motor third party liability does not exist in Jordan.</td>
<td>Oman/Denmark</td>
</tr>
<tr>
<td>14</td>
<td>Creation of local reinsurance.</td>
<td>With growing economy and insurance market, there will be a need for a local reinsurer.</td>
<td>Local Reinsurer does not exist.</td>
<td>Oman/Germany</td>
</tr>
<tr>
<td>15</td>
<td>Specialized training centers, like the Insurance Learning Center in Bahrain, or the Charted Institute for Loss Adjusters, Certificate of Insurance Practice, etc.</td>
<td>Some training is available through the Insurance Commission.</td>
<td>Specialized training center that offers insurance certification does not exist in Jordan.</td>
<td>Bahrain</td>
</tr>
<tr>
<td>16</td>
<td>Insurance Rulebook that sets out detailed licensing and operational requirements for insurance businesses.</td>
<td>There is no Insurance Rulebook in Jordan.</td>
<td>Does not exist in Jordan.</td>
<td>Bahrain</td>
</tr>
<tr>
<td>17</td>
<td>Expanding into other markets. UAE and Oman insurers are increasing their levels of activities by expanding into other markets.</td>
<td>Jordan insurance companies are not active regionally. This is due to the fact that Jordanian investments abroad are not significant as opposed to the foreign investments in Jordan particularly investments coming from the GCC countries.</td>
<td>Jordan insurance companies are not expanding into other markets.</td>
<td>UAE, Oman</td>
</tr>
<tr>
<td>18</td>
<td>Regulations becoming more risk and evidence-based, as well, as principle-based.</td>
<td>Solvency margins and minimum capital requirement, in Jordan, are not risk based and do not take qualitative criteria into account.</td>
<td>In Jordan regulation is not risk-based.</td>
<td>UK</td>
</tr>
<tr>
<td>19</td>
<td>Deregulation, with more freedom to set rates and write new kinds of insurance.</td>
<td>More regulation is being implemented in Jordan. MTPL issue has not been solved and prices are still fixed by the government.</td>
<td>Does not exist in Jordan.</td>
<td>UK</td>
</tr>
</tbody>
</table>
In regards to the indicators previously discussed, one of the main reasons that the UK and Denmark have one of the highest penetration and density levels is because they adopt a relationship marketing approach to promote long-term relationships with customers and strengthen the bonds with customers. This increases the switching cost and allows companies to charge a premium for their brand name.

One of the reasons that in the region, Bahrain and UAE enjoy a higher penetration ratio, compared to Jordan, is because of the developed financial centers in those countries. Additionally, they have eliminated solvency regulations. Germany and Denmark have high density ratios partly because of their extensive compulsory insurance.

3.7 Competitiveness Conclusions

Whether the insurer is old or new, private or public, expanding the market will present many challenges and opportunities. The following SWOT analysis shows the increases of weaknesses and threats impacted mainly by the global financial crisis and the increasing local and global competition.

The analysis is done from a point of view of the industry’s competitiveness. Strengths, weaknesses, opportunities and threats are also presented through the perspective of Michael Porter’s Diamond model of competitiveness. Overall, factor conditions are a main source of competitiveness for Jordan’s insurance sector, and demand conditions are a main source of weaknesses. Firm’s strategy, structure, and rivalry are also negatively impacting the sector’s competitiveness, as well as, the supporting industries. Some smaller insurance companies may under perform with increasing competition in the marketplace, as levels of investment will be difficult to maintain due to the global crisis. The SWOT analysis shows that there are many more weaknesses than strengths in Jordan’s insurance sector, therefore, its competitiveness is at threat. There exist many more opportunities than threats, and therefore, the insurance sector has the potential to be much more competitive than it is today.

The table below summarizes all the findings of the previously done analysis of the sector in Jordan (recent performance, M. Porter Diamond model), key best practices (including also key global and regional trends), and conclusions of the gap analysis.

Table II.3.5: Jordan Insurance Market – Competitive SWOT Analysis

<table>
<thead>
<tr>
<th>Competitive Strengths</th>
<th>M. Porter Diamond Aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well-established sector, since 1951, with good quality resources, legal framework, and personnel in the sector and proactive regulatory supervision.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Good supply of well-educated and trained staff- technical know-how.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Advanced IT systems that have allowed some companies to automate processes. This increases efficiency and profitability.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>There are sufficient resources in the market to produce additional insurance services or products. For example the legal framework, knowledge resources, personnel, etc., are available to form new insurance classes.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Low acquisition ratio (commission paid to gross written premium). The lower the acquisition ratio the more efficiently the business is.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Efficient reforms derived from the implementation of the Executive Program of 2007-2009.</td>
<td>Government</td>
</tr>
</tbody>
</table>
## 3. INSURANCE SECTOR

### Competitive Weaknesses

<table>
<thead>
<tr>
<th>Competitive Weaknesses</th>
<th>M. Porter Diamond Aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market is relatively modest (premiums: USD 495 million), with low penetration</td>
<td>Demand condition</td>
</tr>
<tr>
<td>and density ratios.</td>
<td></td>
</tr>
<tr>
<td>Insurance companies are selling almost the same products, and competition is mainly</td>
<td>Demand condition</td>
</tr>
<tr>
<td>focused on price. Accordingly, many companies compete solely over price; therefore,</td>
<td></td>
</tr>
<tr>
<td>margins have declined to an extent that many companies are unable to cover their</td>
<td></td>
</tr>
<tr>
<td>expenses or even in some instances are operating at a loss. The pressure to lower</td>
<td></td>
</tr>
<tr>
<td>prices is leaving many companies unprofitable.</td>
<td></td>
</tr>
<tr>
<td>Lack of consumer understanding of products and with the low levels of product</td>
<td>Demand condition</td>
</tr>
<tr>
<td>awareness in the market, companies does not sufficiently explain the products. The</td>
<td></td>
</tr>
<tr>
<td>role of insurance consultants or brokers is limited and customers do not study or</td>
<td></td>
</tr>
<tr>
<td>fully understand the policies they sign. Most people buy insurance products based on</td>
<td></td>
</tr>
<tr>
<td>relationship factors or word of mouth, particularly for individuals and small</td>
<td></td>
</tr>
<tr>
<td>corporate customers.</td>
<td></td>
</tr>
<tr>
<td>No single database that contains information on insured and the compensation paid to</td>
<td>Factor condition</td>
</tr>
<tr>
<td>them. Market information in vital for any sector to be competitive and is a useful</td>
<td></td>
</tr>
<tr>
<td>tool on combating insurance fraud.</td>
<td></td>
</tr>
<tr>
<td>Low quality of local business schools.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Cultural and religious factor as many believe insurance is unnecessary.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>The customer-oriented approach is not widely adopted by insurers. Offerings are not</td>
<td>Firm strategy, structure, and</td>
</tr>
<tr>
<td>based on what exactly the customer wants, in regards to the product development,</td>
<td>rivalry</td>
</tr>
<tr>
<td>pricing, and distribution. Furthermore, promotion efforts are very limited and also</td>
<td></td>
</tr>
<tr>
<td>often lack a customer focus.</td>
<td></td>
</tr>
<tr>
<td>Increasingly crowded sector, based on the average share of each company in the market</td>
<td>Firm strategy, structure, and</td>
</tr>
<tr>
<td>in terms of premium income. The 28 insurance companies are competing over a small</td>
<td>rivalry</td>
</tr>
<tr>
<td>market (many of them are underperforming), and no market leader (less than 10%</td>
<td></td>
</tr>
<tr>
<td>market share for the top company). The market is crowded since the average share is</td>
<td></td>
</tr>
<tr>
<td>JD 11 million compared to the minimum capital required of JD 25 million. The low</td>
<td></td>
</tr>
<tr>
<td>concentration ratio makes it even more crowded when the largest insurer dominates</td>
<td></td>
</tr>
<tr>
<td>less than 10 percent of the market.</td>
<td></td>
</tr>
<tr>
<td>Large established companies focus too much on government and corporate insurance</td>
<td>Firm strategy, structure, and</td>
</tr>
<tr>
<td>business and small commercial and retail clients are unsatisfied. The business from</td>
<td>rivalry</td>
</tr>
<tr>
<td>smaller clients and commercial businesses is a significant market share of business</td>
<td></td>
</tr>
<tr>
<td>for the insurance companies.</td>
<td></td>
</tr>
<tr>
<td>Present ownership structure (family owned business) hinders corporate development.</td>
<td>Firm strategy, structure, and</td>
</tr>
<tr>
<td></td>
<td>rivalry</td>
</tr>
<tr>
<td>Low cooperation among companies.</td>
<td>Firm strategy, structure, and</td>
</tr>
<tr>
<td></td>
<td>rivalry</td>
</tr>
<tr>
<td>No credit Bureau, which should be an essential prerequisite for establishing an</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>insurance company.</td>
<td></td>
</tr>
<tr>
<td>Not many third part standards ratings and certification, which leads to lower quality</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>products.</td>
<td></td>
</tr>
<tr>
<td>Poor quality actuaries, loss adjusters, and intermediaries.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Motor Third Party insurance in generating losses for the industry because government</td>
<td>Government</td>
</tr>
<tr>
<td>is setting the price.</td>
<td></td>
</tr>
</tbody>
</table>
### Competitive Opportunities

<table>
<thead>
<tr>
<th>M. Porter Diamond Aspect</th>
<th>Competitive Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand condition</td>
<td>There are new areas of insurable activities, including health and life. Offering these new insurance products can increase the sector’s competitiveness.</td>
</tr>
<tr>
<td>Demand condition</td>
<td>There are a lot of opportunities for growth as the current density of insurance market is low.</td>
</tr>
<tr>
<td>Demand condition</td>
<td>Growing disposable income of society may increase the market density, since the average person will earn more money and be able to spend more on insurance products.</td>
</tr>
<tr>
<td>Firm strategy, structure, and rivalry</td>
<td>Cross-boarder expansion into neighboring markets can facilitate growth.</td>
</tr>
<tr>
<td>Firm strategy, structure, and rivalry</td>
<td>Still room for marketing and operational improvements to benefit both insurers and their customers. Insurers need to exert more efforts to educate and make customers aware of the insurance services they offer. Insurers can benefit from their existing customer base to increase penetration ratio.</td>
</tr>
<tr>
<td>Firm strategy, structure, and rivalry</td>
<td>Alliances with banks are increasing distribution channels. The alliances are adding a larger customer base and allowing for more points of interaction between bank's employees and customers. Additionally, it allows for less expensive communication.</td>
</tr>
<tr>
<td>Supporting industries</td>
<td>Growing global credentials for actuaries are increasing the quality of supporting industries for the insurance sector.</td>
</tr>
<tr>
<td>Government</td>
<td>Growing sector, and government efforts toward privatization.</td>
</tr>
<tr>
<td>Government</td>
<td>The expected change in the Social Security scheme that would lead to an increase in life insurance premiums. When the maximum retirement salary is capped people will start searching for insurance coverage in excess of this fixed amount, and accordingly, a new type of demand will be created. Now, people do not really look for pension coverage or life insurance, as long as the social security schemes cater for unlimited retirement salary, which can reach JD 25 thousand a month.</td>
</tr>
</tbody>
</table>

### Competitive Threats

<table>
<thead>
<tr>
<th>M. Porter Diamond Aspect</th>
<th>Competitive Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand condition</td>
<td>Insurance products are becoming commodities rather than sophisticated financial products since the most important differentiation point, by customers, is price.</td>
</tr>
<tr>
<td>Factor condition</td>
<td>Negative impact of local and regional economic downturn, including, increased moral hazard and increased cost of claims, increasing reinsurance costs and tough terms and conditions. It is known that moral hazard, fake and fraud claims, increases when businesses get down or unprofitable. Reinsures became more concerned about the technical performance in light of the low investment returns they are able to generate out of the capital markets and investment tools they use.</td>
</tr>
<tr>
<td>Firm strategy, structure, and rivalry</td>
<td>Highly capitalized companies and servicing this capital is becoming a burden. The total capital invested in the market is high when compared to the premium income and, consequently, the technical profits of the sector. With large capital and small size of the businesses, there tends to be a focus on investing the capital in certain instruments that generate enough return on investment. Most of the capital is allocated to investments rather than the core business.</td>
</tr>
<tr>
<td>Government</td>
<td>A new tax law which will increase the taxation on insurance companies, in addition to the lack of tax incentives, either for insurance buyers, or for consolidations.</td>
</tr>
</tbody>
</table>
3.7 Competitiveness Conclusions

Whether the insurer is old or new, private or public, expanding the market will present many challenges and opportunities. The following SWOT analysis shows the increases of weaknesses and threats impacted mainly by the global financial crisis and the increasing local and global competition.

The analysis is done from a point of view of the industry’s competitiveness. Strengths, weaknesses, opportunities and threats are also presented through the perspective of Michael Porter’s Diamond model of competitiveness.

Overall, factor conditions are a main source of competitiveness for Jordan’s insurance sector, and demand conditions are a main source of weaknesses. Firm’s strategy, structure, and rivalry are also negatively impacting the sector’s competitiveness, as well as, the supporting industries. Some smaller insurance companies may underperform with increasing competition in the marketplace, as levels of investment will be difficult to maintain due to the global crisis.

The SWOT analysis shows that there are many more weaknesses than strengths in Jordan’s insurance sector, therefore, its competitiveness is at threat. There exist many more opportunities than threats, and therefore, the insurance sector has the potential to be much more competitive than it is today. The table below summarizes all the findings of the previously done analysis of the sector in Jordan (recent performance, M. Porter Diamond model), key best practices (including also key global and regional trends), and conclusions of the gap analysis.

3.8 Recommendations

The following recommendations address key weaknesses and threats, in an attempt to increase the overall competitiveness of the sector. Part of the recommendations can only be applied by the government, but some of them should be a sole responsibility of corporate players. That is the main reason why the recommendations are divided into two parts: those that should be applied by the government and those that should be applied by the firms themselves.

Recommendations for the Government

1. Consolidating the Crowded Insurance Market

Mergers and acquisitions will allow market leaders to form, who can increase the penetration and density of the sector. This can be encouraged through the use of clear and pre-approved tax incentives for voluntary mergers and acquisitions.

2. Stimulating Demand

Demand can be triggered through several ways; one is implementing tax exemptions (by the government) for buyers for insurance premiums, in order to increase the market density. (For example pension plans or life insurance).

Next, penetration and density ratios can be further stimulated by promoting the value of buying insurance products through banks by easing the regulatory requirements for bancassurance. Many international countries have lenient regulatory requirements for these bancassurance projects. Additionally, they have efficient communication with customers to deliver the message related to the value of buying insurance products through banks.

3. Consider More Compulsory Insurance Services

By introducing additional insurance products as compulsory, by the Jordan Insurance Commission, the penetration and density levels of the insurance market will be increased. This practice is done among all best class insurance countries such as Denmark and Germany, where medical insurance and malpractice insurance is compulsory, and in Bahrain and UAE compulsory health insurance for expatriates has been introduced, among others.

Compulsory health insurance should be looked at as a national and industry priority since medical insurance is the highest growing line of insurance and it has been successfully implemented in the region.

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175 Term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products

176 Malpractice insurance is a type of insurance coverage that serves to protect and limit the liability of professionals such as doctors and lawyers and institutions such as hospitals and financial service companies against malpractice claims made by clients or patients.
4. Including the Consumer Into the Cycle Through Extensive Awareness

By developing awareness and marketing campaigns sponsored by the government, in addition to the marketing efforts made by the individual companies, the consumer might be more involved in insurance services offered in the market, understand his or her rights, and consequently be willing to insure.

5. Providing Additional Business for Insurance Companies

By limiting the maximum pension salary of social security (no limit now), it would leave room for insurance companies to sell pensions in access of the maximum limits, and other life insurance products.

6. Increasing the Quality of Products

Improving the quality of insurance professionals, actuaries, loss adjusters, and intermediaries, by establishing National Insurance Institute. Additionally, improving Policy Briefs on corporate governance so that they are more transparent and customers are better informed of what they are buying, as in the UK. The Insurance Commission can also revise solvency margins regulation and set up clear measures to deal with violating the minimum requirements. Furthermore, developing an Insurance Rulebook, like in Bahrain, which sets out detailed licensing and operational regulations for both conventional and takaful insurance businesses, would improve the quality of insurance products by setting clear standards.

7. Improving Profitability of the Sector

Governmental pricing of Motor Third Party Liability should be stopped, prices need to be floated and the free business environment should dictate the price of premiums. In selected benchmark countries like Oman and Denmark, the MTPL is based on a free business environment, which increases the sector’s competitiveness in those countries.

Recommendations for the Private Sector

1. Tapping Into Consumer Insights to Drive Growth

Establishing long-term relationships with customers and strengthening the social, financial, and emotional bonds with customers through developing insurer-driven relationship marketing approach. As a result, it should increase the switching cost and allow companies to charge a premium for their brand name. A more customer focus approach needs to be taken. Many countries, such as Germany, Denmark, and UK adopt a relationship marketing approach to promote long-term relationships with customers and strengthen the bonds with customers, in a way that increases the switching cost and allows companies to charge a premium for their brand name.

2. Regulating the Contractual Relationship Between Parties

Regulating the contractual relationship between parties, specifically intermediaries by improving the clarity and transparency of insurance contracts.

3. Combating Insurance Fraud

There is no single database that contains information on the insured and the compensation paid to them. Establishing a database that provides information concerning the insured and the compensation paid to them will help with combating insurance fraud.

4. Building Awareness and Trust

To increase the current market penetration and density, companies can further development of the awareness and marketing. Cooperation among companies should be considered in this respect. By adopting a relationship marketing approach, it will promote long-term relationships with customers and strengthen the social, financial, and emotional bonds with customers. Additionally a rating system of the companies can increase the customer’s awareness of what risks he is taking by insuring with one company and not another. Solvency margins, for example, can be a good start.
4. Processed Meat Sector Analysis
The following chapter is devoted to the competitive analysis of one of the sub-categories of the food manufacturing industry, the processed meat. The study addresses key factors needed to improve the outcome and competitiveness of the meat processing sector. It compares Jordan’s competitive position with other countries in the region and internationally, and suggest some recommendations which can be considered in order to strengthen the analyzed sector.

The following graph shows methodology applied to analyze the sector:

According to the third revision of the International Standard Industrial Classification of all Economic Activities (ISIC3), which has been accredited by the Jordan Department of Statistics since 1994, the food manufacturing consists of the following sub-sectors:

1. Processing, preserving of meat and its product
2. Canning and preserving of fruit and vegetables
3. Manufacture of vegetable oil and fats
4. Manufacture of dairy products
5. Grain mill products
6. Manufacture of prepared animal feeds
7. Manufacture of bakery products
8. Manufacture of Cocoa, Chocolate and sugar confectionary
9. Manufacture of other food products n.e.c
10. Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented materials and manufacture of malt liquors malt
11. Manufacture of soft drink

Regarding the first subcategory (processing, preserving of meat and its products), the report is to cover only white and red meats. The subcategory was chosen for analysis because the demand is increasing from yearly, as well as, the changing export destinations in recent years, which will be discussed in the report. Additionally, the subsector is important as it gives employment in rural areas and is an important part of the food industry, as the meats and poultry
PART II: COMPETITIVE POSITION OF ANALYZED SECTORS

4. PROCESSED MEAT SECTOR

hold the largest share of the average annual household expenditures from the food materials annual expenditures\(^{177}\). Since it is a basic priority for Jordanians (both consumers and processed meat producers), this subcategory is analyzed.

4.1 History

The following chapter describes the food manufacturing sector’s history and recent developments in Jordan, providing key facts and dates. Next, the history of the processed meat manufacturing sector will be addressed. The Jordanian food industries started as individual and family businesses and relied mainly on what the farmers produced. A lot of factors had affected the development of the food industry in Jordan. The increase of investment capital and the number of workers, in addition to the creation of high quality new products, has shaped the industry. Most factors revolve around meeting the need of foreign demand, as majority of factories had depended on exporting its products to the surrounding Arab areas.

In the early stages of development, the government protection and support for Jordanian food products helped to increase the prosperity of the food industry. On the other hand, many bilateral agreements the country had entered, played a vital role in spreading the Jordanian products into the world.

Establishing the Ministry of Health in 1950 was the first move towards improving quality of produce. Next step in institutionalizing the market was establishing Amman Chamber of Industry in 1962: a non-profit organization representing the industrial sector and a main reference organization for information and development on the industry and economy.

In 1973, the elite of Jordanian economists and businessmen, gathered and provided an initiative to found The General Union for the distributors of food. This union played an important role for food manufacturers in terms of facilitating the export procedures and providing an appropriate pricing policy for Jordan's market.

In 1998, Zarqa Chamber of Industry was established, followed by the founding of Irbid Chamber of Industry one year later. In 2003, Jordan Food and Drug Administration was officially established as an independent committee. The monitoring of the health standards for food products was transferred from the Ministry of Health to the Jordan Food and Drug Administration (JFDA). In 2005, Jordan Chamber of Industry was formed to embrace the three established chambers under its umbrella.

During the last three decades, Jordanian food industries, including the processed meat sector, have achieved a lot of success in the technical and economic fields. They have improved quality and have kept up with related Arab and international developments. At the beginning they prospered under direct government protection, support, and contribution. In some sub-sectors, including the canned food production sector, the companies were established by individual and family businesses with relatively small investments. Later, they took the form of shareholding companies, and were restricted to Jordanian investments.

In an effort to further enhance the investment environment in the country, Jordan concluded over 35 agreements on protection and promotion of investments. Additionally, there have been over (30) agreements on the avoidance of double taxation with Arab and non-Arab countries. Jordan is also a signatory to several economic and trade cooperation agreements with countries all over the world. Such agreements established joint committees that meet regularly and provide means for developing and strengthening trade relations between Jordan and its trading partners. All those developments have positively contributed to enhancing Jordan's export potential.

Processed Meat Manufacturing Sector

The processed meat manufacturing sector is considered one of the strategic food sectors. In Jordan, it heavily relies on its relationships with international countries due to the fact that the main source of raw meat is imported. Additionally, the main source of income comes from local consumption, partially from the exports. Jordan’s foreign trade policy is based on the norms of economic openness and integration into the rapidly globalizing world economy.

During the last few years, the sector provided many jobs, as the number of employees in the processed meat sector was growing steadily during the period 2003-2007 from 1,915 in 2003 reaching 3,600 in 2007\(^{178}\).

Additionally, demand for processed meat products (red and white meat) has increased in the last years. This was reflected in the increase of total imports and total production of the processed meat year to year.

\(^{177}\) Household expenditures & income survey, 2006, Department of Statistics

\(^{178}\) Economic surveys (2003-2007), Department of Statistics
Export Destinations

Previously, Jordan’s main export markets for processed meat were Lebanon and Yemen. Export to Lebanon stopped in 2001 and 2002, while exports to Yemen stopped during the period 1999-2004. Since then, the main export markets for processed meat from Jordan were Saudi Arabia (KSA) and United Arab Emirates (UAE). In 2002, a sudden stop of exports to the UAE occurred. In 2005, Jordan exported meat to Lebanon, Bahrain, Kuwait, Iraq, Oman, Qatar, Saudi Arabia, UAE, Palestine, Yemen, Syria, Algeria, and Egypt.

Since 2005, the number of exporting destinations has been decreasing with a stop of exports to Syria, Palestine, Libya, Egypt, Algeria and others. It is noteworthy that many of these countries have stopped accepting imports from Jordan without any solid based reasons, using the argument of protecting their domestic markets from the spread of mad cow diseases. Despite the fact that several bilateral agreements have been signed with these countries, they have not been fully implemented.\textsuperscript{179} Regarding Jordan’s importers, please refer to table II 4.6. and II 4.7.

4.2 Recent Performance and Initiatives of Jordan’s Meat Processing Sector

Despite an encouraging start, there is limited Arab and international investment in the sector. In spite of developments in agricultural fields, the production provides only a small fraction of the food industry’s needs in terms of agricultural material, both plant and animal. In general, almost all Jordanian food industries, including the processed meat, depend on foreign imports from various Arab and international sources to provide production inputs. Due to the lack of stability of the sector’s export destinations and the increasing gap taking place in Jordan’s self sufficiency from year to another, the situation is considered complicated.

The following chapter analyzes general and recent performance in the processed meat sector. Some of the factors analyzed include: employment, gross value added, quantities, and values of imports and exports of certain products in order to show the overall growth trends during the last years in Jordan. Recent initiatives in the sector will follow.

Productivity

The number of employees in the processed meat sector was growing steadily during the period 2002-2007 with an average annual growth of about 16.9%, reaching 3,600 employees in 2007. Although the number of employees increased during this period, its cost contribution to the total variable costs dropped by -16.8\%.\textsuperscript{180} The decreases in employee contribution cost to total variable costs, is caused by the increasing operational costs. The sector is therefore more inefficient than it was a few years ago, adversely affecting its competitiveness.

Operating Costs

The figure below demonstrates that operational costs are growing at a faster rate than employment costs. Thus, employees’ wages are not increasing as much as the operational costs. The increasing electricity and water costs are just a few of the operational costs that are decreasing the sector’s competitiveness.

\textbf{Figure II.4.1: Contribution of the Employment Costs to the Total Operational Costs for Meat Sector in Jordan}\textsuperscript{181}

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{figure.png}
\caption{Contribution of the Employment Costs to the Total Operational Costs for Meat Sector in Jordan}
\end{figure}

\textsuperscript{179} For example, Sudan has agreed to provide benefits in regards to import taxes by lowering tariffs of imported Jordanian products, but no actions have been taken.

\textsuperscript{180} Calculated from Economic surveys 2007, Department of Statistics

\textsuperscript{181} Economic surveys 2007, Department of Statistics
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### Sector Gross Value Added

Gross value added is a measure in economics of the value of goods and services produced in an area or sector of an economy. With all the existing constraints, sector players have managed to increase the gross value added from year to year. This is one of the main reasons most producers are increasing their current production capacities and planning for further expansion. Gross value added started with only JD 14.8 million at 2002 and increase to reach JD 42.7 million by the end of year 2007, as illustrated in the figure below:

![Figure II.4.2: Gross Value Added for Meat Processing in Jordan (JD millions)](image)

**Jordan’s Trade Relations**

Jordan has become a member of World Trade Organization in April 2000 and signed the Free Trade agreement with the United States, and partnership agreement with the EU. Additionally, Jordan established many Qualified Industrial zones that are able to export to the US. Many bilateral trade agreements with various countries have been signed. Despite this, Jordan is still banned to export its food products, especially processed food of animal origin, to more than 80 countries throughout the world.

Import of meat has been increasing in Jordan due to various reasons effecting demand. Some of the key drivers are the population growth as well as changes in the local consumers’ purchasing habits. As local production is stagnant due to the lack of water and enough arable land for crops, meat must be imported to supply the growing demand.

**Recent Initiatives in the Sector**

The purpose of this section is to capture some of the initiatives that are being, or recently have been, implemented both by the government and the industry players in order to improve competitiveness in the sector.

As local market size is limited, in the majority of cases, the goal is to export to the other regional markets and the European Union (EU), where markets are larger and selling prices are much higher. Accordingly, the government is making efforts to fully implement Jordan’s mutual trade agreements with the other regional countries by making sure that other parties completely execute the trade agreement’s articles at their end.

Additionally, within the EU, there are over 10 million halal consumers. Thus, some national agencies, and various private sector organizations, have started to build programs and actions that would assist in fulfilling high standard requirements imposed on meat imports both to the EU and the US. Present time frame required for approval to access those markets takes on average 2 to 3 years. There are many obstacles to overcome.

First, the requirements by developed countries are too detailed and complex, requiring substantial resources that developing countries are unable to completely fulfill. Second, the scattered information between agencies in the developing countries needs to be unified and documented systematically.

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182 Own source: meat processing sector stakeholders survey, 2009

183 Economic surveys 2007, Department of Statistics

184 It is important to note that there is no one central body or authority that governs the processed meat manufacturing sector

185 Jordan has filed a request to enter the EU market through the Ministry of Agriculture in 1999. More information was requested by the EU, which was never followed through. Following several attempts were made to obtain required information through Jordan’s commercial center and Jordanian desk/Brussels; only a set of EU directives (French version) and a handout on the methodology to get a third country (Jordan) listed for Meat products exportation, were received.
Jordan Institution for Standardization and Metrology (JISM) has transferred the responsibility of the laboratories inspection to the Food and Drug Administration (JFDA). JFDA plans to implement this gradually starting from this year.

Also, the Ministry of Industry and Trade has prepared an action plan for increasing the competitiveness of the food sector in cooperation with Jordan Enterprise and Jordan Chamber of Industry. The action plan consists of five dimensions: improving human resources, increasing productivity, increasing quality, reducing production cost, and improving marketing and promotion. Under each dimension, several sub actions are proposed to be implemented by the responsible party.

Lastly, the packing industry, press and office stations are important supporting sectors for the processed meat sector. Jordan Chamber of Industry with the Ministry of Industry and Trade has set a development strategy for this sector. The objectives to be achieved are included in a submitted report done by SABEQ program. Some of these objectives are:\n
- Organizing awareness workshops for all stakeholders in this industry in order to improve the sector’s performance and the quality of products.
- Establishing a specialized printing and packaging academia that aims to increase the industry’s competitiveness through providing professional trainings on state of art industry equipment. Consequently, it will supply the industry with high caliber skilled labors, something the sector currently lacks.
- Set a surveillance plan to inspect unlicensed printing houses.

4.3 Results of Michael Porter’s Diamond Analysis of Competitiveness

The model by M. Porter analyzes the industry using four dimensions or attributes of promoting the creation of competitive advantage:\n
- **Demand conditions**: nature of home demand.
- **Factor conditions**: nation’s position in factors of production such as skilled labor force and infrastructure.
- **Firm strategy, structure, and rivalry**: how companies are created, organized, managed and the nature of domestic rivalry.
- **Related or supporting industries (RSI)**: presence or absence RSI that are internationally competitive.
- **Two additional variables**: government and chance.

Data Gathering

The data for Jordan’s Second Competitiveness Report 2008-2009 was collected in a standardized way. A special survey consisting of multiple-choice answers and several open-ended questions was designed. The key determinant in designing the survey was to reflect M. Porter model of competitiveness. It was distributed to over 70% of the stakeholders of the processed meat industry, including key industry leaders of local meat processing companies. Additionally, information on the Jordanian processed meat sector was collected through individual meetings with selected key stakeholders. Other key sources of information were a desk study and expert’s knowledge. In order to have an open and unbiased discussion about the key issues in the sector, the special roundtable session was organized in the Ministry of Planning and International Cooperation’s premises. Again, key stakeholders were invited and participated in the event.

4.3.1 Demand Condition

In general, the larger the demand in the market, the greater the pressure on firms to innovate. High demand often leads to superior and high quality products. The demand for food products in general and the processed meat in particular, has been expanded due to several reasons. The major factors are: population growth, increasing life expectancy in the last ten years, and changing eating habits.

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186 Executive report 2008, Jordan Chamber of industry
187 More on M. Porter methodology see II.1. Introduction
Domestic Demand

Red meat\(^{188}\)

According to the latest statistics issued in 2007, Jordan’s local demand for red meat (livestock and processed meat) was around 63,200 tons, where the local production was only 18,200 tons; the remaining 45,000 tons were imported.\(^{189}\) The average red meat consumption for a Jordanian individual was estimated at 10.8 kg annually, compared to other countries like Argentina, Uruguay, and USA where the average consumption per individual is 66 kg, 54 kg and 43 kg respectively. This indicates that as Jordan’s average income level grows, there may be a change in eating habits related to an increase in red meat consumption as illustrated in the chart below:

![Figure II.4.3: Average Annual Household Expenditure on Meats and Poultry by Household Expenditure Group (JD)](image)

188 This part of the report will not address slaughterhouses thoroughly as they are indirectly related to the red meat processing industry. The process starts with mainly frozen raw meat and not the livestock.

189 Balance sheet for animal products during the period of 2002-2007 (000 tons), Ministry of Agriculture

190 Household expenditures & income survey, 2006, Department of Statistics

191 Ibid.

White Meat

The 84% of the total demand of white meat is covered by the local production of poultry. The total production of poultry meat (livestock and processed) was estimated at 130,100 tons. 24,300 ton was imported in order to cover the total market demand. Thus the domestic demand is estimated to be ca. 154,400 tons in total.\(^{191}\)

The average white meat consumption for a Jordanian individual was estimated at 27 kg annually, compared to other countries like Saudi Arabia with an average consumption of 48 kg.\(^{192}\) Following Saudi Arabia, countries like USA, Brazil and Venezuela have an average consumption per individual at 39 kg, 37 kg and 35 kg respectively. This also indicates the possibility of changing eating habits based on increases in income levels and improvements in the overall economic status.

As white meat is locally produced, slaughterhouses in that case are directly related to poultry meat. The total number of poultry slaughterhouses in Jordan reached 10. Three are still under development. Upon completing the three new slaughterhouses, altogether they will be able to serve the total local demand of poultry meat. Moreover, the government has proposed to establish a slaughterhouse complex to serve Amman and Zarqa directorates, through a synergy between public and private sectors. Currently, almost all market players have their own slaughterhouses, but still do not cover the market needs, especially the mechanically deboned meat (MDM) where more than 76% are imported.\(^{193}\)

Size and Pattern of Growth

The overall lifestyle of the consumers has changed, as they tend to look more for ready-made meals. In Jordan, consumer expenditures on different types of meat have changed during the last years. According to the latest statistics issued by DOS, the percentage of annual household expenditure on food was 32% out of which 7.9% was spent on meats and poultry. It is illustrated in the figure below:

188 One of the highest consumptions in the world.

191 Special study prepared by JUMP and NLP for the use of MDM in meat processing, 2008
Food materials hold the largest annual percentage of the average household expenditures. The demand for food products and meat will not likely decline, since it is a basic need of the population.

Additionally, changes in income can significantly impact meat demand. As the average household income increases, the expenditure on the meat and poultry, as a percentage of household expenditure, will increase. In the Middle East and East Asia, increased incomes from rapid industrialization or oil revenues led to a greater consumption of meat. But demand increases only up to a certain income level, after that meat consumption tends to level off or even decline slightly.

Thus, as the economy grows, meat consumption patterns shift. An increase in local consumption is likely to be affected by the growth of Jordan’s average household expenditure. As the process will still take some time, the meat processing sector needs to concentrate on exports, at least in the short-term, by following and meeting strict importing regulations to developed countries.

4.3.2 Factor Conditions

Jordan’s processed meat industry faces a mix pool of resources that shapes its competitive position. The following conditions are to be taken into consideration while analyzing competitiveness of the sector: human, physical, and capital resources.

Human Resources

While the industry needs both an educated workforce and skilled labor, the survey results indicates that finding proper skilled labor remains one of the main limitations of the industry. Although there are adequate numbers of engineers, scientist, and many other education related jobs, it was found that the lack of skilled personnel, mainly operating labor, was an important factor inhibiting the industry’s development.

According to the survey results, on average, only 20% of the total workforce at each plant represents the academic employees who are working in management positions, while the remaining majority of the plant workforce (80%) are skilled labors. This indicates the dependence within this industry on labors and shows the need to start training them at vocational colleges in order to supply the skilled workforce required by the market.

On the other hand, in terms of human development, results show that the majority of training plans provided within the industry are focused only on quality and hygiene practices, since they are required by certification bodies, like ISO and HACCP.

The yearly training budget per employee is low. Majority of training is either on-the-job training or is provided by companies that have built the plant or produced the machines. Stakeholders’ surveyed, responded that 43% of them spend JD 1-100 on average per employee on training. Another 43% spend over JD 300, and the remainder 14% spend between JD 101-300.

194 Household expenditures & income survey, 2006, Department of Statistics
195 Jabarin Amer, Estimation of meat demand system in Jordan, an almost ideal demand system, 2009
196 In the USA the standard adopted is the Hazard Analysis and Critical Control Points (HACCP), with additional regulations that have been implemented. It is a systematic preventive approach to food safety and pharmaceutical safety that addresses physical, chemical, and biological hazards as a means of prevention rather than finished product inspection.
Moreover, many other common issues exist in the processed meat manufacturing sector related to poor work ethics and resistance to hygiene practices, as well as, high turnover and low efficiency. These issues can be considered as barriers for development that need to be addressed both by public institutions and the industry itself, in order to increase the sector’s competitiveness.

Regarding the motivation scheme companies implement, results varied between companies. Nevertheless, the majority of them have offered extra remuneration for overtime work, sales commissions, and bonuses for management in line with their performance.

**Physical Resources**

**Raw Materials**

The total amounts of imported raw meat (both frozen and livestock) for red and white meats was 45,000 tons and 24,300 tons respectively.\(^{198}\) It is assumed that frozen raw meat represents only 4% of the total market.\(^{199}\) For the red processed meat industry, frozen cubes of meat are 100% imported from outside.\(^{200}\) Jordan does not have the capability to produce frozen input cubes locally. As for poultry, Jordan is receiving more than 85%\(^{201}\) of live chickens from local farms and is also able to cover some of the market needs of frozen raw poultry from its local production (only 2.5 tons out of 10.5 tons needed is from mechanically deboned meat (MDM))\(^{202}\). In order to improve the competitiveness of this industry and allow it to compete with exported input frozen meat, the government must be able to provide adequate amounts of water at a low price, as well as, reduce high feed material import costs.\(^{203}\)

**Utility Supplies and Costs**

The cost of industrial fuel and utilities remains high compared to other regional competing countries, where governments in these countries are supporting their industries through offering subsidies and providing long term loans at competitive interest rates. Another related issue that was raised by the majority of the stakeholders, was the large increase in electricity tariff rates during peak time (from 5:00-8:00 p.m), where the average working hours for many processed meat manufactures is between 14-16 hours a day and they can not shut down their machines. As the market is price sensitive, some of them have their own generators which they use during peak hours.

According to the IMD Competitiveness Yearbook 2009, as per electricity costs for industrial clients in 2008, Jordan ranked 15th (0,069 USD per kwh) out of 57 countries.\(^{204}\) Additionally, water supply for manufacturing is vital, as the majority of the stakeholders claimed. Inadequacy of water supplies is forcing producers to use water from their local ground water wells, in addition to the water supplied by the municipalities. Few plants are refining the sewerage system in order to use it as a source of watering.

\(^{197}\) Own source: meat processing sector stakeholders survey, 2009.

\(^{198}\) Balance sheet for animal products during the period of 2002-2007 (000 tons), Ministry of Agriculture.

\(^{199}\) Calculated based on the values of the relative importance of commodities for the meat and poultry, Household expenditures & income survey, 2006, Department of Statistics.

\(^{200}\) Own source: meat processing sector stakeholders survey, 2009

\(^{201}\) Ibid.

\(^{202}\) Special study prepared by JUMP and NLP for the use of MDM in meat processing, 2008.

\(^{203}\) According to our survey, (16-18) Liters of water is needed in order to raise the poultry until it is ready to be slaughtered.

\(^{204}\) IMD Report 2009.
Quality of Machines

According to the survey results, the majority of the stakeholders describe the quality of machines in their plants as advanced technology (see the following figure). There are some plants that have old production lines and no technological change for as many as 20 years. All stakeholders interviewed who have old machinery have either recently bought a new production line or will open the new lines over the upcoming two years.

Figure II. 4.6: Quality of Machinery Used in Production in Jordan

Knowledge Resources

In terms of research and development activities (R&D), innovation in food manufacturing is one of the necessary factors of this industry to remain competitive. Unfortunately, results from the survey show that more than 38% of those surveyed do not perform any R&D activities and consequently do not have a budget for it. The majority of the stakeholders interviewed indicated that they were conducting R&D activities.

The following activities are considered R&D by the stakeholders: new product development (i.e. creating new formula, tasting activities, selecting the brand name, packaging activities and launching to the market) or inspection (for samples checked through external or in-house laboratories as part of quality control actions). As such a perception of the R&D activities in the sector is somewhat different than a common definition: work on innovating and developing the entire manufacturing process in order to improve the competitiveness.

Capital Resources

The availability and cost of capital are some of critical components of competitiveness. Results from the survey have identified that that the lack of capital for the development of the plants is not a significant problem. More than 88% of the sample cited that a lack of finance is not an important barrier to a new production line development. Only 12% of stakeholders cited that they do consider the lack of capital as a barrier to export growth.

Additionally, the Jordanian government has offered incentives for local industry, including the establishment of industrial estates, free-trade zones and tax breaks to industries willing to locate outside the Amman-Zarqa corridor, where most of industry is currently located.

4.3.3 Firm Strategy, Structure and Rivalry

The way industry and firms set goals, and the way they are managed, are important factors in determining their level of success. The following chapter analyzes the approach towards strategic management, structures, and competition among existing firms. The facts are to determine if competitive advantage is created and whether or not it can be improved.

205 Own source: meat processing sector stakeholders survey, 2009
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Strategy

It is difficult for the industry producers to compete and remain profitable, mainly because the market size is considered small compared to other countries. Additionally, a large portion of the market segment is only looking for low priced products. Moreover, there is little demand for high quality products due to the low purchasing power of Jordanian citizens.

In the survey, when asked if a strategy exists, 75% responded that they have documented business as well as marketing strategies. Only 25% of the respondents claimed that they do not possess them. Based on the discussions, it appears that although the documents exist, they lack synergy. It was also observed that all promotion and marketing tools are used mostly by large companies.

Although the small companies realize the importance of these marketing tools, they do not implement them due to their limited budgets. Therefore, more than 88%, including the smaller players, have created different brands with the same formula, but also with different prices in order to target diversified segments and income levels.

![Figure II. 4.7: Existence of Strategies in Jordan's Meat Processing Industry](image)

The figure above illustrates the existence of a formal overall strategy, a marketing strategy, and brand differentiation: being a vital part of a marketing strategy, and often of the overall corporate strategy of a firm. Moreover, 35% of the stakeholders explained that having different brand names for the same product help them to enter new export markets. Often, the same brand name is already registered in another country by a different company, and sometimes by a different type of product.

The other 65% said the reason for rebranding was to target additional segments with varied income levels. Furthermore, in regards to a strategy on the distribution channels, the majority of companies have their own fleet, and there is no clear strategy for companies on how to manage their distribution channels.

Rivalry

The whole processed meat industry in Jordan consists of 16 companies, with a few market leaders who own large market share (three or four companies with an average market share ranging between 20%-40%). It was observed that each one of the large companies has focused on a certain product line where they dominate the market e.g. frozen meat and little share on e.g. cold cuts. At the same time the companies are trying to increase their shares in both groups of product lines.

This may be considered as a threat to small niche companies who could be unable to compete with market ‘giants’ in those small product lines. Competition is mainly based on price rather than the quality of products. Competition is considered to be aggressive in the sector. Small players may find their way by adopting practices implemented by the leaders, such as new product development or having different brand names for the same products, or increasing

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206 Ibid.
marketing and promotion activities.

4.3.4 Related and Supporting Industries

The processed meat industry has several supporting industries that it relies on. In general, they are related to the manufacturing process which starts from preparing spices and additives, processing raw meats, and ends with the packaging of the end products. The more developed and sophisticated supporting industries are, the better and stronger the competitive position of the sector.

Chemical Ingredients (Spices and Additives)

Adding spices and additives in the processed meat manufacturing is one of the main steps in the production cycle, where there is a production formula that determines exact quantities that should be added. The producers in Jordan are importing all spices and additives, except salts.

Raw Meats

As previously mentioned, the raw red meats are 100% imported from outside Jordan, mainly from Brazil and India. For poultry, the majority of local producers are depending on local frozen produced chicken available in the market but unfortunately, it does not cover their needs. Except for the mechanically deboned meat (MDM), it is imported due to the lack of available quantities and lower qualities. In the stakeholder survey, when questioned about the issues related to delivering raw materials on time, more than 90% of those surveyed have replied that there is no delay in receiving the goods.

Machinery

Similar to all other emerging economic countries, industrial manufacturing for the processed meat production equipment does not exist in Jordan. All machinery is purchased from industrial developed countries, such as Germany. Although it is better from a competition perspective to have local production for machinery, unfortunately, they are all purchased from outside, even though they are advanced and producing high-quality products.

Packaging

The final stage of manufacturing processed meat is packaging. Producers have realized the importance of having the highest possible packaging quality, specially for the poultry products, as taste may be changed due to the use of poor packing. More than 90% of the packaging materials required for this industry are imported from outside Jordan, mainly from Saudi Arabia and the Gulf. This is due to the lack of local producers of packaging material. The ones that are available are of low quality and similar price. Only the polystyrene products are purchased from the local market because the quality and price is comparable to foreign products.

Warehouses and transportation

After products are manufactured and packaged, they need to be distributed. The lack of logistics companies and reliable outsourced transportation have forced the meat processing producers to have their own distribution centres, as well as fleets of transportation. 95% of those surveyed have replied that they have their own warehouses, and said that they are adequate in terms of the area relative to their production.

Market information

Market information keeps producers and traders attuned to the demands and changing preferences of consumers. It guides and directs them towards new product development, as well as, assist in setting the right price. Only large companies use professional marketing tools, such as surveys on the customer’s feedback of the products. Small companies are getting the information and feedback on their products through other unguaranteed limited sources such as the word of mouth received from the distributors and retailers.

4.3.5 Other Variables: Government and Chance

In addition to the four dimensions, the role of the government in the Diamond model is to act as a catalyst and challenger for the sector, to move it to a higher level of competitive performance. Chance also plays an altering role in the four main conditions, as there are events that are largely outside of the control of firms.
Government

The main role of the government is to guarantee high safety and hygiene of products served to their citizens by different producers. Often, this involves enforcing strict product standards and regulations, stimulating advanced demand, and protecting national production by imposing high customs on imported products especially those of lower quality. There appears to be significant concerns among the industry regarding the government’s role in regulating the meat industry. About 66% of industry leaders stated that the efficiency of the government is mediocre. 16% believe the government is adequately efficient. Additionally, 83% of those polled indicated that the government does not see the meat-processing sector as a priority. The remaining 17% felt that the government does see the meat processing industry as a priority. Furthermore, the majority of respondents indicated that tax rates are in line with other sectors, whereas tax incentives exist for new investments and start-ups only. This signifies the need to foster institutional innovation and encourage performing R&D by all governmental parties related to this industry.

There are many parties involved, which makes the coordination of the sector difficult to maintain. Key government stakeholders include: Ministry of Agriculture, Jordan Institution for Standards and Metrology, Ministry of Industry and Trade, Jordan Chamber of Industry, Amman Chamber of Industry, Ministry of Health, Greater Amman Municipality and Jordanian Food and Drugs Administration. Some duplication in authorities and responsibilities were noticed. For example, Jordan’s Food and Drug Administration and the Ministry of Agriculture both conduct quality tests of processed meat, but there is no integration or communication between these two authorities.

Executive Program of the National Agenda

The Executive Program to implement the National Agenda for 2007-2009, has set two main policies to strengthen food industries in Jordan. The first policy is to enhance competitiveness of the food industry sector (goals are listed under I.4: Key Strategic Documents).

The other deals with enhancing importing countries’ confidence level in Jordanian food exports, with the intention to enhance the competitiveness of the food industry sector. The program has a focus on specific projects and programs, with allocated budgets and measurable performance indicators. In terms of executing the program: the establishment of a business association for the food industries sector has not been set up, although talks towards this goal continue.

For the food industry in general, Jordan Enterprise (JE) has provided technical and financial support to major players in the sector, representing 80% of the sector. JE has completely financed the development of a three-year strategic plan for each one of the companies.

In addition, it has contributed in the implementation of upgrading certain strategic plans which cover the following activities: purchasing new and modern machinery, improving product quality, introducing new products, introducing new markets, obtaining HACCP and ISO certificates, improving product packing, and enhancing the overall marketing activities, such as, developing websites, logos, branding, marketing studies, etc. The total estimated fund for these improvement projects is around JD 4 millions, and so far, JE has provided a grant of around JD 0.9 Million and 60% of the action plans has been implemented.

Jordan Food and Drug Administration plans to design and execute a training program on good manufacturing practices and food handling targeting the workers in the food industry, capable of exporting. Lastly, the program on the execution of a tracking and retrieving system in the food industries capable of exporting is being implemented.

Chance

Over the past decade, a number of high-profile food crises have strengthened consumer awareness. The developments of new diseases connected to cows, beef, chicken or swine, have had a devastating effect on the worldwide meat industry. Although never expected, they can change the way the industry is regulated and greatly decrease the demand for certain meat products.

Recently, as reports of swine flu filled the news, the pork industry experienced a large drop in sale of pork. The widespread outbreak of swine flu also affected other sectors such as: tourism, food, transportation, and the meat industry in particular. China, Russia and Ukraine banned imports of pork and pork products from Mexico, while other
governments were increasing the screening of pork imports. Despite being safe to eat - as the swine flu viruses does not spread through food - analysts still predict that consumers could choose not to consume pork and move to other meats like chicken or beef. Bovine spongiform encephalopathy (BSE), commonly known as mad-cow disease (MCD), a fatal, neurodegenerative disease in cattle, was another unexpected disease that changed the industry drastically.

The bird flu was a further global influenza whose scare has resulted in a short-lived reduction in poultry meat consumption. Larger numbers of bird flu news reports led to larger reductions in poultry purchases. Although most impacts were of limited duration, the results were hard hit for the meat industry. The discovery of sick birds in several Middle Eastern countries has led to extensive slaughters. In January 2004, Kuwait and Jordan banned the import of poultry from Asian countries infected with bird flu. Jordan's government took stringent measures to combat avian flu in poultry after the first cases of the strain were found in birds. These events indicate the sensibility of the processed meat sector, where demand and supply are highly affected by these global unexpected outbreaks.

4.4 Results of the Benchmark Analysis - In Search of Best Practices

Three regional countries and three countries outside the region were chosen for benchmarking or comparison. The technique is used to provide a snapshot of the meat processing business, and allows for better understanding of where the industry is in relation to other countries. The main goal of the benchmarking is to search for best practices that are later used for the gap analysis (distance between Jordan and selected best practices, enabling the processed meat industry to compare its actual performance with its potential performance).

The regional countries selected as benchmarks include:
- UAE,
- Lebanon, and
- Turkey.

For international benchmarking, the countries are:
- Germany,
- Denmark, and
- Netherlands.

For the purpose of comparison, the sector is evaluated among some indicators in relation to competitiveness. This leads to conclusions on the competitiveness of Jordan's processed meat sector.

The following is a summary of the results from the benchmark analysis. Recent developments of each country, their individual best practices, as well as rationale for selecting them as benchmarks are discussed. Finally, a selection of benchmark countries indicators will be compared in order to conclude with a gap analysis.

In economically free societies, governments allow labor, capital and goods to move freely. The 2009 Index of Economic Freedom by the Heritage Foundation measures ten components of economic freedom, with scores ranging from 0 to 100, where 100 represents the maximum freedom. Ten component scores are calculated to give an overall economic freedom score for each country. Below tables serve the purpose for initial comparison between selected benchmark countries and Jordan.
## Table II.4.1: Economic Comparison Between Regional Benchmarks

<table>
<thead>
<tr>
<th>Item</th>
<th>Jordan</th>
<th>Region</th>
<th>UAE</th>
<th>Lebanon</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Freedom Score</strong></td>
<td>65.4 Jordan score increased by 1.3 points since last year, reflecting substantial increase in business freedom.</td>
<td></td>
<td>64.7</td>
<td>58.1</td>
<td>61.1</td>
</tr>
<tr>
<td></td>
<td>64.7 UAE scored 2.2 points higher with high levels of freedom from labor, corruption, and trade.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>58.1 Lebanon is ranked 9th out of 17 countries in the Middle East/North Africa region.</td>
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<td></td>
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<td></td>
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<tr>
<td></td>
<td>61.1 Inflation is down, foreign direct investment has risen to record levels, and the ratio of public debt to GDP is down almost 50 percent.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Freedom Score</strong></td>
<td>68.9 The overall freedom to start, operate, and close a business is restricted by Jordan’s regulatory environment. Despite efforts at reform, bureaucratic obstacles and delays persist.</td>
<td></td>
<td>57.4</td>
<td>60.0</td>
<td>69.9</td>
</tr>
<tr>
<td></td>
<td>57.4 Strict regulatory freedom and minimum capital requirements remain high.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60.0 The overall freedom to start, operate, and close a business is limited by Lebanon’s regulatory environment. The cost of starting and closing a business is high.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>69.9 Regulatory environment has improved somewhat in recent year but bankruptcy proceedings can be burdensome and lengthy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government size</strong></td>
<td>56.9 Government spending equaled 37.9% of GDP.</td>
<td></td>
<td>86.3</td>
<td>79.4</td>
<td>63.4</td>
</tr>
<tr>
<td></td>
<td>86.3 Government spending of 21.4% of GDP.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>79.4 Government spending equaled 43.6% of GDP.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>63.4 Government spending equaled 23.5% of GDP.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial freedom</strong></td>
<td>60.0 The government has brought supervision and regulation into line with international standards.</td>
<td></td>
<td>50.0</td>
<td>60.0</td>
<td>50.0</td>
</tr>
<tr>
<td></td>
<td>50.0 Efficient and competitive financial sector offering a full range of products.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60.0 Lebanon’s financial sector has experienced a decade of restructuring and consolidation, but overall progress has been slow in recent years.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>50.0 The financial sector has undergone a period of restructuring and transformation in recent years. Capital markets are relatively small and dominated by government securities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Table II.4.2: Economic Comparison Between International Benchmarks

<table>
<thead>
<tr>
<th>Item</th>
<th>Jordan</th>
<th>International</th>
<th>Germany</th>
<th>Denmark</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Freedom Score</strong></td>
<td>65.4 Jordan score increased by 1.3 points since last year, reflecting substantial increase in business freedom.</td>
<td></td>
<td>70.5</td>
<td>79.6</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>70.5 Score remains the same as the previous year. Germany is ranked 25th worldwide, and 13th in the region.</td>
<td></td>
<td></td>
<td></td>
<td>12th freest countries in the world.</td>
</tr>
<tr>
<td></td>
<td>79.6 Score is higher by .4 points; 8th freest country worldwide, and 2nd in Europe.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Freedom Score</strong></td>
<td>68.9 The overall freedom to start, operate, and close a business is restricted by Jordan’s regulatory environment. Despite efforts at reform, bureaucratic obstacles and delays persist.</td>
<td></td>
<td>90.3</td>
<td>99.9</td>
<td>86.5</td>
</tr>
<tr>
<td></td>
<td>90.3 Starting, operating, and closing a business is straightforward and relatively quick.</td>
<td></td>
<td></td>
<td></td>
<td>Opening a new business is easy and fast. Closing a business is also easy.</td>
</tr>
<tr>
<td></td>
<td>99.9 Freedom of business (opening, operating, and closing) is very high, with a strong regulatory environment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government size</strong></td>
<td>56.9 Government spending equaled 37.9% of GDP.</td>
<td></td>
<td>60.0</td>
<td>20.4</td>
<td>36.2</td>
</tr>
<tr>
<td></td>
<td>60.0 Government spending equaled 45.4%. Consumption and transfer payments are very high.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20.4 High Government expenditure equaled 51.5% of GDP.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial freedom</strong></td>
<td>60.0 Foreign investors receive national treatment, and 100 percent foreign ownership is allowed in areas where foreign investment is permitted.</td>
<td></td>
<td>50.0</td>
<td>90.0</td>
<td>90.0</td>
</tr>
<tr>
<td></td>
<td>50.0 Financial systems efficient although slow consolidation. Well-developed stock market.</td>
<td></td>
<td></td>
<td></td>
<td>Strong Property rights and legal system.</td>
</tr>
<tr>
<td></td>
<td>90.0 Financial system is competitive.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4.1 Benchmark Countries Development

The benchmark countries developments are used to identify the best practices within each individual country. These best practices will later be used in a gap analysis, to determine the position of Jordan in regards to the best practices and to its overall competitiveness. For the following analysis of benchmark country development, much of data used was collected from FAOSTAT, published by the Food and Agriculture Organization of the United Nations, in July 2009. The latest figures in the report are from the year 2006 and some in 2005. Most of the data available was related to the entire agricultural sector, therefore, the recent developments and trends will focus on the agricultural industry as a whole, and later the sub category of meat processing will be discussed.

The United Arab Emirates (UAE)

The UAE have a diverse and rapidly growing market for food and beverage products, with a population similar to Jordan's. The level of income in the UAE is relatively high which leads to a pressure to increase the quality of meat and other foods. The population consists of many expatriates from countries like India, Pakistan, Bangladesh and Sri Lanka. UAE nationals only comprise about 20% of the total population. This necessitates the need to diversify the production to cope with the variety of demands. Western expatriates comprise around 15% of the population – the largest contributor being the United Kingdom, with South Africans also representing a significant number. There are also many other Middle Eastern nationals residing in the UAE, including Lebanese, Egyptian, Iranian and Moroccan.

Because of the large number of expatriates, the food and beverage industry, including meat processing, is largely connected to the hotel and restaurant sector. The UAE's hotel/restaurant sector is growing at a rate of 10% annually, reflecting a growth of food products offered in hotels and restaurants. A good part of this growth is at the premium (four and five-star) end of the market. Along with the hotel and restaurant market, other food service sectors are also showing exponential growth. The quick serve restaurant and casual dining sector is growing rapidly, especially targeting the Arab and Asian populations. Airline catering is also experiencing rapid growth, in line with the aggressive expansion of Emirates Airline and Etihad Airways. This growth in demand is considered to be one of the main sources of competitiveness.

Furthermore, the UAE is an internationally competitive market, where produce from all major food producing nations can be found. It is logistically relatively easy to supply, and it is often the entry point for suppliers to other parts of the region. This makes UAE more competitive in the processed meat market than other neighboring countries. Volume items are often sourced from within the Middle East region, for example, poultry and dates come from Saudi Arabia and fresh produce from Oman and Lebanon. There is a standard 5% import duty charged on all food produce entering the UAE. The exception is goods destined for duty free, or airline catering.

In regards to the processed meat sector, the major suppliers of red meat to the UAE are India, Australia, New Zealand, and the USA. India supplies lower grade ‘mutton’ to retailers, and also local manufacturers, which is consumed in volume by the local population. The remainder targets the upper end retail foodservice markets, predominantly with chilled cuts. New Zealand is amongst the largest suppliers of meat to the retail and hotel markets. Additionally, the UAE market is relatively sophisticated for the region, with demand having moved to chilled products from the traditional frozen carcass. Poultry is largely imported from Brazil, although there is some regional production, particularly out of Saudi Arabia. This indicates that most of the raw material is imported, which decreases the level of competitiveness of the country's products.

Brazil dominates the market segment in regards to supplying raw meat. Around half of these imports go to local companies for additional processing, given the very limited availability of domestic poultry inputs. UAE manufacturers, such as Al Islami Foods, Al Kabeer, Al Areej, Arctic Gold, Royal Meat and Emirates Meat already export significant
proportions of their production to other GCC and Middle Eastern countries, as well as to North Africa, Iran, Afghanistan, and even Central Asian market.

All meat and meat products must be halal certified upon entry to the UAE. The exception to halal certification is pork and pork products, which are sold in some specifically licensed retail environments. Accordingly, all processed meat in the UAE is halal.

In the last few years in UAE, the emirates of Dubai and Abu Dhabi in particular, have shown a liking for premium and healthier products, a trend which will not slow down despite the profound effects of the financial crisis.

To support market demand and needs of local, regional and international food processing companies, Dubai World Trade Centre (DWTC) has staged a dedicated trade show for the sector. For example, in June 2008 Ingredients Middle East trade show had a particular focus on raw materials for halal food preparation. For the food manufacturers, this was an avenue to enable them to meet certified suppliers of ingredients, so that they could create a 100% halal supply chain.

Overall, UAE is the most competitive in the meat processing, from the regional countries. The main sources of competitiveness for the processed meat sector in the UAE are the high local demand due to the large number of restaurants and hotels, and a high level of income, which creates a need for a large number of super and hypermarkets selling prepared meat products. Additionally, the market is characterized by a very strong distribution system and distribution allies.²⁰⁷

Lebanon

Lebanon’s food producers are steadily improving the quality of their output in order to take advantages of the growing export opportunities. Lebanese production of agro-food is relatively small compared to the neighboring countries, and the Lebanese consumers satisfy their needs for many products through importation.

The major drawback of the food sector and processed meat in particular, is the political unrest in Lebanon. The supporting and related industries affecting the competitiveness of the sector are facing difficulties. This includes: the high cost and low quality of local agricultural inputs; distribution channels through which agricultural products are marketed; problems facing imports of inputs, high cost of marketing in the local market and a relatively low volume of exports.

All these factors hinder the competitiveness of the processed food sector. In the processed meat sector, Lebanese firms are noted for having a high percentage of family-owned and small-scale establishments, and a high concentration of market share among limited number of market players. This has an adverse affect on the sector competitiveness. On the other hand, government intervention is minimal as to the design of policies, and its role is confined to the agricultural calendar and five year plans.

Additionally, the competitiveness of the sector was further reduced by the outbreak of foot and mouth disease. For example, the Philippines has banned the imports of meat from Lebanon following the reported outbreak of foot and mouth disease in the country. Despite those difficulties, Lebanon is still considered to be a strong competitor in the sector.²⁰⁸

²⁰⁷ Food and Agriculture Organization of the United Nations, FAOSTAT, 2009
²⁰⁸ Ibid.
Turkey

Turkey has a far richer endowment of agricultural resources in terms of cultivable land and availability of water than any other Middle Eastern country. It is also a net exporter in agricultural products, excluding farm inputs. Over 500,000 people are employed in the sector, including producers, farmers, traders, feed, medicine, related industry, transportation and marketing, and some 2 million people rely on it to make a living.

The turning point for Turkey’s meat processing industry was in September 2003, when a technical mission from the EU inspected six slaughterhouses and issued a report that Turkey could be admitted to the list of third countries, authorized to export fresh poultry meat into the EU. Although, the decision entered into force, it was suspended due to the avian influenza outbreak in Turkey in October 2005. Since March 29, 2009 seven Turkish companies, which possess 70% market share in Turkey, can export poultry processed products to the EU countries.

The impact of the EU on the Turkish agro-industry has been very positive. It draws attention to the upgrading and managerial requirements of the industry. For instance the integration process with the EU, forced strict hygienic processes, and improved overall quality of packaging. Currently, only 15% of production is packed. Moreover, Turkey is encouraging foreign direct investments, in which it could play an important role in diffusing new technologies in rural areas. All these factors enhance the level of competitiveness of its products. The competitiveness of the food products in Turkey is also strong because raw materials are produced locally. It makes the industry more stable, and enables tracing of products from farms to the market. Additionally, the government is trying to simplify the conditions to cope with the needs of the EU for the sake of Turkey’s accession to the EU.  

Germany

In 2008, German food exports grew by 14.4%, reaching a total of EUR 42.4 billion. The industry profits from the easy access to Europe’s largest market and to growing export markets, especially in Central and Eastern European countries. Exports of food products to 12 new EU member states have increased by 30.2%. It reflects the confidence of German products by customers worldwide and demonstrates the high quality standards that exist.

Over the last number of years, Germany has led the way in terms of processed meat production. It happened despite having one of the most fragmented processing meat plant structures in Europe. Furthermore, the German industry has been streamlined mainly by a higher proportion of processed meat to discount stores, which have the ability to pay lower prices to producers. Lately, the German meat market has faced severe crises and fluctuations in demand. Hardly any other branch in the food industry has had to cope with so many food scandals.

Mad cow disease (BSE), salmonellae, dioxin and nitrofen have effectively lowered the consumer’s trust in animal food, and have reinforced the long-term trend towards lower meat consumption. This is especially true for the red meat sector while the demand for poultry is still positive. These differences are due to different marketing approaches, namely labeling and branding.

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209 Ibid.
210 www.meatinternational.com, Germany food industry stable- ideal for investments, June 08, 2009
211 Ibid.
Furthermore, one of the enhancing factors to the competitiveness in food production in Germany, is strong research and development. As a result, it positively influences innovation and product quality. The Federal Ministry of Nutrition, Agriculture and Consumerism (BMELV) currently support 264 innovation projects. There are efforts in developing more energy-efficient production methods, and innovations to finding new approaches to livestock breeding.  

**Denmark**

Denmark is one of the most trade-oriented economies in the world. As a base for exporting, Denmark has many advantages. Its key location to mainland Europe, plus its position at the Baltic Sea, gives it the access to lucrative markets for both EU and non-EU countries. Germany is currently Denmark’s most important export destination, followed by Sweden and the United Kingdom. The United States is Denmark’s largest trading partner outside the EU, and accounts for almost 5% of Denmark’s total trade value. Denmark is one of the few countries in the world that enjoys the strongest government support for organic agriculture (subsidies for conversion to organic), and marketing efforts.

In terms of the processed meat sector, the main meat production in Denmark is beef. There are firms that process meat into sausages, frozen hamburgers and other convenience products. Beef production is expected to rise considerably within the next few years.

In regards to recent developments, the market for organic food has been growing rapidly in Denmark. It has been a trend observed in many other highly industrialized European countries. Modern consumers demand healthy, convenient and affordable food products that are also consistent with their ethical principles. Even the relationship between food choice and climate change is a rising development that influences the consumer’s food purchase. This represents both opportunities and a challenge to companies in the food chain. The industry seems to acknowledge the need to better understand the environmental and ethical concerns of consumer food choices.  

**The Netherlands**

With about 1 million Muslims, the Netherlands offers opportunities in various halal meat products. Strategically located, it also offers one of the best investment locations in terms of joint ventures, re-exports, etc. Netherlands is well known as the logistics nerve centre of Europe. It has operational halal warehouse, transport and distribution services to cater for Malaysian and other Asian halal products. These factors increased the level of competitiveness for local and foreign markets.

In the Netherlands, most of the halal meat comes from Malaysia. Malaysian product range includes: pre-cooked and pre-baked halal chicken, beef, turkey, sausages, etc. Moreover, Netherlands is one of the largest slaughterers in the EU of male calf, reported by German statistical bureau ZMP report. The main suppliers of these calves are France, Germany and Poland.

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212  Ibid.
214  Ibid.
215  www.meatinternational.com, Netherland largest calf importer in the EU, April 20, 2009
4.4.2 Benchmark Countries Further Analysis – Indicators

To further check the competitiveness of Jordan's processed meat market, benchmark indicators will be analyzed below and compared. In order to increase the sector’s competitiveness, key areas for development can also be determined from the results.

In this section, the comparative advantages of Jordan's processed meat market are presented and compared to other selected regional and international benchmark countries. These indicators and measurements are classified into two main groups:

Group I – Comparative advantages indices:
- RCA (Relative Comparative Advantage) or RXA (Relative Export Advantage)
- RMA (Relative Import Advantage)
- RTA (Relative Total Advantage)
- Competitive advantage of a product

Group II – Market share regarding imports, exports and examination of market share growth.

The calculation of each group’s indicators will be explained and illustrated below before the results analysis.

Table II.4.3. Indicators Used for Analysis of Comparative and Competitive Advantages

<table>
<thead>
<tr>
<th>Group:</th>
<th>Group I: Comparative Advantage Indices</th>
<th>Group II: Market Share Export/Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>RCA (Relative Comparative Advantage) or RXA (Relative Export Advantage) – comparative advantage</td>
<td>RMA (Relative Import Advantage) – comparative advantage</td>
</tr>
<tr>
<td>Method</td>
<td>RCA or RXA = (xij/ xit) / (xnj/ xnt)</td>
<td>RMA = (mij/ mit) / (mnj/ mnt)</td>
</tr>
<tr>
<td>Legend</td>
<td>x: exports i: country j: commodity (processed meat) t: set of commodities (agro-food products) n: set of countries (benchmark country)</td>
<td>m: imports i: country j: commodity (processed meat) t: set of commodities (agro-food products) n: set of countries (benchmark country)</td>
</tr>
</tbody>
</table>

Balassa and Vollrath indexes

The index most frequently used to analysis industries that rely on exports is known as the Balassa index, first pioneered by Liesner in 1958. Industries that produce and export products use the Balassa index as a main source of determining competitiveness. The Balassa index tries to identify whether a country has “revealed” a comparative advantage (RCA). The basic logic behind RCA is to evaluate comparative advantage on the basis of a country’s specialization in (net) exports relative to some reference group. The Balassa Index also measures the revealed comparative export advantages (RXA). Additionally, the Vollrath's index reveals comparative advantage and takes into account both the significance of a country's export in a given sector and that country's total export in the world market. Vollrath Index also uses the same system to explain the relative import advantage (RMA).

Balassa Index

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The index most frequently used to analysis industries that rely on exports is known as the Balassa index, first pioneered by Liesner in 1958. Industries that produce and export products use the Balassa index as a main source of determining competitiveness. The Balassa index tries to identify whether a country has “revealed” a comparative advantage (RCA). The basic logic behind RCA is to evaluate comparative advantage on the basis of a country’s specialization in (net) exports relative to some reference group. The Balassa Index also measures the revealed comparative export advantages (RXA). Additionally, the Vollrath's index reveals comparative advantage and takes into account both the significance of a country's export in a given sector and that country's total export in the world market. Vollrath Index also uses the same system to explain the relative import advantage (RMA).

The advantage of expressing an index in logarithmic form is that it becomes symmetric through the origin. Positive values of this measure reveal a comparative/competitive advantage. If lnRXA > 0 then the country has a competitive advantage in the commodity. If lnRXA < 0 then the country does not have a competitive advantage in the commodity.

If RTA > 0 then a relative trade advantage is revealed (i.e. a sector in which the country's trade is relatively more competitive). The RTA index is classified into three categories: RTA < 0 refers to product groups with an absence of relative trade advantage or to products with relative trade disadvantage; RTA = 0 refers to product groups at a break-even point without relative trade advantage or relative trade disadvantage and RTA > 0 refers to product groups with a relative trade advantage. These boundaries are consistent with a theoretical interpretation appropriate for cross-country comparisons.
GROUP I – Calculation of Indicators: Comparative Advantage Indices

Two sub-groups were selected for competitiveness comparison: canned chicken meat (white meat) and preparations of beef (red meat).

The summary of comparative/competitive indicators for canned chicken/total processed meat in 2006 and preparations of beef in 2006 are presented in the tables below, comparing Jordan's competitiveness in these products with six benchmark countries. Data used are competitive ratios of Jordan compared to benchmark countries.

Table II.4.4. Comparative/Competitive Indicators for Canned Chicken Meat in 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>UAE</th>
<th>Lebanon</th>
<th>Turkey</th>
<th>Germany</th>
<th>Denmark</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPORT RMA- for QUANTITY</td>
<td>0.199</td>
<td>0.955</td>
<td>0.099</td>
<td>0.146</td>
<td>1.32</td>
<td>0.165</td>
</tr>
<tr>
<td>EXPORT RXA- for QUANTITY</td>
<td>0.056</td>
<td>0.056</td>
<td>0.044</td>
<td>0.264</td>
<td>3.27</td>
<td>0.124</td>
</tr>
<tr>
<td>ln EXPORT RXA- for QUANTITY</td>
<td>-2.887</td>
<td>-2.887</td>
<td>-3.117</td>
<td>-1.332</td>
<td>1.183</td>
<td>-2.084</td>
</tr>
<tr>
<td>RTA-QUANTITY</td>
<td>-0.144</td>
<td>-0.900</td>
<td>-0.054</td>
<td>0.118</td>
<td>1.942</td>
<td>-0.041</td>
</tr>
<tr>
<td>IMPORT RMA-V for VALUE</td>
<td>0.237</td>
<td>0.193</td>
<td>0.371</td>
<td>5.445</td>
<td>27.06</td>
<td>2.792</td>
</tr>
<tr>
<td>EXPORT RXA- for VALUE</td>
<td>0.917</td>
<td>8.211</td>
<td>1.080</td>
<td>4.920</td>
<td>79.32</td>
<td>5.327</td>
</tr>
<tr>
<td>ln EXPORT RXA for VALUE</td>
<td>-0.086</td>
<td>2.105</td>
<td>0.077</td>
<td>1.593</td>
<td>4.374</td>
<td>1.673</td>
</tr>
<tr>
<td>RTA- for VALUE</td>
<td>0.681</td>
<td>8.019</td>
<td>0.709</td>
<td>-0.525</td>
<td>52.259</td>
<td>2.535</td>
</tr>
</tbody>
</table>

The most important indicator is the Relative Total Advantage (RTA), combining exports and imports. Again, if RTA is greater than 0, a comparative advantage is revealed. Jordan's RTA for quantities is positive compared to Germany and Denmark, but negative for other benchmark countries. This means Jordan has a relative trade advantage in comparison to the first two countries, but not compared to three other regional countries and the Netherlands. In terms of RTA for values, Jordan has a competitive advantage with all benchmark countries except Germany.

In conclusion, Jordan does not have a competitive quantity advantage in this sub-group, however, it is competitive in values. Jordan offers high quality products, but does not produce a sufficient quantity making it more competitive.

Table II.4.5. Comparative/Competitive Indicators for Preparations of Beef in 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>UAE</th>
<th>Lebanon</th>
<th>Turkey</th>
<th>Germany</th>
<th>Denmark</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPORT RMA- for QUANTITY</td>
<td>0.246</td>
<td>0.190</td>
<td>1.080</td>
<td>4.920</td>
<td>79.32</td>
<td>5.327</td>
</tr>
<tr>
<td>EXPORT RXA- for QUANTITY</td>
<td>0.632</td>
<td>33.630</td>
<td>1.128</td>
<td>4.195</td>
<td>41.883</td>
<td>5.087</td>
</tr>
<tr>
<td>ln EXPORT RXA- for QUANTITY</td>
<td>-0.458</td>
<td>3.515</td>
<td>0.120</td>
<td>1.434</td>
<td>3.735</td>
<td>1.627</td>
</tr>
<tr>
<td>RTA-QUANTITY</td>
<td>0.386</td>
<td>33.441</td>
<td>0.048</td>
<td>-0.725</td>
<td>-37.440</td>
<td>-0.241</td>
</tr>
<tr>
<td>IMPORT RMA-V for VALUE</td>
<td>0.237</td>
<td>0.193</td>
<td>0.371</td>
<td>5.445</td>
<td>27.066</td>
<td>2.792</td>
</tr>
<tr>
<td>EXPORT RXA- for VALUE</td>
<td>0.917</td>
<td>8.211</td>
<td>1.080</td>
<td>4.920</td>
<td>79.32</td>
<td>5.327</td>
</tr>
<tr>
<td>ln EXPORT RXA for VALUE</td>
<td>-0.086</td>
<td>2.105</td>
<td>0.077</td>
<td>1.593</td>
<td>4.374</td>
<td>1.673</td>
</tr>
<tr>
<td>RTA- for VALUE</td>
<td>0.681</td>
<td>8.019</td>
<td>0.709</td>
<td>-0.525</td>
<td>52.259</td>
<td>2.535</td>
</tr>
</tbody>
</table>

216 Calculated using 2009 FAOSTAT data.
217 Ibid.
This sub-group's results do not considerably differ from previous ones. Relative Total Advantage for quantities shows Jordan being the most competitive country, compared to all regional benchmark countries. However, it is opposite in comparison with international countries, where values for RTA quantities are all negative, which indicates that Jordan does not have a trade advantage with these countries. Furthermore, the RTA value reveals only Germany has a competitive advantage over Jordan, the same as for canned chicken products.

This analysis shows that only German canned chicken products and preparations of beef are better than Jordan's in terms of quality and value. Therefore, in order to make this sector more competitive, Jordan must focus on increasing production or at least maintaining levels of quality.

GROUP II – Calculation of Indicators: Market Share of Exports

Regional Benchmark Countries Market Share

The following analysis considers the same two commodities: canned chicken meat and beef. Market shares for Jordan, Lebanon and Turkey have been derived only from their export quantities. In the following table, values represent the percentage of benchmark country's exports towards given markets (Algeria, Bahrain, Egypt, Iraq, Kuwait, Oman, Palestine, Qatar, Saudi Arabia, Syria and UAE) out of total exports of three benchmark countries (Jordan, Lebanon and Turkey).

Table II.4.6. Export Share with Regional Benchmark Countries for Canned Chicken Meat in 2005 (%)\(^{218}\)

<table>
<thead>
<tr>
<th>Country of Destination</th>
<th>Jordan</th>
<th>Lebanon</th>
<th>Turkey</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>100</td>
<td>100</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Bahrain</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>100</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Iraq</td>
<td>13</td>
<td>86</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Kuwait</td>
<td>48</td>
<td>52</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Palestine</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Oman</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Qatar</td>
<td>56</td>
<td>35</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>98</td>
<td>2</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Syria</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>UAE</td>
<td>19</td>
<td>81</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>56</strong></td>
<td><strong>3</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

According to the table, Jordan's market share in canned chicken meat is 41%, among regional benchmark countries (apart from UAE, where data is unavailable), 56% for Lebanon and 3% for Turkey. Jordan also has a 100% market share in Algeria, Bahrain, Oman, Palestinian Territory and Syria, which means that Lebanon and Turkey do not export canned chicken meat to the mentioned markets. Jordan's market share in Iraq is 13% and 98% in Saudi Arabia.

Table II.4.7. Export Share with Regional Benchmark Countries for Boneless Beef and Veal in 2005 (%)\(^{219}\)

<table>
<thead>
<tr>
<th>Country of Destination</th>
<th>Jordan</th>
<th>Lebanon</th>
<th>Turkey</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Egypt</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Iraq</td>
<td>97</td>
<td>1</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Kuwait</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Lebanon</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Qatar</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>UAE</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Yemen</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>1</strong></td>
<td><strong>2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

\(^{218}\) Ibid.
\(^{219}\) Ibid.
In the table above, values represent the percentage of benchmark country’s exports of boneless beef and veal towards given markets (Bahrain, Egypt, Iraq, Kuwait, Lebanon, Qatar, Saudi Arabia, UAE and Yemen) out of total exports of three benchmark countries (Jordan, Lebanon and Turkey).

Cattle meat and canned chicken product exports to regional markets differ. Jordan’s market share in cattle meat is approximately 98%, compared to 1% for Lebanon and 2% for Turkey (exporting only to Iraq).

In conclusion, Jordan should concentrate on increasing exports of canned chicken products to countries such as Egypt, Iraq, UAE and Kuwait. Jordan should also explore and penetrate new markets for boneless cattle meat. This cannot be accomplished unless Jordan enhances its processed meat sector as a whole.

International Benchmark Countries Market Share

The table presented below benchmarks Jordan with international meat processing industries.

Table II.4.8. Export Share with International Benchmark Countries for Canned Chicken Meat in 2005

<table>
<thead>
<tr>
<th>Country of Destination</th>
<th>Jordan</th>
<th>Germany</th>
<th>Denmark</th>
<th>The Netherlands</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>15</td>
<td>0</td>
<td>40</td>
<td>45</td>
<td>100</td>
</tr>
<tr>
<td>Bahrain</td>
<td>45</td>
<td>5</td>
<td>21</td>
<td>29</td>
<td>100</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>41</td>
<td>59</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Iraq</td>
<td>89</td>
<td></td>
<td>11</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Jordan</td>
<td></td>
<td>2</td>
<td>8</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Kuwait</td>
<td>4</td>
<td>29</td>
<td>67</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Lebanon</td>
<td>85</td>
<td>15</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Palestine</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Qatar</td>
<td>7</td>
<td></td>
<td>93</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>27</td>
<td>52</td>
<td>21</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Syria</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>UAE</td>
<td>3</td>
<td>15</td>
<td>82</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Yemen</td>
<td>28</td>
<td></td>
<td>72</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>5</td>
<td>30</td>
<td>47</td>
<td>100</td>
</tr>
</tbody>
</table>

Table II.4.9. Export Share with International Benchmark Countries for Cattle Boneless Beef and Veal

<table>
<thead>
<tr>
<th>Country of Destination</th>
<th>Jordan</th>
<th>Germany</th>
<th>Denmark</th>
<th>The Netherlands</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Bahrain</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>23</td>
<td></td>
<td>77</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Iraq</td>
<td>99.6</td>
<td></td>
<td>0.4</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Jordan</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>3</td>
<td>64</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Palestine</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>98</td>
<td></td>
<td>3</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Yemen</td>
<td>100</td>
<td></td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

---

220 Ibid.
221 Ibid.
In the table above, values represent the percentage of benchmark country’s exports cattle boneless beef towards given markets (Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Palestine, Qatar, Saudi Arabia, Syria, UAE and Yemen) out of total exports of three benchmark countries (Jordan, Germany, Denmark and the Netherlands).

An analysis of totals from the above tables shows Jordan’s 2005 canned chicken meat market share amongst regional countries with respect to international benchmark countries. The results were: only 17% for Jordan, with the highest share for the Netherlands (47%), Denmark (30%) and Germany (5%). Regarding the cattle meat market share, Jordan achieved 87%, compared to Germany (6%), Denmark (3%) and the Netherlands (4%). The data also presents Jordan as the only country in this group exporting canned chicken meat to Palestine and Syria and as the only country exporting cattle meat to Bahrain, Kuwait, Qatar, Saudi Arabia and Yemen.

Market Share Growth

Jordan’s market share growth is evaluated here against benchmark countries for the last five years. As shown below, the market share of Jordan’s imports is small (ranging from 0.2% to 0.31%). In contrast, Jordan’s market share of import growth during 2002-2006 was 10%, whilst UAE and Denmark showed a decreasing market share of 18.5% and 3.8% respectively.

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>0.20</td>
<td>0.23</td>
<td>0.23</td>
<td>0.27</td>
<td>0.31</td>
<td>10%</td>
</tr>
<tr>
<td>UAE</td>
<td>1.44</td>
<td>1.25</td>
<td>0.54</td>
<td>0.77</td>
<td>0.73</td>
<td>-18.50%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.58</td>
<td>0.79</td>
<td>0.75</td>
<td>0.82</td>
<td>0.89</td>
<td>8.80%</td>
</tr>
<tr>
<td>Germany</td>
<td>12.52</td>
<td>12.96</td>
<td>15.90</td>
<td>18.26</td>
<td>18.78</td>
<td>11.50%</td>
</tr>
<tr>
<td>Denmark</td>
<td>74.29</td>
<td>71.91</td>
<td>69.89</td>
<td>65.24</td>
<td>64.46</td>
<td>-3.80%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>10.96</td>
<td>12.86</td>
<td>12.69</td>
<td>14.63</td>
<td>14.77</td>
<td>7.30%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Table II.4.10. Market Share Growth for Quantities of Jordanian Processed Meat Exports Compared with Benchmark Countries in 2002-2006 (%) 224

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>0.10</td>
<td>0.22</td>
<td>0.33</td>
<td>0.29</td>
<td>0.39</td>
<td>29.80%</td>
</tr>
<tr>
<td>UAE</td>
<td>0.18</td>
<td>0.30</td>
<td>0.41</td>
<td>0.36</td>
<td>0.47</td>
<td>20.50%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.01</td>
<td>0.07</td>
<td>0.08</td>
<td>0.11</td>
<td>0.06</td>
<td>36.80%</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>48.40%</td>
</tr>
<tr>
<td>Germany</td>
<td>10.93</td>
<td>12.31</td>
<td>15.04</td>
<td>17.75</td>
<td>18.90</td>
<td>14.60%</td>
</tr>
<tr>
<td>Denmark</td>
<td>76.07</td>
<td>73.05</td>
<td>72.28</td>
<td>68.68</td>
<td>67.36</td>
<td>-3%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>12.69</td>
<td>14.06</td>
<td>11.84</td>
<td>12.81</td>
<td>12.76</td>
<td>0.01%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Table II.4.11. Market Share Growth for Quantities of Jordanian Processed Meat Exports Compared with Benchmark Countries in 2002-2006 (%) 224

The Jordanian exported processed meat product market share was small (between 0.1% and 0.39%). Turkey’s high market share growth was affected by a large increase in export quantities in 2006. The decline in the UAE 2005 figures was due to an inspection tour of UAE meat export facilities, which discovered “fresh” meat imported to the Kingdom from the UAE being actually frozen meat originating from Brazil, Australia and India. These UAE meat imports violated rules regarding the country of origin. The UAE companies allegedly exported foreign meat to the Kingdom as a UAE product. Additionally, UAE companies did not directly supervise the slaughter of animals in the country and left the matter to local Islamic organizations. Moreover, market share changes were affected by the Saudi Arabian meat and cattle import ban due to its efforts in preventing mad cow and foot and mouth disease. The ban embraced many countries, including the European Union, African states and some Arab and Gulf countries.

222 Excludes Turkey due to unavailable data.
223 Calculated using 2009 FAOSTAT data.
224 Ibid.
The only country whose levels of meat processing export quantities decreased was Denmark, in addition to a decrease in imports. One reason for this decline is the broad feeling of indignation in Muslim countries towards the way certain sections of the Dutch media had treated Islam. This had a negative impact on the import and export of halal meat into the country.

Compared to international countries, Jordan’s market share is significantly smaller. However, the steady year on year growth makes the sector more attractive.

### 4.5 Other International and Regional Market Trends and Developments

In this chapter, best practice and trends shaping the development of the processed meat sector in Jordan are presented. Various key international and regional trends are considered and become a source for the gap analysis conducted in the next chapter.

#### International Trends

The demand for high-value, primary processed products and meat has increased due to rising incomes, rapid urbanization, liberalized trade, foreign investment and advancing technologies. However, new markets demand quality, timely deliveries and economies of scale pose special challenges for stakeholders.

#### Demographic Trends

Significant demographic and economic developments generally increase food demand. Population growth, rising life expectancy, economic growth in emerging economies and the global convergence in food consumption expand the demand for animal protein, grain based products, dairy products and processed food. Economic and demographic changes create higher trade volumes for processed food, including processed meat products.

#### The Need for Scientists and Technicians

Emerging economies, increasing trade and local food processing create a wider demand for food scientists and technicians, agricultural scientists, animal production and health professionals.

#### The Globalization of Industry

Increasing food industry globalization is expected to continue, along with the concerns and risks associated with the food supply chain. Food labeling and food safety standards vary widely between countries, creating challenges for imports and exports. National concerns about food safety, food security and the sector’s independence are therefore expected. The risks of epidemics associated with increased animal and animal-product trade need to be monitored. This may lead to increased trade regulations and standards.

#### Food Safety and Regulation

The food processing industry often ignores major health concerns raised by the use of industrially produced ingredients. Food companies in developing countries face being squeezed out of the market by the proliferation of public and private food safety standards. Food producers, processors and exporters struggle to meet overlapping rules set out by national and international governmental bodies, powerful private companies and associations.

In terms of hygiene, there has been a thorough application of industry and government endorsed standards to minimize possible risks and hazards to consumers. For example, partially hydrogenated vegetable oils, a well-known cause of heart disease, are still commonly used in processed food to increase profit margins. Consumer pressure has led to a reduction in the use of these types of ingredients in processed food, but it has not been widely accepted by the industry. The reduction of fat content in a final product is another global trend.

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225 For example, partially hydrogenated vegetable oils, a well-known cause of heart disease, are still commonly used in processed food to increase profit margins. Consumer pressure has led to a reduction in the use of these types of ingredients in processed food, but it has not been widely accepted by the industry. The reduction of fat content in a final product is another global trend.

226 Global Food Safety Drive Hitting Smaller Companies, Developing Nations, UN, June 2009.
health. To keep pace with legislation, suppliers will have to put in place sustainable solutions as regulatory requirements are getting progressively tighter and more demanding.

Additionally, since 2000 in the EU there has been a clear trend towards increased regulatory control, to increase the safety and quality of the industry. These additional regulations need to be complied by exporting countries in order to import meat into the EU.

**Health and Wellness**

Furthermore, demographic and cultural factors drive an increasing emphasis on health and wellness derived from food. As a result of these trends, food product innovation has increased the market for functional or health enhancing foods. Similarly, the use of new technologies increasing the health value of food can open these products to a whole new set of regulations and labeling requirements. The main trend is to base production and processing on more natural and traditional organic agriculture.

**Veterinary Certification**

Recent government initiatives within the industry include fresh meat and meat product imports to the EU which are now subject to veterinary certification. This formal recognition of the competent authority’s reliability is a pre-requisite for a country to be eligible and authorized to export to the EU. Legally legitimate and adequately empowered authorities of the exporting country must guarantee credible inspection and control throughout the production chain, covering all relevant aspects of hygiene, animal health and public health. All bilateral negotiations and other relevant dialogue concerning meat and meat product imports must be undertaken by the appropriate national veterinary authority. All other interested parties and private businesses should contact their competent authority and communicate with the EU via this channel.

**Improved Labeling to Fight Waste**

Another initiative is the UK government’s proposal to overhaul the British food labeling system in a bid to help reduce food waste worth GBP 10 billion annually. The government has pledged to co-operate with retailers, the food industry, the Food Standards Agency and the Waste & Resources Action Program (WRAP), to improve food labeling in order to effectively communicate what is and what is not safe.

**Saving Energy**

Rising energy costs have lead to an increasing usage of energy-saving technologies in an effort to boost industry efficiency. Recent innovations include: frequency converters on electrical drives, heat insulation of factory buildings and heated vessels and energy recovery systems keeping meat frozen during long distance transportation. Factory automation systems reduce personnel costs and could lead to more stable production results.

**Packaging**

A current trend within the processed meat sector is for transparent packaging. High-clarity packaging helps to present products in an appealing way and gives consumers the opportunity to assess the quality of the product.

**Slaughtering**

Of importance is the fact that standards and regulations governing slaughterhouses considerably differ around the world. In many countries, animal slaughter is regulated by custom and tradition, rather than by law. In the Arab world, both types of meat are available: produced in modern mechanized slaughterhouses and meat originating from local butchers. In some communities animal slaughter is controlled by religious laws, most notably halal for Muslims and kosher for Jewish communities. These laws require slaughtered animals to be conscious at the point of death, therefore forbidding them to be stunned prior to killing. This can conflict with national regulations. Some countries also have laws excluding specific animal species as taboo food.

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227 For example, the US has adopted the Hazard Analysis and Critical Control Points (HACCP) standard and implemented additional regulations. It is a systematic preventive approach to food and pharmaceutical safety addressing physical, chemical and biological hazards in terms of prevention rather than finished product inspection.


229 In 2004, the former Prime Minister of India suggested introducing legislation banning the slaughter of cows throughout India. Similarly, several US states have banned the slaughter and consumption of dogs. The sale and consumption of horsemeat is illegal in Illinois and California, although horsemeat is exported to Europe and Japan for human consumption.
Consumer Purchasing Trends

In recent years, a growing trend toward vegetarianism and veganism has developed amongst young people due to their increasing awareness of health issues, the environment and compassion for animals. Countries such as the Netherlands and the US have experienced the largest increase in the number of vegetarians (5% annually). Recent studies show a strong link between processed meat consumption and probability of cancer.\(^{230}\)

Organic Food

A global tendency has been reported, especially in developed nations, to consume ecologically or organically produced meat. Demand and consumption of organic foods and meat continue to grow and is no longer just a niche market. Consumers of organic products are becoming a larger part of the mainstream, having important implications for food producers and processors. Consumers continue to look for healthier food choices and in the eyes of many, organic food represents a healthier option.

Regional Trends

Growing Halal Sector

The halal sector, covering food, pharmaceuticals, cosmetics, finance and tourism, is in the Middle East and worldwide on the cusp of exponential growth. Valued at USD 1.5 trillion globally, the sector has been growing 10-20% annually, even during the financial crisis.\(^{231}\) It is estimated 70% of Muslims worldwide follow halal food standards.

International Expansion

Despite the current financial crisis, the regional and gulf countries still have a potential to attract many international investments in food manufacturing and meat processing sectors which have remained less affected. High consumer purchasing power in the Gulf and its young population, further expand the demand. For example, the Danish JV Company has invested Dh 300 million in the construction of a huge Middle Eastern meat processing factory in Dubai.\(^{232}\) The factory will produce halal meat and will operate according to certification standards of Hazard Analysis Critical Control Points (HACCP), producing value-added chicken, beef, lamb and seafood products.

Dubai as the Region’s Main Gateway

Dubai is the principal gateway to other Middle Eastern and Central Asian countries. Asian countries, such as Malaysia, have the ability of ‘capturing’ Dubai, accessing greater markets in the Arab world and making Dubai an entry hub to other Arab countries.

\(^{230}\) Results of a study published in the Journal of the National Cancer Institute, August 2006, analyzed processed meat consumption against stomach cancer incidences. Research showed that a higher intake of processed meat was associated with a greater risk of stomach cancer. Indeed, stomach cancer risk increased 15-38% if processed meat consumption increased by just one ounce a day.


4.6 Gap Analysis

The following gap analysis is a description of a distance between Jordan and selected best practices. It is a useful business resource assessment tool enabling the meat processing industry to compare its actual to a potential performance.

Table II.4.12: Benchmark Comparison Between Selected Countries

<table>
<thead>
<tr>
<th>No.</th>
<th>Benchmark (best practice)</th>
<th>AS IS Jordan</th>
<th>Gap Analysis</th>
<th>Source of Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Proliferation of public and private food safety standards.</td>
<td>Food producers, processors and exporters in Jordan are struggling to meet overlapping rules set by national and international governmental bodies.</td>
<td>Current Jordan standards and regulations, related to public and private food safety standards, to some extent, do not meet the international level.</td>
<td>International Trends</td>
</tr>
<tr>
<td>2.</td>
<td>Application of industry and government endorsed standards to minimize possible risks and hazards to health. In the USA the standard adopted is the Hazard Analysis and Critical Control Points (HACCP).</td>
<td>Some industry and government endorsed standards have been implemented in Jordan. In the food industry, a new draft Food law which was presented by the JFDA and still is in the process of approval in the Parliament. This law mandates that all food factories should be HACCP accredited.</td>
<td>Currently, while the new draft of food law is still processing at the Parliament, Jordan does not have such mandatory standards, which hinders its exports to many countries worldwide.</td>
<td>International Trends</td>
</tr>
<tr>
<td>3.</td>
<td>Increasing usage of energy-saving technologies to improve efficiency of the industry.</td>
<td>Only the large market players in Jordan have fairly good technologies.</td>
<td>Such technologies are yet to be fully utilized in Jordan.</td>
<td>International Trends</td>
</tr>
<tr>
<td>4.</td>
<td>Veterinary and other certifications requirements. Imports of fresh meat and meat products into the European Union are now subject to veterinary certification.</td>
<td>Jordan is banned to export its food products, especially processed food of animal origin (targeted towards halal markets), to more than 80 countries, including the EU, if Jordan wants to export to the EU, it must obtain authorization.</td>
<td>Jordan is not fully complying with EU requirements, thus, is banned to export its processed meat products to the EU.</td>
<td>International Trends/ EU</td>
</tr>
<tr>
<td>5.</td>
<td>Improvement in the way labels on food are used and communicated, making it clear to the customer.</td>
<td>Labeling and packaging requires improvement.</td>
<td>Food labeling exist in Jordan, although it is weak compared to the international level.</td>
<td>International Trends/ UK</td>
</tr>
<tr>
<td>6.</td>
<td>New food safety law has been implemented to prevent food contamination incidents. For example, in China, the legislation aims to toughen up the country’s food monitoring network by imposing more stringent standards, stricter supervision and a recall system for substandard products.</td>
<td>So far in Jordan, some initiatives have been taken to prevent food contamination.</td>
<td>Some new food safety laws have been implemented but many more are required and necessary. Jordan should increase its food safety law to prevent losses from food contamination events.</td>
<td>International trends/ China</td>
</tr>
<tr>
<td>No.</td>
<td>Benchmark (best practice)</td>
<td>AS IS Jordan</td>
<td>Gap Analysis</td>
<td>Source</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------</td>
</tr>
<tr>
<td>7.</td>
<td>Strong government support for organic agriculture.</td>
<td>Little government support for organic agriculture.</td>
<td>Jordan has little government support in this area (organic agriculture).</td>
<td>Denmark</td>
</tr>
<tr>
<td>8.</td>
<td>The existence of high-quality training, first-class research and an effective system of disseminating practical advice to farmers.</td>
<td>In Jordan there is little R&amp;D and insufficient training expenditures in the sector. On the other hand, Amman Chamber of Industry started a program “Doctor for Every Factory” 3 years ago, and to some extent many of the meat processing factories have benefited from the academia experience and knowledge in solving problems and in improving production techniques.</td>
<td>Jordan’s processed meat sector has a lack of R&amp;D expenditures. There is no dissemination of best practices in the sector.</td>
<td>Netherlands</td>
</tr>
<tr>
<td>9.</td>
<td>Exploiting rapid airline catering growth.</td>
<td>More than 3.8 million passengers flew into Jordan by Royal Jordanian and other foreign airlines in 2007, but no catering contracts have been signed with any airline carriers.</td>
<td>Still do not exist in Jordan.</td>
<td>UAE</td>
</tr>
<tr>
<td>10.</td>
<td>An application of an advanced distribution system. One of the main companies in the UAE signed a strategic distribution agreement with one of the main distributors in Saudi Arabia, thus, was able to get a large share in that market.</td>
<td>Each company tries to market its products locally and internationally on its own. There are no contracts with local or international distributors</td>
<td>No advanced distribution system exists in Jordan.</td>
<td>UAE</td>
</tr>
<tr>
<td>11.</td>
<td>Some countries are benefiting from the key markets, for example, Malaysia has a good standing in Dubai. This allows it to have a greater market access (inroads), into much larger Arab’s markets like Saudi Arabia, etc.</td>
<td>Jordan destinations of its products are not stable.</td>
<td>Jordan is not utilizing the current entered markets to reach other larger markets.</td>
<td>Malaysia</td>
</tr>
<tr>
<td>12.</td>
<td>The existence of agricultural policies that are more internationally ‘friendly’ exist. (Example being Turkey in order to export to the EU).</td>
<td>The unfriendly international agricultural policies that exist in Jordan have resulted in an export barrier. Jordan cannot export to more than 80 countries worldwide.</td>
<td>Agricultural policies are not internationally friendly in Jordan.</td>
<td>Turkey</td>
</tr>
</tbody>
</table>
4.7 Competitiveness Conclusions

Whether the meat processing company is old or new, private or public, expanding the market will present many challenges and opportunities. Strengths, weaknesses, opportunities and threats are additionally presented through the perspective of Michael Porter’s Diamond model of competitiveness.

The following SWOT analysis shows the increases of weaknesses and threats that results in weakened competitive position. Overall, demand conditions are a main source of competitive advantages for Jordan’s processed meat sector, whereas, factor conditions are a main source of weaknesses. Firm’s strategy, structure, and rivalry as well as supporting industries are also negatively impacting the sector’s competitiveness. The SWOT analysis also shows that there are many more weaknesses than strengths in Jordan’s processed meat sector, and thus weaker competitiveness.

The table below summarizes all the findings of the previously done analysis of the sector in Jordan (recent performance, M. Porter Diamond model), key best practices (including also key global and regional trends), and conclusions of the gap analysis.

Table II.4.13: Jordan Meat Processing Market SWOT Analysis

<table>
<thead>
<tr>
<th>Competitive Strengths</th>
<th>M. Porter Diamond Aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversification of products offerings in the market that are produced by most of the processing factories.</td>
<td>Demand conditions</td>
</tr>
<tr>
<td>The existence of international trademarks for some of the national products.</td>
<td>Demand conditions</td>
</tr>
<tr>
<td>All investments in processed meat production in Jordan are carried by the private sector.</td>
<td>Demand conditions</td>
</tr>
<tr>
<td>Most factories are utilizing the latest advanced high class machinery, which positively affects the quality of output.</td>
<td>Demand conditions</td>
</tr>
<tr>
<td>Most of the processed chicken meat is locally produced, resulting in better quality control.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>The industry actually offers European-standard quality products.</td>
<td>Firm strategy, structure, and rivalry</td>
</tr>
<tr>
<td>The government is seeking to establish a slaughterhouse complex in order to serve the local demand of Amman and Zarqa directorates through synergies between public and private sectors.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Livestock production sector is important for the national economy in terms of both production and employment in rural area.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Jordanian government’s incentives for local industry, including free-trade zones.</td>
<td>Government</td>
</tr>
</tbody>
</table>
### Competitive Weaknesses

<table>
<thead>
<tr>
<th>Low purchasing power for a large segment of the local consumers shift the customer’s focus toward price rather than quality.</th>
<th>Demand conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low demand for organic food locally, although the demand for organic food has been growing rapidly and is becoming a healthy trend observed in many highly industrialized European countries.</td>
<td>Demand conditions</td>
</tr>
<tr>
<td>High dependence on imported raw materials, especially in the red meat industry, (e.g. approximately 76% of mechanically deboned meat is imported) thus, is vulnerable to external uncontrollable price shocks.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>High operational cost compared to the competing countries, due to limited resources of industrial fuel, water and electricity.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Insufficient skilled labors in the market due to the lack of adequate on the job training offered by the vocational colleges and producers.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Poor work ethics and hygiene practices, compliance limitations, lack of commitment and loyalty by labors towards work, as well as, high turnover levels.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Inadequate number of sanitation and water purification plants in Jordan.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Randomly selected inspection laboratories locations, instead of choosing strategic locations that serve the majority of the plants at the industrial zones.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Insufficient R&amp;D activities in the industry, hindering innovation.</td>
<td>Firm strategy, structure, and rivalry</td>
</tr>
<tr>
<td>High competition in the market (due to the few dominant market leaders), is forcing small players to reduce their profit margins in order to compete.</td>
<td>Firm strategy, structure, and rivalry</td>
</tr>
<tr>
<td>High transportation and delivery costs on some of the required raw materials.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Lack of specialized marketing companies in Jordan that act as a mediator between the producers, retailers, and exporters, in addition to promoting the national produced products.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Lack of local producers of chemical ingredients (spices and additives), as well as, packaging material, causing the industry to be reliant on foreign imports.</td>
<td>Supporting industries</td>
</tr>
<tr>
<td>Absence of a single institution that regulates the processed meat sector and inspects and controls safety and hygiene of the production.</td>
<td>Government</td>
</tr>
<tr>
<td>Incompliance with the regulations set for the Food and Drug Administration laboratories by most inspection institutions.</td>
<td>Government</td>
</tr>
</tbody>
</table>

### Competitive Opportunities

<table>
<thead>
<tr>
<th>Jordan government signed several trade agreements, which should be directly enhance exports opportunities.</th>
<th>Demand conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Investment regulations in Jordan are encouraging for companies.</td>
<td>Government</td>
</tr>
<tr>
<td>Competitive Threats</td>
<td>M. Porter Diamond Aspect</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>High cost and lack of resources such as water, electricity and fuel.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>Complexity of procedures and regulations to penetrate international markets.</td>
<td>Factor condition</td>
</tr>
<tr>
<td>The imposition of customs duties and taxes on some produced raw material inputs that do not exist locally but are required by all the producers.</td>
<td>Factor condition</td>
</tr>
</tbody>
</table>

4.8 Recommendations

The following recommendations address key weaknesses and threats, in an attempt to increase the overall competitiveness of the sector. Part of the recommendations can only be applied by the government, but some of them should be a sole responsibility of corporate players. That is the main reason why the recommendations are divided into two parts: those that should be applied by the government, and those by the firms themselves.

Recommendations for the Government

1. Enhancing export potential

Taking an active role in facilitating the implementation of the signed regional and international agreements, to enhance the export potential of processed meat products.

2. Ensuring higher quality

Centralizing the inspection and quality assurance procedures under one regulatory body to ensure permanent inspection and self-inspection in factories are implemented and aligned with the Food and Drug Administration general guidelines.

3. Fostering innovation

Implementing more institutional involvement to foster innovation and encourage research and development in the industry. High-quality training should be also encouraged and promoted.

4. Increasing exports

Enhancing exports of processed meat products through establishing an institution that provides veterinary certification and other necessary certifications required by importers.

5. Improving awareness of market trends

Market information keeps producers and traders attuned to the demands and changing preferences of consumers. It guides and directs them towards new product development, as well as, assist in setting the right price. Initiating efforts to create a marketing intelligence institution that would provide up-to-date market information for the sector, allowing it to be more attuned to market trends and changing preferences of consumers.

6. Implementing quality standards on imports

Ensuring effective implementation of the quality standards for the imported meat and other necessary inputs for the meat processing industry in order to improve quality of products consumed domestically and exported abroad.

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233 These recommendations go in line with recently released action plane for enhancing Food manufacturing sector. This action plan was prepared by the Ministry of Industry and Trade, Jordan Enterprise and Jordan chamber of Industry, and it is designed to be implemented during 2009-2011
Recommendations for the Private Sector

1. Enhancing export potential
Improving food labeling in line with the international best practices guidelines, to enhance export potential to regional and international export markets.

2. Promoting the industry
Promoting the national produced processed meat products through sponsoring trade shows and exhibitions.

3. Overcoming high operating costs
Adapting state of the art energy-saving technologies to overcome the challenge of high operating expenses, compared to the regional competing countries, which will adversely affecting the competitiveness of the sector.
PART III:

UPDATE OF COMPETITIVE POSITION
OF FIVE SECTORS ANALYZED
IN 2007 REPORT
1. Introduction

In 2007, JNCT issued the First Jordan Competitiveness Report. The purpose of the report was to provide a comprehensive picture of the state of competitiveness of Jordan's economy. The study reviewed the macroeconomic and microeconomic environment in order to analyze the competitiveness of five sectors: pharmaceuticals, information technology, tourism, medical tourism, and higher education.234 The update focuses on the following areas:

- **Current state of the sector**: describing how the sector is influenced by the global economic and financial crisis as well as providing some other recent general data and facts on the sector.
- **SWOT analysis**: strengths, weaknesses, opportunities, and threats are analyzed.
- **Recent key initiatives** launched between 2007-2009 are analyzed to show more focused context for future developments in the sectors;

The update was prepared based on discussions with selected representatives of the sectors' stakeholders, as well as available data.

**The Key Conclusions that can be Derived from the Update are the Following:**

1. In general, despite the global financial crisis all 5 sectors are performing well. During difficult times, some of them like medical tourism and tourism even managed to increase their revenue. Due to the global trends some of the sectors, especially: ICT, pharmaceuticals, and medical tourism have a great potential to further develop and grow.
2. It is important to mention that many positive changes took place in the sectors during analyzed period that led to strengthening their competitive position in comparison to 2007.
3. Despite continuous efforts to develop, they are not immune to the global financial crisis. But paradoxically, for some of them recent problems may give ground to future expansion (ICT, medical tourism). Some of them need to adjust to changing patterns and find less traditional way to approach their business (tourism).
4. There is one common element that is repeated by representatives of different sectors in the context of strengthening competitive position of the industry: adjust higher education curricula to market needs of industries in Jordan and improve soft skills of new graduates.

2. Pharmaceuticals

2.1 Current State of the Sector

MENA market size is approximately USD 10 billion, with 300 million people living in the region. There are industry estimates that the market may double up to USD 20 billion within the next few years. As the government controls the pharmaceutical market, in many cases it is strongly influenced by the current political situation.235 New estimates show the market in Jordan should reach around USD 540 million by 2012, up from an estimated USD 336 million in 2007. In Jordan, market prices are regulated by the Jordan Food and Drug Administration (JFDA). In terms of the market share local companies cumulate 30% of the industry in value, and 55% in units. It is still a fragmented market with no one player controlling more than 10%. There are certain signs of market consolidation, the example being a 2008 merger between the largest and the oldest company. Most of the production is exported to the Arab world.

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235 As the example Egypt is attempting to open the market, which may lead to the doubling of medicine prices, and would cause deep political and social repercussions.
The Kingdom’s strong population growth, which should exceed 2.8% year-on-year, should drive market expansion, as will GDP growth, which is expected to be around 5% in real terms for the forecast period. Property rights protection, which is an extremely important issue in the case of pharmaceuticals, is improving. In Jordan property right laws are fully enforced.

2.2 SWOT Analysis

Key Strengths
1. Good reputation of Jordanian manufacturers, especially in the region. Majority of exports from Jordan go to the MENA countries thus the market is considered to be well penetrated, with well established contacts and trade links.
2. In the past few decades, Jordan has taken large steps towards improving its management structures for medicines. The establishment of two autonomous structures, the JFDA and the Joint Procurement Department, was a progressive step backed and supported by political leadership. These two agencies, among others, have improved the transparency of medicines governance and decreased the system’s vulnerability to corruption.
3. JFDA is doing a good job in terms of regulating the market, monitoring quality, and registering new drugs. Other countries know that if a certain drug passed a registration procedure in Jordan, it must be of high quality. In general collaboration of the government with private sector is highly assessed by the industry representatives.
4. Jordanian market is most open and competitive in the region, which has a positive influence on the quality. There are no restrictions on foreign ownership. Free repatriation of profits is possible.
5. High quality specialists are working in the sector. This sector requires a very qualified workforce in factories. As pharmaceutical production requires complicated formulas and high extent of research and development, the industry in general employs many PhD’s.
6. There are strong legal protection and enforcement to secure IPR (Jordan’s accession to the WTO, the signing of the TRIPS agreement and the ratification of JUSFTA – Jordan-US Free Trade Agreement).
7. There is zero tax on profits generated by drug exports. Jordan enjoys a WTO exemption that allows it to charge zero income tax on exports earnings until the end of 2015. It can also be extend beyond this date.
8. Recently the chain pharmacy concept has been approved in Jordan, which should lead to further growth of the pharmacy market.
9. Jordan is an open market for importers with no allocation of quota in product categories.

Key Weaknesses
1. There is a general perception of people in Jordan that generics are not equally good as international brands. As a result, generics are treated as second class drugs.
2. There is a general perception that young graduates are less committed, impatient, and less loyal to the employers. They require intensive training after graduating from the university and lack basic soft skills such as communication or writing. Universities do not teach creative thinking, which makes new graduates less competitive in the labor market.
3. Understanding of intellectual property concepts should be strengthened within the public administration. Patent applications are not published until they become granted. During this period efforts may be wasted on patented applications.
4. R&D spending is low compared to other countries. Some multinational companies spend more on R&D than Jordan does altogether. In 2008 IMD World Competitiveness Report Jordan scored 48th (out of 55 analyzed countries) in terms of total expenditure on R&D per capita.
5. With 90% of total revenues still generated by branded generics, Jordanian manufacturers are facing a rising threat from lower cost producers in other markets.
6. Further enforcement of new regulations that cover all medicine promotion activities, and the establishment of a committee that will be responsible for controlling and monitoring medicine promotion.
7. Limited supporting industries supplying raw materials and packaging.

236 Jordan Times July 16, 2008: HIKMA dominates Jordan’s pharmaceutical market
237 TRIPS: Agreement on Trade Related Aspects of Intellectual Property Rights. Jordan was one of the first Arab countries to adopt TRIPS.
238 reported in 2007 Jordan Competitiveness Report. No changes in pattern observed in 2009.
Key Opportunities

1. Despite the crisis, the prospects for the pharmaceutical sector are promising and give a chance to double market value.

2. Demographic trends in the region, such as increasing life expectancy and literacy rate, are expected to lead to greater awareness of health-related issues and consequently increase the demand for pharmaceutical products. For example, in Jordan, life expectancy has increased from 69 years in 1995 to 71.6 years for males and 74.4 years for females in 2007\(^{239}\) and literacy rates (15 year-plus) stood at 91.8%.\(^{240}\) An increase in life-style related diseases like diabetes and cardiovascular diseases is also expected to have a positive impact on the industry in the region.

3. There are more Jordanian companies starting to compete on brand recognition and unique product value.\(^{241}\)

Key Threats

1. Although there is low-cost and well-trained technical personnel in Jordan, expansion of the industry and its growth will require more specialized workforce with practical expertise in the industry.

2. There is no sufficient research and development capacity to bridge the industry’s growth into higher value medicines.

2.3 Recent Key Initiatives in the Sector

1. Jordan is benefiting from stronger intellectual property rights through an increase in pharmaceutical research and development investment. There are more than 60 patents in drug delivery systems and others.\(^{242}\) Clinical research activity has been growing at a healthy pace, with more and more Clinical Research Organizations (CROs) established in the last few years. Major international pharmaceutical companies like Organon, Novartis and Aventis, have worked with both local CROs and Jordanian hospitals in clinical trial studies. Further, Jordanian pharmaceutical companies are beginning to invest more on product research and development. For example, some of them expressed interest in investing in research to produce patent worthy drug delivery mechanisms.

2. There is a project launched on 30th May, 2009, that aims at increasing transparency and accountability in medicines supply chains. The UK Department for International Development (DFID), in partnership with the World Health Organization (WHO) and the World Bank, is carrying out the design, consultation and execution of “Medicines Transparency Alliance” (MeTA). MeTA is an international multi-stakeholder initiative to promote increased transparency in the supply of essential medicines, with particular attention to ensuring equitable access to low income populations. DFID is currently providing grant financing to support the introduction of MeTA projects in selected pilot countries around the world. MeTA’s focus will be on strengthening developing country capacity to collect, analyze, disseminate and use data on medicine quality, availability, pricing, and use. This will help improve transparency and accountability around the way medicines are selected, regulated, procured, distributed, supplied, and then prescribed to and used by patients.

3. The USAID Jordan Economic Development Program (SABEQ) and the JAPM are cooperating to develop and upgrade the pharmaceutical industry in Jordan, into world-class standards. To export Jordanian pharmaceuticals, mainly branded generics, a prerequisite of their registration, demands a bioequivalence study which proves generics’ comparability with originators’ products. The bioequivalence study is usually conducted at Contract Research Organizations (CRO), that apply Good Clinical Practices (GCP) and Good Laboratory Practices (GLP). The project aims to develop CRO systems to be in line with international GCP and GLP standards. Such standardization will enhance opportunities for Jordanian pharmaceuticals, and meet regional and international demand as well as ensure internationally accreditation and recognition.

\(^{239}\) Jordan in Figures, Department of Statistics, May 2008, issue 10

\(^{240}\) 2008 IMD World Competitiveness Report

\(^{241}\) reported in 2007 Jordan Competitiveness Report. No changes in pattern observed in 2009.

\(^{242}\) JAPM - Jordanian Association of Manufacturers of Pharmaceuticals&Medical Appliances
3. Information and Communication Technology

3.1 Current State of the Sector

According to the First Jordan’s Competitiveness Report of 2007, the ICT sector has been witnessing fast changes after being identified as a key catalyst for economic growth. A lot of efforts have been made in the last few years to create a policy and regulatory environment. Several public-private initiatives have been launched in the IT education and connectivity. The result of these actions is emerging, as Jordan is being recognized as a potential regional hub for IT.

Businesses are increasingly spending more on IT as it becomes a vital tool to remain competitive. In Jordan, the total market size in 2007 reached USD 883 million. Domestic revenue reached USD 686 million, whereas exports revenue reached USD 197 million (the growth rate correspondingly of 18.6% and 2.81 % comparing to 2006).\(^\text{243}\) The exports destinations concentrate on the MENA countries (ca. 70% of the export value) in 2007, the biggest single importer being Saudi Arabia – 20.35%. 11% of exports of the sector went to the United States.\(^\text{244}\)

The following key figures describe the state of the sector at the end of 2008:\(^\text{245}\):

- Internet penetration stood at 26% (comparing to 20% in 2007, and 13.7% in 2006).
- 39% of Jordanian families had PC’s.
- 91% of Jordanians were reported of owning a cell phone.
- Over 300 companies were working in the ICT sector in Jordan.
- ICT contribution to GDP stood at 12.2% for 2007.
- There were around 22,000 workers in the ICT sector.\(^\text{246}\)

The above results caused the Kingdom to jump 3 places on the World’s Information and Communications Technology Readiness Index, ranking 44th out of 134 countries, according to the Global Information Technology Report for 2008/09.

The index measures the level and sophistication of the knowledge economy and the studied countries’ capacity to generate technology or absorb and adapt it to meet national needs, with the aim of improving their competitiveness. The best Arab country was UAE that ranked 27th. The countries ahead of Jordan are there because of the rapid liberalization of the telecom sectors where new services, such as 3G, have already been introduced. In terms of the availability of local talents, Jordan remains way ahead of the countries in the region.\(^\text{247}\)

3.2 SWOT Analysis

Key Strengths

1. The sector recognizes the opportunity for increased software and hardware utilization within the education sector; which is probably the most attractive local market.
2. There are a growing number of ICT companies operating in Jordan.
3. The government has one common ICT strategy, which formulates clear and measurable goals within certain period of time.\(^\text{248}\)

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\(^{243}\) IT Industry Statistics 2007, INTAJ
\(^{244}\) Ibid.
\(^{246}\) Jordan Times May 16, 2009
\(^{247}\) The Global Information Technology Report for 2008-2009
\(^{248}\) There are ongoing efforts to implement the National ICT strategy 2007. The goals of the strategy are the following: increase number of people who use internet from 26% (2008 figure) to 50% by 2011; increase employment from 22,000 (2008 figure) to 35,000 by 2011; boost current revenue from USD 2,2 billion (2008 figure) to USD 3 billion by the end of 2011. Before strategy’s implementation, the number of Internet users stood at 11%,
4. There is a growing interest for business processes outsourcing (BPO) in Jordan, especially call-centers. IT enabled services require more people. In the 2009 AT Kearney Global Services Location Index, Jordan ranked 9th out of 50 countries that were analyzed.\textsuperscript{249}

5. There are continuous efforts to integrate stakeholders. The MoICT holds regular meetings with the industry. There is also INTAJ, a very strong and influential association of ICT stakeholders.

6. IT is a deregulated sector. Soon, the amendment to telecom law will be introduced, which should give a stimulus to further develop the audio-visual sector.

7. There is highly competitive mobile phones market in Jordan.

8. According to the industry the government policy and interventions are considered favorable, and getting better.

\textbf{Key Weaknesses}

1. IT usage is still low. SMEs especially small family businesses do not use IT to strengthen their competitiveness.

2. High telecom costs and PC prices, compared to the average income level, lead to low penetration of PC’s and Internet usage in the country.

3. Uncertainty over the expected removal of sales tax on computers has contributed to a significant drop in sales in the local market since the beginning of this year. Buyers are reluctant to buy, pending a possible reduction in price. Sales in the computer market have dropped by 50% during the first half of this year compared to 2008. MoICT announced the government was planning to erase sales tax in 2009 as part of their ICT strategy launched in 2007.

4. Low public spending on research and development slows down potential expansion of the ICT sector. Jordan spends 0.34 – 0.4% of its GDP on research and development, compared to the 1% average for developing countries, and 2-4% spent by highly industrialized countries. In the developed world, 2/3rd of the funding comes from the private sector, which invests in R&D for the development of their products and services.\textsuperscript{250}

5. There are also poor linkages between ICT sector and academia. Fortunately the situation is gradually improving as a positive example: there is a R&D fund available, as well as a specialized fund for IT.

6. There is still limited ICT cluster development, which as a result limits core business specializations and innovation capacity. The local market is considerably small and fragmented.

\textbf{Key Opportunities}

1. The key issue for any publisher in the MENA region is the Arabization. This provides an interesting investment opportunity to attract a developer into Jordan. The opportunity could attract one of three types: Third Party, Independent (mostly internet exposure) or In–house organization.

2. The application of ICT services throughout Jordan continues to expand. Much of the existing training requires residents to go abroad such as for SAP or Oracle skills. Therefore, an opportunity exists for a recruitment and training organization to support the market and its future development.

3. As more and more enterprises are enabling their workforce to become mobile, interactive and collaborative, there is a huge opportunity to build smart processes into the enterprise enabling Jordanian companies to compete not only at a regional level, but at a global level (IBM’s Institute for Business Value predicts that there will be one billion mobile Web users by 2011 and a significant shift in the way the majority of people will interact with the Web over the next decade.\textsuperscript{251}

4. There is an opportunity to attract more off-shore and outsourcing operations in Jordan (as Jordan ranked 9th out of 50 countries in the last AT Kearney Global Services Location Index of 2009).

5. Last year the Ministry of Interior prepared a draft law on cyber crime that will further strengthen security of using the Internet.


\textsuperscript{249} The 2009 AT Kearney Global Services Location Index

\textsuperscript{250} JO, issue 69, May 2009 – Vice President of the Royal Scientific Society Mr. Khaled Kahhaleh

\textsuperscript{251} Jordan Times, 30 March 2009
The total size of the market grew from USD 296 million up to USD 883 million in 2007. According to the Jordan's Competitiveness Report 2007 domestic IT expenditure is still low compared to regional and international benchmarks. Thus it shows the market potential and possibility for further expansion.  

7. There are more examples of cross-regional cooperation between Jordanian and regional companies especially in case of big size companies.

**Key Threats**

1. Domestic consumers are not global trend setters. This could adversely affect innovation also taking into consideration the fact that the R&D expenditure is low in Jordan.
2. There is still limited use of the IT systems in companies especially in the SMEs.
3. Education system requires review. There is general industry perception that new graduates lack soft skills (eg. writing skills).
4. In Jordan’s Competitiveness Report 2007 one of the constraints to growth of the sector was lack of access to venture capital and other non-traditional forms of financing: risk and growth capital. Due to the financial crisis and tighter credit policy this still remains an issue that would slow down the development and expansion of the sector.
5. Although privatized, the fix telecommunication market still faces monopoly – this time by Jordan Telecom.

**3.3 Recent Key Initiatives in the Sector**

1. A Jordanian IT company and UAE company are currently under way to establish a free IT zone in Amman: to house software companies, content and business development firms, industries exempt from sales tax, income tax, as well as from customs duties.  
2. MoICT is keen on upgrading the curricula in IT, in the country’s universities and providing students majoring in ICT-related subjects with training. It is to be done through cooperation with the willing universities in Jordan.
3. UNIFEM initiated the idea of a National Technology Parade event, working side by side with the Jordanian University to launch it. The parade was developed in an effort to encourage women to participate in highly demanded ICT disciplines and to grasp any innovative ideas students would offer in order to provide any technological solutions to challenges facing businesses, governments, civil society, and local communities. In May 2008, the Jordan University hosted the First Annual Technology Parade.
4. There is an ongoing laptop for each student initiative. Over 11,000 laptops were sold at affordable prices and a similar initiative will be launched for teachers.
5. The Ministry wants to extend a fibre optic network to 3,300 schools located in remote areas to increase the number of Internet users (at prices that are 20-25% cheaper than prices elsewhere in Jordan). The network will be ready by 2011.
6. Government reduced sales tax imposed on the Internet for households to 8 percent last year, and the Ministry of Finance is to introduce more tax cuts in 2009.
7. There is an internship program established between the MoICT and private businesses which aims at employing new graduates. Of the 300 JD salary, 50% is paid by the government.

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252 IT Industry Statistics, INTAJ
253 Jordan Times, 16 May, 2009
254 MoICT representative.
255 E-pulse, January 2009
4. Tourism

4.1 Current State of the Sector

The number of tourists who arrived in the country reached 7.1 million in 2008, compared to 6.5 million in 2007 (increase of 8.8%). Same-day visits constituted 3.37 million arrivals. Majority of visitors came from Arab countries: 4,792,734 – among them from Saudi Arabia – 1,117,000, Syria 2,019,167 and Europe 994,338. Jordanians leaving and working abroad constituted 825,465 visitors.256

The statistics show an increase in number the of nights occupied in hotels from 5,148,488 in 2007, to 5,762,432 in 2008. Majority of tourists spent their time in 5-star hotels: total of 2,184,183 in 2008, compared to 1,816,410 in 2007 (increase of 20%). The highest dynamics was reached by 1-star hotels – increase from 189,938 in 2007, up to 252,312 in 2008 (32.8%). As per the location of nights spend: 3,743,466 are in Amman, followed by Aqaba (868,693), Petra (587,280), and the Dead Sea (445,204).257

Tourism in Jordan generated JD 2,088.9 million in 2008, compared to JD 1,638.3 million in 2007, which constitutes an increase of 27.5%.258 There were 38,294 people employed in the tourism sector in Jordan in 2008 (compared to 34,405 in 2007). Majority of them worked in hotels (13,994) and restaurants (15,498). There were 873 tourist guides. Most of employees of the sector are males: 34,370 (90%) and Jordanians: 31,259 (82%).259

In the recent Travel and Tourism Competitiveness Report 2009, published by the World Economic Forum, Jordan ranked 54th out of 133 countries analyzed.260

4.2 SWOT Analysis

Key Strengths

1. Jordan is generally perceived as stable and safe country which positively influences tourists willingness to visit.
2. There is strong and visible diversification of tourist products: eco-tourism, cultural tourism, family, religious tourism. It helps to match different tastes and interests of visitors.
3. Strong partnership between public and private sector institutions in order to improve and further develop the tourism sector.
4. There are many world renown tourist sites in the country such as: Petra, Wadi Rum, Jarash, Dead Sea, biblical sites.
5. Tourism sector is generally open to foreign investment. The only restriction comes for the tour operators: investment requires a 50% involvement of a Jordanian partner.
6. There are many 5-stars internationally recognized hotel brands together with well-developed overall hotel and restaurant infrastructure.
7. Tourist sector is one of government’s priorities. It supports efforts to establish special touristic zones, and further develop areas for tourism (e.g. Ajloun and the Dead Sea) investing in upgrading the infrastructure (see also part on recent initiatives).

256 Main Tourism Indicators during 2007-2008: Ministry of Tourism and Antiquities 2009
257 No. of Hotel, Apartments & Others, Rooms, Beds & Number of Employees Distributed by Nationality & Classification 2008: Ministry of Tourism and Antiquities 2009
259 Accommodation Establishments Indicators, 2007 – 2008: Ministry of Tourism and Antiquities 2009; Number of Employees in different Tourism Activity by Nationality & Gender 2008: Ministry of Tourism and Antiquities 2009
260 Travel and Tourism Competitiveness Report 2009
Key Weaknesses

1. According to Travel and Tourism Competitiveness Report 2009, out of more than 70 indicators, in 21 of them Jordan scored below average (ranking was done among 133 countries).261
2. According to the First Competitiveness Report 2007 there is a lack of top-notch tourist operators in Jordan.262 Lack of such competitors may mean lower quality service.
3. There is a lack of proper planning of visits to tourists places, which in turn lead to overcrowding.
4. Access to some major tourist sites in Jordan is limited to due to the short time of admissions. The example is Jarash, which closes already at 6 PM during the weekends.
5. There is still no research institution on tourism.
6. There is still little use of the IT in the sector.
7. Domestic tourism needs more attention. Little has been done so far to promote and strengthen local patterns. Although, for some time, the tendency to travel and explore the country by Jordanians, seems to be developing. In order to know the opinion of domestic tourists, there was a survey conducted. The results showed that for many, domestic tourism is too expensive, as many facilities are built for foreign tourists and thus service is more expensive. Domestic demand is still small and unsophisticated and focuses mainly on entertainment.
8. According to the medical tourism industry representative, insufficient cooperation between tourism and medical tourism sectors exists. Thus it is difficult to reach synergy between those two sectors.
9. There is limited number of specialized guides in eco-tourism, religious tourism, and adventure tourism comparing to the growing number of tourists interested in those types of activities.

Key Opportunities

1. Past experience has shown that Travel & Tourism always rebounds from cyclical downturns—sometimes even stronger than before, the examples being: 9/11, SARS, or even the Gulf War. Despite the present global crisis, people still want to travel. Once the economic recovery starts, there is likely to be a huge pent-up demand.
2. Based on discussions conducted during 2009 annual Jordan Tourism Mart in the USA, it seems that the Kingdom is already steps ahead of other countries in the region in terms of developing adventure tourism, and has infrastructure and planning to become a leading global destination for adventure and ecotourism. Although adventure travelers come in smaller groups, they are high value consumers concerned about respecting and preserving nature and environment, as well as eager to interact with local community.263
3. There is a potential in opening and targeting emerging markets: in South America, China, and India. Entry procedures for Indian and Chinese tourists have been eased (Jordan was featured prominently in travel magazines in the US, Canada, and Brazil).264
4. There is ongoing process of upgrading the Queen Alia International Airport (QAIA). By 2011, the airport should increase its capacity from 3.5 million to 9 million passengers (see also 4.3. Recent key initiatives in the sector). It is in line with high demand for aviation infrastructure in the Arab world due to underdeveloped regional transport network and rapidly growing populations. With tourism likely to grow, large number of businessmen, aid workers and military staff going for Iraq, expansion of capacity for the Queen Alia International Airport is by no means desirable move.265
5. There are several well-established universities, colleges, and vocational training facilities that assist in upgrading the workforce.
6. It is expected that religious tourism may increase due to the latest Pope’s visit to Jordan in May 2009.

261 Ibid.
262 All international operators must have Jordanian partner or partners by law.
263 Jordan Property, May 2009
264 Ibid.
265 Jordan Business, May 2009
Key Threats

1. No common marketing strategy for tourism sector exists. The Ministry of Tourism points to the Jordan Tourism Board as the prime entity to deal with marketing issues. There are examples of common actions, such as tourism fairs in the US market. In the recent Travel and Tourism Competitiveness Report 2009, Jordan ranked 46th in terms of effectiveness of marketing and branding to attract tourists (out of 133 countries). There is room for improvement.266

2. It is reported that key indicators and goals for the strategy has been already achieved. There are intensive works going on at the moment to update the National Strategy.

3. Lack of data and analysis on customer's demand and needs may lead to wrong investments and decreasing number of tourists dissatisfied with the quality of service received.

4.3 Recent Key Initiatives in the Sector

1. There is a project underway to introduce electronic ticketing system in Jordan. Its purpose is to implement proper planning of visits and eliminate overcrowding. It is to be extended to cover all major sites in Jordan in the future.

2. There is an ongoing effort to upgrade the Royal Jordanian fleet, especially, after it was privatized in 2007. Additionally, there is a plan to add 19 new aircrafts to the RJ’s fleet. Ajloun is the second plane in the fleet that allows passengers to use mobile phones onboard. RJ intends to provide this service to all Airbus 320 by the end of 2009.

3. There is an on-going process to upgrade the Queen Alia International Airport (QAIA) scheduled for 2011. It will increase its capacity from 3.5 million passengers to over 9 million. Now it accommodates ca. 4.4 million passengers and it stretches over its capacity.

4. The National Tourism Awareness Campaign has been recently launched among 50 000 high school students in attempt to enhance their perceptions of tourism and job opportunities in the industry, to educate about the benefits of tourism while encouraging positive behavior towards tourists. USAID/Jordan Tourism Development Project (JTDP) has organized it.

5. In order to strengthen the quality of personnel in the sector, the Ministry of Tourism and Antiquities, together with the Ministry of Education, and the Ministry of Higher Education, revise all curriculum within universities and colleges to improve quality of teaching and adjust it to the demands of the modern tourism market. Special hospitality trainings are also supported by the USAID project. Moreover, in cooperation with Italy, a new hospitality school has recently been established, to make sure new graduates fit to the sectoral needs.

6. A new project was launched at the beginning of 2009 to establish touristic trails within the sites around Salt, Ajlun, Karak. Support for the development of local communities is important part of the project. They are involved in establishing those sites, and a special training is provided to them to develop small tourism infrastructure along the trails (such as shops, handicrafts, food etc.)

7. The Ministry of Tourism and Antiquities has launched the project on cultural heritage, tourism and urban development. The project of USD 70 million is financed by the World Bank and be implemented between January 2007-December 2011. Its aim is to contribute to tourism development in five key historically and culturally important cities: Jerash, Karak, Madaba, Salt, and Ajloun and contribute to their economic development. The second objective is to consolidate the tourism industry in Petra. The activities are to be concentrated in physical and economic revitalization of the historic centers, together with construction and opening of new visitors center in Petra.

266 Travel and Tourism Competitiveness Report 2009.
5. Medical Tourism

5.1 Current State of the Sector

Medical tourism in Jordan concentrates mainly within private hospitals. Out of 100 hospitals currently there are 60 private health institutions accommodating 5,000 beds. The leading nationality in terms of medical tourism are Iraqis, followed by Palestinians, Sudanis, the Gulf, Syrians, and Libyans. Considered one of the main contributors to national economy brings in revenue USD 1 billion annually, it witnessed steady increase of around 10% of foreign patients.\textsuperscript{267}

A study conducted by the Private Hospital Association (PHA) shows that 210,100 patients from 48 countries received treatment in the Kingdom in 2008, compared to 190,000 in 2007.\textsuperscript{268} The phenomenon is not only limited to patients coming from other countries. Usually they are accompanied by family or friends. The number of persons who usually accompany patients rose to 300,000 in 2008. Thus the positive impact on economy is multiplied as many of those people use available facilities such as: hotels, restaurants, tourist attractions. As a comparison, on average, a regular tourist leaves ca. USD 200-300 during the stay in Jordan, whereas the amount spent for medical tourist reaches ca. USD 4,000-5,000.

Amman is the city, in which majority of private hospitals is concentrated. 38 of them are situated in the capital. Despite growing number of foreign patients, still 60-65% of admitted to private hospitals are Jordanians. Moreover for every admitted patients, there are at least 3 so called out-patients\textsuperscript{269} (both Jordanians, and non-Jordanians). Medical tourism experts from the World Bank ranked Jordan number one in the Arab region and 5th in the world as a medical tourism hub. High quality medical service in Jordan is strengthened by two factors: state-of-the-art medical equipment and medical staff who in many cases graduated from renowned international medical schools both in Europe and the US.

5.2 SWOT Analysis

Key Strengths

1. There is high quality of services and modern equipment provided by private hospitals.
2. Professional, well-trained and experienced staff (both doctors and nurses) are one of the key assets of the sector.
3. Growing number of internationally accredited private hospitals in Jordan (4 at the moment) shows not only growing competition in the sector but also expansion of the industry. As a result, most likely it will further strengthen quality of services.
4. Stable political and economical situation in the country is additional argument for the people to use medical facilities in Jordan and not elsewhere in the region.
5. In majority of cases there is an easy access to the country, no special restrictions apply.\textsuperscript{270}
6. Throughout the years of providing high quality medical services, Jordan was able to establish strong and recognizable regional brand with tight linkages to regional markets.
7. Domestic health expenditure is comparable to highly industrialized countries. In IMD World Competitiveness Yearbook 2008, Jordan ranked 10th out of 55 countries in total health expenditure as percentage of the GDP. Health infrastructure (in terms of meeting the needs of society) was ranked 19th out of 55 countries.

\textsuperscript{267} Jordan Times, May 16, 2009
\textsuperscript{268} Ibid
\textsuperscript{269} Out-patients meaning those that do not require staying overnight, they are admitted only for a consultation.
\textsuperscript{270} Nevertheless the industry reports certain cases of difficulties for specific nationalities to enter the country to obtain private medical treatment, among them Iraqis, Nigerians.
8. Strong and good quality medical training programs offer degrees in most medical specialities, thus the influx of new graduates to the sector should be maintained.

9. Basically there are no investment restrictions on opening the private hospital in Jordan. There is no minimal capital required, although certain regulations as to the land space available appear: 2,000 sq. meters for general hospital, and 1,000 sq. meters for specialized facility. A hospital must be situated in isolated building. Other special condition is that a potential investor should acquire a Jordanian-partner doctor in order to open a private hospital.

10. There is a free repatriation of profit from private hospital in Jordan.

11. Accreditation and standards enforcement has been strengthened lately, which should positively influence quality of services provided. Health Accreditation Council has been recently established. A new draft law on medical liability is in a governmental consultation process.

**Key Weaknesses**

1. Regulations within the sector need to be updated. Laws that govern the sector have been passed some 30 years ago in different economic and social conditions.

2. There is a growing demand for female nurses and visiting doctors. Unfortunately existing regulations do not support easy access to the market by foreign specialists as Jordanian doctors have priority.

3. Moreover low paid technical and support workforce (technicians, nurses) in Jordan may receive 3-4 times better financial conditions in the Gulf states. As a result this may additionally and negatively affect availability of technical workforce.

4. There are multiplied controls from different government bodies. Reports reveal the inspections have constant access to private hospitals and right to inspect anything at any time. Frequent controls destabilize work.

5. There is no common and national obligation of healthcare insurance which hinders further development of the sector in Jordan.

**Key Opportunities**

There are the following opportunities for the sector:

1. There are efforts to open new markets for the medical tourism in Jordan especially those in the US, Europe (Germany), former Soviet Union e.g. Russia or Kazakhstan as well as African countries.

2. Due to the global financial crisis, North Americans and Europeans patients will be looking for lower-cost options of medical treatment. Jordan will be definitely one of the destinations they will be considering.

3. There is growing global trend for specialized health services such as: IVF, eye surgery, organ transplant, plastic surgery, oncology.

4. In 2009 Jordan Tourism Board together with PHA started joint and coordinated efforts and actions to promote Jordan as medical tourism destinations.

**Key Threats**

1. On the one hand, low cost well trained workforce is an advantage but on the other hand the group is more vulnerable towards the brain drain, especially in the situation of a strong demand for specialists in the Gulf countries, where the wages are much higher than those in Jordan.

2. Due to the fact that there are many types of hospitals in Jordan e.g. Military, Ministry of Health hospitals, private hospitals, etc., there are difficulties to reach common opinion or position, as interests vary between stakeholders.

**5.3 Recent Key initiatives in the Sector**

1. Recently the sector established special Health Care Accreditation Council that will deal with hospital accreditation process. Its role will be to institutionalize health care quality on the HCAC model that applies international standards in a national environment. It is also open for other hospitals in the region. It is said to be the first such institution in the Middle East region. Its role is not only to accredit hospitals but also to provide training, infection, and safety controls.
2. There is a pilot project underway to connect 4 centers of medical treatment with common software and connect to the net. Patients will carry an electronic smart-card that would store all medical data on a patient. In time the system should cover all medical institutions in the country.

3. Several representatives from US medical sector and insurance companies visited Kingdom in July 2009 to have a firsthand look at the capabilities of the sector. To attract Americans seeking treatment abroad, who last year numbered 750,000 according to US based Medical Treatment Association, American will only have to pay 25% of the value of the same medical procedure in their country, package also includes plane ticket, accommodation, and a visit to Petra.

4. Next year (2010) the Kingdom will be hosting international conference to promote Jordan as medical tourism destination.

5. Ministry of Higher Education announced that they will increase annual scholarships provided to female nurses from 100 to 400 starting this academic year, the Ministry will allocate 70% of nursing seats in the Kingdom's institutions to females.271

6. Higher Education

6.1 Current State of the Sector

During the academic year of 2008/2009, the total number of students enrolled in both public and private universities reached 237,000 (175,000 in public and 61,000 in private). Out of which, 219,000 students were enrolled at undergraduate studies and only 17,000 at graduate levels. Furthermore, it is reported that 28,000 Jordanian students study abroad. The average number of students in public universities reaches 17,500 per institution, whereas, in private ones the number is 4,067.272 Additionally there are:

- 28,000 students enrolled in community colleges.
- 27 universities (10 public and 17 private).
- Two regional universities: Arab Academy for Banking and Financial Sciences and Arab Open University.
- Two other private universities under construction.
- 50 community colleges (28 – public including four belonging to the Ministry of Health, six to the Ministry of Defense), and 22 – private ones).273

In terms of student enrollment, the biggest public universities are: Jordan University (37,971), Yarmouk (31,058), Jordan University for Science and Technology (21,491), and Mu’tah (15,949). The biggest private universities are: Al-Zaytoonah (8,021), Applied Science (7,956), and Al-Isra (6,896).274

The number of faculty members totaled 7,365 (4,951 in public universities and 2,414 in private ones). Thus, the ratios of students vs. faculty members are correspondingly, 35 and 25. The highest number of faculty members are in Jordan University: 1,241 and Yarmouk: 767 and for the private sector – Applied Science: 317 as well as Philadelphia: 298. There are 1,129 current specializations in Jordanian Universities (676 bachelor programs and 453 graduate studies).275

Based on the latest Global Competitiveness Index 2009 Jordan ranked 48th out of 134 countries. The index among others measures the quality of higher education and training, among others. Jordan scored the following: tertiary enrollment – 54th; quality of management schools – 45th; local availability of research and training services – 53th.

271 After The Jordan Times May 27, 2009
273 Ibid.
274 Ibid.
275 Ibid.
6.2 SWOT Analysis

**Key Strengths**

1. Establishing the Higher Education Accreditation Commission that should guard the quality of higher education in Jordan (set up by Law (20) in 2007).
3. Establishing units for career counseling and tracing graduates at universities.
5. There are many international programs executed in Jordan (for some examples see also 6.3. Recent key initiatives in the sector). Donor organizations such as the World Bank, EU, UNDP are very active in the field of tertiary education in Jordan.
6. From year to year, there is a rise in enrollment rates. The trend is in line with the growing international and regional demand for higher education. It means the sector in Jordan has still potential to grow and expand, benefiting from the fact that more foreign students come to study in Jordan.
7. There are many programs and studies (bachelor programs and 453 graduate studies), where students may choose their field of study and specialty.

**Key Weaknesses**

1. Quality assurance of higher education outcomes should be strengthened as industries representatives report the need for improving soft skills among university graduates.
2. There is still a need to further bridge the gap between higher education and the labor market. Students choose their majors accidentally, not analyzing market trends or demand, and as a result, many graduates either work in different fields or leave the country because they are unable to find jobs within their field. As a result there is a growing unemployment rate among graduates (increasing during the last 7 years, from 13% to 21%).
3. The government subsidies fluctuate considerably on a yearly basis and are unpredictable. Consequently, universities find it difficult to adopt long-term financing plans to support its activities.
4. Nurturing a vibrant science and technology sector is seen as the most effective way to ensure the long-term social and economic development of the Kingdom. Jordan spends 0.34 – 0.4% of its GDP on research and development, compared to the 1% average for developing countries, and 2-4% spent by highly industrialized countries. In the developed world, 2/3rd of the funding comes from the private sector, which invests in R&D for the development of their products and services. In Jordan, almost 70% of funding comes from the government.
5. Results from the 2007 Trends in International Mathematics and Science Study, found that university graduates in Jordan wait for a long time to transition into the job market because the learning they receive at universities, can best be describe as “old pedagogy.” They memorize textbooks and class notes of professors, and old textbooks in an age when knowledge becomes obsolete even before it goes to print.

**Key Opportunities**

1. There is a growing number of students in the sector. This helps the sector to expand.
2. There are certain plans to enhance universities’ autonomy, and develop governance and institutional performance. As a result, strong independent academic institutions could be created, ready for the challenges of the XXI century global economy.
3. The Ministry of Higher Education and Scientific Research is helping universities set their 5-year strategic plans. This would strengthen management capacity and improve the functioning of the higher education institutions, also in terms of financial management due to widening financial perspective. Nevertheless,

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276 According to the Department of Statistics 650,000 Jordanians live abroad, about 600,000 of whom are settled in the countries of the Gulf. The majority are skilled, white-collar workers employed in the construction, media, banking and financial sectors. See also JO Magazine, issue 69, May 2009: Paradise Lost by Laith Abou-Ragheb

277 The Jordan’s Competitiveness Report 2007
due to the high fluctuation of public funds available to universities, it may diminish the positive aspects of strategic management that is to be introduced.

4. Community colleges are to be re-engineered, focusing their attention on technical education.

5. There are more international contacts between Jordanian universities and foreign institutions. The perception and knowledge of international demand seems to be changing, which positively influences the tertiary sector in the country. It creates the pressure on Jordanian universities to excel and modernize, especially since demand for European and/or American-style tertiary education is still growing.

6. Jordan benefits from political and social stability. Such a perception of the country greatly affects the decisions of foreign students, especially from the region, in regards to where to study.

7. There are two more private universities constructed at the moment, which will strengthen tertiary education for students, and will create more competitive pressure on existing institutions.

8. The Ministry has plans to establish scientific research networks among universities. It should enable and strengthen cooperation between the institutions, help to exchange ideas, knowledge, and experience.

Key Threats

1. Especially in the light of the global financial crisis and budget expenditure cuts, finding more resources for public universities could become difficult.

2. Finding adequate public funding that covers all applicants for loans and grants by the Student Support Fund, may again become very difficult, thus, undermining the idea of financial assistance.

3. There may not be enough high quality faculty members to accommodate the growing demand for tertiary education in Jordan.

4. According to new plans revealed in the National Strategy for Higher Education and Scientific Research Sector for the Years 2007-2012, there will be a limit imposed on the number of students allowed to enter public universities. The process will be guided by general and special accreditation criteria. Such a move may limit the number of people willing to study.

6.3 Recent Key Initiatives in the Sector

1. Trans European Mobility Program for University Students (TEMPUS – Jordan started to participate in the program in December 2002) and Erasmus Mundus (new window for scholarships for the period 2009-2013 is already opened) was launched in cooperation with the EU.

2. Support to Bridging the Gap between Higher Education and the Labor Market in Jordan project was launched in cooperation with UNDP between 2007-2009.

3. The Ministry is also looking at a plan to establish a bank at each university that will extend grants and interest-free loans to students.

4. The World Bank in Jordan will launch a package of reforms to develop higher education sector. The plan is to be implemented between January, 2010 and December, 2015.\textsuperscript{278}

\textsuperscript{278} Specifically it will be devoted to build the capacity of the Ministry to introduce new funding mechanisms in order to promote transparency, innovation, and effective resource management, modernize governance, accountability, and management systems of universities, strengthen the quality of assurance and accreditation to improve employability of men and women graduates of university and community colleges programs.
ANNEX
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