RESPONSIBLE COMPETITIVENESS IN **JORDAN**

Strategies for the banking, insurance and meat processing sectors

Forewords by H.M. Queen Rania Al Abdullah, Hashemite Kingdom of Jordan, H.E. Suhair Al-Ali, Minister of Planning and International Cooperation

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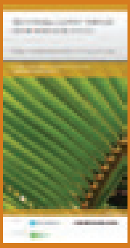

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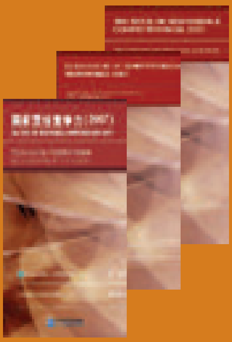

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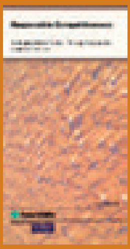

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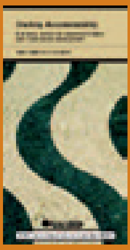

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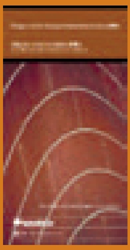

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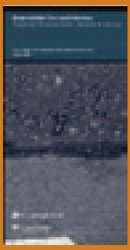

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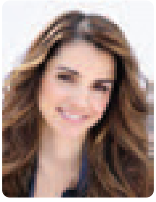
Her Majesty Queen Rania Al Abdullah, Hashemite Kingdom of Jordan



It is easy to imagine a developing country like Jordan as trying to prioritise among two imperatives. On one hand, we need to connect ourselves to markets around the world, and bolster our competitiveness in an era of global recession. On the other, we must improve our educational system, strengthen opportunities for women and girls, and safeguard our natural environment.

Which agenda is more deserving of our attention?

Responsible Competitiveness reminds us these choices are false; these challenges cannot be divided. How can a Jordanian corporation compete in the global economy when our prospective employees lack necessary skills? How can a Jordanian start-up succeed when we are ignoring the untapped potential of women? How can we build a bright future for our youth if we fail to protect the environment they call home?

From Irbid to Aqaba, an exciting national conversation is taking place – one designed to ensure Jordan enters the next decade as a regional leader, not just as an economy, not just as a society, but as a role model in both.

This report is another crucial chapter in that discussion. Responsible Competitiveness is a new idea in our region, but this publication presents the concept concisely, explores the arguments widely, and provides examples from across industries. Reading it, you will find that Responsible Competitiveness not only adds valuable insight to the nature of development, but provides specific, measurable recommendations at the sector and national levels.

Those recommendations are both manageable and meaningful. If we act upon them, we can create near-term financial, social, and environmental gains. They will also help us claim regional leadership in the Responsible Competitiveness field, raise our international profile, attract more tourism and investment, and instill pride in our achievements as a nation. That is why I urge our Steering Committee for Responsible Competitiveness, and its sister Technical Committee, to incorporate these ideas into our national analyses for competitiveness and development. I encourage members of the committees to look to this report, evaluate its findings, and champion the opportunities they find. Indeed, the lessons learned have the potential for broader application, across all of Jordan, so every industry can benefit.

Of course, this publication is part of a wider movement. At this year's World Economic Forum, a collection of businesses and organisations from across the Middle East known as the Arab Sustainability Leadership Group created the Arab Responsible Competitiveness Index. Their initiative, like this report, demonstrates that responsible competitiveness is indeed taking root in Arab soil and beginning to bear fruit for governments and corporations alike, as well as young people, women, the disadvantaged, and the environment.

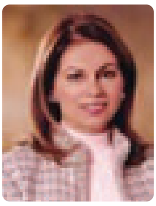
We have many people to thank: The Minister of Planning and International Cooperation, the Steering and Technical Committees for Responsible Competitiveness in Jordan, and the Jordan National Competitiveness Team for their engagement; the Swiss State Secretariat of Economic Affairs for funding; and Sustainability Excellence and AccountAbility for pulling together this report. All deserve praise for helping add yet another vibrant voice to the debate that is directing our country. With their help, and with the help of this publication, we turn toward our future with renewed excitement, and with renewed energy.

Rania Al Abdullah

Foreword

Her Excellency Mrs. Suhair Al-Ali

Minister of Planning and International Cooperation



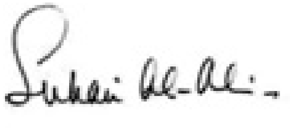
The Ministry of Planning and International Cooperation is pleased to release this report produced in cooperation with Sustainability Excellence and AccountAbility, with support from the Swiss State Secretariat for Economic Affairs (SECO).

The Ministry is dedicated to supporting Jordan's comprehensive socio-economic development process. This report is being issued along with our Second *National Competitiveness Report 2008-2009*, and supports our efforts to understand and influence the factors which affect economic growth and social well being. The *Jordan Second National Competitiveness Report* gathers quantitative data and provides a macro and micro economic picture of Jordan and provides analysis of the state of competitiveness of three important sectors – banking, insurance and food manufacturing/meat processing. The *Responsible Competitiveness in Jordan* report builds on this analysis to fully factor an increasingly wide range of social and environmental risks, opportunities and issues that influence Jordan's economic competitive framework.

We are proud to be the first country in the region to thoroughly apply the findings of the Arab Responsible Competitiveness Index (ARCI), just launched at the World Economic Forum in the Dead Sea this year under the patronage of Her Majesty Queen Rania Al Abdullah. The ARCI uses indicators around policy drivers, business action, and social enablers in order to find pathways to deliver high social, environmental and ethical performance at the national level. This would also add value to our understanding of our economy and promote Jordan's competitive advantage. The aim of this report is to deepen our understanding of the policy drivers, business actions and societal enablers required to allow sectors to compete responsibly.

Jordan has over the past several years made a conscious and substantial effort to improve the well being of the Jordanian people by making Jordan a key market for investment from local, regional and global players. We have implemented a wide range of reform programs, adopted new export policies and streamlined laws and regulations. This effort and the recommendations made in this report are aimed at further enhancing our economy. The success of these recommendations will depend upon the efforts of all stakeholders – the private sector, government, and civil society.

This report is an exciting catalyst to advancing Responsible Competitiveness in Jordan, and the Ministry of Planning and International Cooperation looks forward to realising the benefits to be gained from understanding and implementing these recommendations across the sectors and across a variety of stakeholder groups. We will continue to promote and track Responsible Competitiveness through the Jordan Responsible Competitiveness Steering Committee.



Suhair Al-Ali
Minister of Planning and International Cooperation
Chair of Jordan Responsible Competitiveness Steering Committee

EXECUTIVE SUMMARY

Executive Summary

> *"...[G]lobalisation and economic liberalisation offer a wealth of new economic opportunities, but also present considerable challenges. We believe that opportunities can best be exploited, and challenges can be addressed, through active and constructive partnerships"*
> **H.E. Suhair Al-Ali**, Minister of Planning and International Cooperation[1]

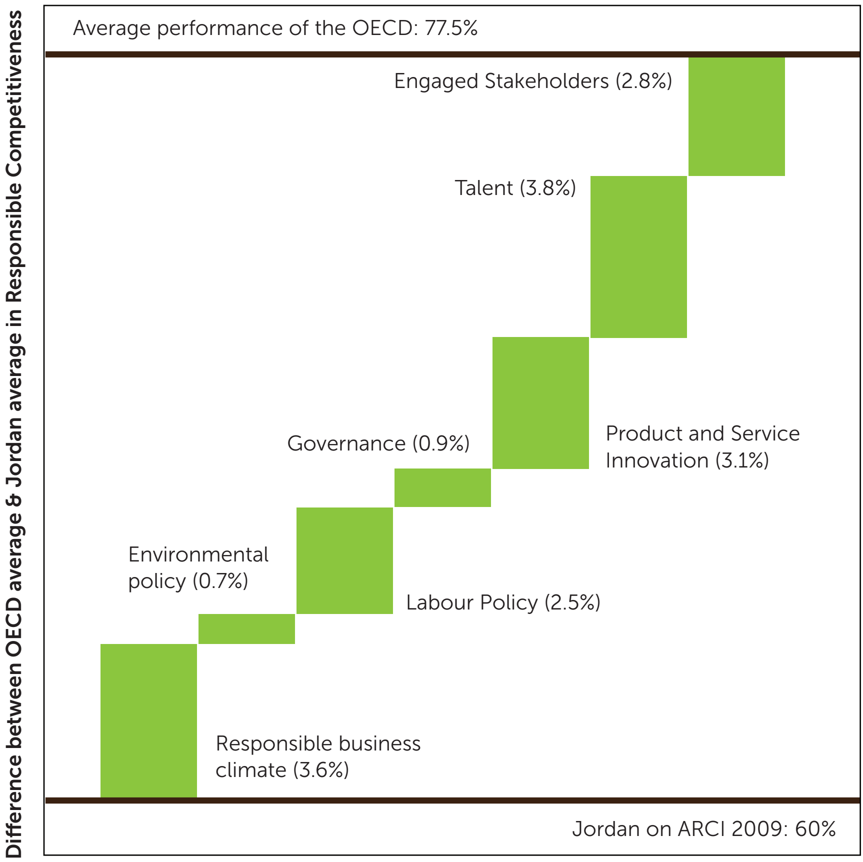
WHAT IS RESPONSIBLE COMPETITIVENESS?
Responsible Competitiveness is a tool to understand how public policies, business action and civil society enablers all contribute to building an economy that responds to and drives economic, social and environmental development agendas, while continuing to enhance competitiveness. This report analyses national level performance, then analyses and proposes strategies to improve the responsible competitiveness performance of three of Jordan's key sectors: **banking**, **insurance** and **meat processing**.

JORDAN'S RESPONSIBLE COMPETITIVENESS OPPORTUNITY
Jordan faces both competitive and development opportunities and challenges. The 2009-10 Global Competitiveness Report positions Jordan 50th among 133 countries, ahead of many MENA neighbours.[2] Yet the unemployment rate is at 13.1%, and gender inequalities and resource scarcity serve as a reminder of persistent social and environmental challenges facing the country.[3]

Jordan also ranks 50th (among 108 countries) in the 2007 *Responsible Competitiveness Index* (RCI), and 7th out of 15 countries in a customised ranking of the Arab region. The 2005 National Agenda, and other strategies, including Jordan Vision 2020 and the National Energy Strategy, all contribute to Jordan's sturdy global Responsible Competitiveness performance, with a score of 60 out of 100. Evidence from the analysis of other countries suggests that for every one point gain in score, up to US$1000 is gained in GDP per capita.[4] From this perspective, there is a tremendous case for analysing the gaps and opportunities for improving Jordan's Responsible Competitiveness performance and scoring.

Figure A is indicative of the potential Jordan has to improve its performance across seven areas of Responsible Competitiveness, taking the average existing performance of OECD countries as a benchmark target. In the figure, the larger the box, the greater the opportunity for increasing responsible competitiveness. The analysis suggests that Jordan's biggest opportunities lie in talent development, fostering a responsible business climate, and product and service innovation. The full report explores in further detail each of these opportunity areas.

FIGURE A. JORDAN'S RESPONSIBLE COMPETITIVENESS PATHWAY TO AVERAGE OECD PERFORMANCE[5]



Source: Arab Responsible Competitiveness Index 2009, AccountAbility

SECTOR-LEVEL FINDINGS

Sector-level findings are drawn from stakeholder interviews, sector consultations, surveys, and research into international best practice. *Responsible Competitiveness in Jordan* finds a strong correlation between sector performance and the situation faced at the national level, implying that sector-level improvements have the potential to unleash significant national level benefits across priority financial, social and environmental performance areas. It also implies that sector-level improvements can increase Jordan's rank in indexes such as the Responsible Competitiveness Index and the regional equivalent, the Arab Responsible Competitiveness Index.

At the sector-level, the Responsible Competitiveness focus is on government policies most relevant to companies; the individual and collective impact that businesses in the sector have on sustainable development; and the influence of the media, NGOs and other stakeholders to raise concerns or to collaborate to help tailor innovation and raise standards. The Responsible Competitiveness framework evaluates seven drivers at the sector level: Responsible Business Climate; Smart Philanthropy; Attracting, and Developing Talent; Business Standards and Compliance; Responsible Supply Chains; Product and Service Innovation; and Responsible Communications. This report proposes specific recommendations for each sector using this Responsible Competitiveness framework.

1. Banking

Jordan's banking sector has made strides towards improving corporate governance and transparency, and developing recruitment and training schemes. Regulatory bodies have also taken extensive steps to update all banking regulations to international standards. On the whole, the sector would benefit from greater recognition as a major leverage point in shaping Jordan's overall responsible competitiveness. Any banking sector touches all industries and sectors in society, and a large number of citizens, and thus has the opportunity to influence positive innovations and behaviour. In many OECD economies, there is a strong strategic focus on the responsible competitiveness practices of banks for this reason, and this translates into strong performance by the sector on key responsible competitiveness measures as illustrated in Figure B.

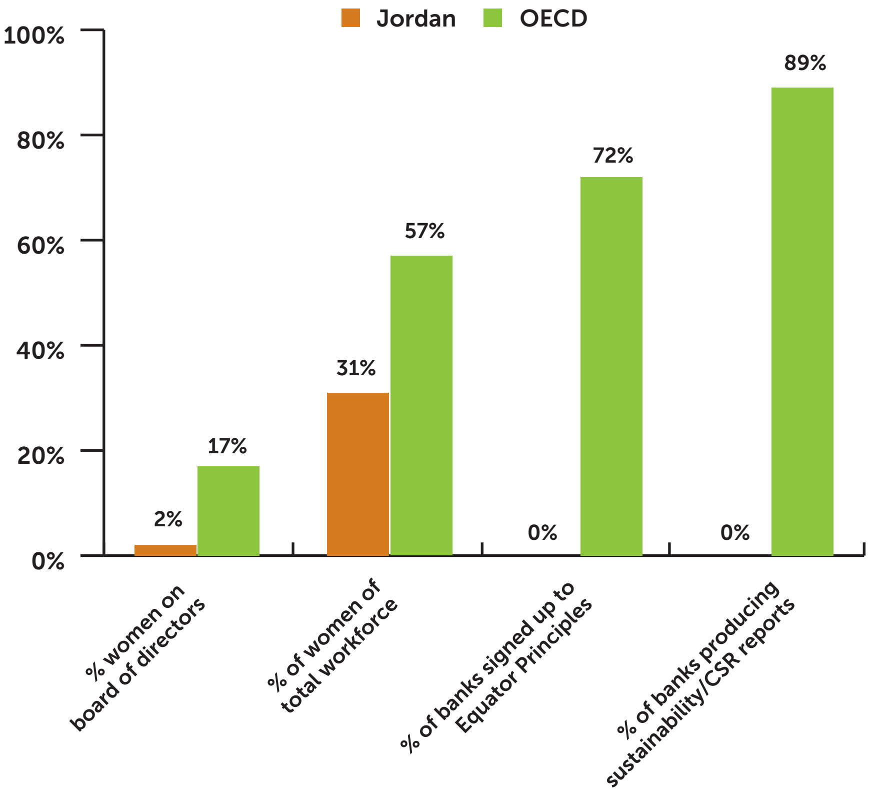
For Jordan, opportunities to improve the banking sector's competitiveness while positively contributing to Jordan's national competitiveness and sustainability performance include:

- The integration of environmental and social risk into lending criteria, both because of the major value and risk considerations that now extend from these issues, but also because it has become standard practice amongst global industry leaders. This would include banks signing up to the voluntary standard "Equator Principles", a well-established global initiative offering guidelines and a standardised approach to responsible lending;

- Sustainability reporting by each bank, which includes public reporting on economic, environmental and social performance; and

- Sustainability-related product and service innovation, given that it combines a growing market segment with an approach to responsible competitiveness that directly generates revenue and profitability.

FIGURE B. BENCHMARKED PERFORMANCE OF JORDAN'S BANKING SECTOR AGAINST SELECTED INDICATORS



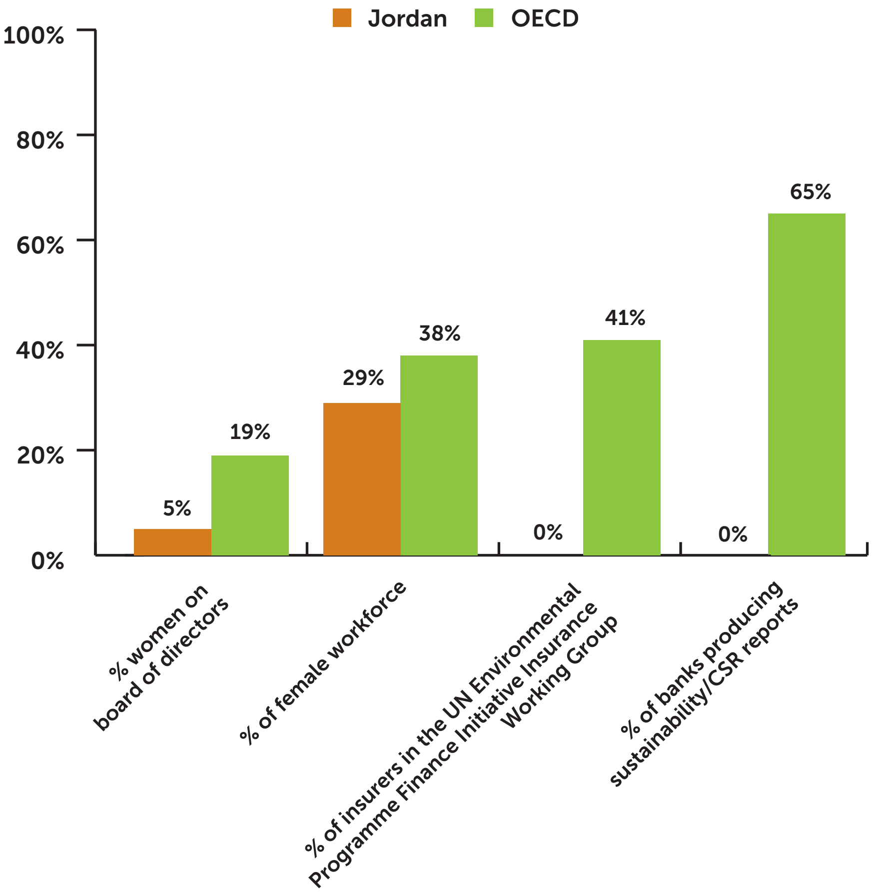
2. Insurance

Similarly to banking, the focus of Jordan's insurance sector to date has revolved around talent management, with mixed results. The sector has had successes in areas of collaboration on major national issues like road safety, including the creation of a joint fund for victims of hit-and-runs, and this approach has opened the door to collaboration on a wider range of national, sustainability-related issues.

Similar to the banking sector, the insurance sector does, or can, cross all major sectors of an economy, as well as directly engage citizens through its products and services. As such, it represents a similar strategic, national leveraging opportunity. In Jordan, this is an almost entirely untapped opportunity as the relationship between the sector and other stakeholders is characterised by a highly regulated and cautious atmosphere that is largely restrictive of helpful innovation.

A starting point for creating the conditions for change include a significant increase in transparency and stakeholder engagement by the sector. This ranges from full disclosure and clarity on product and service offerings, to overall company-level performance through the issuing of sustainability reports. The figure below demonstrates the high level of sustainability reporting undertaken by insurers in OECD countries, along with other responsible competitiveness benchmarks for the sector.

FIGURE C. BENCHMARKED PERFORMANCE OF JORDAN'S INSURANCE SECTOR AGAINST SELECTED INDICATORS



Other opportunities to more closely integrate financial opportunity for the sector with national sustainability concerns include:

- Allowing for tiered pricing of insurance based on sustainability performance of the insured stakeholder, thus influencing stakeholder behaviour (for example, rewarding or penalising driving records). Incentivise and reward responsible actions of Jordanians;

- Focus on product/service innovation to address 2-3 major national sustainability issues such as lower income groups in underserved geographic areas (micro-insurance), or expanded health insurance for middle income groups, or reduced energy and water consumption by companies (and thus reduced operational risk), and pilot test these service innovations; and

- Make greater efforts towards smart philanthropy, as greater stakeholder engagement will enhance the sector's understanding of underserved markets and increase the applicability and financial viability of services.

3. Meat Processing

Government, business and civil society stakeholders are faced with a conundrum when developing strategies for the meat processing sector. Consumption of energy and water resources can be reduced through cleaner production processes, and increased engagement with employees and local communities will improve efficiency. The sector scores well in its application of standards including ISO 14001 environmental management systems. However, the sector faces fundamental responsible competitiveness challenges which need to be addressed in order to decide its future course. This decision needs to incorporate a full life cycle analysis of the sector to ensure that social and particularly environmental factors become tightly integrated into the sector's trade strategy and competitiveness.

As immediate opportunities, the sector can:

- Work cooperatively with industry associations and regulators on competitive strategy and policy, with a focus on innovation, recognising that sustainability issues will increasingly dominate the sector and that responsible competitiveness is essential to survival of the sector;

- Improve environmental performance (reduce water/energy consumption and waste production) through improved application of environmental management practices and resource management. Focus on innovations that reduce, and promote reductions in, carbon impacts (since product mix will increasingly include an assessment of carbon footprint);

- Ensure increased awareness of the supply chain including full traceability. Identify opportunities to contribute to adding economic and social value to the product while reducing environmental impacts throughout the value chain – from farm level, to transport, to processing, to packaging and marketing; and

- Increase product innovation, particularly increased offerings of healthier and organic products, and collaborate on consumer awareness of the benefits.

Cross-cutting findings

While financial services and food manufacturing sectors are very different in supply chain, business model and end services, this research has found many similarities in the opportunities the sectors face. Gaps and opportunities relate directly to Jordan's performance ranked against other MENA countries in the 2009 *Arab Responsible Competiveness Index*, indicating that sector interventions have the potential to impact national concerns around resource management, talent, and competitiveness through innovation. Cross-cutting recommendations for the banking, insurance and meat processing sectors include:

- The need to consider how **product and service innovation can tap underserved markets**. For banks and insurance companies, this means engaging with small and medium-sized enterprises, entrepreneurs and low income groups, as well as exploring opportunities to offer environment-related product and service offerings that tap into growing concern about environmental issues. For meat processors this means developing and marketing organic, halal and specialist healthy products as the national and international market for meat shifts.

- **Increased disclosure** as an approach that can quickly improve sector performance. Sustainability reporting wins customer trust, measures progress, and fosters competition. Regulators can raise the minimum bar of required disclosure, but companies can also take the lead in developing their own reporting systems.

- **The adoption of voluntary standards and enhanced traceability of supply chains** as a means to increase efficiency, reduce costs, limit risk and improve reputation. For meat processors this equates to a full consideration from “paddock to plate”. For the banking and insurance sectors, this involves recognising the influence of these sectors on all other aspects of the economy, and adopting international standards that have the effect of influencing client behavior towards greater financial and responsible competitiveness.

- **Engaging with a wide range of stakeholders** to inform and help shape sector decisions, including consumers, business associations, suppliers, civil society organisations, government and even education providers. Many of the most profitable and sustainable sector initiatives are based on the idea that sharing knowledge and perspectives catalyses innovation.

In summary, pathways exist for three of Jordan’s key sectors to capitalise on their current strengths through the responsible competitiveness approach. Significant opportunities exist for all three sectors, but in today’s fast moving markets, and as the global economy begins to pick up its pace again, these opportunities will be seized by the first movers. Jordan must act quickly to take advantage of these opportunities.

Endnotes

1 Comments by the Minister at a conference entitled 'From Partnership to Prosperity: Women in the Arab World, France and the International Community.' 3-5 March 2009, Paris. www.aiwfonline.co.uk/downloads/HE%20Mrs%20Suhair%20Al%20Ali%20Speech-Paris%20Conference.pdf

2 World Economic Forum (2009), *Global Competitiveness Index*. www.weforum.org/pdf/GCR09/GCR20092010fullrankings.pdf

3 Department of Statistics, 2009. www.dos.gov.jo

4 ENCC, *Egypt's 6th National Competitiveness Report, June 2009*. Chapter 4. www.responsiblecompetitiveness.org

5 Data drawn from AccountAbility, *Arab Responsible Competitiveness Index*, 2009, www.responsiblecompetitiveness.org/site/publication_files/RC_Arab_World2009.pdf

INTRODUCTION

1

Jordan’s Responsible Competitiveness

1.1 RESPONSIBLE COMPETITIVENESS: A PATHWAY TO ENHANCE PROSPERITY AND PRODUCTIVITY

> *“Responsible Competitiveness is an essential ingredient for effective global markets. It blends forward-looking corporate strategies, innovative public policies, and a vibrant, engaged civil society.”*
> **Pascal Lamy**, Director General, World Trade Organisation[1]

Responsible Competitiveness is about making sustainable development count in global and local markets. It means markets that incentivise business practices that deliver improved social, environmental and economic outcomes. Responsible approaches to doing business are increasingly recognised as routes to increased value creation, reputation enhancement, productivity enhancement, and risk management. Furthermore, if done right, these new ways of doing business hold the key to unlocking both product and process innovation and can reinforce strategies to capture rapidly growing markets for sustainable products and services.

Responsible Competitiveness holds tremendous opportunities for Jordan as the nation sets bold growth and development agendas. *Responsible Competitiveness in Jordan* has been compiled by AccountAbility and Sustainability Excellence in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and Jordan’s Ministry of Planning and International Cooperation (MOPIC). The aim of the initiative is to support the integration of environmental and social concerns into the trade and economic policies of the Jordan government, in a manner that enhances competitiveness. The sector approach presented in this report develops strategies for three important sectors to Jordan’s economy: banking, insurance and meat processing.

The purpose of this chapter is to provide an overview of the competitiveness challenges in Jordan, and to begin drawing the linkages between traditional challenges and responsible competitiveness opportunities. This will include benchmarking Jordan’s performance against average OECD performance, demonstrating both the progress Jordan has already made towards implementing responsible competitiveness, and illustrating steps to improve performance in areas such as talent management or product and service innovation, which could result in an uplift for the entire economy. The national context is also crucial for understanding sector performance. This therefore provides a lead into the following three chapters which look at responsible competitiveness progress and opportunities for each of the banking, insurance, and meat processing sectors.

The responsible competitiveness approach is compatible with conventional competitiveness strategies. The *Responsible Competitiveness Index (RCI)* correlates positively with the World Economic Forum's Global Competitiveness Index and other key measures of national performance. For most countries at all stages of development, uptake of responsible and sustainable business policies is associated with an increase in national competitiveness. Each unit of progress towards responsible competitiveness is associated with the enhancement of innovative capacity and worker motivation; improvements in environmental performance and efficiency savings; and a potential uplift of around US$1,000 GDP per capita.[2]

Since 2003, AccountAbility has produced the RCI, ranking countries' performance against 21 responsible competitiveness indicators drawn from authoritative sources including the WEF Global Competitiveness Report, ILO and Transparency International, spanning across 1) policy drivers, 2) action taken by businesses, and 3) social enablers. The main finding from this research is that responsible competitiveness is directly and positively correlated with growth potential. The 2007 Responsible Competitiveness Index rated 117 countries. Jordan ranked 50th in this report, an improvement on previous years.[3]

The first regional investigation into responsible competitiveness was launched at the World Economic Forum in the Middle East at the Dead Sea in Jordan in May 2009. Under the patronage of Queen Rania Al Abdullah and the Arab Sustainability Leadership Group, the *Arab Responsible Competitiveness Index* (ARCI) compares the performance of Arab countries across 30 indicators relevant to Arab countries, arranged into a framework with seven equally-weighted drivers of responsible competitiveness. Jordan was ranked 7th using this ARCI methodology, out of 15 MENA states. The country performs somewhat ahead of Egypt and Tunisia, but behind many of the Gulf States.

The *Arab Responsible Competitiveness Index* identified several challenges and opportunities for the region, particularly in the areas of building good governance, innovation, the development of talent, and education and labour policies. Furthermore, the gender gap remains high, and SME's often struggle to access finance.

Although they may not be referred to as "responsible competitiveness", responsible competitiveness issues are consistently front page news in Jordan. In recent months, the case of Capital Bank and the consumer-led campaign to reduce meat prices at the beginning of Ramadan are both practical examples of how responsibility impacts both competitiveness and Jordanian society. Responsible Competitiveness is a real and present area of focus and opportunity for Jordan.

1.2 COMPETITIVENESS CHALLENGES IN JORDAN AND THE ECONOMIC DOWNTURN

> *"The Middle East has long experience with issues that other regions are only beginning to worry about, from water scarcity to sustainable energy. Our companies should be at the top of these emerging industries, as the leading source of creative solutions. In all these areas, government can do much to remove constraints to growth, invest in a competitive workforce, and encourage new enterprise."*
> **His Majesty King Abdullah II Ibn Al Hussein**[4]

In 2005, Jordan released its National Agenda to run for the next 10 years. Led by a Royal Committee headed by the Deputy Prime Minister, the Agenda is the most important document shaping Jordan's future economic development. It was the first such plan in the region which seeks to measure implementation and assess impact.

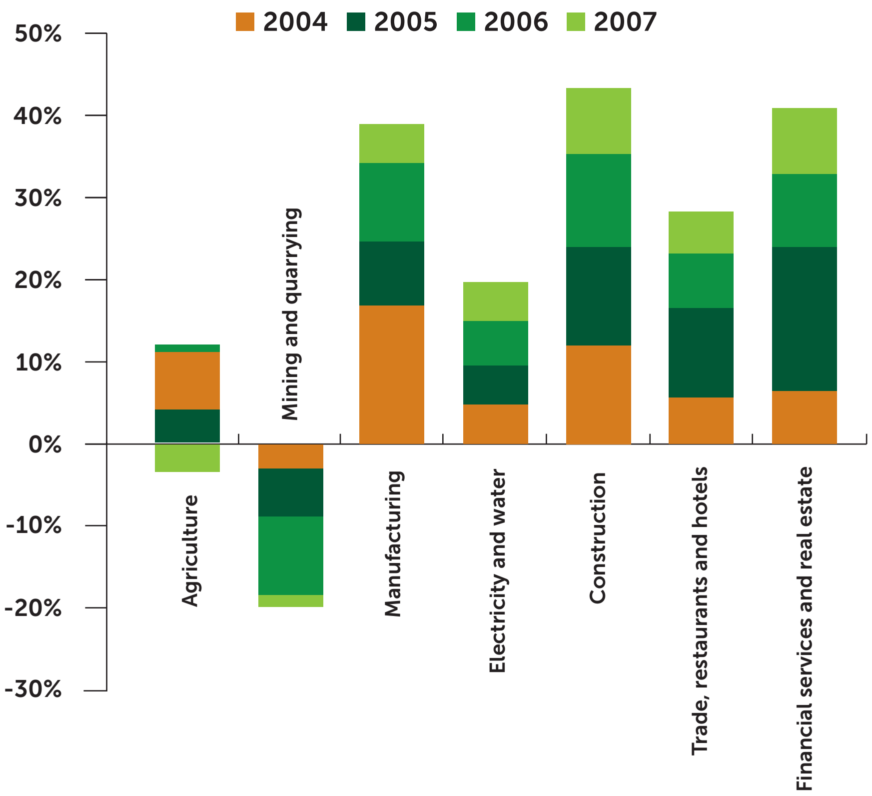
One key aim is to double income per capita by 2015. The Agenda also seeks to create income-generating opportunities, improvements to living standards, and the guarantee of social welfare.[5] The Jordan National Competitiveness Observatory (JNCO), established in 2006 under the auspices of the Ministry of Planning and International Cooperation, is one step towards progressing the plans of the National Agenda and measuring performance. Since its inception, the JNCO has consistently raised the issue of making Jordan's ambitions a reality, especially with regards to breaking down barriers to business investment and operations. Overcoming the human resource challenge, and tackling issues such as unemployment, brain drain and gender, are also highlighted as essential to Jordan's future prosperity. Jordan's first National Competitiveness Report was published by the JNCO in 2007.[6]

Large-scale economic reform and political liberalisation following King Abdullah's accession to the throne in 1999 has helped the Jordanian economy go from strength to strength in the last decade. With a population of 6 million people, annual Gross Domestic Product (GDP) growth rates have been consistently over 5% in that period and looks to fare well in 2009 despite the global economic downturn. Gross National Income (GNI) per capita is high compared to other emerging economies in the sub region, at over $2,000.[7] Jordan's main export destinations are US, Iraq, India, Saudi Arabia, and the EU. Foreign Direct Investment (FDI) remains important and in 2005 represented 53% of GDP.[8]

Yet the state of the country's competitive performance is complex. Jordan ranks 50th out of 133 countries in the World Economic Forum Global Competitiveness Report 2009-10, behind Saudi Arabia (28), Bahrain (38) and Kuwait (39), but above Turkey (61) and Egypt (70).[9] This result marks a plateauing of progress after several years of steady improvement. The concern is that it may suggest that Jordan is lagging behind its growth potential, particularly considering the significant progress posted by Egypt and Turkey towards Jordan's position in the top 50 economies.[10]

Amongst indicators, Jordan scores less well in the area of access to finance, particularly the availability of venture capital. This can be linked to poor scores for investment in research and development, human capital and training, and as a result Jordan does not score well for innovation. 98% of enterprises have fewer than 20 employees, and it is these businesses which face the biggest constraints of scale.[11] The gender gap also remains high at 93 out of 115 economies.[12]

FIGURE 1. GROWTH RATES OF ECONOMIC SECTORS IN JORDAN AT CONSTANT PRICES, 2004-2007[13]



Source: Central Bank of Jordan, Annual Report 2007

From a sector perspective, a review of 2007 sector performance as illustrated in Figure 1 tells two stories, of growth and of decline. Construction and finance are important to the economy although both are now witnessing a small decline due to the 2008/09 global economic downturn. Mining is in serious decline while manufacturing is also slowing.

In 2008, the global economic system went into decline. Catalysed by the sub-prime lending crisis in the US, first European then other economies started suffering from lack of credit. At the time of writing, the economic downturn is rippling across the world and many if not most sectors are negatively impacted. The impact of the downturn globally is immense: the ILO predicts that unemployment will rise by 51 million in 2009 alone, and that there will be 200 million more working poor. Governments around the world have reduced ability to spend so public services and social security nets are at risk which could have severe developmental consequences, and lead to social unrest and conflict.

The Middle East and North African states are not immune to the global crisis, despite receiving just 1.7% of GDP from international capital markets, the lowest amount for a region in the world (World Development Indicators). Unemployment in the Middle East averaged at 9.4% by the end of 2008. Regional growth rates are predicted to slow to an average of 1.6% in 2009 according to the World Bank, compared to 5.6% in 2008. Foreign direct investment to the region is declining, export markets decreasing and consumer spending also slowing. In Jordan, inflation in 2008 reached 14.9% due to rises in energy and food prices throughout the year. Remittances, which form approximately one fifth of Jordan's GDP, are expected to decline. Consumers and businesses, therefore, are feeling the crunch.

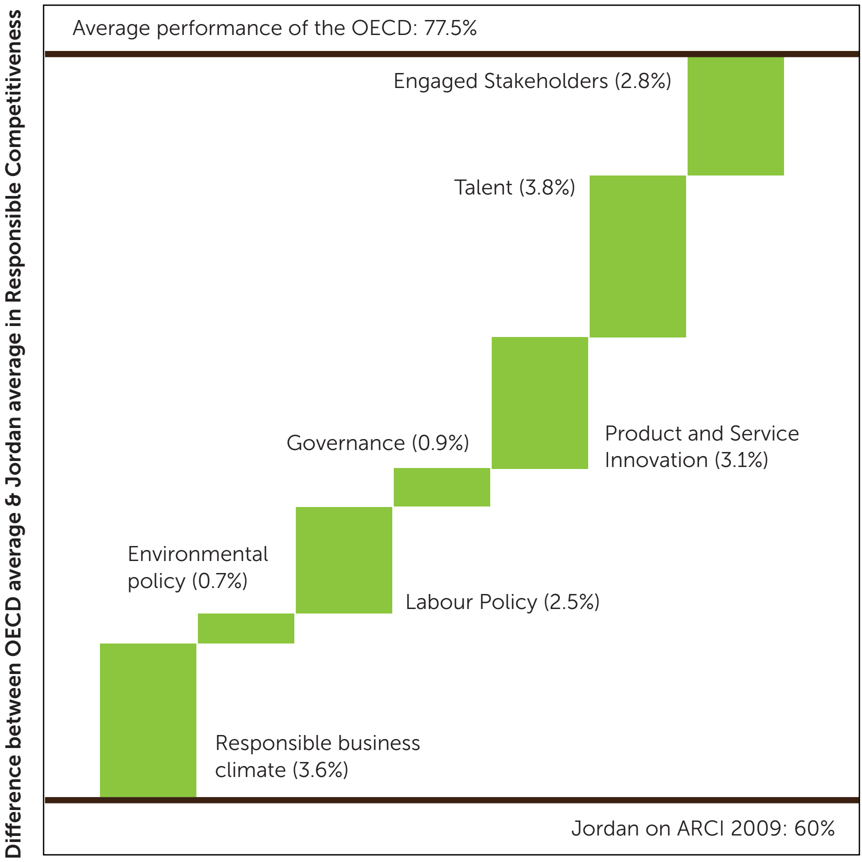
There are several implications for Jordan. Given that unemployment has remained consistently over 12% for the last decade, the Global Competitiveness Report identifies keeping people in jobs where possible, and creating more employment opportunities through large scale infrastructure projects as priorities. Support to business innovation initiatives leading to the creation of new industries is also important. It is an opportune time, for example, for Jordan to offer incentives for investment in renewable energy technologies to create long term economic value, minimise carbon emissions and create employment in the short term. Stimulus packages to offset weakened foreign demand for exports will also help to keep the economy stable. Social services and social protection schemes will face greater demand, and there is a role for both the public and the private sectors in this regard.

This then is the economic climate in which Jordanian companies must operate, including the three sectors covered later in this report: banking, insurance, and food manufacturers. How can the responsible competitiveness approach help?

1.3 JORDAN'S NATIONAL PATHWAY TO RESPONSIBLE COMPETITIVENESS

Given the potential impact on GDP per capita and other benefits associated with improved responsible competitiveness scoring, there is a tremendous case for analysing the gaps and opportunities for improving Jordan's Responsible Competitiveness performance. By comparing Jordan's performance to the average performance of OECD countries[14] we can begin to map out a pathway for the country to approach higher performance.

FIGURE 2. JORDAN'S RESPONSIBLE COMPETITIVENESS PATHWAY TO AVERAGE OECD PERFORMANCE[15]



Source: Arab Responsible Competitiveness Index 2009, AccountAbility

Figure 2 is indicative of the potential Jordan has to improve its performance across seven areas of responsible competitiveness, taking the average current performance of OECD countries as a benchmark target. The average OECD scores in the 2007 Responsible Competitiveness Index was 77.5, against Jordan's score of 60. That gap of 17.5 points can be closed by improvements in the areas described in Figure 2 and below. The larger the box, the greater the opportunity for increasing responsible competitiveness.

The following issue areas are ordered from most to least important:

Talent management

> "Among the most important characteristics of the march of progress in our homeland are the qualities of its labour force: excellence in and enthusiasm for work, recognition of the importance of loyalty in giving and contributing to Jordan's advancement."
> **His Majesty King Abdullah II Ibn Al Hussein**[16]

Jordan's greatest opportunity to reach the average OECD standard of responsible competitiveness is in the area of talent management, with potential for a 3.8% increase in performance. Jordan is 26.8 points behind the OECD average in this category. Talent management relates both to the quality of education as well as the role businesses play in recruiting, developing and retaining people. Many companies face problems retaining staff and Jordan also suffers "brain drain" as high quality graduates leave the country annually in search of higher wages and better career opportunities. It is estimated that between 600,000 and 670,000 Jordanians work abroad.[17] At the same time, unemployment rates remain high with the unemployment rate for youth pulling up the national average. An enormous youth cohort will continue to put upward pressure on this indicator. Regarding gender equality, rates of female economic activity are low at just 27.5% and women earn on average just a quarter of their male counterparts.

Responsible business climate

At 25.3 points behind the OECD average, the second largest potential for Jordan's improvement in responsible competitiveness is with regards to a responsible business climate. This refers to the broader policy environment, and regulation and enforcement of laws for ethical business practice. Jordan's main challenges come in the area of promoting transparency through increased disclosure, ensuring compliance with regulations, and reducing perceived or real corruption. The perception of corruption is quite high, and worsening as Jordan dropped 14 places between 2006 and 2007 on this indicator. A 2006 poll by the University of Jordan's Centre for Strategic Studies suggested that corruption was rising, and that efforts made by government in this area were not well known or publicised.[18] The recently launched Jordan Transparency Society (JTS), aiming to encourage public agencies and private citizens to do their part to combat corruption, is an example of an initiative that should help close this gap with the OECD average.

Product and service innovation

> *"There is huge potential for innovation in the Middle East, and cooperation within the region can move us in right direction"*
> **Karim Kawar**, Kawar Group[19]

To reach OECD average performance in responsible competitiveness, Jordan can improve by 3.1%, or an equivalent of almost 22 points, in the category of product and service innovation. Jordan ranks 59th in *The Economist's* Global Innovation Index; scores for the innovation environment (political and market factors) are relatively high but direct inputs such as levels of investment in research and development, and the quality of education, are insufficient to create innovation growth at a rate of more than 3.3%.[20] Innovation is also hampered by a lack of venture capital.

Engaged stakeholders

> *"To us at Aramex customers and communities are inseparable, this has been our perspective and approach from the early days of the company. In the past 25 years, we have been committed to taking the initiative and acting responsibly towards our shareholders, customers, people, the community and the environment".*
> **Fadi Ghandour**, Founder and CEO of Aramex[21]

Across the MENA region, customers are becoming more demanding, while consumers groups are slowly strengthening. In Jordan, the 1989 Charter on Civil Liberties (Mithaq) helped to create a favourable environment for civil society organisations and the country now has the second highest number of NGOs per 1,000 people in the region.[22] The Consumer Protection Society in Jordan played a central role in the recent national issue revolving around meat prices. The Jordan Media Strengthening Program (JMSP), which aims to build professionalism and organisational capacity, could have a catalyst effect on mobilising the public to participate in business and politics. The promotion of civil liberties would also incentivise people to participate in the decisions that affect them. In all, there is significant potential of 2.8% to grow towards OECD practice.

Labour policy

Jordan is signatory to most major labour treaties. Improvement would come in the form of increased support to employers in adhering to core labour standards, and progressive steps towards further raising the bar on the minimum wage. There are also relatively low levels of investment in staff training and a low uptake of quality and environmental management systems (ISO 9000 and 14001), which arguably reflects both a lack of demand and lack of certification providers in the country. Like other MENA countries, Jordan can further strengthen the capabilities of its labour inspectorate. The aforementioned growing and young population, with levels of unemployment reaching 13.1% in 2009,[23] place particular demand on policy makers to create employment opportunities whilst also ensuring minimum standards are adhered to in the face of a large labour pool.[24] Taking these labour policy issues forward would offer a 2.5% improvement towards OECD levels.

Governance

> *[The country is committed to] "providing a secure, transparent trading environment where Jordanian businesses can raise vital capital and shareholders can invest with greater confidence."*
> **H.E. Bassam Saket**, Jordan Securities Commission[25]

Jordan scores relatively well in the area of governance, although the global economic downturn and climate negotiations in the run up to Copenhagen Conference in December 2009 both reveal how poorly social and environmental concerns are captured in governance systems even at the international level. In this regard, even OECD performance should not necessarily be Jordan's aspiration. Further, while Jordan has good standards for corporate governance, there are implementation and regulatory challenges which need to be addressed. The need to improve corporate governance and the ethical behaviour of firms is a frequent topic of media attention and has been prioritised by several Jordanian institutions including the Centre for International Private Enterprise (CIPE), the Al-Urdun Al-Jadid Research Centre (UJRC) and the Jordan Association of Auditors. Since 1997, the Jordan Securities Commission (JSC) and other organisations such as the Amman Stock Exchange have lobbied to create awareness of the need for private sector disclosure on issues in relation to the environment, society and corporate governance. The JSC now publishes disclosure violations as a deterrent to poor practice and in an effort to raise public awareness.[26] These and other steps will help close the 0.9% gap on OECD performance.

Environmental policy

> *"We will review the environment laws in cooperation with the European Union, as many loopholes were discovered in the laws after they came into force."*
> **H.E. Khalid Irani**, Jordanian Minister of the Environment[27]

Environmental policy is quite strong, with progressive reforms and clear objectives having been set by the Ministry of Environment in recent years. Jordan scores 74.1 points in this category against the OECD average of 78.9, which is well above the average points of Jordan's MENA neighbours. The National Energy Strategy outlines targets of US$2.4bn investment in renewable energy, so that 10% of Jordan's consumption can be met by wind and solar sources by 2010.[28] As one of the most water scarce countries in the world, increased regional cooperation and a comprehensive approach will be required to meet the country's water demands, and subsequent food security and health implications for future generations. Recent moves to remove inconsistencies in the existing suite of environmental laws will be a welcome additional measure helping to close the 0.7% gap on OECD performance.

1.4 SECTOR LEVEL INITIATIVES

> *"Today is not just about listening and learning; it's about more people signing on to sustainability to reach that critical mass."*
> **H.M. Queen Rania Al Abdullah**[29]

Applying responsible competitiveness drivers at the sector level allows stakeholders to identify the challenges most relevant to each sector. While some strategic and tactical issues are common across each of the sectors, such as the level of transparency and reporting on sustainability issues, or the stringency of regulatory enforcement, many other issues benefit from this sector-specific approach. For example, different laws and voluntary standards apply to each of the sectors. As much as possible the research team has engaged stakeholders and gathered data about sector specific considerations.

Applying the responsible competitiveness framework to the banking, insurance and meat processing sectors requires consideration of how public policy, business action and social enablers all contribute towards the seven elements that make responsible businesses. These sector level "drivers" of responsible competitiveness are an evolution of the national level framework described above. Business, government and civil society all contribute to performance in the categories listed below.

THE SEVEN DRIVERS OF RESPONSIBLE COMPETITIVENESS

A RESPONSIBLE BUSINESS CLIMATE

B SMART PHILANTHROPY

C ATTRACTING AND DEVELOPING TALENT

D BUSINESS STANDARDS AND COMPLIANCE

E RESPONSIBLE SUPPLY CHAINS

F PRODUCT AND SERVICE INNOVATION

G RESPONSIBLE COMMUNICATIONS

Responsible Business Climate considers how business, government and other stakeholders such as the media can contribute towards raising the bar in areas of basic business practice that link to a fair and responsible business climate. Issues include financial management, corporate governance, competition and transparency.

Smart Philanthropy is about how businesses can leverage their core competencies to manage the impact of charitable contributions to support the business's strategy, operations, brand and bottom line, while supporting the national development agenda.

Attracting and Developing Talent concerns how a thriving workforce can drive the economy, by considering the role of the education system, employee rights and benefits, training and career development and equal employment opportunities as promoted by business, government and society.

Business Standards and Compliance includes quality standards, corporate ethics, health and safety standards and environmental policies above and beyond mandatory, legislation, including the use of voluntary or "suggested" sector standards.

Responsible Supply Chains examines how companies are working to improve social and environmental issues both upstream and downstream along their supply chain.

Product and Service Innovation investigates how firms innovate to create new products and services that address important social and environmental challenges and opportunities, as well as the role of government and society in promoting innovation.

Responsible Communications analyses how well companies use effective, honest, and transparent communication internally and externally, and how other stakeholders impact or promote such communication.

In Chapters 2, 3 and 4 we investigate Jordan's performance and international best practice in each of the sectors, across these seven categories of responsible business. For more information on methodology please refer to the Annex.

Developing and implementing sector level interventions is not an entirely new experience for Jordan. Indeed, the development of initiatives and strategies to encourage responsible business practice and competitiveness is also already quite common. For example:

- Jordan Vision 2020 is a strategic document signed by leading companies and endorsed by His Majesty King Abdullah II Ibn Al Hussein, which promotes leadership, partnership, entrepreneurship and human resources.[30]

- The UN Global Compact, a framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption, was launched in Amman in October 2007. There are 28 signatories in Jordan including SMEs, national companies, research institutes and industry associations.[31]

- The Sustainable Development Networking Programme, established in 1997, is an initiative to promote coordination across ministries to deliver the sustainable development objectives of the National Agenda.

- The National Forum for Social Responsibility was launched in March 2009 by the Al Urdun Al Jadid Research Centre (UJRC), an umbrella entity aiming to coordinate CSR in Jordan. The forum has over 50 members and is in the process of defining objectives and targets. It will produce an annual report on the state of CSR in Jordan.[32]

- The Better Work initiative is a partnership between the ILO and the International Finance Corporation (IFC), which seeks to develop local solutions to improve labour standards and compliance in the export garment sectors in Jordan, Cambodia and Lesotho.[33] The Jordan programme aims to support the rapidly growing sector by assessing companies for compliance with international and national labour standards, providing training and remediation assistance, and promoting collaboration between government, employers, buyers and unions.[34]

- USAID's Jordan Economic Development Programme (SABEQ) not only seeks to build competitiveness but also to promote productivity through institutional transformation, workforce development, gender integration and creating public/private dialogue.[35] SABEQ supports several initiatives relating to responsible competitiveness.

- EDAMA, which is an Arabic word that means 'sustainability', is a private sector led initiative working to develop innovative solutions for energy and water independence. The initiative brings together Jordanian and international experts from the private and public sectors. This initiative to increase energy, water and environment productivity is expected to improve Jordan's economic performance, creating new growth opportunities and investments.[36]

- Jordan's newly established Development Zones Commission is given the mandate of attracting FDI to their designated special development zones and to create jobs for Jordanians living in these zones. In addition to these key indicators, further social and environmental factors are factors for success, i.e. environmental assessments and community development incorporated into project planning.[37]

Therefore there is much to build on as Jordan moves towards building a business climate in which growth and responsibility can go hand-in-hand. How can all stakeholders ensure that Jordan's potential is made a reality?

Interventions to improve productivity, innovation and responsibility simultaneously are not easy. Organisations from large multilateral and bilateral donors such as the World Bank Group's International Finance Corporation and International Labour Organisation, to small industry associations and NGOs working at the micro level have tried, with varying degrees of success.

In reviewing hundreds of efforts at sector transformation, three parameters emerge as key:

- ***Longevity*** of initiatives is a direct result of demand. Without energised, committed and connected people, initiatives will not take root. Jordan's EDAMA programme, a private sector partnership working to develop energy and water solutions, is an example of a demand driven initiative which will likely continue its momentum and impact because of the personal commitment of members. The initiative is further self sustaining through the potential financial benefits that participating companies will yield. Sector upgrading takes years or decades, yet many projects are funded by donors that do not have the remit to support them for more than a year or two;[38]

- *Collaboration* is at the heart of all sector initiatives. The phenomenal transformation of the Rwandan Tourism sector requires ongoing support from President Paul Kagame, the World Bank, tour operators and travel companies, the National Tourism Authority, and marketing institutions in Africa and elsewhere to collectively develop and promote the new national "brand".[39] On the other hand, some projects assemble the maximum diversity of stakeholders for the sake of it and never get off the ground; and

- *Appropriate governance mechanisms* are crucial to ensure that there is senior level support across all engaged organisations, but also the ability to deliver programmes at the technical level. The Multi-Fibre Arrangement (MFA) Forum, a cross-sector partnership to promote responsible competitiveness in the textile sector, has adopted a model with an Executive Committee with a clear terms of reference, in-country working groups with very specific, short term objectives, and a central Secretariat to ensure delivery against the Forum's wider aims. Many projects fail to adapt their governance processes as they mature.[40]

With these three lessons in mind, this responsible competitiveness initiative aims to build upon the various activities already underway in Jordan. By creating recommendations around key business and government priorities, as well as identifying opportunities for intervention by civil society, the project aims to help provide long-lasting solutions to the challenges facing Jordan while creating opportunities for growth.

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BANKING

2

Responsible Competitiveness in the Banking Sector

> *"Banks are a key player to work with for driving towards a green economy".*
> **H.E. Khalid Irani,** Jordanian Minister of Environment [1]

2.1 INTRODUCTION

The banking sector is an important driver of the national economy and investment into Jordan, as well as a gauge of economic success. The banking sector contributed 4.5% of GDP in 2007, and the sector is growing with assets doubling between 2000 and 2008.[2] The sector is regulated by the Central Bank of Jordan (CBJ), and comprises 23 licensed banks, of which 13 are commercial, 2 Islamic and 8 foreign – the majority from other Arab countries. There are also 6 microfinance institutions which cater for the low income segment of the market. Three players dominate the sector accounting for a market share of approximately 70% (Arab Bank PLC, the Housing Bank for Trade & Finance and Jordan Islamic Bank). The CBJ aims to further consolidate the sector by raising the minimum capital requirement from JD 40m to JD 100m by 2010, with a view to forcing smaller banks to merge.[3]

Jordan's banks provide comprehensive banking services through a network of about 600 branches throughout the kingdom, including: retail, corporate, Islamic, e-banking, lending to SMEs and "bancassurance" (the selling of banking and insurance products through the same channel, which in this case is seen in practice as banks selling insurance products). Some are internationalising with 137 branches of Jordanian banks outside the country.

Through governance and management systems, operational performance, lending practices, product and service innovation, engagement and dialogue with stakeholders, and other key levers, banks can generate tremendous competitive gains through the adoption of responsible, sustainability-oriented business practices, while also influencing the broader national economy in the direction of sustainable development. Table 2.1 summarises the key responsible competitiveness issues that are discussed in this chapter.

TABLE 2.1 KEY RESPONSIBLE COMPETITIVENESS ISSUES FOR THE BANKING SECTOR

RC Driver	Key Issues
A. Responsible Business Climate	• Regulation • Corporate governance • Corruption • Money laundering • Promoting social and environmental objectives
B. Smart Philanthropy	• Using core banking competencies
C. Attracting and Developing Talent	• Attracting and developing talent • Training and merit-based advancement • Promoting a gender balanced workforce
D. Business Standards and Compliance	• Moving beyond statutory compliance on governance, anti-money laundering, and factoring environmental (including carbon) and social risks into lending decision-making
E. Responsible Supply Chains	• Incorporating environmental and social criteria into procurement policies
F. Innovation in products and services	• Innovation in Islamic Finance • Innovation for underserved markets • Service innovations for the environment, including screened investment funds
G. Responsible Communications	• Transparency, disclosure, communication and engagement

The global financial crisis, brought on by irresponsible practices largely in the financial sector, has re-enforced the need for the banking sector globally to systematically review and manage its most basic responsibilities, alongside the expectations of expanding those management systems to incorporate a full range of economic, environmental, and social risks and opportunities affecting banks, their economies, and their societies. The aftermath of the global financial crisis also means increased scrutiny, higher potential costs and penalties, and increased demands for transparency and disclosure.

What are the implications and opportunities of Responsible Competitiveness to Jordan's banking sector? This chapter outlines the responsible competitiveness performance of Jordan's banking sector, drawn from qualitative research and benchmarked against some of the best performing banks from three OECD countries.

2.1.1 Methodology

The methodology used for this banking sector research is outlined in detail in the Annex. In summary, the data and benchmarking reflect a comparison of six Jordanian banks against eighteen OECD banks from three OECD countries (six banks per country). The Jordanian banks were selected according to the 2007 Annual Report of the Association of Banks in Jordan. The OECD countries were selected based on the number of instances of leadership in sustainability practices in their banking sector. This does not mean they are definitively the top countries in sustainability for the banking sector, but rather are strong countries in this regard. The OECD countries selected for this sector were Canada, Australia and UK, and the selection of the six banks within each country was primarily based on the Forbes Global 2000 list.

2.2 OVERALL ASSESSMENT OF RESPONSIBLE COMPETITIVENESS PERFORMANCE

This section summarises:

- Quantitative progress of the sector as benchmarked against selected international banks in the OECD; and

- Qualitative progress drawn from the self-analysis of stakeholders within the sector, and drawn from other surveys and research.

Overall, Jordan's banking sector scores reasonably well with regard to fostering a responsible business climate and bringing into effect regulations that meet international standards in the sector. However, the sector's potential to influence the national economy, and in particular to positively impact national social, economic and environmental challenges appears underappreciated and is underdeveloped. The main gaps between Jordanian banks and OECD banks are linked to this expanding remit for the sector.

Table 2.2 summarises the performance of the six largest banks in the Jordan banking sector benchmarked against the six largest banks of three OECD countries with leading banking sectors. For the purposes of this chapter, these are meant to be representative samples of both the Jordan banking sector and the OECD banking sector. Given that this is a comparison against leading international banks, we would expect many gaps to be significant, but nonetheless insightful in terms of providing inspiration and guidance for competitive opportunities for the sector.

TABLE 2.2 BENCHMARKING OF JORDAN BANKING SECTOR VERSUS LEADING OECD BANKING SECTORS – SAMPLE GAPS AND OPPORTUNITIES FOR RESPONSIBLE COMPETITIVENESS

Drivers of Responsible Competiveness	Jordan	OECD
Attracting and Developing Talent		
% of women on board of directors	2%	17%
% of women of total workforce	31%	57%
# of banks that train employees on sustainability issues	Minimal	78%
Business Standards and Compliance		
% of banks signed up to Equator Principles	0%	72%
Responsible Supply Chains		
% of banks with responsible procurement policies	None Identified	>50%
Responsible Communications		
% of banks producing sustainability/CSR reports	0%	89%
% of banks disclosing carbon emissions	0%	83%
% of banks disclosing water usage	0%	50%

Source: AccountAbility/Sustainability Excellence analysis

*Note: Not all Responsible Competitiveness drivers are conducive to quantitative measurement in an emerging market context, and as such are not all included in this table. Similarly, these are not necessarily the only or most important indicators for each driver, but rather are indicators that are more easily subject to quantitative analysis.

This data both understates some of Jordan's significant progress, while also highlighting real gaps and setting out a challenge for moving forward.

A. **Responsible Business Climate**: The Central Bank of Jordan has made good progress in updating Jordanian banking sector regulation to match that of widely practiced international standards. From that success comes the challenge of enforcement. While there are still gaps in this effort, recent actions taken by the CBJ have sent clear signals on the CBJ's intentions to work diligently in ensuring compliance. With few exceptions, Jordanian banks have not looked beyond the existing international standards to take note of the voluntary steps that the majority of leadership banks are taking and the anticipated performance and reputation gains they are expecting.

B. **Smart Philanthropy**: Most of the banks assessed in the OECD countries incorporate core competencies of the bank into their philanthropic strategies – such as focusing on microfinance initiatives, or financial literacy, or support to small and medium-sized enterprises. This helps to maximise the overall impact of their community activities. Only a small number of Jordanian banks have thus far taken this type of strategic, or "smart" philanthropic approach, despite a particularly strong need for these types of initiatives in Jordan.

C. **Attracting and Developing Talent**: Banks in Jordan have placed a strong emphasis on training and talent development. This research found that banks find it easy to recruit high quality graduates, but they have difficulty retaining staff who are often lured to more lucrative jobs overseas. Merit-based advancement is a critical issue that is still under development, and gender imbalances are strong both at Board and white collar level, although overall gender imbalance in the workplace is improving.

D. **Business Standards and Compliance**: While Jordanian banks are now making progress in achieving compliance with legislation aligned to international baseline standards, few have considered looking beyond these standards. Integrating environmental and social criteria into lending risk analysis and decision-making is perhaps the most notable gap. Jordanian banks are lagging behind the international practice of signing to the Equator Principles, the most widely adopted international framework for banks to manage environmental and social issues in project financing.

E. Responsible Supply Chains: OECD banks are increasingly extending their internal environmental and social performance practices to include their supply chains. They modify their procurement policies and practices to improve the environmental and social impacts of the products and services they require, as well as evaluate the performance of the suppliers who produce it. No Jordanian banks indicated such policies.

F. Product and Service Innovation: Islamic banking has grown in Jordan, and both the products and their growth can be imperfectly compared to the advent and growth of sustainability-related services in OECD countries (in particular, Shariah-compliant investment funds have similar approaches to screening out unacceptable industries as do OECD ethical investment funds). Jordan also ranks as the second highest country in the Arab world for per capita microfinance penetration. Nonetheless, there is enormous scope for expanding the scale of microfinance and for product and service innovation that serves lower income and marginalised populations. Also, sustainability oriented products and services, which have gained significant popularity among OECD banks, have yet to emerge in Jordan.

G. Responsible Communications: The predominance of state and family-owned banks in Jordan is perhaps one reason for weak disclosure relative to the banks of OECD countries which are largely accountable to shareholders and face other stakeholder pressure. Jordan ranks 53rd out of 179 countries in Transparency International's Corruption Perceptions Index for 2007. Interviewees identified that a lack of transparency is a key issue. No Jordanian banks currently produce a CSR/sustainability report, compared to the vast majority of OECD banks, and despite the fact that organisations in Jordan are beginning to demonstrate the value of sustainability reporting.

2.3 DRIVERS OF RESPONSIBLE COMPETITIVENESS

This section investigates each driver of responsible competitiveness in detail, highlighting relevant issues for Jordan's banking sector, outlining the competitive impacts of these issues, and analysing performance. Data is drawn from interviews, surveys and international reports relating to OECD banking performance.

A RESPONSIBLE BUSINESS CLIMATE

2.3.1 Responsible Business Climate

> *"[We take our] reputation very seriously and we have a zero tolerance policy on non-compliance and fines related to anti-money laundering principles."*
> Interview with a bank, June 2009

2.3.1.1 Key Issues

The creation and promotion of a Responsible Business Climate refers to largely public policies and widely applied business action that support the overall shift of an economy towards increasingly responsible, and simultaneously more competitive, business practices. This culminates at the corporate governance level, which acts as an umbrella and framework for all business activity. Key aspects of fostering a responsible business climate for the banking sector include: adherence to regulation; advanced corporate governance; anti-corruption measures; anti-money laundering and counter-terrorism financing measures; and the influence of banks on the economic, environmental and social performance of almost all other companies in the economy.

2.3.1.2 Impact on Competitiveness

As the financial crisis has shown globally in the banking sector, insufficiently applied corporate governance (even if guidelines or regulations are strong), and insufficient levels of transparency can not only have severe competitive consequences but in fact can lead to banking failure. In addition to failure, public and client confidence and trust in the banking sector directly affects the volume of banking and type of banking (e.g. lending versus saving) which affects profit and reputation. At the Ethics and the World of Finance conference in India, the Reserve Bank of India Governor D Subbarao observed, "what the crisis has done is to cause a massive breakdown of trust: trust in the financial system, in bankers, in business, business leaders, investment advisers, credit rating agencies, politicians, media and in globalisation."[4]

Worldwide, sentiments of cynicism and reservations about the ethical foundation and moral hazard of the banking system further expose how deeply seated the distrust of financial systems runs. It also indicates the massive trust-rebuilding effort needed to earn back consumer confidence. In 2009 a bank in Jordan was found to have committed administrative violations and suffered internal governance breakdown. The bank was taken under the control of the Central Bank of Jordan, the Board dissolved, market trading suspended, and a new Board was assigned by the CBJ.

Good corporate governance also extends to requiring the same of corporate banking clients, in Jordan this often includes family businesses, for which good governance helps decrease risks relating to generational transitions which can often result in destruction of corporate value as parties compete. The prevalence of good governance among corporate clients is also a strong indicator of management excellence, and therefore an important risk assessment factor.

In the context of these issues, consideration of other environmental and social risks may seem a luxury or burden rather than a competitive advantage. However, environmental as well as social issues increasingly impact bank competitiveness in a material way. For example, environmental legislation is increasing, governments are working to more accurately price the cost of water and energy consumption and carbon emissions, and public awareness is increasing. These trends can financially affect Jordanian companies, which can in turn affect banks who lend to them. On the other hand, Jordanian companies that systematically manage environmental and social risks can outperform competitors, and banks who lend to them will have better performing loan portfolios. Given this correlation, it should also be expected that the Jordanian government will increasingly request that Jordan's banks adjust their policies and services to promote the widespread adoption of sustainability management (managing economic, environmental and social performance) by Jordanian companies.

2.3.1.3 Performance and Good Practices

Regulation and corporate governance

In the last decade the Central Bank of Jordan (CBJ), Jordan's monetary authority and bank supervisor, has brought regulation and supervision in line with international standards. One key initiative has focused on publishing guidelines for enhancing bank governance and risk management systems to support prudent lending and information disclosure. The CBJ released the *Bank Director's Handbook of Corporate Governance* in 2004, setting Jordan as one of only two MENA countries, in addition to Bahrain, that have introduced such specific governance codes for banks. Given the preponderance of SMEs, family-owned and non-listed companies, where governance practices are typically less well-developed and under far less scrutiny, raising awareness of the benefits and application of good governance practices by the private sector is an imperative for economic development, particularly as Jordan becomes more interconnected with the global banking sector. As is often the case in emerging markets, much of the challenge is not as much in regulations as in compliance and enforcement. In addition to the publishing of these guidelines, the CBJ has increased on-site and off-site inspections.[5] Such efforts help to address some underlying uncertainty as to the extent of compliance in the sector, and the consequences of non-compliance. The swift actions taken by the CBJ in mid 2009 to take over management and dissolve the Board of a financially strong bank due to CBJ governance concerns has helped signal both stronger enforcement and material consequences, and should be a catalyst for further bank emphasis on compliance.

International Best Practice : Responsible Business Climate
Australia and New Zealand Banking Group Limited (ANZ)

In order to create a more responsible and sustainable business ANZ established a Corporate Responsibility (CR) Council, a strategic leadership body with a Management Board mandate to oversee and advise on achieving the Group's corporate responsibility agenda and priorities.

The Council, with its responsibilities formalised in a Charter, is made up of Group Executives with accountability for the businesses and issues most relevant to ANZ's corporate responsibility strategy and is chaired by the Chief Financial Officer. ANZ also has several Board level committees to identify and manage risk from Board to Business level.[6]

The bank is one of just four banks in the world to receive an overall 10/10 global corporate governance rating from Governance Metrics International (GMI) from a study of over 4,000 banks. GMI has observed companies such as ANZ that "emphasise corporate governance and transparency will, over time, generate superior returns and economic performance and lower their cost of capital."[7]

On the whole, banking sector legislation in Jordan is focused on keeping up with widely practiced international standards, and in this regard the legislation is good. From a responsible competitiveness perspective, the most interesting emerging opportunities relate to the efforts by global banking sector leaders in extending the spirit of many of these standards far beyond their legislative limits in the interest of creating business value. These innovations are further explored in the section covering the Business Standards and Compliance driver.

National Best Practice: Responsible Business Climate
Housing Bank for Trade & Finance (HBTF)

"The corporate governance and compliance function is concerned with the design of mechanisms necessary to ensure compliance with all laws and regulations governing the activities of the bank in Jordan and abroard where the bank has branches and subsidiaries, equitable treatment of shareholders and their rights, and finally, transparency and disclosure."[8]

The Housing Bank for Trade & Finance adheres to international best practice with regards to corporate governance. In addition to national requirements such as the Central Bank of Jordan regulations, the banks and companies' law and instructions of the Securities Commission, the HBTF follows principles of the OECD and the Basel Committee on Banking Supervision. The OECD principles of corporate governance refer to all structures and processes to enhance governance, including the responsibilities of the Board, the role of the Chairman, Board practices and Board Committees. HBTF's commitment is laid out in a Corporate Governance Code.[9]

Anti-corruption

Jordan ranks 47 out of 180 in Transparency International's Corruptions Perception Index for 2008.[10] Increasing transparency is often inversely related to levels of corruption. Transparency can be promoted by disclosure on operations, management and performance. Many interviewees shared a concern around lack of transparency, including but not limited to family-run banks. The OECD-MENA Task Force on Corporate Governance identified several priority areas for all banks to improve governance and decrease corruption levels, recommending that banks create the necessary checks and balances in governance structures, and assess and monitor the governance structure of their corporate borrowers as an element of credit risk management systems.[11] Interviewees indicate these recommendations are slow in being implemented in Jordan, citing resource and capacity constraints.

Anti-money laundering and counter terrorism financing
In 2007 the CBJ enacted a comprehensive anti-money laundering law meeting the standards set by the Financial Action Task Force.[12] This built upon guidelines originally issued in 2001 on combating money laundering operations. The 2007 law applies to financial and non-financial institutions and requests banks to apply strict "Know Your Customer policies" to prevent banks from being used for criminal purposes, including drug and human trafficking, arms smuggling and avoiding customs levies. However, the adoption of the law requires strong implementation and enforcement to be effective and there is not yet indication that any prosecutions have resulted. This could be because risks have been effectively eliminated from the system, or because many banks are not able to carry the investigatory burden or the costs of enforcement.[13]

Promoting social and environmental objectives
Banks are increasingly expected to play an influential role in shaping the overall sustainability performance (economic, environmental and social) of a country's economy, and should anticipate growing pressure from government in this regard. In some OECD countries like Canada, the banking sector is legislated to undertake sustainability reporting, with each bank demonstrating its efforts to influence the sustainability direction of its stakeholders. Such disclosure does not force certain behaviour, but rather makes behaviour transparent. In the UK, similar legislation that requires pension funds to disclose their investment criteria relating to environmental and social issues (but without requiring any particular behaviour) has had the effect of creating competition amongst service providers and raising average performance.

In Jordan, the government may be anticipated to influence performance via the banking sector on several issues. One important and directly relevant national social objective is to ensure widespread access to banking services. The government's National Strategy for Microfinance is seeking to integrate the microfinance sector with the mainstream financial services industry. At the same time, additional government action could help prevent mainstream banks from competing solely for corporate and public sector customers, while under-serving other segments. Internationally, the United States has tried to address the latter challenge through the Community Reinvestment Act (1997), which requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only wealthy neighbourhoods. In France, the 1998 law on exclusion supports an individual's right to have a bank account.

With regard to environment, as the fourth most water scarce country per capita in the world, Jordanian banks may be encouraged to ask corporate clients to disclose their water consumption as it is a risk management issue. Similarly, as Jordan launches its carbon reduction and carbon credit strategy, banks may be encouraged to ask corporate clients to disclose their carbon emissions. Globally, the Carbon Disclosure Project of the banking sector has already made this a standard voluntary practice, covering tens of trillions of dollars of assets.

Regardless of pressure from government or other stakeholders, it is in the best interests of banks to integrate environmental and social lending risks into the lending formula, and this understanding of risk should extend all the way to the Board of Directors. This is increasingly standard global practice.

This research found little evidence of any notable efforts at this time by Jordan's banking sector to promote environmental objectives or manage related risks through lending and investment practices.

2.3.1.4 Recommendations

Banks should:

- Apply all corporate governance, Know Your Customer, Anti-Money Laundering and Counter-Terrorism Financing regulations and guidelines in full;
- Formally integrate environmental and social risks at the Board level, such as within the Risk Committee or a stand-alone Sustainability Committee; and
- Collectively adopt as a sector, and/or adopt independently as an overall risk reduction strategy, disclosure policies requesting that corporate clients voluntarily disclose carbon emissions and water consumption.

Government and Regulators should:

- Demand additional disclosure on governance systems and performance in annual reporting process;
- Strengthen enforcement of regulation; and
- Develop strategy for engaging the banking sector on social and environmental national priorities.

B SMART PHILANTHROPY

2.3.2 Smart Philanthropy

> *"NGOs are often not very innovative, requiring standard donations but not seeing the value in our expertise, in the form of our employees volunteering for them. We can learn from each other."*
> Interview with a bank, June 2009

2.3.2.1 Key Issues

Smart Philanthropy is about making philanthropy more strategic. It refers to the ways in which banks can promote social and environmental objectives through community investment activities which take advantage of a bank's core competencies and are aligned to core business interests.

In Jordan, examples of smart philanthropy in the banking sector include:

- *Microfinance.* Microfinance takes full advantage of a bank's core competencies, while serving the banks' business interests to expand into a new, profitable line of products and services;

- *Financial literacy campaigns.* Bank staff are particularly well-suited and competent to work with those in need of financial literacy, which is an important sustainable development factor. It can, for example, be extremely important for women who do not otherwise get this opportunity. While enhancing development through the bank's core competencies, it can also attract new clients and enhance relationships, reputation and loyalty of existing clients, and improve the financial prudence of customers; and

- *Financial management support for SMEs.* In the same way as financial literacy benefits individuals, financial management support is extremely valuable to SMEs that cannot otherwise gain affordable access to such skill-enhancing assistance. This can again attract new clients and enhance relationships, reputation and loyalty of existing clients, while also improving their performance.

2.3.2.2 Impact on Competitiveness

Traditional philanthropy typically aims to "give back" to society with some corresponding but usually negligible reputation and competitive benefits, and in the face of global recession, many banks are reducing their philanthropic commitments.

Smart philanthropy generates a much wider and material set of competitive benefits, including improved relationships, increased customer and employee loyalty, improved customer financial performance (particularly important during recessionary times), the potential creation of new lines of business and tapping into new markets, and the overall preservation and enhancement of reputation. As a result of these competitive benefits, smart philanthropy initiatives are less affected in this global downturn because they are more tied into core business strategy.

2.3.2.3 Performance and Good Practices

While many banks in Jordan operate philanthropic programmes and invest in their local communities, this research found that the number of "smart" philanthropy initiatives is far fewer than the OECD average. Philanthropy remains largely for the purposes of improving community relations and/or a sense of 'giving back'. In some cases, Jordan banks focus on specific themes or issues, which can increase developmental impact but barely begins to tap into the human development benefits and business benefits of alignment to core competencies and interests.

Standard Chartered, an international bank operating in Jordan has developed initiatives to access new markets, for example through supporting microfinance and SMEs. The Central Bank of Jordan has established 12 commercial development centres dedicated to supporting SMEs through financing deferred sales, purchase orders, and the purchase of fixed assets and machinery. A loan agreement with international donor USAID supports this initiative. Considering that 95% of all business in Jordan are SMEs, tapping into this market makes good business sense.

International Best Practice: Smart Philanthropy
Standard Chartered Bank

Standard Chartered supports a range of Microfinance Institutions (MFIs) in Africa, Asia, and the Middle East, enabling the bank to provide access to finance to those who are not served or are underserved by the mainstream financial sector. Microfinance Institutions that the bank supports are able to access finance and banking products, as well as technical assistance. Technical assistance is provided in the form of thought leadership platforms and conferences, targeted training of MFI partners, and sector-wide training in partnership with microfinance networks and experts. Standard Chartered's technical assistance strategy aims to use the Bank's expertise in governance, risk management and operations to introduce best practices to the Bank's MFI partners.[14]

At the 2006 annual meeting of the Clinton Global Initiative, Standard Chartered made an ambitious commitment to establish a US$500 million microfinance facility (over a five-year period), which provides credit and financial instruments as well as technical assistance to MFIs in Africa and Asia. Some four million people who are currently excluded from participation in the financial sector are set to benefit.

Other smart philanthropy initiatives that promote long term benefits include financial literacy programs. The Royal Bank of Scotland (RBS), for example, has developed a MoneySense programme which is geared towards encouraging financial capability and inclusion of both children and adults. 90% of current adults in the UK never received education on financial management, but since 2004 the scheme has reached 60% of the UK's secondary schools ensuring that statistic decreases in the future. The responsible financial practices promoted through the scheme will increase the reliability of customers and reduce costs in the long term.[15] Governments can support such endeavours by fostering the link between business and civil society. Some countries have established centres which serve as knowledge and resource hubs for such partnerships. The Partnering Initiative in the UK, for example, produces toolkits for business on how to partner with NGOs and other stakeholders, and can connect business with appropriate "smart" causes.[16]

2.3.2.4 Recommendations

Banks should:

- Review community investment strategies and shift towards initiatives that utilise the core competencies of the bank and align with core business objectives.

Government and Regulators should:

- Engage with, and/or support banking sector initiatives in areas of mutual interest where banks can provide not only philanthropic funds but can lend expertise. As top priorities, this should include improved collaboration on microfinance and on financial literacy for individuals and SMEs; and
- Use the National Microfinance Strategy to engage banks on the issue of lending to low income groups.

C ATTRACTING AND DEVELOPING TALENT

2.3.3 Attracting and Developing Talent

2.3.3.1 Key Issues

Attracting and Developing Talent is about generating the best possible performance from human resources. In the Jordan banking sector, key issues relating to human resource success include effective training, merit-based advancement opportunities, retention strategies, and improved gender opportunities. The Jordanian and Middle East marketplace is unusual in that it has high unemployment levels and a huge youth demographic that requires the creation of nearly 5 million jobs per year up until 2020,[17] and yet the current unemployed are predominantly well educated.

2.3.3.2 Impact on Competitiveness

Many companies, and many banks, claim that their employees are their greatest asset. If so, then the ability to enhance that talent is central to competitiveness. Banks that earn a reputation for treating their employees well, for providing attractive salary and benefits, for respecting opinions, and for consistently applying merit-based advancement opportunities are able to: 1) better attract top talent; 2) secure higher levels of productivity and satisfaction from its talent; 3) increase the loyalty of, and better retain, motivated and productive staff. Banks that proactively seek female employees can also gain the benefit of hiring from an available talent pool that is less intensively tapped and thus richer in high quality talent. For the same effort as others they gain more competitive staff.

2.3.3.3 Performance and Good Practices

Banks in Jordan generally find it easier to recruit high quality graduates, as the sector has traditionally been a good career choice with good pay and benefits. Retaining talent has proven more difficult, as staff are often enticed to significantly higher paying jobs and faster promotional opportunities in the Gulf or elsewhere. Training and merit-based advancement are essential elements to retaining top staff.

International Best Practice: Attracting and Developing Talent
National Commercial Bank

National Commercial Bank (NCB) in the Kingdom of Saudi Arabia is actively supporting the development of talent through the 'Ambassadors' programme. Introduced in 2008, the programme aims to develop professional and technical skills as well as soft skills in NCB staff. It aims to equip employees with a unified code regarding the approach to work, to ensure a good attitude and image of employees.

In 2008, NCB provided staff with over 15,000 days of training. The approach is unique because NCB does not stop with their immediate staff; the company provided 258 hours of training to their suppliers in 2008. NCB is now looking to deepen the understanding of social and environmental issues in their employees.[18]

Merit-based advancement

Banks in Jordan are currently transitioning from an advancement model based on seniority to a model based on merit. For top talent, and especially young talent, ongoing and frequent advancement opportunities based on personal performance is absolutely essential to job satisfaction. Opportunities for training are also both essential to performance and job satisfaction. During interviews, banks expressed concern that the Jordan education system has a major gap between curriculum and market needs, and thus extensive training to bridge that gap is required after graduation. Retaining talent after making such investments becomes all the more important. At the same time, banks could do more to engage the education system and work with universities and colleges to help better equip the enormous youth cohort with the knowledge and skills necessary to both find and create jobs in Jordan. Added gains would include an enhanced image of the banking sector as an employer of choice, a greater resource pool of talent and contribution to economic productivity.

In a different manifestation of merit-based evaluation, HSBC in Jordan conducts an annual survey to measure employee satisfaction regarding the performance and engagement of their managers. Manager remuneration and promotion is tied into that survey.

Internationally, banks that adopt sustainability management and include training on environmental and socially-relevant performance issues in this regard find that it increases employee motivation, interest in their work, loyalty and retention (in addition to helping to attract other top talent). These issues are aligned to a greater sense of sustainability and global citizenship embodied amongst today's graduates.

Gender opportunities

> *"With the responsibilities of raising children, cooking and cleaning, there are very heavy burdens placed on the shoulders of women, and we need to focus on ways to alleviate this. Otherwise it is difficult for women to find free time to work, run for office or even vote."*
> **Asma Khader,** Jordan National Commission for Women[19]

Responsible Competitiveness Driver: C. Attracting and Developing Talent		
Indicator	**JORDAN**	**OECD**
% of women on Board of Directors	2%	17%
% of women of total workforce	31%	57%
# of banks that train employees on sustainability issues	Minimal	78%

Throughout the region, companies and banks will indicate that gender imbalances or barriers are not perceived as an issue, while quantitative data suggests otherwise, particularly at senior management levels. In the banking sector, the tradition is that young women will join the bank but work only for a few years, marry, and not return to work. Maternity rights in the sector follow the legal minimum requirements, although these are below international best practice. In some OECD countries where similar patterns prevailed, changes to maternity benefits appear to have significantly impacted the number of women returning to work and moving into more senior management positions. Several of the most effective changes include: longer paid leave periods (sometimes up to a year or longer); promise of the same job or another job at the same level of seniority; on-site day-care or other flexibility to support day-care; and an option for the husband to take paternal care instead of the mother for part of the period.

Furthermore, fostering a supportive environment with networking opportunities, robust mentoring programs, and career advancement programs for women has been a key strategy for banks that are competitive in attracting and retaining female employees. The Bank of Nova Scotia has developed a global network of senior women who share information on career advancement and conduct mentoring for each other. The company is also a founding member of Women in Capital markets (WCM), promoting women's advancement in the sector.[20]

In Jordan's banks, there are a growing number of young female managers and branch managers. Action on these types of benefits and programs might help to ensure that the bank retains their talent and that they continue to increase their seniority through child-rearing years.

Given the increasing level of contribution that women are bringing to the banking sector, banks' recruitment strategies should target educational institutions with the highest percentage of women to tap into this underutilised talent pool.

2.3.3.4 Recommendations

Banks should:

- Accelerate the transition to fully merit-based promotion/advancement;
- Systematically engage employees, especially women, through surveys and evaluations and demonstrate meaningful action on feedback;
- Partner with educational institutions on developing and delivering best programs for work-place preparedness for students prior to graduation;

- Adopt progressive maternal benefits; and
- Target educational institutions with the highest ratios of female graduates.

Governments should:

- Consider more progressive gender equality legislation, and higher minimum maternal benefits.

D BUSINESS STANDARDS AND COMPLIANCE

2.3.4 Business Standards and Compliance

> *"[W]e recognise that, from a sustainability perspective, the bank's screening of social and environmental risks is in need of further development. During 2009, the bank will therefore review the extent to which social and environmental risks and opportunities are effectively integrated into the Risk Management function of the bank."*
>
> **National Commercial Bank,** Sustainability Report for Business Excellence 2008

2.3.4.1 Key Issues

For the banking sector, Business Standards and Compliance refers to voluntary standards and initiatives which extend the management of key sustainability issues beyond simply compliance. Section 2.3.1, Responsible Business Climate, has already touched upon several aspects of regulation and compliance.

There are several issues of growing importance globally, and that are also relevant to Jordan, around which the international banking community has established voluntary international standards and guidelines. These issues include responsible lending (that incorporates ethical, environmental and social criteria), climate change and carbon reduction, and anti-money laundering.

2.3.4.2 Impact on Competitiveness

Voluntary initiatives reflect and promote leading practices. In the banking sector, they may be generated for several reasons. These may include: a recognition of the growing materiality of a risk that is not yet captured in the regulatory framework; a recognition that an issue will not be regulated unless voluntarily addressed; a desire by the sector to find its own solutions to a growing challenge; a set of demands by stakeholders to take action on a given issue; and nascent but large scale opportunities in the marketplace that could benefit from collective sectoral action.

Examples of risks that have not been captured in much of the existing regulatory framework, but are being adopted on a voluntary basis by banks, are environmental risks. Climate change has taken centre stage on the global agenda, given its implications to all countries, people, and economies. Threats of drought and water shortages in some parts of the world, or increased flooding in other parts, are already having major financial and other impacts. In Jordan, water scarcity is a risk to the operations of manufacturing companies, and banks should factor this risk. Climate change is also dramatically impacting energy policy, with growing emphasis on shifts to alternative or renewable forms of energy, growing emissions regulation, and the anticipated and already widely-implemented practice of carbon pricing. Jordanian banks should know the carbon emissions of their portfolio companies, and the market cost of those emissions, as this again becomes a risk factor for banks as those companies begin to pay for those emissions. Pressure is mounting to shift to low carbon economies and the efficient management of natural resources will be a competitive advantage for businesses and economies that do so. As Merrill Lynch warns, "regulation is coming, and businesses will be rewarded for being proactive."[21]

Adoption of voluntary measures tends to create two major types of competitive benefits, namely performance gains and reputation benefits. Performance gains arise from improved health of lending portfolios and result in a growth in business as prospective clients take into account sustainability leadership in their choice of banking partner. Given that these initiatives often have a risk mitigation component, they are just as valuable or more valuable to implement in a time of economic downturn. Reputation gains can arise from client and public recognition of the bank as a leader in applying the most advanced global management techniques, and in meaningfully addressing sustainability challenges. For Jordanian banks, it can also be important and advantageous in relations with correspondent banks, which do apply such initiatives and actively prefer correspondents that do the same.

An underlying theme of voluntary initiatives is that there is a strong enough business case for action regardless of government intervention – there is no need to wait for government to take action.

2.3.4.3 Performance and Good Practices

Current mandatory standards in the banking sector in Jordan cover only the most basic environmental, social and corporate governance risk. In comparison, the vast majority of OECD banks require performance in these areas which goes far beyond the statutory minimum.

Equator Principles

One set of international standards widely adopted by the international banking community are the Equator Principles. The Equator Principles are designed to integrate sustainability considerations into a bank's lending decision-making, thereby reducing risks to both the prospective client and the bank. The Equator Principles apply to project financing in excess of US$10million, but can be applied in principle to all project lending. A key benefit of the principles is that when widely adopted, no single bank can state that integrating sustainability into lending decisions can be burdensome or disadvantageous. In any case, many banks aim to be the first and/or leading adopters of the Equator Principles in their countries of operation, primarily because they see it as prudent risk management, a value-added service to clients, and reputation enhancing.

There are currently no domestic banks in Jordan adopting the Equator Principles. In the Arab world there are two stated regional adopters (the Arab African Investment Bank and Bank Muscat); about 2% of all global signatories. This compares to nearly three quarters of leading banks being signatories in the three OECD countries reviewed for this research. International banks operating in the region and in Jordan, however, do apply the Equator Principles, including HSBC and Standard Chartered. Standard Chartered reports specifically on its Equator Principles performance in the Arab world in its global sustainability report. Given the alignment with issues of growing national concern like water conservation, climate change strategy, and inclusive social development, and combined with the above-mentioned benefits plus competitive challenges from locally-operating international banks, there is a strong case for adoption of the Equator Principles by, at a minimum, the leading Jordanian banks.

International Best Practice: Business Standards and Compliance
Barclays

As one of the first businesses to collaborate with the International Finance Corporation in drafting the Equator Principles in 2003, Barclays has shown a longstanding commitment to managing the environmental and social risks associated with commercial lending and investment products. Barclays Environmental and Social Impact Assessment (ESIA) Policy enables the bank to adhere to the Equator Principles when considering providing finance, advisory services or other professional support to projects in potentially sensitive areas.

As part of the ESIA process, before committing to a project financing agreement, Barclays must be assured potential clients will meet ESIA requirements in a number of areas, including working within recognised best practice guidelines and respecting values relating to human and economic development, ecological and physical resources.

To embed a consistent level of awareness and compliance through all operations, Barclays trains frontline employees to ensure environmental and social risks are considered alongside more traditional business risks when lending decisions are made.[22]

Carbon disclosure
Based on the premise of what gets measured gets managed, the Carbon Disclosure Project (CDP) is an independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world. It asks companies to voluntarily disclose their carbon emissions, so that the company 1) starts tracking them, and 2) starts taking action on them. From a banking perspective, this is a tool whereby clients can become engaged to understand the risks, the financial costs and the financial opportunities relating to their current carbon footprint. The CDP now acts on behalf of 475 institutional investors who collectively hold more than US$55 trillion in assets under management. More than 2,000 organisations in 66 countries around the world now measure and disclose their carbon emissions and climate change strategies through CDP. Companies including HSBC have also developed their own Carbon Finance Strategy, outlining how the company will advise on potential risks and opportunities relating to

climate change. As part of this commitment, HSBC publishes an Energy Sector Risk Policy to advise relationship managers with clients in the energy sector on environmental and social standards.

Adoption of the CDP mechanism by Jordanian banks would offer a valuable tool for clients, while helping the banks both manage risks and align policies and practices against Jordan's emerging environmental agenda and legislation. It would also contribute to better management of Jordan's energy challenge, since carbon emissions represent an outcome of energy consumption. Reduced demand by bank clients would result in cost savings for clients and reduced demand on national energy infrastructure. There are currently no Jordanian banks utilising the CDP.

Wolfsberg Principles

The Wolfsberg Group is an association of eleven global banks that aims to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies. For Jordanian banks interested in knowing the likely forthcoming changes to industry practices in these fields, beyond existing compliance, these Principles may offer some of the best insight. The Arab Bank Plc has shown its voluntary commitment to transparency and best practices by completing the Wolfsberg questionnaire, designed by the Wolfsberg Group to provide an overview of a financial institution's AML policies and practices.[23]

UN Principles of Responsible Investment

Other voluntary standards and initiatives in the financial sector that are starting to receive some notice in the Arab world include the United Nations Principles for Responsible Investment (UNPRI). UNPRI is a framework to help investment professionals integrate social, environmental and corporate governance into decisions. Since launching in April 2006, the number of investment businesses adopting the voluntary Principles has grown from 50 to over 500, with participants now located in 44 countries. Interest in the UNPRI has grown during the credit crunch. The world's largest fund manager, UBS, signed up in April 2009 to join companies like HSBC and Kohlberg Kravis Roberts and Company. As James Gifford, the Executive Director, explained "the crisis is shifting the mainstream investment sector towards more responsible investment practices because they recognise some of the failures within the market were to do with risk management, corporate governance and transparency – the very areas addressed by responsible investment."[24] Thus far, there is no Jordanian signatory and only one corporate signatory from the Arab world: Abraaj Capital in the UAE.

2.3.4.4 Recommendations

Banks should:

- Adopt the Equator Principles;
- Sign up to and utilise the Carbon Disclosure Project;
- Apply the UN Principles of Responsible Investment; and
- Review, and to the extent possible, adopt the most relevant aspects of the Wolfsberg Principles.

Government and Regulators should:

- Signal a growing expectation of the banking sector to take those voluntary and proactive steps that can both increase the competitiveness and health of the banking sector while steering the overall Jordanian economy towards greater economic, social and environmental sustainability;
- Establish a voluntary emissions database, either independently or in collaboration with CDP, to track and manage national emissions and as a tool in achieving Jordan's financially and environmentally motivated carbon credit trading strategy. Alternatively, require all companies in key industries to report their carbon emissions;
- Conduct a feasibility study of the merit of a voluntary water consumption database, with similar intended purpose as the carbon emissions database; and
- Consider making the information in the database publicly available, as a means of further encouraging consumption reductions.

Banking Association:

- Arrange introductory training on these international standards and encourage their adoption in the Jordanian context.

Civil Society:

- Civil society organisations should apply more pressure on banks as key levers to disclose and improve their criteria for environmental screening in lending and disclosure;
- The media should promote coverage of environmental and social practices of Jordanian companies, including not just the company in question, but the bank with which it does business; and
- Retail clients and corporate customers should take into account a bank's sustainability performance when selecting their bank of choice.

E RESPONSIBLE SUPPLY CHAINS

2.3.5 Responsible Supply Chains

2.3.5.1 Key Issues

Responsible Supply Chains refers to procurement practices that take into account the sustainability qualities of a procured product or service, as well as the sustainability performance of the company providing that product/service including the environmental impacts of their manufacturing process, or their labour practices. It can involve working together with existing suppliers to help them move towards greater responsible competitiveness practices.

2.3.5.2 Impact on Competitiveness

Encouraging responsible competitiveness practices in the supply chain can have surprising competitive benefits. These include:

- *Reputation.* Assessing social practices in the supply chain helps avoid reputation-damaging incidents. Examples could include the revelation of severely underpaid workers, the use of child labour or blatantly harmful environmental practices. At the other end of the spectrum, diligent encouragement of sustainability in the supply chain is one of the efforts that are most associated with a company being serious about sustainability.

- *Supplier performance.* If sustainability leads to greater competitiveness, then the encouragement of suppliers to adopt it can result in their performance improvements including greater resource efficiency and related costs savings that can be passed on to the purchaser, improved on-time performance, and improved quality, management and accountability.

- *Improved own performance.* By requesting that suppliers provide more responsible products and services, the purchaser can benefit, for example through energy savings achieved through the availability of more environmentally friendly (energy efficient) IT equipment. Performance is also improved when the quality and timeliness of supplier products/services is improved.

- *Achieve shared objectives in an accelerated manner.* Banks can work together with the Association of Banks and other suppliers to undertake and achieve initiatives that would be far less effective if independently adopted.

2.3.5.3 Performance and Good Practices

In Jordan, and for the banking sector, responsible supply chains might traditionally most often be relevant in the context of ensuring the ethical performance of a service provider, or ensuring that suppliers comply with all basic labour laws such as working hours and minimum working wages.

While these will remain key issues and may take on increasing importance, responsible supply chains will increasingly relate to environmental issues. In the banking sector, increasing IT infrastructure also means major cost-saving opportunities using more energy efficient equipment. The temperature control equipment (cooling) for the same IT infrastructure also represents major cost-saving opportunities. Other financially attractive opportunities include two-sided all-in-one printers (reduce energy costs, quantity of equipment costs, and paper costs), efficient lighting, automated water taps, and many other easy gains. Even in environments with ultra-low energy and water costs, regional banks like NCB in Saudi Arabia are generating payback periods of 18 months and lower on intelligent water taps and other energy efficient applications. International bank Barclays has switched to using cycle couriers over motorbikes, reducing carbon emissions by 38% and increasing delivery time by 25%. Supplier TNT has worked with Barclays on an initiative to collect plastic recycling after making a parcel delivery, at no extra cost.

Responsible Competitiveness Driver: E. Responsible Supply Chains		
Indicator	**JORDAN**	**OECD**
% of banks having modified procurement policies and procedures to ensure more responsible procurement (i.e. beyond basic compliance of suppliers to the law)	None identified	>50%

Other than requiring by contract that service providers meet all aspects of Jordanian law, there were limited instances identified from this research of Jordanian banks proactively modifying procurement policies to systematically promote more responsible supply chains. This compares to nearly all researched OECD banks undertaking various forms of responsible procurement, with greater than 50% specifically stating having revised procurement policies and procedures to this effect. As a service provider itself, the Association of Banks has a role to play in encouraging collaboration which would help create a sufficient enough demand to catalyse a market in more sustainable goods and services.

2.3.5.4 Recommendations

Banks should:

- Modify procurement policies and procedures to ensure responsible performance of suppliers and to procure more environmentally and socially friendly products and services that yield financial and other value for the bank. Work together with existing suppliers where possible to encourage the transition of their products, services and operations; and
- Identify the highest potential opportunities in supply chains, either from a cost saving or a sustainability performance perspective.

F PRODUCT AND SERVICE INNOVATION

2.3.6 Innovation in Products and Services

> *"The commercial banking sector currently only serves the top segment of the market. Most banks are family owned and only deal with high reputation customers, and are reluctant to take the risks involved with serving SMEs."*
> Interview with a bank, June 2009

2.3.6.1 Key Issues

Product and Service Innovation in the banking sector has accelerated significantly over recent years, and in the process has reshaped expectations regarding innovation in the sector and its importance to banking success. One key driver has been the advent of information technologies and related electronic and automated banking. In OECD nations, the emergence of the environment as a critical public concern is also producing a wave of banking product and service innovation. In emerging markets, the success of micro-finance institution Grameen Bank has reshaped banking assumptions about the limitations of serving the lower income markets, and has itself set off a wave of service innovation.

There has also been a global surge in innovation around banking services that combine economic, environmental, social, ethical and moral considerations. Known as ethical banking or sustainability banking in the OECD, and perhaps most closely linked to the surge in religiously motivated Islamic banking in the Arab world, these services range from tailored accounts (such as Islamic savings accounts), to tailored investment funds (such as sustainability-screened funds or Islamic funds).

2.3.6.2 Impact on Competitiveness

Customised products and services that best meet the needs and interests of customers is obviously a critical element of competitiveness. Product and service innovation attracts new customers, while expanding the number and scale of services to existing customers, as the bank participates in and helps contribute to customers' economic growth. Product and service innovation that simultaneously contributes to meeting national or local objectives and tackling important issues facing Jordan not only enhances reputation but contributes to greater long-term opportunity. Innovations that align with issues on which customers hold strong convictions (such as religious beliefs, or environmental awareness, or awareness of poverty) tend to generate the highest levels of customer loyalty and reputation.

2.3.6.3 Performance and Good Practices

Benchmarking of Jordanian banks against OECD performance gives mixed results:

➤ In the area of Islamic banking, if loosely-fitting parallels are drawn between Islamic banking and Islamic funds and Ethical/Sustainability funds, then there is a similar or greater level of take-up among Islamic products and services than OECD sustainability-related services;

➤ With regard to services to under-served markets such as SMEs, low income groups and entrepreneurs, while some Jordanian banks claim an adequate focus, broader research suggests a discrepancy in both the availability and quality of these service offerings, despite the special importance they have in the Jordanian context; and

- In the area of environment-related services, there is very little indication of innovation by Jordanian banks in contrast to significant innovation at the OECD level.

Service innovation in Islamic finance

> *"Banks have improved the quality of service regarding Islamic finance products, but there is still room for improvement."*
> Interview with a bank, June 2009

Islamic finance refers to financial services/activities that meet the requirements of *Shariah* (Islamic) law. Shariah prohibits the payment of fees for *riba*, the renting of money for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles.

Islamic banking in Jordan first emerged with the establishment of the Jordan Islamic Bank in 1979. Since then, the Arab International Islamic Bank was established and conventional banks have added Islamic banking to their portfolio. As with other countries in the region, Islamic banking has proven popular with the country's majority population, with many professionals and business persons attracted to a means of banking that aligns with their religious beliefs.

As Islamic banking becomes standardised in quality and offerings, a new wave of innovation is emerging. One type of service under Islamic banking is Shariah-compliant investment funds. From an OECD perspective, these are most similar to "ethical" or "negative-screening" investment funds, where in both cases certain industries and types of investments are not allowed. In OECD countries, these negatively-screened funds have evolved to not only exclude certain sectors such as armaments or tobacco, but to actively consider the sustainability (economic, environmental and social) performance of all the companies and sectors in which it invests, and to invest in only the best sustainability performers. In the Arab world, such sustainability funds may emerge as a non-Islamic service line, or they could emerge as a further innovation within Islamic investment funds. These types of innovations are not yet on the radar of Islamic banking providers in Jordan, but they present tremendous opportunity.

Service innovations for underserved markets
In Jordan, underserved markets from a commercial banking perspective include lower-income individuals and families, as well as small and medium sized enterprises (SMEs), and entrepreneurs. SMEs constitute over 95% of all

business in Jordan and contribute an estimated 80% to the economy.[25] This research uncovered concern and surprise from a variety of stakeholders that commercial banks do not sufficiently cater to these markets, despite the potential market value. Cairo Amman Bank is seeking to address this issue in its development of a Small and Medium Enterprises programme which offers financial services to promising businesses that lack capital.[26]

Information pertaining to the size of these potential markets is low. The World Bank's *Doing Business Report* from 2009 illustrates how limited public registry and private bureau coverage is in Jordan. Such registries are usually maintained by independent or public authorities such as the Central Bank and information is then made available to financial institutions. The implication is that there is very little data concerning unpaid debts and credit availability of clients in Jordan, making banks' investment choices difficult and potentially misinformed.

Indicator	JORDAN'S SCORE
Ease of getting credit	Rank 123 of 181 countries
Public registry coverage	1% of adults. OECD is at 8.4%
Private bureau coverage	0% of adults. OECD is at 58.4%

Source: World Bank Doing Business Report, 2009

Profitability in these underserved markets comes from volume, not price. This requires developing low cost products with the assistance of marketing innovations in product design, price, distribution channels and promotion. Service innovation choices should be targeted towards market reality. For example, while only 6.5% of Jordanians have regular access to the internet, 84% have mobile phones, which is the highest proportion in the Arab region.[27] This suggests a channel that could be better tapped through innovative products and new technologies and would go further in reaching out to under-served markets in a commercially viable manner.

For SMEs, challenges often lie in the lack of knowledge and capacity to manage financial and governance systems in such a way as to meet commercial banks' standards. Similarly low income groups lack the financial know-how, trust or desire to engage with commercial banks. Banks realise high transaction costs from dealing with both categories. Entrepreneurs often face a different dilemma. Educated and financially literate, the biggest barrier to their accessing credit is often to do with banks' high collateral demands, which cannot be met, and at the same time, alternative financing such as investor capital also are not readily available to the entrepreneur. These factors, together with the lack of a credit rating institution, greatly hinder innovation around improved access to credit.

There are several means by which the Jordanian banking sector can innovate to better serve this market:

- Scale up the existing microfinance institutions. The market is currently addressed by six non-profit microfinance institutions, including Tamweelcom, who claimed CGAP's Financial Transparency Award after competing with hundreds of international companies, making it the first company to win such an award in the Arab world.[28] While Jordan has the second highest penetration rate of microfinance per capita in the Arab world, there is still a dramatic gap with the regional leader, Morocco, which demonstrates tremendous room for scaling up.

- Adopt smart philanthropy programs focused on delivering services to these underserved groups. While at first these services might be offered on a philanthropic basis (such as through employee volunteering and collateral covered by a pool of philanthropic funds), experience and partnership and innovation should ultimately lead to the migration of the service to a profitable business line.

- In this regard, banks should better explore the market potential these new clients hold, and to modify decision-making.

- Investigate ways in which various technologies (such as mobile phones) can be used to improve access to banking services.

- Implement multi-stakeholder partnerships, starting with closer collaboration with groups who can and do support these underserved constituents such as the Small and Medium Enterprises Centre, a division of the Jordan-based Arab Academy for Banking and Financial Services, the Young Entrepreneurs Association, Jordan River Foundation and microcredit agencies.

A Jordanian example that combines most of the above is that of Standard Chartered, which has collaborated with Tamweelcom and supported micro-entrepreneurs and small businesses throughout the Kingdom. They also support the government's National Strategy for Microfinance which seeks to integrate the sector with the mainstream financial services industry.

> *"We have introduced tailored account packages, trade and treasury services, transactional banking solutions, and dedicated relationship management. Later this year, our SME proposition in Jordan will be further enhanced to enable customised solutions and international networking services to local entre-preneurs".*
> **Ashish Sood,** Head of Consumer Banking, Standard Chartered

Innovations for the environment

The previous sections have discussed operational changes that Jordanian banks can make to improve products and services directed at underserved markets. This section focuses specifically on service innovations aligned to environmental performance.

Public opinion in Jordan is not yet aligned with global interest in climate change debates, but this is beginning to change. Nonetheless, customers are extremely sensitised to the environmental issues affecting day-to-day living, such as air pollution and water shortages. These two trends, combined with the straightforward economic value that can be tied into environmentally oriented products and services, create significant opportunities for service innovation in the Jordanian banking sector. Some examples from OECD markets that could be profitably adopted by Jordanian banks include:

- *Green lending and mortgages.* Companies such as ING offer rewarding leasing packages of environmentally friendly products such as energy efficient cars. In Canada, some banks offer "green mortgages" rewarding homes built according to international standards for environmentally friendly buildings that have lower monthly operating costs (such as reduced heating and lower water consumption). These green mortgages therefore offer a higher threshold for determining acceptable size for overall loan and monthly payments. The bank, the customer, and the environment all benefit from this service innovation;

- *Green credit cards.* These credit cards may donate a small percentage of revenue to a specific environmental or social cause. The marginal cost of the donation is offset by the gain in banking customers who are attracted by the card's philosophy;

- *Carbon trading.* The transition of the global economy towards a low carbon economy will likely result in carbon becoming one of the world's most traded commodities. Many OECD banks are already offering services connected to carbon trading;

- *Cleantech financing specialisation.* As clean technology becomes both a sector in itself and a cross-cutting theme across all sectors, banks are developing and promoting their specialised expertise in relevant services such as facilitating financing, or mergers and acquisitions, with regard to the sector; and

- *Sustainability-screened investment funds.* Funds such as TD Asset Management's Global Sustainability Fund have gone from being a niche offering to being embedded in the mainstream. Despite the economic downturn, investment into sustainable funds has grown and the total global portfolio, according to the European Social Investment Fund, accounted for US$5 trillion in 2008.[29] In the United States, nearly 1 in 7 dollars are invested in funds that are screened to exclude some social or environmental criteria.

Belgium's Dexia has embedded sustainability into their fund offerings, and now provide a menu of 20 socially responsible investment funds for clients to choose from. HSBC has taken a leading role in analysing and supporting leading climate performers. SAM Group, the Swiss-based asset manager, and Gatehouse Bank, a fully Shariah-compliant wholesale investment bank, launched a new collaborative Islamic finance strategy to support sustainability-oriented companies that offer technologies, products and services throughout the entire value chain of water processing and transportation.

Sustainability-screened stocks have held up relatively well in turbulent markets, with the consultancy AT Kearney concluding that sustainability-focused companies outperformed their industry peers by 15 per cent over six months. Sustainable investment appears to be benefiting investors, consumers, promoting innovative companies and growing new sectors.

2.3.6.4 Recommendations

Banks should:

- Adopt smart philanthropy targeting underserved markets, with a view to evolving such efforts into a profitable line of banking services;
- Adopt closer collaboration with organisations already engaged with underserved stakeholders to develop products better suited to this market segment;
- Support the further scaling up of microfinance institutions;

- Explore and adopt a range of environmentally-oriented, profitable and reputation/loyalty enhancing products and services; and
- Consider and establish a bank-specific strategy for the ongoing enhancement of Islamic banking services.

Government and Regulators:

- Further enhance government leadership on national microfinance strategy and connecting national energy and carbon reduction commitments to the banking sector.

Civil Society and Associations:

- Association of Banks to conduct market analysis to better understand SME and low income group needs, and barriers to that market;
- Organisations supporting low income or underserved stakeholders to work together with banks to provide lower risk means of providing access to credit; and
- Customers make more effort to consider and choose banking products and services that incorporate responsible competitiveness innovations.

G RESPONSIBLE COMMUNICATIONS

2.3.7 Responsible Communications

> *"[Banks] don't tell clients about interest rates and as a result people are confused and distrustful. Jordan needs more consumer education in the area of finance and banks need to be more honest."*
> Interview with a bank, June 2009

2.3.7.1 Key Issues

Responsible Communications is largely about transparency, and how well the sector communicates and engages with all of its stakeholders. For the banking sector globally, transparency increasingly requires public reporting not only of financial performance, but also a wide range of non-financial reporting, including governance, environmental, and social (health and safety, labour issues, human rights, product safety, community investment) performance.

2.3.7.2 Impact on Competitiveness

Maintaining customer trust and confidence has always been a critically important issue for banks, and this is even more so after society's trust in banks has been shaken by the global financial crisis and ensuing economic downturn. As is the case with all sectors, the level of transparency of public reporting, and the honesty and reliability of that information, is a key element of earning and maintaining trust. Given that an increasingly wide range of issues can materially impact a bank; there is a corresponding expectation that banks must report both financial but also non-financial (sustainability) performance.

Public sustainability reporting has benefits beyond trust and confidence. There are additional aspects of reputation that can be enhanced through public reporting, which in turn can improve client attraction, client retention, and cross-marketing of services. Sustainability reporting tends to be a catalyst for determining baseline performance and encouraging all staff to take steps to improve performance in a given key area. Highly transparent sustainability reporting can also reduce risk of corruption and other undesirable risks, while also facilitating engagement with the global banking sector through demonstrated application of global best practice.

2.3.7.3 Performance and Good Practices

Jordan's banks can take quick steps towards responsible communications. Engagement levels are already solid. The next step is to disclose information beyond financial performance in the public domain, through the use of sustainability (CSR) reports. While two of the Jordan banks reviewed provided some public reporting on their community initiatives, this is not considered sustainability reporting. The Global Reporting Initiative (GRI) provides a guideline for sustainability reporting. It is the most followed international guideline, and includes an additional banking sector-specific set of indicators. This can be relatively easily applied by Jordan banks, particularly the largest banks.

Sustainability reporting is widely applied in the banking sector in OECD countries. In some countries, like Canada, every major bank is required to issue public sustainability/CSR reports. This is in recognition of the influential role the sector plays in the shaping and overall take-up of sustainability that occurs across the economy. In some emerging markets, like South Africa, sustainability reporting is mandatory for any companies listed on the national stock exchange.

In the Arab world, NCB in Saudi Arabia has adopted sustainability reporting in line with the Global Reporting Initiative (GRI) Guidelines, while National Bank of Abu Dhabi has undertaken some aspects of sustainability reporting within its annual report. In Jordan, while no banks have adopted GRI-based sustainability reporting, three organisations have already done so including

Aramex, Jordan River Foundation and Jordan Aircraft Maintenance Company (JorAMCo).

Responsible Competitiveness Driver: G. Responsible Communications		
Indicator	**JORDAN**	**OECD**
% of banks publishing sustainability reports	0%	89%
% of banks disclosing carbon emissions	0%	83%
% of banks disclosing water usage	0%	50%

International Best Practice: Responsible Communications
Australia and New Zealand Banking Group Limited (ANZ)

ANZ has been reporting on its corporate responsibility performance for the past five years. The bank has refined its approach to include a printable PDF report and website to keep stakeholders informed about bank activities, targets, and performance. Stakeholders are also updated on the management and progress of ANZ's priorities through interim reporting.

For their comprehensive and transparent reporting, ANZ's reputation has been enhanced by being recognised as:

- being the most transparent and open company in Australia (by Corporate Confidence Index)
- producing the best corporate responsibility report of all financial services companies in Australia (by Association of Chartered Certified Accountants);
- having the best disclosures on Human Capital and Climate Change Management (by Net Balance Foundation and Association of Chartered Certified Accountants); and
- receiving the Special Award for Governance Reporting (by the Australasian Reporting Awards).[30]

Sustainability reporting also helps to demonstrate leadership by example. This report has argued that Jordanian banks should encourage their clients to improve the management of their carbon emissions and water consumption, which in turn should generate financial benefits. Banks should therefore also report their own performance on these issues. In OECD countries, 83% of banks report on carbon emissions, while 50% report on water consumption. No Jordanian banks yet report on these performance areas.

2.3.7.4 Recommendations

Banks should:

- All banks should introduce sustainability reporting, using the GRI Guidelines including attention to banking-specific indicators as laid out in the GRI sector supplement; and
- All banks should report on their own sustainability performance in areas where they demand prudent performance of others, particularly regarding carbon emissions and water. This should also include reporting on efforts to address underserved markets.

Government and Regulators should:

- The Central Bank of Jordan should legislate on the mandatory submission of sustainability reports.

Civil Society and Associations should:

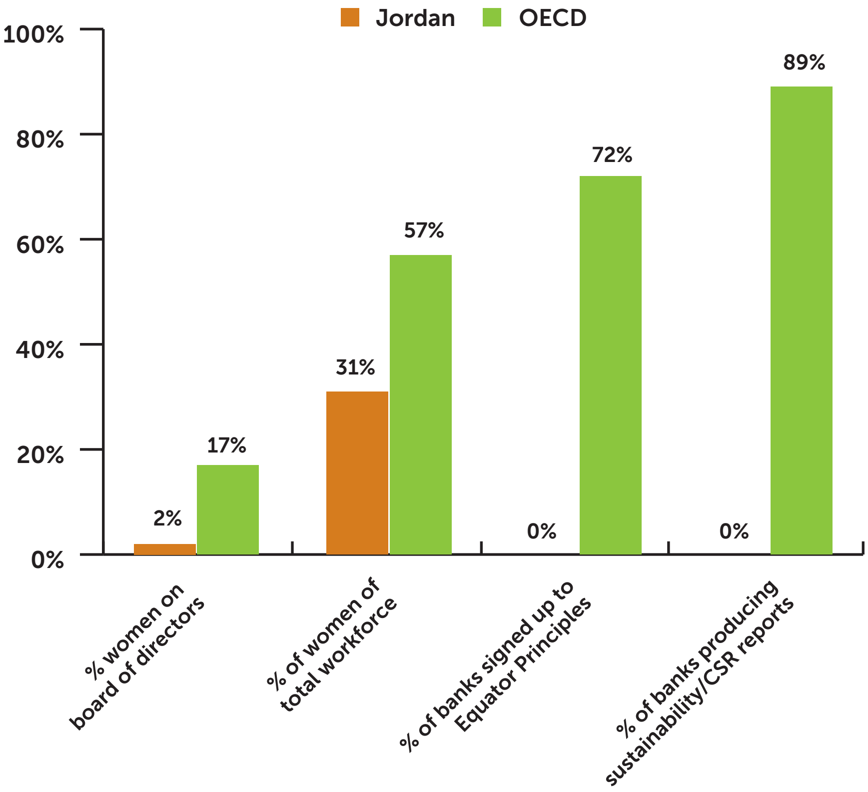
- The Jordan Securities Commission and Amman Stock Exchange should require all banks trading on the stock market to issue sustainability reports;
- The Association of Banks can coordinate introductory level GRI training and related best practice; and
- Civil society organisations, particularly consumer groups, should push for increased disclosure from the banking sector and practice upwards accountability by monitoring the sector's performance against publicly available data and social and environmental criteria.

2.4 SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

This chapter has acknowledged some of the responsible competitiveness successes of the Jordan banking sector, while concentrating on areas of opportunity that have the greatest potential to both protect and generate significant financial and reputational value and competitiveness. The recommendations have been framed around the seven key drivers of responsible competitiveness analysed for this research, and are targeted to banks, government, regulators, the industry association, and in some cases, broader society.

Jordan's banking sector displays mixed performance when benchmarked against OECD high performers as illustrated in figure 2.3.

FIGURE 2.3. BENCHMARKED PERFORMANCE OF JORDAN'S BANKING SECTOR AGAINST SELECTED INDICATORS



However the most obvious gaps between Jordanian banks and OECD banks are not necessarily the highest priority action areas. Priority issues for the sector relate to corporate governance, transparency, and innovation in products and services. The largest responsible competitiveness gains will be achieved from changes such as:

- **The integration of environmental and social risk into lending criteria,** both because of the major value and risk considerations that now extend from these issues, but also because it has become standard practice amongst global industry leaders. Jordan is seen to be lagging behind international best practice in this area, for example in the number of signatories to the Equator Principles; and

- **Sustainability-related product and service innovation,** given that it combines a growing market segment with an approach to adopting responsible competitiveness that directly generates revenue and profitability.

Other recommendations that have a strong leveraging effect and may be implemented even more quickly than the above priorities include:

- Sustainability reporting by banks, which includes the recommendation for government to require such reporting. Reporting does not tell a bank what it must do, however, it does require a bank to report its actions on critical responsible competitiveness issues, which fosters competition and improved performance across the sector. **Sustainability reporting leads directly to greater transparency, the ability to track progress, and importantly, more identifiable management gaps;**

- Requesting customers to voluntarily disclose carbon emissions, which requires limited effort and may generate greater response, interest and benefit to the client than anticipated. **The disclosure of carbon emissions will quickly create competition amongst Jordanian companies, while banks will be seen to be adopting leading global practices as they compete for integration into international financial markets; and**

- Taking steps to "smarten" philanthropy, through adopting internationally-tested initiatives that better take advantage of the bank's core competencies. **Smart philanthropy will increase banks' knowledge of underserved markets and catalyse innovation for products aimed towards SMEs, low income groups and entrepreneurs.**

Summary of Recommendations for Enhancing Responsible Competitiveness in the Banking Sector

A RESPONSIBLE BUSINESS CLIMATE

Recommendations for Business

- Apply all corporate governance, Know Your Customer, Anti-Money Laundering and Counter-Terrorism Financing regulations and guidelines in full;
- Formally integrate environmental and social risks at the Board level, such as within the Risk Committee or a stand-alone Sustainability Committee; and
- Collectively adopt as a sector, and/or adopt independently as an overall risk reduction strategy, disclosure policies requesting that corporate clients voluntarily disclose carbon emissions and water consumption.

Recommendations for Government, Regulators, and Civil Society

- Demand additional disclosure on governance systems and performance in annual reporting process;
- Strengthen enforcement of regulation; and
- Develop strategy for engaging the banking sector on social and environmental national priorities.

B SMART PHILANTHROPY

Recommendations for Business

- Review community investment strategies and shift towards initiatives that utilise the core competencies of the bank and align with core business objectives.

Recommendations for Government, Regulators, and Civil Society

- Engage with, and/or support banking sector initiatives in areas of mutual interest where banks can provide not only philanthropic funds but can lend expertise. As top priorities, this should include improved collaboration on microfinance and on financial literacy for individuals and SMEs; and
- Use the National Microfinance Strategy to engage banks on the issue of lending to low income groups.

C ATTRACTING AND DEVELOPING TALENT

Recommendations for Business

- Accelerate the transition to fully merit-based promotion/advancement;
- Systematically engage employees, especially women, through surveys and evaluations and demonstrate meaningful action on feedback;
- Partner with educational institutions on developing and delivering best programs for work-place preparedness for students prior to graduation;
- Adopt progressive maternal benefits; and
- Target educational institutions with the highest ratios of female graduates.

Recommendations for Government, Regulators, and Civil Society

- Consider more progressive gender equality legislation, and higher minimum maternal benefits.

D BUSINESS STANDARDS AND COMPLIANCE

Recommendations for Business

- Adopt the Equator Principles;
- Sign up to and utilise the Carbon Disclosure Project;
- Apply the UN Principles of Responsible Investment; and
- Review, and to the extent possible, adopt the most relevant aspects of the Wolfsberg Principles.

Recommendations for Government, Regulators, and Civil Society

- Government should signal a growing expectation of the banking sector to take those voluntary and proactive steps that can both increase the competitiveness and health of the banking sector while steering the overall Jordanian economy towards greater economic, social and environmental sustainability;
- Establish a voluntary emissions database, either independently or in collaboration with CDP, to track and manage national emissions and as a tool in achieving Jordan's financially and environmentally motivated carbon credit trading strategy. Alternatively, require all companies in key industries to report their carbon emissions;
- Conduct a feasibility study of the merit of a voluntary water consumption database, with similar intended purpose as the carbon emissions database;
- Consider making the information in the database publicly available, as a means of further encouraging consumption reductions; and
- Banking association should arrange introductory training on these international standards and encourage their adoption in the Jordanian context.

E RESPONSIBLE SUPPLY CHAINS

Recommendations for Business

- Modify procurement policies and procedures to ensure responsible performance of suppliers and to procure more environmentally and socially friendly products and services that yield financial and other value for the bank. Work together with existing suppliers where possible to encourage the transition of their products, services and operations; and
- Identify the highest potential opportunities in supply chains, either from a cost saving or a sustainability performance perspective.

F PRODUCT AND SERVICE INNOVATION

Recommendations for Business

- Adopt smart philanthropy targeting underserved markets, with a view to evolving such efforts into a profitable line of banking services;
- Adopt closer collaboration with organisations already engaged with underserved stakeholders to develop products better suited to this market segment;
- Support the further scaling up of microfinance institutions;
- Explore and adopt a range of environmentally-oriented, profitable and reputation/loyalty enhancing products and services; and
- Consider and establish a bank-specific strategy for the ongoing enhancement of Islamic banking services.

Recommendations for Government, Regulators, and Civil Society

- Government and regulators should further enhance government leadership on national microfinance strategy and connecting national energy and carbon reduction commitments to the banking sector.
- Association of Banks to conduct market analysis to better understand SME and low income group needs, and barriers to that market;
- Organisations supporting low income or underserved stakeholders to work together with banks to provide lower risk means of providing access to credit; and
- Customers make more effort to consider and choose banking products and services that incorporate responsible competitiveness innovations.

G RESPONSIBLE COMMUNICATIONS

Recommendations for Business

- All banks should introduce sustainability reporting, using the GRI Guidelines including attention to banking-specific indicators as laid out in the GRI sector supplement; and
- All banks should report on their own sustainability performance in areas where they demand prudent performance of others, particularly regarding carbon emissions and water. This should also include reporting on efforts to address underserved markets.

Recommendations for Government, Regulators, and Civil Society

- The Central Bank of Jordan should legislate on the mandatory submission of sustainability reports;
- The Jordan Securities Commission and Amman Stock Exchange should require all banks trading on the stock market to issue sustainability reports;
- The Association of Banks can coordinate introductory level GRI training and related best practice; and
- Civil society organisations, particularly consumer groups, should push for increased disclosure from the banking sector and practice upwards accountability by monitoring the sector's performance against publicly available data and social and environmental criteria.

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INSURANCE

3

Responsible Competitiveness in the Insurance Sector

"Leading businesses around the world should adopt sustainable management to enhance their value for shareholders and society,"
Bassel Hindawi, Insurance Commission of Jordan[1]

3.1 INTRODUCTION

The insurance sector in Jordan has emerged to become an important component of the economy. It contributed 2.49% of gross domestic product (GDP) in 2007,[2] relatively low penetration by international standards (4% in North America) but high within the region, as MENA rarely exceeds 1% of GDP.[3] Despite the financial crisis, crowded marketplace and tough conditions, Jordan's insurance sector grew by 14.1% in 2008, with an increase of 45.5% in pre tax profit.[4]

The sector consists of 29 companies of which 28 are listed on the Amman Stock Exchange, and are regulated by the Jordan Insurance Commission.[5] The system is highly concentrated in the life market where one player, the American Life Insurance Company (ALICO), dominates. The non-life market, accounting for almost 90% of the JD 110 million of gross premiums paid out in 2008, is more fragmented. There are expectations in the market that conditions will change and some companies will be obliged to seek mergers or be acquired by larger bodies from within or outside the market in the coming years.

The insurance sector has tremendous scope to encourage sustainability-focused behaviour and responsible competitiveness. At the same time, the sector is already being impacted by, and will continue to be strongly and potentially adversely impacted by major sustainability issues such as climate change. Given this combination, sustainability and responsible competitiveness are emerging at the very top of the list of strategic priorities for the insurance sector.

Opportunities for the sector, along with their potential benefits to both the sector and society, include:

- Reducing the growing number of insurance claims relating to severe weather impacts and climate change – insurers can promote or hinder responsible behaviour through types of product offers, related pricing incentives, and claim policies;

- Developing innovative products and services to serve the very large numbers of vulnerable people who remain without adequate life and general insurance. This is an enormous untapped market, where effective service delivery would generate social and environmental benefits, reduce the gap between rich and poor, and provide better protection to those most vulnerable to the effects of climate change; and

- Better engagement in policy making processes, particularly those related to climate change and social development, that have a major impact on their risk management and for which the structure of insurance services can shape behaviour in the economy. Reframing insurance as a major lever for achieving sustainable development will also improve public trust in the sector.

Table 3.1 captures some of the main sustainability issues faced by the sector both globally and in Jordan, framed within the context of the seven responsible competitiveness drivers.

What are the implications and opportunities of these Responsible Competitiveness issues to Jordan's insurance sector? This chapter outlines the responsible competitiveness performance of Jordan's insurance sector, drawn from qualitative research and benchmarked against some of the best performing insurance companies from three OECD countries. The next section summarises the state of responsible competitiveness in the insurance sector in Jordan, before exploring the performance and opportunities across each of these seven drivers in detail.

TABLE 3.1 KEY RESPONSIBLE COMPETITIVENESS ISSUES FOR THE INSURANCE SECTOR

RC Driver	Key Issues
A. Responsible Business Climate	• Regulation • Corporate governance • Anti-corruption and anti-money laundering • Addressing social and environmental objectives
B. Smart Philanthropy	• Micro-insurance initiatives • Joint collaboration on major issues (e.g. road safety)
C. Attracting and Developing Talent	• Attracting and developing talent • Retaining talent • Gender balance
D. Business Standards and Compliance	• Moving beyond statutory compliance • Shaping climate change policy
E. Responsible Supply Chains	• Ensuring human rights and other social and environmental performance
F. Innovation in products and services	• Innovation in micro-insurance for lower income and most-at-risk • Innovation for major social and environment national issues • Ensuring sustainability investment options for clients
G. Responsible Communications	• Responsible, clear and straightforward marketing and disclosure of product details • Transparency on overall sustainability performance

3.1.1 Methodology

The methodology used for this insurance sector research is outlined in detail in the Annex. In summary, the data and benchmarking reflect a comparison of six Jordanian insurers against seventeen OECD insurers from three OECD countries (five or six insurers per country).

The Jordanian insurers were selected against market capitalisation and share percentages according to the Jordan Insurance Federation. The OECD countries were selected based on the number of instances of leadership in sustainability practices in their insurance sector. This does not mean they are definitively the top countries in sustainability for the insurance sector, but rather are strong countries in this regard. The OECD countries selected for this sector were the UK, the USA and Switzerland. The selection of insurers within each country was primarily based on the Forbes Global 2000 list.

3.2 OVERALL ASSESSMENT OF RESPONSIBLE COMPETITIVENESS PERFORMANCE

This section summarises:

- Qualitative progress drawn from the self-analysis of stakeholders within the sector, and drawn from other surveys and research; and

- Quantitative progress of the sector as benchmarked against selected international banks in the OECD.

The core issue – reframing insurance as a lever for responsible behaviour
The Jordan insurance sector demonstrates a combination of both thoughtful and innovative practices on some issues, while having large gaps on others. Critically, there is one major challenge that systematically plagues the progress of the sector across all major responsible competitiveness drivers. The sector suffers from a lack of consideration by all major stakeholder groups of the influence that a sustainability-oriented insurance sector could have on achieving national development and competitiveness objectives. The sector has tremendous potential to encourage sustainable behaviour and responsible competitiveness, particularly through innovative services and proper risk-based pricing signals. It can also act as an early warning and risk detection system for sustainability issues impacting the Kingdom. Increases in road safety claims, asthmatic and other health claims from air quality, farming loss claims from drought and water shortages, business loss claims or risks from energy and water access and energy costs all signal emerging sustainability risks. Given that it is in the interest of the sector to minimise actual losses from these risks, the sector should be actively engaged, and easily persuaded, to take an aggressive role in addressing sustainability issues.

There are two major barriers to progressing responsible competitiveness for the insurance sector:

- **Government regulation** is strict on the sector leaving little room for pricing incentives for more responsible client behaviour. No differentiation in services and pricing contributes to a lack of interest by a stakeholder to try to understand the risk and manage it effectively. In this and other ways, it would appear that government has not recognised the constructive, high leverage role that the sector can play in shaping individual and collective behaviour towards more sustainable development; and

- **The insurance sector itself** has failed to frame itself as a potential lever for sustainable development, and to reframe the discussions around regulation in this context. If the industry is not able to effectively articulate the approach and the means to how it can significantly impact sustainable development in the country, it is understandable that government and other stakeholders would be cautious over both motives and the sector's ability to deliver.

To frame this challenge in the context of a current Jordanian example, there is promising progress and a potential breakthrough with regard to automobile driver insurance. Currently, insurance companies must insure all people and do so at the same price, regardless of their driving record. Someone with a record of several accidents gets the same benefit or reward as someone with a perfect driving record. This lack of differentiation of service results in lesser appreciation of risk and even lesser attempt to manage it effectively. A collection of individual decisions in this regard ultimately translates into undesired collective macro behaviour. With the potential change in regulations, insurance companies through pricing, servicing and choice of delivery (subject to appropriate parameters) should be able to have a significant impact on individual and macro driver behaviour and an overall reduction in road safety incidents and claims. This is well-understood and practiced in leading OECD countries.

The same approach can be applied to nearly every sustainability issue. This revelation is causing a sea-change in the insurance industry in leading OECD countries, driven at the same time by a startling rise in large-scale claims often due to environmental issues or disasters. In Jordan, the same use of the insurance sector to incentivise positive behaviour change could affect national objectives relating to energy efficiency, water management, sustainable farming, food safety, air quality, the catalysing of a renewable energy sector and other critical competitiveness and development issues.

There is a choice to be made: addressing each of these issues could remain a far off struggle, or could be immediately and significantly impacted by adopting an approach to insurance that focuses on its ability to positively shape behaviour towards sustainability, while protecting 1) those who contribute most to sustainability and 2) those who, by no fault of their own, are most at risk of the impacts of our collective global lack of stewardship on issues such as climate change.

The broader assessment

Table 3.2 summarises the performance of the six largest Jordanian insurance companies benchmarked against the five or six largest insurance companies of three OECD countries. For the purposes of this chapter, these are representative samples of both the Jordanian and the OECD insurance sectors. Given that this is a comparison against the leading international insurance sectors, we would expect many gaps to be significant, but nonetheless insightful in terms of providing inspiration and guidance for competitive opportunities for the sector.

It is important to note that not all Responsible Competitiveness drivers are conducive to quantitative measurement in an emerging market context, and as such are not all included in this table. This is compounded by the fact that many indicators measured by global insurance leaders have not previously been measured by Jordanian insurers, and may not yet even be in the language or dialogue of the sector nationally. Similarly, the indicators used in this chapter are not necessarily the only or most important indicator for each driver, but rather are indicators that are more easily subject to quantitative analysis.

TABLE 3.2 BENCHMARKING OF THE JORDAN INSURANCE SECTOR VERSUS LEADING OECD INSURANCE SECTORS – SAMPLE GAPS AND OPPORTUNITIES FOR RESPONSIBLE COMPETITIVENESS

Drivers of Responsible Competiveness	Jordan	OECD
Attracting and Developing talent		
% of women on board of directors	5%	19%
% of female workforce	29%	38%
Business Standards and Compliance		
% of insurers in the UN Environmental Programme Finance Initiative Insurance Working Group	0%	41%
Product and Service Innovation		
% of insurers offering sustainability-screened funds within client investment fund options	0%	73%
Responsible Communications		
% of insurers producing sustainability/ CSR reports	0%	65%
% of insurers disclosing carbon emissions	0%	47%
% of insurers disclosing water usage	0%	41%

Source: AccountAbility/Sustainability Excellence analysis

This data illustrates the progress of Jordan's insurers in some areas of responsible competitiveness, whilst also highlighting real gaps and setting out a challenge for moving forward.

A. **Responsible Business Climate**: The Insurance Commission of Jordan (IC) has taken important steps to set out regulations and standards relating to corporate governance, anti-corruption, anti-money laundering, and other basic necessities for a properly functioning insurance sector. The sector itself is making progress on implementation but is still considered to have some challenges, for example ongoing concerns around family control versus the level of non-executive directors who are knowledgeable about the industry.

The sector is relatively tightly regulated, but how can the sector and regulators work together to create a more flexible system that allows for service and pricing innovation that will encourage clients to adopt more sustainable behaviour? The sector currently addresses traditional insurance issues and is not yet expanding into coverage of other environmentally and/or socially-related insurance risks.

B. **Smart Philanthropy**: Most of the insurance companies assessed in the OECD countries incorporate core competencies of the bank into their philanthropic strategies, such as focusing on micro-insurance initiatives or looking at how, as insurance companies, they can contribute to action on climate change. This helps to maximise the overall impact of their community activities. The approach is practiced only modestly by the Jordanian insurance sector, although the sector has taken some important and collective steps, such as establishing a fund for victims of hit-and-runs who otherwise may not have been compensated, and in engaging on a collective road safety campaign.

C. **Attracting and Developing Talent**: Insurance companies face a serious human resource challenge. The sector does not enjoy the same kind of reputation as leading sectors and thus has a greater challenge both in attracting and in retaining high calibre employees. Employees in the sector do not see themselves as part of an industry that is contributing to sustainable development by influencing behaviour on key issues or by providing safety nets for those at risk. Gender imbalance is present as it is in many sectors.

D. **Standards and Business Compliance**: While Jordanian insurance companies are now making progress in achieving compliance with legislation aligned to international baseline standards, few have considered looking beyond these standards. This may be in part due to a lack of interest resulting from strict regulations in the sector, but is largely unexplored territory. The sector does not engage with international sectoral dialogues such as the Insurance Working Group of the United Nations Environment Programme Finance Initiative or the Geneva Association’s Kyoto Statement.

E. **Responsible Supply Chains**: Other than standard contractual terms, Jordanian insurance companies do not seek to know or to influence the environmental and social performance of companies from whom they procure, nor do they seek to procure more environmentally or socially responsible products and services. At the same time, many are part of the supply or value chain of major insurance companies. In this regard, the sector may increasingly receive requests about its own environmental and social performance from these major companies that are integrating sustainability into their own value chains.

F. **Product and Service Innovation**: Product and service innovation faces restrictions in the country, but none-the-less there are some insurers who have arranged to offer low cost services to lower income areas. On the whole, however, micro-insurance has not taken root, in contrast with the development of microfinance in the banking sector where Jordan has the second highest penetration of microfinance in the Arab world. In other areas of product innovation, Islamic insurance (Takaful) has emerged as a popular insurance service with 43% growth in Jordan in 2008, compared to that of the overall insurance sector of 14%. There are few if any other product or service related innovations that aim to address environment-related insurable risks or other social issues that involve insurable risks.

G. **Responsible Communications**: Jordan's insurance sector has made progress on transparency, with the IC for example issuing an annual report on the sector. Nevertheless there is widespread practice of limited transparency and/or product detail and clarity, and thus "small print" concerns remain sources of perpetuating client suspicion and potential distrust. The establishment of the Insurance Dispute Resolution Committee has been a constructive step in open and improved engagement. At a company level, no individual Jordanian insurance companies issue public sustainability reports, as compared to 65% in OECD countries.

3.3 DRIVERS OF RESPONSIBLE COMPETITIVENESS

This section investigates each driver of responsible competitiveness in detail, highlighting relevant issues for Jordan's insurance sector, outlining the competitive impacts of these issues, and analysing performance. Data is drawn from interviews, surveys and international reports relating to OECD banking performance.

A RESPONSIBLE BUSINESS CLIMATE

3.3.1 Responsible Business Climate

> *"We all know that the problems are regarding human resources and innovation. But we don't talk enough about solutions."*
> Interview with an insurance company, June 2009

3.3.1.1 Key Issues

Responsible Business Climate refers to the key frameworks in place to ensure the ethical conduct of the insurance industry in a society, and to effectively leverage the industry so as to maximise the industry's positive benefits to sustainable development and responsible competitiveness. These issues are the regulation of the sector, corporate governance, systematic efforts to prevent corruption and money laundering, and systematic efforts to incorporate and help manage a growing range of social and environmental risks and objectives.

3.3.1.2 Impact on Competitiveness

The regulatory framework for a national insurance industry has a profound impact on the potential profitability of the sector. For example, without the ability to influence driver behaviour with proper risk pricing signals, insurance companies will receive and have to pay out a higher number of claims, which in turn directly impacts profit. The regulatory framework will also dictate the type and extent of products and services that an insurance company can innovate and offer, which in turn affects both revenue and market size potential.

Efforts by the sector to avoid corruption and money-laundering are competitiveness issues in that they help to protect profits by eliminating wasted or lost funds, and are essential to protecting reputation (one bad case by a single company can affect not only the company but the whole national sector), which in turn affects market trust, client loyalty, and thus revenues. Corruption and money-laundering charges can cause the outright shutting down of the business by regulators.

Fraudulent claims are a challenge for Jordanian insurance companies, causing financial loss and efficiency losses. Creating frameworks to combat that fraud will directly address these losses. Simultaneously, having agreed multi-stakeholder mechanisms for resolution of disputes with clients also saves resources while increasing consumer trust in the process.

Expanding risk understanding and insurance coverage across a wider range of environmental and social risks both helps to protect clients against what are increasingly some of the most common losses, while helping the insurance sector to expand its line of services, and the size and scale of its market. It also helps the sector to improve its ability to help reduce the number of losses (and thus claims) relating to environmental and social issues. In all these aspects, there are significant opportunities for sector growth.

3.3.1.3 Performance and Good Practices

Regulation

The Insurance Commission of Jordan (IC) was established under the Insurance Regulatory Act No. 33 of 1999. IC recently raised the minimum capital requirement for existing companies from JD 2 million to JD 4 million, and to JD 25 million for new entrants, in an effort to deter smaller entrants from entering the market. IC is widely perceived as one of the more proactive and effective supervisors in the region, and has played an active role in regional and international bodies such as the Arab Forum of Insurance Regulatory Commissions (AFIRC) and the International Association of Insurance Supervisors (IAIS). Nevertheless, according to a survey undertaken by the Oxford Business Group, members of the insurance sector would like to see greater coordination among the regulators and those working for the Kingdom's legal system in order to improve insurance laws. [6]

Broadly speaking, the sector is tightly controlled which can reduce the ability of insurance firms to demonstrate differentiation in service and pricing options. The regulatory framework is the main linkage point to whether or not government is aiming to utilise the sector as a significant catalyst and influencer of behaviour towards sustainability, and/or an indicator of the extent to which government has assessed it to be mature or capable enough for that role.

Fraudulent claims against insurers are a problem for insurers, and regulatory measures could do more to dissuade this common practice.

Corporate governance
Ensuring insurance sector corporate governance practices meet the highest international standards such as OECD recommendations are essential to maintain and improve trust, especially in a post financial crisis world. Industry-specific codes should also be taken into account, for example the *Recommendations on Corporate Governance* of the International Association of Insurance Supervisors along with their 28 *Insurance Core Principles* that are fundamental to effective insurance supervision; and for Islamic insurance, the *Guiding Principles on Corporate Governance* for institutions offering only Islamic Financial Services of the Islamic Financial Services Board.

The Insurance Commission of Jordan issued regulation on corporate governance codes in 2006 which were implemented in 2007. The regulations emphasised the responsibilities of senior management including board of directors and deputies, stressing the need for audit committees. However, a Financial Standards Foundation report on Jordan's compliance with Insurance Core Principles concluded that "actual implementation of sound corporate governance practices may be hindered in Jordan by the prevailing business practices which are characterised by family control and lack of non-executive directors knowledgeable of insurance business."[7]

> "We need more resources to tackle insurance fraud, to fund an anti-fraud department, and a database."
> *Interview with an insurance company, June 2009*

Anti-money laundering and counter-terrorism financing
Jordan's 1999 Law on Organising Insurance Business did not refer to money laundering. In 2002 the Jordanian government issued new rules to reduce the risk of money laundering through insurance business, and the law was again upgraded in 2007 with the enactment of the Anti-Money Laundering Law.

Promoting social and environmental objectives
In recognition of the growing range of environmental and social issues (such as climate change) and their social and financial consequences, Dr. Bassel Hindawi, Director General of the Insurance Commission of Jordan, has called on insurers and other business to adopt sustainable approaches that will help them outperform their competitors while operating in a socially responsible manner. Dr. Hindawi asserted that companies practicing sus-

tainable development "outperform others by 15% and are well-regarded" for their efforts to improve the environment and social order while ensuring their organisations prosper.[8]

National Best Practice: Responsible Business Climate
2007 Anti-Money Laundering Law

The Provisional Law on Monitoring Business Insurance of 2002 contains a series of provisions dealing with money laundering. The law creates the substantive offence of laundering money through insurance activities and prohibits: the transfer of possession; transmitting, altering, or disposing of any property or any proceeds derived from or as a result of the commission of an offence to conceal their sources and convert them into legitimate property or proceeds. Although the new law was a step forward in the fight against money laundering in the sector it did not address money laundering in a comprehensive manner since it was enacted in the first place as a law that would regulate the insurance sector, but not as a law that deals primarily with money laundering.

To correct this situation, in 2007 the Jordanian government enacted a unified Anti-Money Laundering Law in accordance with the Financial Action Task Force recommendations. The law's coverage is not limited to banks, but also includes insurance firms, money exchange businesses, brokerage firms, investment funds, and even the real estate industry, one of the economy's strongest pillars. The law requires all these institutions profile the activities of their customers. In addition the Insurance Commission of Jordan has been instrumental in providing training on anti-money laundering.[9]

The industry has started to look at the role it can play in addressing social issues. It has taken steps to help address the issue of road safety treatment of victims, including the establishment of a motor fund for hit and run accidents that otherwise would be uninsured. The sector has also been an advocate of changing the regulations to link driving insurance pricing to driver record.

Micro-insurance

Although the government's National Strategy for Microfinance is seeking to integrate the sector with the mainstream financial services industry, micro-insurance is an emerging issue that has not yet been addressed by the

National Strategy or other public policies, neither in Jordan, nor elsewhere in the region.[10] It has attracted the interest of multilateral institutions and private foundations which are trying to take the necessary steps to mainstream micro-insurance products as is shown by some of the case studies included in this chapter. The Insurance Commission of Jordan, together with several insurance companies, has started to explore ways to encourage micro-insurance in the sector.

Climate change

Leading insurers globally are taking a lead in debates around climate change and protection of the environment, including the issue of people and businesses most vulnerable to the environment. The Insurance Working Group of the United Nations Environment Programme's Finance Initiative is an example of an initiative aimed at helping insurance companies to embed sustainability into their business. At the same time, collective initiatives by the sector have emerged, such as the Geneva Association's Kyoto Statement which was signed by 80 chief executives in early 2009.

In December 2009, the world will meet in Copenhagen to discuss a climate change agreement for a post 2012 framework, when the timeframe outlined in the Kyoto Protocol will lapse. According to Laurent Corbier, Chair of the International Chamber of Commerce Commission on Environment and Energy, the targeted agreement in December will aim to "provide business with a clear, predictable framework to stimulate investment in technologies that will enable a transition to a low carbon economy."[11]

The issue extends far beyond discourse and rhetoric. "Responses to the financial crisis have featured demands for global coordination. Our economic woes, however, are dwarfed by the increasing threats of climate change, environmental degradation and a resource crunch," commented Mr Juan Carlos Castilla-Rubio, Managing Director of the Climate Change Innovation Group. "Unprecedented global coordination and collaboration of the private sector with the public and people sectors are the only way to address these challenges", claims Juan Carlos Castilla Rubio, Managing Director of the Climate Change Innovation Group.[12] Jordan will not be spared from climate change and is already feeling the effects. Given these growing impacts, the Jordan insurance industry, which has been silent on this issue, should be expected to take an active role in this area moving forward.

3.3.1.4 Recommendations

Insurance companies should:

- Re-frame the sector's interests in the context of sustainable development. Shift interests as required to create maximum alignment between industry interests and the national development and sustainability goals of the government. This could include developing scenarios and modelling the predicted outcomes of each scenario;
- Engage policy-makers and regulators from this revised context, lobbying to allow for proper market signals. Use the scenarios and business cases for evaluation by government; and
- If given the opportunity, modify pricing and service offering in a manner that implements price signals, and aligns those signals to level of risk and severity of the potential outcome. Apply this to as many sustainability issues as may be plausible in the short, medium, and longer-term.

Government and regulators should:

- Re-assess underlying assumptions, beliefs, and frameworks to determine whether policymakers and regulators are providing the appropriate framework to foster innovation in the insurance industry that serves national objectives and drives sustainability and responsible competitiveness;
- Agree to allow greater price differentiation on services, and greater product differentiation and innovation; and
- Continue to advance legislation that would support insurance companies in their battle against fraudulent claims.

B SMART PHILANTHROPY

3.3.2 Smart Philanthropy

> *"Micro-insurance is doing well in places like Morocco. Knowing why would be a good start. And we need to better understand what the indicator of our success would be before we begin to measure it."*
> Interview with an insurance company, June 2009

3.3.2.1 Key Issues

Smart Philanthropy is about making philanthropy more strategic. It refers to the ways in which insurance companies can promote social and environmental objectives through community investment activities which take advantage of an insurer's core competencies and are aligned to core business interests. Good smart philanthropy initiatives blur the line between everyday business and community investment.

In Jordan, examples of smart philanthropy in the insurance sector include:

- **Micro-insurance.** Micro-insurance serves the insurer's business interests as micro-insurance can migrate from strategic philanthropy to a new, profitable line of business;

- **Risk awareness campaigns.** Identifying specific issues where better knowledge by a stakeholder might positively affect their ability to avoid being impacted by that risk, regardless of whether or not they are a client of the insurer; and

- **Collective efforts.** Insurance is about spreading risk, and similarly, insurance companies need to collaborate with a broad range of stakeholders on key issues.

3.3.2.2 Impact on Competitiveness

Traditional philanthropy typically aims to "give back" to society, with some corresponding but usually negligible reputation effect. In this approach, competitive benefits are marginal. In the face of global recession, many companies are reducing their total financial philanthropic commitments because of the limited direct benefits. Smart philanthropy on the other hand contributes to bettering communities, but does so in a way that opens up potential pathways to new services or that contributes to public awareness of insurance services or contributes to public confidence in insurance services.

3.3.2.3 Performance and Good Practices

Many Jordanian insurance companies seem to be engaged in philanthropic activities. ALICO, the leading company in the life segment market, supports breast cancer prevention and the development of an insurance product which includes a free mammogram: an example of combining traditional philanthropy aligned with vested business interest to create an outcome beneficial to society, customers and the business.

There are also examples of collective smart philanthropy initiatives in Jordan. In response to the high rate of incidents and claims relating to road accidents, the sector collectively supported a road safety programme. The sector also agreed to contribute to the establishment of a fund that would provide compensation to victims of hit-and-runs, who otherwise would not be entitled to insurance. There are a large number of issues and opportunities (such as health subjects, pollution, presence of toxins and green building construction) for which the sector could collaboratively attempt some smart philanthropy action. This ranges from creating awareness of the issue to free or below cost service provision or experimental service provision.

International Best Practice: Smart Philanthropy
Financial Literacy in the UK

Financial literacy, or specifically the lack of it, undermines the competitiveness of nations and companies. The inability to understand, process and act on financial information has been shown to contribute to tardiness, absenteeism rates, lower employee morale and increase conflict between co-workers and supervisors.[13] Improving financial literacy can boost productivity. In the UK, the Insurance Industry Working Group, an association of the largest insurance firms in London, is working with the government to promote financial literacy. It will be more active in addressing risk management for ordinary people in retirement savings, accident and healthcare cover and income protection. According to the Group's co-Chair, Chief Executive of Aviva Andrew Moss, there is much more room for the industry to be more active. "There is a real desire for better customer engagement through greater financial education and awareness, improved accessibility and transparency of products."[14]

The micro-insurance opportunity

Some insurance companies have approached IC directly on the potential of them serving small nearby markets through innovative micro-insurance services. These initiatives may begin as smart philanthropy micro-insurance, but ideally would evolve to become a profitable service; the only way to ensure the required level of outreach and servicing needed to serve the overall Jordan lower income community. Micro-insurance should be pursued immediately and much more aggressively by the sector, and could be done in collaboration with IC so as to jointly experience the challenges in providing the service and to jointly identify solutions. The sector has already identified that the rules around who can be an insurance agent restrict the insurance companies' ability to use local intermediaries in micro-insurance markets. All parties need to work together to find the best solution to this challenge.

Micro-insurance often does best in markets that have already been penetrated by microfinance. Given that Jordan has the second highest microfinance penetration in the region, the near absence of micro-insurance demonstrates the opportunity and the need to adopt and to quickly and significantly scale up micro-insurance offers.

International Best Practice: Smart Philanthropy and Micro–Finance
Allianz Group

Allianz Group, the German insurer, is successfully providing micro-insurance to disadvantaged communities across India. Poor communities are the most vulnerable to the impacts of natural disasters, fluctuating food prices and job market volatility. Credit and insurance help to minimise the impact of these risks by building capabilities and ensuring that loss of health and livelihood does not have to mean falling into extreme poverty. Allianz's Indian subsidiary, Bajaj Allianz, is working with the NGO CARE International to serve some of India's most vulnerable, particularly in the cyclone and tsunami affected areas of the south east, offering both life and non-life products. In some areas the products are operated as a "mutual", whereby villagers share risk collectively. So far, micro-insurance uptake in India has been significant: 2 million people signed up in 2008 and Allianz hope to reach 10 million users by the end of 2009. "Our objective was to create something like a revolution and cover a huge mass of communities… and educate them about their personal security and saving avenues" explained Yogesh Gupta, Head of Business Procurement and Micro-insurance Business at Bajaj Allianz. "Profit making was not our prime objective, but of course, we can't afford to incur losses for the company." It is expected however that micro-insurance will turn a profit within approximately 5 years; Bajaj have already seen a 20% increase in new clients in just one year of offering micro-insurance.[15]

Despite some successes, much more could be done. One interviewee indicated that the level of philanthropy from the sector was very low because profit in the sector is small at less than 4%, which restricts the ability of the sector to invest in philanthropic initiatives. This is the embodiment of traditional philanthropic thinking. With a smart philanthropy perspective, the sector will find good reasons and good approaches to significantly scale up smart philanthropy initiatives that both serve community and the company.

3.3.2.4 Recommendations

Insurance Companies should:

- Adopt a smart philanthropy approach and significantly scale up overall philanthropic activity which links directly back to core business objectives;
- Individually and collectively launch and experiment with micro-insurance, especially with multi-stakeholder distribution partners; and
- Develop a collective programme that selects one high risk sustainability issue that is or will be affecting Jordan's population and the insurance sector, and conduct awareness raising and training on preventative actions.

Government and Regulators should:

- Adopt an open mind perspective when working with the sector on experimental, potential breakthrough solutions. New levels of flexibility are likely to be required in order to allow the sector to responsibly explore how to address major challenges and opportunities be it micro-insurance rollout, or the tackling of an impending issue.

C ATTRACTING AND DEVELOPING TALENT

3.3.3 Attracting and Developing Talent

> *"We do not have a competitive culture here. People prefer to leave their jobs for easier work in the public sector. This is an issue with our education system."*
> Interview with an insurance company, June 2009

3.3.3.1 Key Issues

Attracting and Developing Talent is about generating the best possible performance from human resources. In the Jordan insurance sector, retention is a major issue, along with job satisfaction, workplace motivation and the ability to attract talented staff.

3.3.3.2 Impact on Competitiveness

Many companies, including many insurance companies, claim that their employees are their greatest asset. If so, then the ability to enhance that talent is central to competitiveness. Insurance companies that earn a reputation for treating their employees well, for providing attracting salary and benefits, for respecting opinions, and for consistently applying merit-based advancement opportunities are able to: 1) better attract top talent; 2) secure higher levels of productivity and satisfaction from its talent; and 3) increase the loyalty of, and better retain, top talent. Insurance companies that proactively seek female employees can also gain the benefit of hiring from an available talent pool that is less intensively tapped and thus richer in high quality talent. For the same effort as others they gain more competitive staff.

3.3.3.3 Performance and Good Practices

Responsible Competitiveness Driver: C. Attracting and Developing Talent		
Indicator	**JORDAN**	**OECD**
% of women on board of directors	5%	19%
% of female workforce	29%	38%

By December 2005, the number of the employees in the Jordanian insurance market reached 2,365, including IC, the Jordan Insurance Federation (JIF), insurance companies, agents, brokers, loss adjusters and Third Party Administrator (T.P.A) companies. Of this, 1,980 were employed by insurance companies, 1,491 of which were management and technical staff, and 489 were production staff.[16] Official data is not available regarding proportion of female workers or percentage of women in management and senior management roles. Based on the surveys, the estimated percentage of women employees is 29%, which if correct, would be equal or greater to the OECD level.

> *"Most people are not interested in working in the insurance industry and turnover is high; we can retain only a poor percentage of each batch after one year, which require a training period between two weeks and three months."*
> Interview with an insurance company, June 2009

The sector has difficulty in attracting talent. It does not enjoy the best reputation, and this impacts the interest of, and discourages, new graduates as well as others in the job market. If Jordan insurance companies were to meaningfully adopt sustainability management and reframe their sector as a key lever in moving towards more sustainable development, this would likely have a significant effect over time in attracting talent. Working for a company whose everyday practices are aligned to one's ethical beliefs and/or which inspires towards a greater purpose is increasingly high on the list of job preference and job satisfaction factors. This applies equally to the insurance industry.

> *"There are many factors that attract talented individuals to Swiss Re. The company offers competitive compensation and benefits, for one. But today's employees want more from the company at which they work. They want their employer to support sustainable development and act as a good corporate citizen. We strive to meet these expectations, based on our longstanding commitment to corporate responsibility."*
> Swiss Re, 2008 Corporate Responsibility Report

In the same way that the sector's reputation affects the ability to attract talent, it similarly effects ability to retain talent, as dealing with wide-ranging negative stakeholder perceptions takes its toll over time. Again, a strategic re-framing of the sector as a lever for helping achieve more sustainable development and responsible competitiveness would not only re-shape stakeholder opinions over time, but would strengthen conviction and purpose of staff even before stakeholder perceptions shifted.

Several insurance companies surveyed recommended more steps should be taken to enhance training and development opportunities within Jordan. Some companies were frustrated by a reliance on foreign-based training, having to send staff to other countries for training despite their opinion of an overall competitive advantage for Jordan in education in the region. Jordan International Insurance, amongst others, is currently developing a risk management programme to respond to this challenge.

International Case Study: Attracting and Developing Talent
Impuls Finanz management and Swiss Re

Employees are increasingly critical to long-term business success. For the last fiscal year, according to the European Great Place to Work Survey 2009, companies considered 'good employers' reported growth in revenues of 23%; nearly twice that of those considered weaker employers. Good employers received, on average 6.2 job applications for each current member of staff; 3 more candidates per team member than lower performing companies. Happy workers are more productive, more innovative, and boost the reputation of the firm. In addition, employees are less likely to be absent and more likely to stick with the company.

Impuls Finanz management, the German health insurer, has created a strong workplace culture by combining generous overseas travel for strong sales performance with a supportive culture that is responsible to an individual's problems. The company has previously helped employees by providing legal support from Impuls' team and assisted with new houses and relocation packages. Impuls is also breaking down hierarchies in the organisation with an annual workshop to promote candour in employees.[17] "We have created a culture where thinking big comes from small actions by the whole team," said one employee in an interview in August 2009.

Swiss Re has built a reputation as an employer of choice due to their rewards and development opportunities, as well as concerted efforts to promote diversity in the work place. With a recruiting system based on talent and potential, Swiss Re invests heavily in the personal development of their employees. Their effort was recognised by the Dow Jones Sustainability Index award of the maximum score of 100% in the Human Capital Development category.

Training and development needs are met across all demographics at Swiss Re, with programmes for apprentices and recent graduates, Global Swiss Re Women's Initiative to address and minimise barriers to women's career development, and even the Swiss Re Alumni Network, a means by which employees who have moved on can maintain relationships with the organisation, and continue to explore opportunities. Swiss Re also continues to benefit from their alumni's knowledge and experience. Their employee engagement reputation not only makes them an attractive employer, but they are still able to gain value from their former employees – a true return on investment.[18]

3.3.3.4 Recommendations

Companies should:

- Adopt sustainability management and strategically reposition the sector as a catalyst and support for national sustainable development, then consciously use that commitment – and real performance progress – to attract, motivate, and retain talent; and
- Evaluate best international practices in the insurance industry for developing talent internally, and consider adoption of these programme's in the Jordanian context. Examples include the Women's Initiative to address and minimise barriers to women's career development; and increasing the amount of systematic engagement with employees while ensuring meaningful and appropriate responses.

D BUSINESS STANDARDS AND COMPLIANCE

3.3.4 Business Standards and Compliance

> *"I encourage all of you to continue on the path of innovation and collaboration. Continue to spread green solutions through your supply chains. Continue to push for private-sector solutions that reduce climate risks – in health, water and natural resources, in insurance and investment and economic development."*
>
> **Ban Ki-Moon**, United Nations Secretary General[19]

3.3.4.1 Key Issues

Business Standards and Compliance for the insurance sector refers to voluntary standards and initiatives which extend the management of key sustainability issues beyond simply compliance. Section 3.3.1, Responsible

Business Climate, has already touched upon several aspects of mandatory regulation and compliance.

There are several issues of growing global and national importance around which the international insurance community has established and is establishing voluntary international standards and guidelines. These issues include corporate governance, overall principles for the sector and climate change.

3.3.4.2 Impact on Competitiveness

Voluntary initiatives reflect and promote leading practices. In the insurance sector, they may be generated for several reasons. These include a recognition of the growing materiality of a risk that is not yet captured in the regulatory framework; a desire by the sector to find its own solutions to a growing challenge; a set of demands by stakeholders to take action on a given issue; and nascent but large scale opportunities in the marketplace that could benefit from collective sectoral action.

In each of these cases, adoption of such measures tends to create two major types of competitive benefits, namely performance gains and reputation benefits. Performance gains can arise from a reduced number of incidents, and thus claims, on specific targeted issues (such as automobile accidents, fire and drought). As insurers worldwide increasingly pay out large amounts in claims due to the impacts of severe natural events, they find it imperative to consider wide-ranging actions far beyond current legislation to try to reduce these events.

Given that these initiatives often have a risk mitigation and cost saving component, they are just as valuable or more valuable to implement in a time of economic downturn. Reputation gains can arise from client and public recognition of the insurance company taking a leadership position on key issues, and working harder to practice ethical issues within their operations. Trust is traditionally low between client and society and insurance companies, with stakeholders feeling insurance companies do the bare minimum when it comes to acceptable practice. Adopting proactive leadership well beyond compliance is an effective way to dispel that client perspective. Improved public trust and reputation feeds back into performance, with a higher number of clients, and greater client retention, while improved reputation and trust with the Insurance Commission of Jordan increases possibilities for new products and services and revenue growth in the marketplace.

An underlying theme of voluntary initiatives is that there is a strong enough business case for action regardless of government intervention – there is no need to wait for government to take action.

3.3.4.3 Performance and Good Practices

Key voluntary guidelines

Responsible Competitiveness Driver: D. Business Standards and Compliance		
Indicator	**JORDAN**	**OECD**
% of insurance companies in the UN Environmental Programme Finance Initiative Insurance Working Group	0%	41%

Responsible competitiveness means complying with the law but also pushing boundaries of best practice and adhering to voluntary standards. In areas such as corporate governance, the insurance sector in Jordan could further gain from adhering to standards such as the recommendations of the OECD or from voluntarily considering industry-specific codes such as the *Recommendations on Corporate Governance* of the International Association of Insurance Supervisors. The voluntary standards, in particular, give the firms the role of being role models in the industry and in distinguishing and promoting Jordan economically in the region. Other global guidance from the sector includes the Geneva Association Kyoto Statement, and the emerging guidelines of the Insurance Working Group of the United Nations Environment Programme.

International Case Study: Business Standards and Compliance
United Nations Environment Programme Finance Initiative – Insurance Working Group

Insurance companies, working through the United Nations Environment Programme's Finance Initiative (UNEPFI), are identifying ways to promote sustainable development. Through regional activities, training programmes and research, UNEPFI is setting new standards in the insurance industry through promoting best environmental and sustainability practices in companies. Eighteen companies, from North America, Asia, Oceania and Europe, have joined the Insurance Working Group, each benefiting from deepening the understanding of staff, accessing best practice and improving operational performance to tackle societies' major challenges. UNEPFI is set to produce *Principles for Sustainable Insurance* in 2009.

The working group is helping companies – especially those with limited resources - understand how to create new value and identify how the insurance industry can fulfil its potential for sustainable development. Companies are working together to improve how they incorporate environmental and social risks in public-private partnerships and raising consumer awareness, but the sector has untapped potential. As Catherine Boiteux-Pelletier and Pauline Gregg (then both co-Chairs of the Working Group) explained "The insurance industry, being a lever of economic development coupled with its intrinsic expertise in risk management, has a critical role to play in addressing global challenges today and in the future".[20]

International Best Practice: Business Standards and Compliance
Zurich Financial Services Group

Zurich, as part of its Global Climate Initiative, make available current CO_2 emissions and has devised a transparent and staggered climate strategy comprising of three stages: 1) measure impact 2) reduce impact and 3) monitor impact. These three stages of progress collectively aim to achieve the company's goal of reducing its own environmental impact. Thus far Zurich have committed to reducing its emissions by 10% by 2013. This reduction target will be pursued through a combination of cleaner energy sources, energy efficiency measures, reduced air travel and the gradual transition of its car fleet to more fuel efficient cars. Committing to carbon-reduction targets prepares Zurich and other companies not to run afoul of increasing greenhouse regulations.[21]

3.3.4.4 Recommendations

Insurance Companies should:

➤ Adopt, or at minimum evaluate and gain insight from, industry-leading voluntary guidelines or commitment statements including OECD recommendations, the *Recommendations on Corporate Governance* of the International Association of Insurance Supervisors, the Geneva Association Kyoto Statement, and the various outputs, efforts, and emerging guidelines of the Insurance Working Group of the United Nations Environment Programme.

E RESPONSIBLE SUPPLY CHAINS

3.3.5 Responsible Supply Chains

> *"Sustainable supply chains are definitely on everyone's agenda and that hasn't changed, despite there being a greater emphasis on cost out, and a focus on cost reduction... In the finance sector there's a lot of out-sourcing and offshoring, and we need to gain the necessary visibility into our supply chains to ensure that our suppliers are as ethical as we need them to be"*
> **Stephen Wills,** AXA UK[22]

3.3.5.1 Key Issues

Responsible Supply Chains refers to procurement practices that take into account 1) the sustainability qualities of procured products or services, as well as 2) the sustainability performance of the company providing that product/service (for example, the environmental impacts of their manufacturing process, or their labour practices). It can involve working together with existing suppliers to help them move towards greater responsible competitiveness practices.

3.3.5.2 Impact on Competitiveness

Encouraging responsible competitiveness practices in the supply chain can have surprising competitive benefits. These include:

- Reputation – one of the most basic reasons for assessing social practices in the supply chain is to avoid reputation-damaging incidents. Examples could include the revelation of severely underpaid workers, to usage of child labour, to blatantly harmful environmental practices;

- Supplier performance – if sustainability leads to greater competitiveness, then the encouragement of suppliers to adopt it can result in their performance improvements including greater resource efficiency and related costs savings that can be passed on to the purchaser, improved on-time performance, and improved quality, management and accountability; and

- Many of Jordan's insurers are part of the supply chain of major international insurers. Jordanian companies should consider when and how these global players, who are actively managing sustainability issues, will look at the Jordanian insurers from the perspective of whether they meet the global actors' growing criteria around sustainability performance.

3.3.5.3 Performance and Good Practices

Companies are increasingly interested in the social and environmental performance of their suppliers. Analysis of the world's 100 largest companies in 2008 showed that 58% – including Allianz, Citigroup and Unicredit – have developed procurement strategies that screen for companies that are managing their workers responsibly, tackling their water use and looking to reduce carbon dioxide emissions. Good sustainability performance by suppliers is thus becoming important to meet the expectations of these large companies.

Beyond including requirements within contracts to abide by the law, there were no indications that Jordanian insurance companies were pursuing any kind of responsible competitiveness practices in their supply chains.

3.3.5.4 Recommendations

Insurance Companies should:

- Review own supply chains to determine a.) who are the biggest suppliers and how could they also be encouraged to adopt sustainable practices, and/or b.) who are the suppliers, regardless of size, that are most at risk of a breach of some key environmental or social performance criteria; and
- Assess own performance and disclose that performance to companies for which the insurance company may be considered to be part of the supply chain and which have a strong interest in sustainability.

F PRODUCT AND SERVICE INNOVATION

3.3.6 Innovation in Products and Services

> *"There is a demand for micro-insurance but the sector's credibility is weak and we need to improve our service for lower income groups."*
> Interview with an insurance company, June 2009

3.3.6.1 Key Issues

Product and Service Innovation in the insurance sector globally is beginning to accelerate significantly, and is doing so around a responsible competitiveness agenda. Global players are actively engaging in service innovation in emerging markets, with a focus on providing micro-insurance to lower income and higher risk populations and mitigating against the impacts of climate change including natural disasters. Other relevant areas of service innovation in the sector include *Takaful* (Islamic insurance), and sustainable investment choices for policy holders who invest via their policies.

3.3.6.2 Impact on Competitiveness

Customised products and services that best meet the needs and interests of customers is obviously a critical element of competitiveness. Product and service innovation can attract new customers, while expanding the number and scale of services to existing customers, as insurance companies' participate in and help contribute to clients' economic capacity by providing critical assurances. In a tightly regulated market like Jordan, the opportunity for more product innovation could also lead to more highly competitive markets as greater product differentiation challenges each company to remain relevant and strongly service-oriented. Insurance companies that take the lead in product and service innovation are not only likely to attract more customers, but are also likely to attract those people who are most eager to work in the sector and the most ambitious and talented.

If the product or service innovation can simultaneously be seen or understood to be contributing to meeting national or local objectives and tackling important issues facing Jordan, then this contributes even further to overall growth of the sector. Innovations that align with issues on which customers hold strong convictions (such as religious beliefs, environmental awareness, conscientiousness of poverty or responding to people in crisis) tend to generate the highest levels of customer loyalty and reputation.

3.3.6.3 Performance and Good Practices

Micro-insurance for low income groups

The contribution of insurance to poverty alleviation is an opportunity for the country and for insurers. There is a strong social value in micro-insurance provision to low income households and to micro and small entrepreneurs, and huge potential to establish new markets.

This research found that there is interest in the potential of micro insurance to improve the social protection of the urban poor and near-poor. A study conducted by the Social Security Corporation of Jordan recommended a partnership between commercial institutions and non-governmental organisations in Jordan to mainstream micro-insurance. The study showed that a high number of urban households would be willing to provide for the future and would be able to pay small insurance primes but lack adequate products and services. [23]

In spite of these findings, ten years have passed with very little apparent action being taken. Some insurers think that this is not a profitable segment of the market. The same limitations affected the microcredit sector twenty years ago but the efforts of multilateral institutions and non-profit organisations made it a profitable market and facilitated collaborative efforts between commercial institutions and non-governmental organisations to mainstream microcredit. As it was shown in the previous chapter, in Jordan, some banks are already partnering with microfinance institutions to enter into this market. Now, it is the turn of insurance companies to join and lead.

In spite of the lack of a sector strategy regarding micro-insurance, this research found that some Jordan insurers have developed strategies to cater to the needs of low income groups although they do not necessarily call these products micro-insurance. For example, ALICO has a branch in poorer East Amman which has different recruitment and product policies than other branches. ALICO recruits local people from the community and they offer a prepaid life insurance product costing JD 25 for 3 years. The company believes that successful marketing requires three things: product, distribution and demand. In the case of the low income segment, there is demand but products and distribution channels are not yet ready. Jordan French Insurance has also developed small policies for health insurance with income level targeting JD 200 as well as small policies for car insurance with minimum premium.

> *"Lower income groups generally think that they can't afford insurance. We think there is a market, but as a sector we haven't quite got the product or distribution right yet."*
> Interview with an insurance company, June 2009

Growth in the insurance sector is associated with rising incomes, a sophisticated banking sector and low or moderate levels of inflation. Jordan lacks some of these preconditions which limit growth in the insurance sector. According to the Oxford Business Group, region-wide price increases and a lack of consumer understanding of products are two major challenges for the insurance sector. In addition, cultural considerations, including religion, make improving market penetration difficult. [24] The cost of living has also risen, and the inflation rate reached almost 15% in 2008.[25] Many salaries have remained unchanged leaving consumers with less disposable income. Other than mandatory motor coverage, insurance products are considered a luxury by average Jordanians, who must often prioritise spending. This poses limits to growth. Some expect that as the industry grows and becomes more efficient, the price of insurance will fall, making it accessible to a broader range of people. Individuals will be better protected against accidents and make savings for the future and business will be better able to cover their risks.[26]

International Best Practice: Product and Service Innovation
ICICI Prudential Life Insurance

In order to keep their payout costs down, the global insurance industry has a genuine incentive to introduce packages that reduce the livelihood of high risk human behaviour resulting in hefty insurance payouts.

For example, in India diabetes is a particular concern with the World Health Organisation (WHO) naming India as the country with the most diabetes sufferers internationally, a figure which is set to reach 79.4 million by 2030.[27] To help combat this predicted rise and the associated medical costs in 2008 ICICI Prudential introduced the 'ICICI Pru Diabetes Care Active' insurance package, to support and improve long-term diabetes healthcare in India. The package offers diabetes sufferers among other things, regular medical consultations, discounted premium rates for those viewed to be taking personal measures to control the disease, access to gyms and fitness centres to increase physical activity and tax incentives to sign up to the package.[28]

International Best Practice: Product and Service Innovation
Oman Insurance Company

Oman Insurance Company (OIC) is the first insurance company in the Gulf to have a dedicated call centre for the exclusive benefit of its customers. Moreover, it is one of the only financial services companies in the Gulf to have set up a research and development unit to facilitate the development of new insurance products and services to satisfy specific unmet insurance needs of the Gulf population.

To this end, OIC has employed qualified and experienced professionals who interact regularly with their clients by way of surveys, seminars, conferences and get-together parties at regular intervals. In addition, OIC issues a regular in-house magazine, the AL AMAN, which serves as the company's other means of interacting with its customers.

In recognition of its best practices in product and service delivery, Oman Insurance Company has received several awards at the Middle East Insurance Awards ceremonies, the General Insurer Award (2005 and 2006), Training Initiatives Award (2005, 2006 and 2007), the Life Insurer Award (2006) and Corporate Social Responsibility Award (2007).[29]

Islamic insurance

In 2007, the global Islamic insurance or *Takaful* market amounted to US$3.4 billion and by 2012 it is estimated to reach up to US$7.7 billion.[30] Shariah-compliant products have strong potential. There are three takaful operators in Jordan: Islamic Insurance, Al Baraka and First Insurance Company. Some conventional banks have also decided to tap the opportunity provided by Islamic insurance. In 2008, the takaful segment reached JD 20.9 million in GWP from JD 14.6 million in the previous year, registering a growth of 43% compared to that of the overall insurance sector of around 14%. Takaful premiums accounted for 6.3% of the overall insurance business in 2008 against 5% in the prior year.[31]

International Best Practice: Product and Service Innovation
Standard Chartered Bank and Salama-Islamic, UAE

Standard Chartered Bank UAE has partnered with Salama-Islamic Arab Insurance Company to offer a wide range of comprehensive Takaful solutions. Salama provides all types of cover through its Family Takaful range of products which include unit linked regular savings plans, term and mortgage protection plans, single premium plans and pure protection plan all approved by Salama's independent Shariah board of qualified scholars. The partnership means that Standard Chartered will now offer Shariah compliant insurance plans developed and accredited by Salama to meet a diverse range of financial needs including children's education retirement and regular savings plans.

Afaq Khan, CEO of Standard Chartered Saadiq said of the partnership: *"This is an exciting opportunity for Standard Chartered to broaden the core range of products we provide to our customers which allows us to participate in the future growth of the country's Takaful market."*. The Salama Takaful offerings are a new addition to the wealth management product suite distributed by Standard Chartered.[32]

Takaful offers the protection offered through an insurance contract without violating the policy holder's religious beliefs. Takaful has a growing appeal to both religious and secular customers in part due to the provision for the sharing of any reinsurance surplus in case claims do not exceed the amount of money policy holders have put into the Takaful fund for investment. Another attractive feature of takaful is its support for socially responsible investment. Islamic law precludes investment in companies which have activities that are considered unlawful or unethical; activities that are often excluded by socially responsible investment (SRI) funds such as armaments, tobacco, alcohol and gambling. Both global SRI and Takaful aim at greater transparency regarding the companies selected for investment, and both types of funds have in many cases outperformed their conventional peers in the recent recessionary period.[33]

Takaful shows promising growth potential but has to contend with challenges similar to that of secular insurance companies. Regulatory issues such as standardisation and interpretation of what constitutes Takaful, regulatory supervision and corporate governance, and competition with continuously evolving non-Islamic focused insurance offerings.

Responding to climate change with innovative products and services

As suggested at the outset of this chapter, perhaps the insurance sector's biggest contribution to responsible competitiveness, and its greatest financial opportunity relating to responsible competitiveness, is the launch of innovative new products that directly address key sustainable development issues. The following examples illustrate how leading insurance companies are already launching innovative products and services in this space.

International Best Practice: Product and Service Innovation
ACE UK

As catastrophe modelling and pricing mechanisms change along with the unpredictable effects of climate change, ACE has developed innovative market-based solutions to meet the changing needs of the market and the environment. For example, ACE offers policies for commercial entities that are "going green", and upgrading their infrastructure to be more environmentally friendly. They have added to this product line an engineering and consulting service that will advise clients based on Leadership in Energy and Environmental Design (LEED) criteria for green buildings and infrastructure.[34]

In 2008, ACE introduced ACE Green (www.acegreen.com), an internet-based platform that highlights the full range of environmental and sustainability products and services available in every region in which ACE operates around the world. These specialised products and services fall primarily in three areas: 1) Environmental Risk, 2) Renewable Energy, and 3) "Green" initiatives.

Lastly, ACE has joined several interest groups to engage in discussions about climate change and how to manage its consequences. These groups include ***ClimateWise***, a UK-based organisation of insurance companies committed to taking action on climate change and to reporting publicly on their performance; ***ClimateResolve***, the United States Business Roundtable's initiative that seeks to have every company in every sector of the U.S. economy undertake voluntary actions to control greenhouse gas emissions; and the *Carbon Disclosure Project*'s annual survey, amongst others.

As they monitor the increased global regulation of greenhouse gases, ACE intends to enhance existing products or create new product lines as required. They recognise that in order to maintain a competitive advantage, they must keep up with market demands and policy shifts.

Sustainable investment choices

Responsible Competitiveness Driver: F. Product and Service Innovation		
Indicator	**JORDAN**	**OECD**
% of insurers offering sustainability-screened funds within client investment fund options	0%	73%

Some types of personal life insurance include an investment vehicle, whereby the insurer offers a range of investment funds for which the client can choose to invest. As with sustainability-screened investment funds and Shariah-compliant investment funds in the banking sector, the same types of screened funds can be offered with these insurance products.

International Best Practice: Product and Service Innovation
Eureko Re – Achmea: Sustainable Investment

Achmea takes the unique stance of 'enhanced engagement' with the companies in which their funds direct invest. The Group's approach to economic, social, and environmental responsibility is to invest its total equity portfolio sustainably and according to the 'engagement' principle. This engagement principle involves maintaining a broad-based equity portfolio in which only few activities are excluded; these are designated as controversial by the Dutch government and include manufacturers of cluster bombs and land mines.

As a shareholder, Achmea enters into dialogue with companies in its portfolio that exhibit 'undesirable' behaviour. This engagement is held with the belief that it is the appropriate and right way to bring about changes in behaviour. Achmea believes, "if we simply exclude companies, then we cannot exert influence." This enhanced engagement, however, comes with a caveat to ensure its effectiveness. If a company does not already demonstrate sustainable practices in accordance with Achmea's values, the company has three years in which to comply. If the changes are inadequate, Achmea withdraws as an investor.

In principle and in practice, 'enhanced engagement' allows for a focused scope of influence on sustainability issues, with companies that may not otherwise be compliant. The dialogue continues with the non-compliant company and Achmea selects three themes to follow up on and report annually. In 2008 the themes were human rights, animal testing and climate change. For each theme, Achmea selects two or three companies for an intensive dialogue on improvement. Initial results on this type of engagement have been positive and Achmea will continue this practice for subsequent reporting.

Beyond doing the right thing, Achmea's approach will minimise unnecessary risk in their operations. Achmea's example represents some of the most advanced practice in sustainability screening. It is certainly possible to not be as actively engaged as Achmea is with their portfolio holdings, and yet still offer sustainability-screened funds. [35]

3.3.6.4 Recommendations

Insurance Companies should:

- Apply serious effort towards identifying the most effective and acceptable means of successfully rolling out widespread micro-insurance to lower income and high risk populations. Pilot test these services, in collaboration with JIF, IC, and other stakeholders such as NGOs, as may be appropriate;

- Identify the top 2-3 service innovations that could best impact the country's performance results on issues of highest environmental and social priority (such as road safety, health, energy and water management), and work together with JIF and IC to either pilot test these initiatives, or to affect legislation that will open the door to responsible insurance services on these issues;
- Explore how the marketing and evolution of Islamic insurance could promote insurance among segments of the population who have not previously considered it (and who may be at greater risk from the economic impact of some form of accident); and
- Offer sustainability-screened funds as part of the investment fund mix for clients who invest via their insurance coverage.

Government and Regulators:

- Work together with the sector, or leaders in the sector, to determine the best pathway forward for offering micro-insurance in a manner that allows greatest coverage and protection, while protecting the consumer; and
- Work together with the sector, or leaders in the sector, to explore the types of service innovations that could be offered to help influence national performance results on issues of high priority (e.g. road safety, health, energy management, water management).

G RESPONSIBLE COMMUNICATIONS

3.3.7 Responsible Communications

> *"We already provide financial information to the insurance commission. They could also measure our performance against responsible competitiveness if the indicators are clear."*
> Interview with an insurance company, June 2009

3.3.7.1 Key Issues

Responsible Communications is largely about transparency, and how well the sector communicates and engages with all of its stakeholders. For the insurance sector globally, this means consistently working to gain and maintain the trust of customers, potential customers, governments and regulators, and society as a whole. A key aspect of this includes highest levels of transparency and clarity on product and service offerings. Beyond transparency on individual services, a growing aspect of transparency and trust-building requires public reporting not only of financial performance, but also a wide range of non-financial reporting, including governance, environmental, and social performance.

3.3.7.2 Impact on Competitiveness

Maintaining customer and societal trust and confidence has always been a critically important issue for insurance companies, as a sector that has perpetually struggled to maintain a sound reputation. A high level of transparency, disclosure and honesty goes a tremendous distance in strengthening that trust. Transparency about the details of products and services is essential, not only because it builds confidence in the product or service, but also because it can influence consumers' perception of the entire company.

Trust and confidence building, benefits improved disclosure, and sustainability reporting can translate into improved performance: improved client attraction, client retention, expansion of services, and cross-marketing of services.

Sustainability reporting leads to other types of performance improvements. As per the adage "what gets measured gets managed", sustainability reporting tends to be a catalyst for determining baseline performance and encouraging all staff to take steps to improve performance in a given key area. Highly transparent sustainability reporting can also reduce risk of corruption and other undesirable risks, while also facilitating engagement with the global insurance sector through demonstrated application of global best practice.

3.3.7.3 Performance and Good Practices

Customer care, and full and responsible disclosure on services

According to some interviewees, some Jordan insurers may have allowed their retail customer service standards to slip. In some cases, a tendency to target government-related business for volume and margins may lead to complacency towards smaller, less profitable customers. Also while most types of insurance is considered a luxury, the most commonly bought insurance is third party auto. Highly regulated, this leaves firms with no choice but to serve all customers, regardless of driving history, and at a set price. This situation is changing, but the effect has been a drop in customer service.

Deserved or not, insurance companies have a reputation for confusing offerings, with hidden complexities and transparency shortcomings relating to “small print”. This practice is now coming under sustained pressure in some markets, where the combination of technology and full and clear transparency by industry leaders is re-setting expectations for transparency and trust building.

International Case Study: Responsible Communications

Shopping for Insurance

Insurance is notoriously difficult to buy. Offerings can be confusing to consumers, with many struggling to differentiate the scope and quality of products; and others disappointed by the “small print” associated with them. Some companies like BUPA Middle East have made sure all terms and conditions of the policies are easy to read, while others are moving to pro-actively educate consumers about insurance products more broadly. ING in the United States have launched “ING for Life”, an online tool to teach consumers about life insurance and helps them determine which insurance products suits their needs.

In many markets, online ‘price comparison’ websites are helping consumers find the insurance product they want. While some concerns have been raised about the lack of regulation, the transparency of advice and the commission payments, these websites are emerging as crucial tools for consumers. The UK now has 17 comparison websites for insurance alone, with the Financial Services Authority also providing impartial and independent advice for consumers. The website is “a major milestone on the journey to achieving the Government’s aim of a national money guidance service” explained Economic Secretary to the Treasury, Ian Pearson in 2009. “It is clear that the need for this service is greater than ever.”

There is one consumer protection agency in Jordan, run as an NGO but not incorporated with the government. The establishment of the Insurance Dispute Resolution Committee has been highly constructive step towards improving customer relations.[36] However there is still a lack of an institution to ensure the quality of products and services consumers are provided.

Reporting

Responsible Competitiveness Driver: G. Responsible Communications		
Indicator	**JORDAN**	**OECD**
% of insurers producing sustainability/ CSR reports	0%	65%
% of insurers disclosing carbon emissions	0%	47%
% of insurers disclosing water usage	0%	41%

The Jordan Insurance Federation (JIF) is mainly concerned with business auto-regulation and training. JIF produces an annual report on the state of the insurance sector, mainly focused on economic and financial indicators. These reports should include a greater range of sustainability indicators in the future so that more information about non-financial issues is widely available. There is an opportunity for the Insurance Commission of Jordan and the Jordan Insurance Federation to collaborate to facilitate training to the industry regarding how to identify, manage and report about material responsible competitiveness issues.

Since the Global Reporting Initiative (GRI) standard for the production of sustainability reports was published in 2002, the number of companies publishing reports globally has grown very quickly. Companies in the Arab World are slowly starting to join this trend. Three organisations in Jordan currently issue sustainability reports (and all of them using the GRI). No Jordan insurance companies have published a sustainability report, showing a large gap behind the OECD benchmark.

Such reporting would go a long way in capturing the strategy, potential contribution, and existing performance of each company, and the sector, in contributing to national sustainable development objectives and responsible competitiveness.

3.3.7.4 Recommendations

Insurance Companies should:

➤ Proactively take all required steps to provide maximum clarity and transparency of details relating to each service; and

- Introduce sustainability reporting, applying the GRI Guidelines. Insurers should report on their own sustainability performance in areas where they demand prudent performance of others, for example, on issues relating to road safety, water conservation, climate change including carbon emissions, health and safety, and other. This should also include reporting on efforts to address underserved markets.

Government and Regulators should:
- IC can legislate mandatory sustainability reporting (either public reporting, or inclusion of sustainability/responsible competitiveness performance in annual reporting to IC).

Civil Society and Associations should:
- The Jordan Securities Commission and Amman Stock Exchange can require all insurance companies trading on the stock market to issue sustainability reports; and
- JIF can coordinate introductory level GRI training and related best practice.

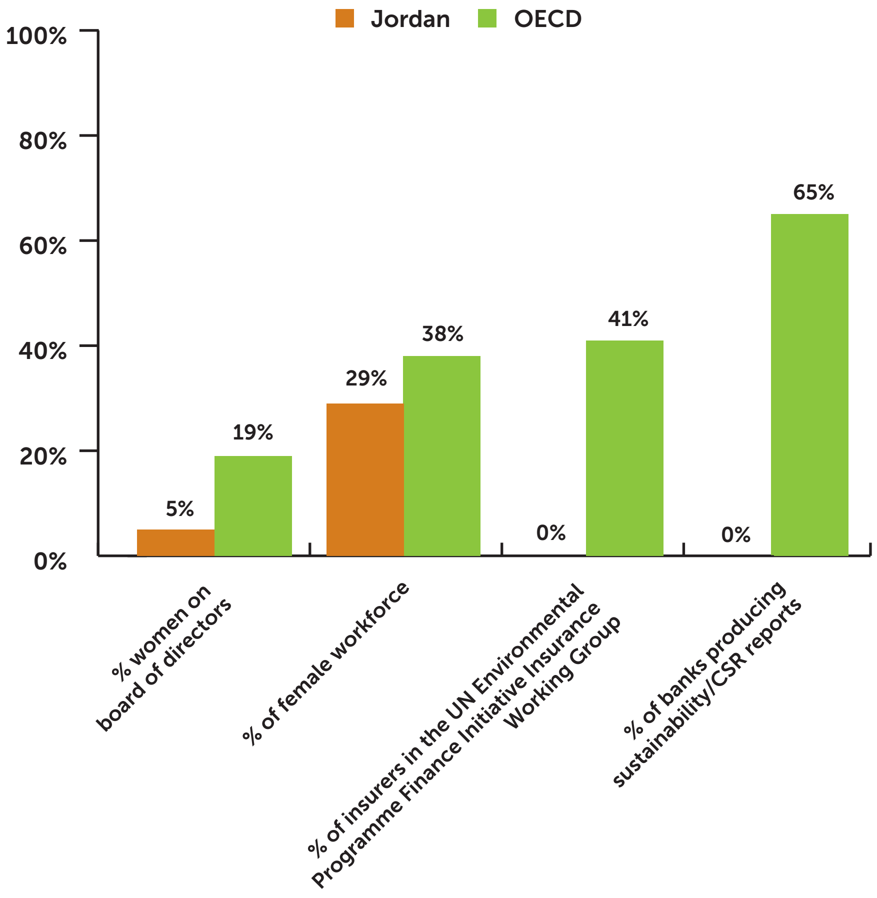
3.4 SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

This chapter has acknowledged some of the responsible competitiveness successes of the Jordan insurance sector, while concentrating on the areas that have the greatest opportunity to contribute to the growth of the sector while optimising impacts on sustainable development.

The recommendations have been framed around the seven key drivers of responsible competitiveness analysed for this research, and are targeted to insurance companies, government, regulators, the industry federation, and in some cases, broader society.

Jordan’s insurance sector displays mixed performance when benchmarked against OECD high performers as illustrated in the figure below.

FIGURE 3.3. BENCHMARKED PERFORMANCE OF JORDAN'S INSURANCE SECTOR AGAINST SELECTED INDICATORS



Priority issues for the sector relate to innovation in products and services, and the ability to induce responsible client behaviour. The largest responsible competitiveness gains will be achieved from changes that may demand a broader perspective and an effort from insurance companies, associations and government. Such changes are:

- **The need for the sector to reconceptualise itself** as a major lever for positively affecting sustainability behaviour of Jordanians. If the industry can achieve this, and demonstrate a high-value pathway forward, then government and regulatory bodies must collaborate or clear a way for insurers to introduce services and incentives in the marketplace that help address sustainability issues (such as poverty and climate change);

- **Focus on product and service innovation** to address 2-3 major national sustainability issues, and pilot test these service innovations. Creating service innovations that can be profitably scaled, and which effectively alters client behaviour, is both the number one impact the sector could achieve, and the best action for generating greater financial benefits for the sector;

- **Make greater efforts at smart philanthropy**, which can start with philanthropic services such as micro-insurance, and which in turn could blossom into profitable new product lines over time; and

- **Maximise transparency**, ranging from clear product descriptions to corporate level sustainability reporting.

In addition, easy to implement, immediate initiatives should include the following:

- Sign up to international initiatives, such as the UN Insurance Working Group. **Collaboration can lead to greater insight, wider perspectives, improved awareness of industry trends, and the development of peer networks.**

- Undertake company-level sustainability reporting. **Increased disclosure results in a stronger ability to track and target progress, builds trust in the industry, and creates competition in the sector.**

The recommendations are summarised in the following table.

Summary of Recommendations for Enhancing Responsible Competitiveness in the Banking Sector

A RESPONSIBLE BUSINESS CLIMATE

Recommendations for Business

- Re-frame the sector's interests in the context of sustainable development. Shift interests as required to create maximum alignment between industry interests and the national development and sustainability goals of the government. This could include developing scenarios and modelling the predicted outcomes of each scenario;
- Engage policy-makers and regulators from this revised context, lobbying to allow for proper market signals. Use the scenarios and businesses cases for evaluation by government;
- If given the opportunity, modify pricing and service offering in a manner that implements price signals, and aligns those signals to level of risk and severity of the potential outcome. Apply this to as many sustainability issues as may be plausible in the short, medium, and longer-term

Recommendations for Government, Regulators, and Civil Society

- Government regulators to re-assess underlying assumptions, beliefs, and frameworks to determine whether policymakers and regulators are providing the appropriate framework to foster innovation in the insurance industry that serves national objectives and drives sustainability and responsible competitiveness;
- Agree to allow greater price differentiation on services, and greater product differentiation and innovation;
- Continue to advance legislation that would support insurance companies in their battle against fraudulent claims.

B SMART PHILANTHROPY

Recommendations for Business

- Government regulators to re-assess underlying assumptions, beliefs, and frameworks to determine whether policymakers and regulators are providing the appropriate framework to foster innovation in the insurance industry that serves national objectives and drives sustainability and responsible competitiveness;
- Agree to allow greater price differentiation on services, and greater product differentiation and innovation;
- Continue to advance legislation that would support insurance companies in their battle against fraudulent claims.

Recommendations for Government, Regulators, and Civil Society

- Government and regulators to adopt an open mind perspective when working with the sector on experimental, potential breakthrough solutions. New levels of flexibility are likely to be required in order to allow the sector to responsibly explore how to address major challenges and opportunities be it micro-insurance rollout, or the tackling of an impending issue.

C ATTRACTING AND DEVELOPING TALENT

Recommendations for Business

- Adopt sustainability management and strategically reposition the sector as a catalyst and support for national sustainable development, then consciously use that commitment – and real performance progress – to attract, motivate, and retain talent;
- Evaluate best international practices in the insurance industry for developing talent internally, and consider adoption of these programme's in the Jordanian context. Examples include the Women's Initiative to address and minimise barriers to women's career development; and increasing the amount of systematic engagement with employees while ensuring meaningful and appropriate responses.

D BUSINESS STANDARDS AND COMPLIANCE

Recommendations for Business

- Adopt, or at minimum evaluate and gain insight from, industry-leading voluntary guidelines or commitment statements including OECD recommendations, the Recommendations on Corporate Governance of the International Association of Insurance Supervisors, the Geneva Association Kyoto Statement, and the various outputs, efforts, and emerging guidelines of the Insurance Working Group of the United Nations Environment Programme.

E RESPONSIBLE SUPPLY CHAINS

Recommendations for Business

- Review own supply chains to determine a.) who are the biggest suppliers and how could they also be encouraged to adopt sustainable practices, and/or b.) who are the suppliers, regardless of size, that are most at risk of a breach of some key environmental or social performance criteria;
- Assess own performance and disclose that performance to companies for which the insurance company may be considered to be part of the supply chain and which have a strong interest in sustainability.

F PRODUCT AND SERVICE INNOVATION

Recommendations for Business

- Apply serious effort towards identifying the most effective and acceptable means of successfully rolling out widespread micro-insurance to lower income and high risk populations. Pilot test these services, in collaboration with JIF, IC, and other stakeholders such as NGOs and others, as may be appropriate;
- Identify the top 2-3 service innovations that could best impact the country's performance results on issues of highest environmental and social priority (such as road safety, health, energy and water management), and work together with JIF and IC to either pilot test these initiatives, or to affect legislation that will open the door to responsible insurance services on these issues;
- Explore how the marketing and evolution of Islamic insurance could promote insurance among segments of the population who have not previously considered it (and who may be at greater risk from the economic impact of some form of accident);
- Offer sustainability-screened funds as part of the investment fund mix for clients who invest via their insurance coverage.

Recommendations for Government, Regulators, and Civil Society

- Government and regulators work together with the sector, or leaders in the sector, to determine the best pathway forward for offering micro-insurance in a manner that allows greatest coverage and protection, while protecting the consumer;
- Work together with the sector, or leaders in the sector, to explore the types of service innovations that could be offered to help influence national performance results on issues of high priority (e.g. road safety, health, energy management, water management).

G RESPONSIBLE COMMUNICATIONS

Recommendations for Business

- Proactively take all required steps to provide maximum clarity and transparency of details relating to each service;
- Introduce sustainability reporting, applying the GRI Guidelines. Insurers should report on their own sustainability performance in areas where they demand prudent performance of others, for example, on issues relating to road safety, water conservation, climate change including carbon emissions, health and safety, and other. This should also include reporting on efforts to address underserved markets.

Recommendations for Government, Regulators, and Civil Society

- IC can legislate mandatory sustainability reporting (either public reporting, or inclusion of sustainability/responsible competitiveness performance in annual reporting to IC);
- The Jordan Securities Commission and Amman Stock Exchange can require all insurance companies trading on the stock market to issue sustainability reports;
- JIF can coordinate introductory level GRI training and related best practice.

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MEAT PROCESSING

4

Responsible Competitiveness in the Meat Processing Sector

4.1 INTRODUCTION

The Jordan food manufacturing industry comprises of 3,530 operating companies that employ a labour force of almost 30,000 people. Food processing companies posted a turnover of around US$1,345 million in 2007.[1] Meat processing represents 10% of all of Jordan's food manufacturing. The processed meat industry (poultry, lamb, and beef) consists of 16 companies, with 3-4 market leaders each with an average market share ranging between 20%-40%. All the companies are privately owned.[2] According to the Ministry of Agriculture, almost 60,000 tonnes of meat is imported into Jordan for processing, with all beef and lamb imported. 85% of poultry that is processed is raised locally. In Jordan there are two ways of slaughtering, the informal "nattafat" slaughtering, and industrial production. This chapter focuses on industrial production, and throughout the chapter "meat" refers to poultry, lamb, and beef unless specified for a specific example.

The global trend towards sustainable development and responsible competitiveness is expected to have a profound impact on the meat processing sector. Like other processing industries, meat processing has a heavy impact on the environment. This is particularly the case when reviewed in the context of the entire life cycle of meat production and consumption – from "paddock to plate." Carbon footprint, water consumption, waste management and pollution are some of the areas that will require the greatest level of attention by the industry. Globally, more than 30% of the world's surface is dedicated to the production of livestock. Livestock production is responsible for 19% of global greenhouse gas emissions measured in CO_2 equivalent; more than the total global transport sector. The greenhouse gas emissions related to global meat processing alone is estimated to be several tens of millions of tonnes of CO_2 yearly and livestock transport exceeds 0.8 million tonnes per year. Over 8% of global water consumption is used by livestock production – for example, around 16,000 litres of water are needed to produce 1kg of red meat.[3] It is one of the largest sources of water pollution, including animal waste and chemical (antibiotic) contamination of the water.[4]

As an extension of these challenges, resources like water and energy are tending to increase in price as governments and the global economy begin to account for a greater portion of the real cost of their use on the environment and society. This trend is expected to accelerate. Similarly, the real cost of carbon emissions is expected to be integrated into the economic accounting of the global economy, through carbon taxation, carbon pricing and carbon trading. This move towards recognising the real costs of these resources in the global marketplace is going to significantly impact the meat processing sector, making it increasingly difficult to achieve profitability without passing along price increases to the consumer and without catalysing potentially dramatic shifts in the structure of the meat value chain. For example, the carbon intensity of each kilogram of meat sold on the market will be measurable, so the meat supply chains with the lowest overall carbon footprint will be in the most competitive market pricing position.

From a demand perspective, there are competing trends globally for meat consumption. In emerging markets, growing affluence is leading to growing consumption of meat. This trend will accelerate the pressures on the sector for major reform. At the same time, advanced economies tend to show a decline in meat consumption, usually with regard to increasing interest in the health benefits of lower meat consumption (such as avoidance of health risks like diabetes and high cholesterol), health concerns relating to antibiotics in the feed passed on to the consumer, growing concern around environmental impacts of the sector, as well as ethical issues such as animal welfare. These trends in advanced economies are usually accompanied by increased sales in organic meats, grain-fed-only products, or free-range products where the animal has had ample living space, all of which can significantly reduce the environmental impacts of the product while reducing some health concerns.

Beyond environmental and general health issues, the industry is required to work continuously and diligently on issues relating to food (product) safety, or threatening diseases like Mad Cow Disease or Avian Flu. Like other consumables, meat is a sector where trust must be continuously earned and is easily lost, be it due to food safety scandals or ill-received pricing programmes. Demands for transparency from society and regulators continue to increase.

These trends and issues are accelerating pressures on the sector to achieve gains in cleaner production and other process innovation, to introduce environmentally and health-oriented product innovation, and to increase disclosure and transparency. Today's most pressing issues for the sector, be it food safety or pricing, should not prevent the sector from understanding and tackling the full range of responsible competitiveness issues and the looming fundamental sectoral transformations that trends in sustainable development will demand. Benefits will include cutting costs substantially in the short-term and dramatically in the long-term, creation of new markets, improved quality, and increased consumer trust.

Table 4.1 summarises the key responsible competitiveness issues that are discussed in this chapter.

TABLE 4.1. KEY RESPONSIBLE COMPETITIVENESS ISSUES FOR THE MEAT PROCESSING SECTOR

RC Driver	Key Issues
A. Responsible Business Climate	• Corporate governance – integrating environmental and social aspects into management • Trade policies • Subsidies • Regulations and support • Environmental policy
B. Smart Philanthropy	• Strategic community investments
C. Attracting and Developing Talent	• Attracting staff and skills training • Gender in the workforce • Motivation and advancement schemes
D. Business Standards and Compliance	• Meeting international standards that exceed statutory compliance • Operational and environmental efficiency
E. Responsible Supply Chains	• Life cycle management – from "paddock to plate" • Reducing carbon and water footprint • Transportation impacts • Traceability
F. Innovation in products and services	• Product innovation – organic, healthy, and beyond • By-product innovation
G. Responsible Communications	• Transparent reporting • Consumer protection • Marketing and consumer awareness • Labelling – nutritional value

This chapter explores the implications and opportunities of these responsible competitiveness issues to Jordan's meat processing sector. It includes an overall assessment of the sector's performance, followed by a more detailed consideration against each of these seven drivers including recommendations.

4.1.1 Methodology

In contrast to other sector chapters in this report, the benchmarking against OECD countries and companies in the meat sector is a qualitative-only analysis, with the exception of the Responsible Communications driver. Not all Responsible Competitiveness drivers are conducive to quantitative measurement in an emerging market context, and this is compounded by the fact that many indicators measured by global meat processing leaders have not previously been measured by Jordanian meat processors.

The methodology, therefore, considers the performance of all Jordan meat processors (where information gained was primarily through direct engagement) against a basket of some of the best performing meat processing companies from three OECD countries. The OECD countries selected for this sector were the US, Germany and the UK, and the selection of companies within each country was based upon size and sustainability performance. Given that this is a comparison against the leading international meat processing sectors, we would expect many gaps to be significant, but none-the-less insightful in terms of providing inspiration and guidance for competitive opportunities for the sector. Further explanation of the methodology for this chapter can be found in the Annex.

4.2 OVERALL ASSESSMENT OF RESPONSIBLE COMPETITIVENESS PERFORMANCE

This section summarises:

- largely qualitative progress of the sector as benchmarked against selected international meat processors in the OECD; and
- qualitative progress drawn from the self-analysis of stakeholders within the sector, and drawn from other surveys and research.

Overall, Jordan's meat processing sector has been taking important steps in the adoption of international standards designed to help improve quality, safety, and competitiveness. This has helped to improve consumer trust in the wake of past safety concerns.

In 2009, however, this trust was eroded as a result of a separate issue: that of concern around increases to the pricing of meat in advance of Ramadan. In response to the price increases, Jordan's Consumer Protection Society led a boycott of the sector for several weeks, consistently capturing front-page attention on national newspapers, and highlighting the importance of transparent and responsible communications for the sector.

With regard to environmental performance, several companies in the sector have made real, positive performance progress. On the whole, however, these steps are only the very earliest of the necessary steps the industry must take. It is imperative for the sector to recognise that sustainability issues – particularly environmental – will increasingly dominate competitiveness in the sector, and that this will apply not just to the performance of the sector in Jordan, but to the performance of the entire meat value chain to which Jordan is a part (for example, the sector will need to continuously assess whether it is positioned in the most carbon competitive value chains).

These implications are currently underappreciated by both the industry and Jordan's government. Businesses, associations and regulators will have to strengthen cooperation and develop and share a common vision of the sustainable future of the meat processing sector in Jordan. Otherwise, the impacts of sustainability trends on the sector in Jordan could be so significant as to pose an existential threat, where the full sustainability costs of the sector could exceed the total sustainability benefits.

Summarised performance against the seven responsible competitiveness drivers is as follows:

A. **Responsible Business Climate**: Responsible Business Climate refers to the policies and regulations in place that support and reward responsible practices. There are promising developments to build upon in the meat processing sector. For example, while the relevant environmental legislation is largely perceived to be strong, further regulations or incentives should place a greater emphasis on cleaner production and life-cycle considerations in addition to end-of-pipe solutions. The government's incentivising of the use of renewable energy and clean technology is a helpful signal to the sector. The sector has shown strong willingness to tackle challenges proactively, but has to increase cooperation with industry associations and regulators. This could be especially useful with regard to advancing access to foreign markets and reducing barriers to export.

B. Smart Philanthropy: Smart Philanthropy is about making philanthropy more strategic. Application of smart philanthropy is low in the sector, despite a situation where local communities are underutilised (for example, as a source of labour). Strong community engagement could help with recruitment and retention of good workers and enhance reputation on the national level.

C. Attracting, Developing and Retaining Talent: The sector is hampered by a lack of appropriately skilled labour, and motivating and retaining employees is a key challenge. Improved employee engagement, safe working conditions, vocational training, good hygiene standards, fair compensation and benefits, are important to improving employee retention, worker productivity and ensuring food health and safety. Female participation in the workforce is low – yet women form an increasingly large percentage of graduates, providing a valuable source for skilled labour which can fill the need for research and development, food scientists and technicians, as well as health professionals.

D. Business Standards and Compliance: Overall the efforts relating to achievement of international standards by Jordanian meat and poultry companies is promising, as a high percentage of companies surveyed already adopt several voluntary quality and food safety standards, such as ISO 9001, ISO 22000 and HACCP. Certification to ISO 14001 is accelerating and there are support resources for meat processors in Jordan to improve their performance. Firms have already seen significant savings in operating costs through integrating technologies or efficiencies that reduce water and energy consumption, and have capitalised upon better waste management. The private and public sector have begun partnering to invest in research for increasing production efficiencies. Organisations such as the Cleaner Production Unit can assist companies to meet environmental standards including ISO certification, as well as improve operational efficiency through the implementation of clean production processes.

E. Responsible Supply Chains: Supply chain management is a key issue in the food sector globally. Only if the whole food supply chain is safe, can food safety be assured, and as a result, the issue of traceability has become very important to the sector. The Jordanian meat sector does engage with individual suppliers and there is partial awareness about traceability requirements, but this should be advanced. The sector, and the government, need to better understand the water and carbon footprints and competitiveness of their full value chains. Overall, greater cooperation with and amongst competitors and suppliers could help tackle these issues.

F. Product and Service Innovation: Jordan's meat processing sector is only beginning to offer more innovative products that address sustainability issues to consumers. The sector is beginning to offer healthy product options, but has seen limited success thus far in this regard, and has not yet entered the organic market.

G. Responsible Communications: Given the Jordan meat industry's current quality standards, stemming from both national regulations and high levels of adaption of international business standards, many important pieces of sustainability reporting are already collected and shared with stakeholders. However, as indicated by the Consumer Protection Society's boycott of meat over pricing issues, much more could be done to improve transparency and communications. Currently no companies in the sector in Jordan have published a sustainability report that would make existing and new information on economic, environmental and social performance more easily accessible by the general public, although one firm has indicated it has begun to develop such a report. The public is also requesting higher levels of consumer protection, and much more can be done to engage consumers in a dialogue about health issues.

Responsible Competitiveness Driver: G. Responsible Communications		
Indicator	**JORDAN**	**OECD**
# of processors with sustainability/CSR reports (as % of sector)	0%	19%
# of companies disclosing carbon emissions	0%	13%
# of companies disclosing water usage	0%	13%

4.3 DRIVERS OF RESPONSIBLE COMPETITIVENESS

This section investigates each driver of responsible competitiveness in detail, highlighting relevant issues for Jordan's meat processing sector and analysing performance. Data is drawn from interviews, surveys and international reports relating to performance of OECD food manufacturers.

A RESPONSIBLE BUSINESS CLIMATE

4.3.1 Responsible Business Climate

> *"Companies need recognition for good performance and incentives to improve, such as reductions in licensing fees."*
> Interview with a meat processing company, June 2009

4.3.1.1 Key Issues

The creation and promotion of a responsible business climate refers largely to public policies and widely applied business action that support the overall shift of an economy towards increasingly responsible broad good practice in the most fundamental areas of business management, corporate governance and sound financial practice. Key aspects of fostering a responsible business climate for the meat processing sector include: corporate governance, supporting competitiveness through trade policies and subsidies, regulation, consumer safety, and environmental and labour policies.

4.3.1.2 Impact on Competitiveness

Trading requirements on the export and import of food at both national and international levels have a heavy impact on the current competitiveness of the meat processing sector, as well as its future growth potential. The government in Jordan has a fine balance to strike between allowing international imports of meat to keep prices lower for consumers, compared with encouraging the national industry.

As with other food manufacturing industries, meat processing is subject to multiple requirements on food safety, environmental performance and labour standards. Adhering to such regulation, in addition to the increasing numbers of voluntary standards that companies comply with such as ISO 14001, is both time-consuming and costly. The nature of how these regulations are adopted, communicated and enforced therefore has a direct impact on sector competitiveness. This is especially relevant as minimum statutory standards, particularly in the environmental arena, are raised.

4.3.1.3 Performance and Good Practices

Corporate governance – integrating environmental and social aspects into management

Given the existing and increasing importance of environmental and social issues to the competitiveness and success of companies in the sector, it is of corresponding importance that it be represented and actively overseen at senior management or Board level positions. The best means of ensuring that social and environmental aspects of responsible competitiveness are streamlined throughout a company is to create systems that ensure reviews are made frequently, and that issues are prioritised at the very highest level. Companies such as Smithfield Foods have done just that, by creating sustainability committees and a vice president of environmental and corporate affairs position. This research found only limited evidence of these issues being similarly integrated into the corporate governance and senior management frameworks in this sector in Jordan, other than the personal concern of managers.

International Best Practice: Responsible Business Climate
Smithfield Foods

Smithfield Foods is a major meat producer and processor and operates in thirteen different countries. In the early part of the decade, Smithfield strived to lead the industry in CSR practices and to this end implemented consistent CSR management approach across the company.

Initially an environmental management system was implemented and certified across all US farms and processing facilities and some overseas operations including policy development, employee training, goal setting and corrective action as well as third-party auditing and executive reviews. This approach was then extended to the management of animal welfare, employee health and safety, and food safety and supported by the establishment of appropriate committees consisting of senior managers.[5]

Trade policies
Transnational trading with food products is heavily regulated by international bilateral trade agreements. Jordan ranks among the most open economies in the world and second (behind the UAE) in the Arab region. Jordan is committed to contributing towards the strengthening of a free, open and stable multilateral trading system, and has signed several trade agreements, joined the WTO and the Greater Arab Free Trade Agreement to this end. In addition, Jordan has over 120 bilateral free trade agreements with many other countries. Liberalising trade has posed numerous challenges for national products, when price and quality cannot compete with imported regional and international products due to a lack of custom restrictions, foreign-subsidised imports and false valuation of some imported items to reduce customs duties. Jordan faces a conundrum: reducing trade barriers to import cheaper foreign meat products enables a higher percentage of the population to consume more meat at lower prices; however this challenges the national meat processing industry.

There are also constraints with regards to export. Jordan is prohibited from exporting food products, especially processed food of animal origin, to more than 80 countries throughout the world due to the need for "Country Level Approval", the process by which the EU and US allow imports. Procedures for obtaining country level approval began in the late 1990s, with the EU and the US being priority targets, but approval has not yet been achieved. Like in many countries, the main challenges lie at the regulatory level where relevant government departments are required to gather, document and translate all relevant materials and national programmes for assessment by the EU and US governments.

Subsidies
In the past Jordan has removed subsidies on energy as well as removing feed subsidies. This helped to better reflect the real cost of the sector and the product. Water and energy costs form a large percentage of production costs, and energy prices can fluctuate dramatically. During our research the high energy and water prices were identified as an important negative competitiveness factor.

While the increased energy and water prices may reflect their true cost better, the Government of Jordan can support the meat processing industry by maintaining low custom tariffs on environmental goods and has exempted most renewable energy and energy saving devices from sales tax and customs duties.[6] This is in line with policies from government worldwide: reducing subsidies on conventional energy and water utilities and providing incentives for renewable energies and eco-efficient technologies. Moreover, this research found that a number of companies are employing more eco-efficient practices like alternative sources of energy providers such as solar thermal systems, and implementing on-site wastewater treatment facilities. This will be discussed more in the section “Business Standards and Compliance”.

Regulations and support

> *“We have many laws and regulations in Jordan for this sector to comply with, and this puts pressure on us to comply with each individually. It would be easier if there was more coordination.”*
> Interview with a meat processing company,
> June 2009

The sector is governed by various entities responsible for regulating and overseeing different issues, mainly Jordan Food and Drug Administration (public health and food safety), the Ministries of Industry and Trade (registration and licensing), Ministry of Agriculture, Environment and Labour, the Jordan Institute for Standards and Metrology (food quality), and the Ministry of Municipalities. In interviews it was repeatedly mentioned that the sector needs to comply with a number of regulations with different agencies, which causes confusion and overlap. The Jordan Chamber of Industry came to the same conclusion, in addition to raising concerns of unqualified inspectors, ambiguity regarding health and other regulations that industries should adhere to, and other issues. The UK used to have the same problem of regulatory overlap, and established a high level, cross-departmental Advisory Body to resolve the issue. Such a body could work well in the Jordan context.

International Best Practice: Responsible Business Climate
UK Government

In 2007 the UK Government set up the Advisory Board for the Delivery of Official Controls. The Advisory Board provides advice and gives recommendations to the UK Food Standard Agency Board on proposed changes to the delivery of official controls in meat plants in the UK. Furthermore it is mandated to build cooperation and improve partnerships.

The members of the advisory board represent a wide range of stakeholders: consumers, food business operators, primary producers, meat retailers, supermarkets and contractors. Furthermore, relevant government agencies are represented: the Meat Hygiene Service; the Department of Food, Environment and Rural Affairs; the Department of Health; the Welsh Assembly Government; the Scottish Government; and the Department of Agriculture and Rural Development in Northern Ireland.[7]

Environmental policy

> *"Environmental laws are unstable and vague, particularly in the area of water treatment."*
> Interview with a meat processing company, June 2009

In May 2009 the Ministry of Environment in cooperation with the IFC finalised a National Strategy for developing the monitoring and inspection of businesses in order to ensure their adherence to environmental regulations. The strategy entails five pillars including development and adoption of inspection plans and strategies, application of risk-assessment inspection, improvement of inspection operations and human resource management.[8] Environmental inspectors and rangers, as well as judges, received training in February 2009 on developing environmental inspection mechanisms and law enforcement with the aim of curbing environmental violations. Under the agreement, the IFC will extend financial support to Jordan for the publication of a guide on environmental inspections.

Penalties for non-compliance with the environmental law range from warnings, to fines, to shut-down, to prison sentences. The strength of implementation was rated as medium. Our research indicates that the Jordanian environmental laws were rated as high and a strength of Jordan; though some interviewees stated that the law is perceived to be a competitive disadvantage in comparison to other countries due to high cost. Other interviewees feel that Jordanian environmental law is unstable and vague. In this context, strong environmental policy and regulation that supports responsible competitiveness is healthy because it accelerates preparedness in areas of growing competitive importance, but also can be a real or perceived short-term disadvantage. This primarily depends on how the legislation is approached by impacted companies, as many leadership companies view regulation as an opportunity and challenge to meet and exceed market expectations.

Non-compliance cases are acted upon, however the capacity of the Ministries to follow up with the large number of SMEs is currently limited. One interviewee mentioned that if a factory is truly non-compliant, the case can be handed over to an institution such as the Cleaner Production Unit to help improve standards.

The Jordanian environmental law is expanding the number of issues it covers. For example, waste management is rapidly accelerating as an issue and regulations are increasing. One interviewee was being asked by the Ministry of Health to treat chicken manure by means of composting. However, on other issues such as water and energy consumption, there are no restrictions on the amount of water or energy used. In general, it was observed by some stakeholders that the Jordanian environmental law focuses primarily on end-of-pipe solutions and less on regulating the environmental impact of input resources or production processes. “There’s never mention, for example, of the issue of adding chemicals through the production process – the legislation’s concern is with cleaning up the chemicals.”

Overall, the extent to which sustainability issues will impact the sector is underappreciated both by the sector, and most important to a responsible business climate, by the relevant government authorities. This needs serious strategic consideration if the meat sector in Jordan is to maintain its long-term competitiveness.

4.3.1.4 Recommendations

Companies should:

- Work cooperatively with industry associations and regulators, and with a focus on innovation, recognising that sustainability issues will increasingly dominate the sector and that responsible competitiveness is essential to survival of the sector. This applies to cooperation on carbon impacts (including transport chains), water impacts (usage, contamination), energy impacts, quality, food safety, process innovation, and product and service innovation, amongst other issues and opportunities.

Regulators should:

- Improve trade negotiation capacities and streamlining of administrative and documentation procedures;
- Improve training of inspectors, for example to enhance knowledge of environmental management systems;
- Develop closer links with the Ministry of Environment to support companies that do not adhere to improved standards;
- Maintain position against protectionist tariffs, as advocated by the sector, as this damages competitiveness; instead, support sector competitiveness through market analysis, better marketing, and other means;
- Together with sector companies, NGOs and the media, seek to ensure that “Brand Jordan”, both nationally and internationally, is associated with strong environmental and social company performance; fair and enforced legislation and consistent efforts to raise the bar of best practice;
- Create incentives for companies using renewable energy sources such as solar power;
- Upgrade existing legislation on quantity of water used, to include quality of water at the end of production processes; and
- Encourage disclosure of environmental performance for transparency and progress measurement.

Civil Society and Associations:

- NGOs and consumer associations to monitor sector progress on social and environmental performance; and
- Media to raise the importance of issues relating to responsible competitiveness.

B SMART PHILANTHROPY

4.3.2 Smart Philanthropy

> *"In many of the rural areas where we do business, Smithfield is the primary employer in the community. Helping our employees and those who live around our farms and our plants helps us become a stronger, more vital company. From a business standpoint, our philanthropic efforts also correlate directly with our ability to recruit and retain good workers."*
> Smithfield Corporate Responsibility Report 2008/09

4.3.2.1 Key Issues

Smart Philanthropy concerns how businesses can leverage their core competencies to manage the impact of charitable contributions to support the business's strategy, operations, brand and bottom line, while supporting the national and local development agendas. Application of smart philanthropy would be beneficial to the meat processing sector. Through interviews, this research found that the sector has suffered some difficulties, such as vandalism, by members of communities who live around factory operations. In general, issues arise when communities see little benefit from the factory being located in their village but have to suffer some of the side effects of operations, such as increased traffic, later night deliveries, migrant labour, or other environmental impacts.

Due to their location in mostly rural settings, meat processing companies have a unique opportunity to support community development, largely as an employee and supporter to education and local training. Poverty rates in these rural areas are high: in the area surrounding Amman the poverty incidence is over 9.4%; in other areas like Mafraq it is almost 23% of the population.[9]

4.3.2.2 Impact on Competitiveness

Improved relationships with local communities can improve a company's image, reduce the risk to factory operations that community interference can often present, and help in the recruitment and retention of good workers. If managed well, smart philanthropy can raise the profile of the company at the national level, with consumers and within government.

4.3.2.3 Performance and Good Practices

Internationally, companies like Empresas Sadia, the Brazilian meat processing company, have dedicated foundations to manage community relations. However, this research found that smart philanthropy conducted by the Jordanian meat industry is low. Some processors did report sponsoring a number of activities in their community. Nabil, for example, is seeking to improve community engagement in collaboration with other partners to ensure best practice. The company understands that working with the community can help build trust. Most of the interviewed companies were willing to engage and expressed a desire to improve community relations.

International Best Practice: Smart Philanthropy

Empresas Sadia

The Brazilian meat processing and manufacturing company, Empresas Sadia, exports to over 40 countries internationally including the MENA region, where they enjoy consumer popularity and strong brand recognition in the Kingdom of Saudi Arabia, UAE and Bahrain.[10]

In 2004, Sadia founded the Sadia Institute which is geared towards encouraging local development in the communities where Sadia has a large presence. As well as advancing sustainable farming solutions. The Sadia Institute also manages a social investment programme, offering support to carefully selected existing local development projects in the areas of education and environment. The company has progressively increased its scope and dedication to this programme and last year 39 projects were chosen and given financial assistance in 16 Brazilian cities. The programme also monitors and assesses local development in 15 of these cities; offering training and coordination sessions and subsequently 13 Social Investment Local Committees were formed consisting of employee volunteers.

Through high levels of employee volunteering and partnerships with local government, SME's and NGO's, the Sadia Institute not only betters the lives of the local population but promotes consumer loyalty and creates a steady employee base for the company.[11]

Cost is frequently seen as a barrier to developing strategic philanthropic initiatives. However, smart philanthropy does not have to be expensive, as a small amount can go a long way. Companies are encouraged to work with local community groups to assess needs and collaboratively develop initiatives to ensure mutual ownership. Education, such as literacy projects or training on sustainable agricultural practices, resource efficiency and hygienic standards are viable options for the meat processing sector. Setting a small but long-term budget for smart philanthropy is usually more effective than one-off, larger donations.

4.3.2.4 Recommendations

Companies should:

- Work with civil society groups to establish community needs, in areas such as literacy, training on hygiene, husbandry, and sustainable agriculture;
- Establish communication channels with local communities to better resolve conflicts, such as monthly meetings attended by mediating groups such as local NGOs; and
- If budgets allow, appoint a dedicated Community Relations Manager; otherwise ensure that community relations is represented at senior management level, and discussions recorded in Board meetings.

Civil Society and Associations should:

- Engage more with meat processing companies and present opportunities for partnership.

Government and Regulators should:

- Conduct training on business-NGO partnerships specifically aimed at rural development opportunities; and
- Encourage good practice through financial or other incentives such as Smart Philanthropy Awards.

C ATTRACTING AND DEVELOPING TALENT

4.3.3 Attracting and Developing Talent

> *"The biggest problem for our sector is that we lack trained staff, and we do not have a culture of people working hard."*
> Interview with a meat processing company, June 2009

4.3.3.1 Key Issues

Attracting, Developing and Retaining Talent concerns creating a thriving workforce to drive the economy, through addressing employee rights and benefits, training and career development, and equal employment opportunities. In the case of the meat processing sector, this has particular relevance to creating local employment opportunities, attracting and retaining skilled staff, and advancing gender in the workplace.

4.3.3.2 Impact on Competitiveness

Talent management has an obvious impact on competitiveness. Skilled staff increase productivity; contented staff results in improved retention and more experienced staff, and thus less time spent on training and recruiting new employees. Regular and open communications between staff and management can help resolve disputes before they interfere with smooth operations. These and other good practices, such as committees able to mitigate worker and management relations, particularly of minority groups (such as female or migrant employees), can earn a company a good reputation in the community and with consumers.

4.3.3.3 Performance and Good Practices

Attracting staff and skills training

Through interviews and desk research it became apparent that from the view of the meat processors, one of the main challenges in the sector is attracting and retaining skilled and motivated labour with the desired work ethic. This challenge is intensified by the rural and remote location of a number of manufacturing sites. The majority of employment requires skilled labour attained through vocational education. From the perspective of some of the employers we engaged, some employees have poor productivity and are unwilling to work the longer hours of shift work and/or are unwilling to learn new skills, and the resistance to sound hygiene practices is a barrier for local employment. As a result, staff are often recruited from the urban centres of Jordan.

Our research indicated that while in-house training does exist (normally around compliance with quality or hygiene practices), the meat processing industry does not have any initiatives to improve skills development of the local labour force. Other sectors in Jordan, including tourism and the NTEP construction example below, have shown that apprenticeship schemes can bolster employment.

National Best Practice: Attracting and Developing Talent
The National Training and Employment Project (NTEP)

The National Training & Employment Project (NTEP) is a private-public sector joint venture between the Ministry of Labour, the Jordan Armed Forces, the vocational education and training institutions in the public and private sectors, companies operating within the Jordanian labour market, and the Fund for Support of Technical and Vocational Education and Training (TVET). The programme currently targets several specific sectors that have demonstrated the need for vocational training and is open to job-seeking Jordanians from all academic levels, ages 18-36.[12] NTEP has already started in 2008 for Jordanians in the construction industry. The programme includes benefits for participating trainees upon completion of the vocational training, including monthly salaries not less than minimum wages, transportation means, social security and medical insurance.[13]

Vocational education and skills are traditionally not viewed as prestigious in Jordanian society; formal education in Jordan does not promote vocational aptitude and the quality of vocational training is neglected. Barrier to access to existing vocational training centres include remote locations and the unreliability of public transport as well as the scarce salary which at times does not cover transportation costs. The Jordanian government in collaboration with international agencies and local business is working on improving vocational training.

Gender in the workforce
The meat processing sector is predominantly male-dominated, with relatively few women working in this sector. However, data was not available concerning gender balance in the workforce, which would allow improvement to be measured. The remote locations of most meat processing operation sites create a barrier to entry for females both for managerial as well as skilled labour positions. The same remoteness of training centres and unreliability of public transportation proves as barriers to access to vocational training centres. Furthermore there are still strong cultural barriers for females to work outside their homes and doing shift work.

Yet, the level of female education is constantly increasing. Women form an increasingly large percentage of graduates, providing a valuable source for skilled labour which can fill the need for research and development, food scientists and technicians, as well as health professionals. Given the meat processing sector's interest in improved human resources, it should consider how best to tap into this pool of emerging talent.

Women are apprehensive of working on male-dominated manufacturing sites as there is a high incident rate of harassment and discrimination of females in the workplace. Employers can counteract this by supporting awareness campaigns and issuing strict regulations. Managers must be particularly aware and sensitive to women's concerns.

Motivation and advancement schemes
The meat processing industry needs to attract and retain skilled labour to improve its competitiveness and reduce the high turnover rate. Good relationships with communities and motivation schemes for employees are essential to improve productivity of the work force and solve retaining problems. According to this research, motivation schemes are implemented but results vary between companies. A majority offers extra remuneration for overtime work, sales commissions, and bonuses for management in line with their performance.

4.3.3.4 Recommendations

Companies should:
- Work with other stakeholders, including education authorities and NGOs, to encourage local employment development;
- Act to promote gender balanced workforces: systematically address the reasons why women are unable or do not want to work in this sector (including shift work, safety for women in the workplace, provision of female-friendly facilities);

- Changing behavioural habits, such as improved hygiene, needs to happen from an early age. Companies can work with local education authorities to ensure hygiene is taught in local communities from an early age;
- Ensure motivated workers are effectively remunerated – employ incentive systems for high performing employees;
- Encourage staff-management communications, with regular consultations. Start measuring employee satisfaction with frequent assessments of staff concerns; and
- Collaborate with other manufacturing organisations in the local area, to operate employee transport schemes (e.g. to and from Amman) and training.

Government and Regulators should:

- Start collecting talent management data to measure industry practice for example local recruitment ratios, gender-balanced workforces, wages and investment in training. The tracking and public sharing of this data also incentivises companies to improve their performance.

Civil Society and Associations should:

- Education authorities and NGOs can collaborate with meat processing companies and other manufacturers to develop local employment schemes.

D BUSINESS STANDARDS AND COMPLIANCE

4.3.4 Business Standards and Compliance

> *"Having a clear policy on environmental management helps us save costs on fuel and environment without compromising quality."*
> Interview with a meat processing company, June 2009

4.3.4.1 Key Issues

The meat processing sector has to comply with a variety of legal requirements as laid out in section 4.3.1 of this chapter. Additionally, there are several voluntary standards of high importance to the sector, which have the dual purpose of improving social and environmental impact, whilst allowing companies to access new markets. In the international arena, many standards have been developed for the food manufacturing sector to promote best practice, and those companies who have been certified generally achieve a higher level of performance than those without, thus gaining a market advantage. Many standards, such as ISO certification, are now *sine qua non* requirements for the sector to compete at the international level. Process innovation that benefits from these systems is a core source of competitive value.

4.3.4.2 Impact on Competitiveness

Voluntary standards have the dual purpose of improving social and environmental impact, whilst allowing companies to access new markets.

There are several benefits of compliance with voluntary standards:

- Improved market access and prevention of bans; for example meat products need to be HACCP certified to export to the US;

- Improved efficiency gains, as environmental waste is cut. This has direct financial impacts, especially given price increases are already appearing along the supply chain in water, energy, and animal feed/grain. Production costs are inevitably rising; process innovation and efficiencies in operations are one means to manage this;

- Provision of a trusted image to the manufacturer or supplier and enhanced brand recognition and consumer confidence;

- Access to the top end of the market, as certification allows for higher pricing;

- Improved environmental and health conditions, resulting in fewer accidents and more contented employees; and

- Improved use and reliability of information; thus reducing weak links in the supply chain that could endanger food safety.

4.3.4.3 Performance and Good Practices

Statutory compliance and voluntary standards

This research indicated that most meat processing industries in Jordan do adhere to a variety of voluntary quality and food safety standards such as ISO 9001, ISO 22000 and HACCP, as well as the Jordan Quality Mark. All OECD companies comply with HACCP as it is both mandatory in the EU as well as the US.[14]

Overall the compliance rate of Jordanian meat and poultry companies is promising. Half of the benchmarked companies are adopting the environmental ISO 14001 standard and others are in the process. There are avenues of support for meat processors in Jordan to explore in order to improve their performance. Organisations such as the Cleaner Production Unit, for example, can assist companies to meet environmental standards including ISO certification, as well as improve efficiency through the implementation of clean production processes.

The national voluntary standard, the Jordan Quality Mark, was established 1984 and certification is provided by the Jordan Institution for Standards and Metrology. The standard started as a general certification of conformance to Jordanian minimum standards, but has since evolved to become a product and quality management system certification. The Quality Mark is not well recognised outside Jordan and some export manufacturers do not find any added value to such a certification. The Amman Chamber of Industry has called upon promotion of this mark in foreign countries. The example of the Red Tractor label in the UK shows how national labels can improve consumer knowledge of issues relating to the food manufacturing sector whilst offering ethical consumers a viable choice and simultaneously raising standards.

International Best Practice: Business Standards and Compliance
The Red Tractor

The Red Tractor quality mark was developed by the independent Assured Foods Standards Organisation in 1999. The goal of the Red Tractor mark is to assure consumers that the product they are purchasing has met with certain environmental and ethical standards, and that the product has been exclusively grown and produced within the UK.

A myriad of standards fall under the Assured Food Standards/Red Tractor umbrella, which relate to a variety of issues including environmental concerns, food safety and animal rights. Some 68,000 farmers and growers now adhere to the label, and certificates cover over £6.4 million worth of the UK's fresh food.[15]

Traceability
Consumers worldwide, buyers and statutory requirements, are increasingly demanding full traceability of supply chains. A number of food scandals including mad cow disease, avian flu and swine flu and cases of food poisoning are strong indications of existing loop holes in tracking the safety of food throughout the supply chain.[16] As a result, requirements on information along the whole meat value chain from "paddock to plate" have increased and are likely to increase more; capacity building, strengthening of monitoring and certification systems will be required. ISO has developed a new standard, ISO 22005, on traceability in the feed and food chain to help ensure the safety of food products. The standard enables organisations to trace the flow of materials, identify necessary documentation and tracking for each stage of production, ensure adequate coordination between different actors involved, and require that each party be informed of at least his direct suppliers and clients, and more.[17]

Resource pricing changes and process innovation
Water and energy and subsequent grain prices are rising dramatically in Jordan and globally. These elements make up important parts of the input costs for the sector. Through improved resource efficiency, companies can reduce operating costs while reducing water and energy consumption. Furthermore, a majority of the Jordanian meat processing sector relies on imported meat. The increases in these resource costs worldwide will raise costs of meat imports. While the costs of imported meat will be more difficult to control, the costs of local production are more easily influenced by the sector. In the case of the poultry producers, they have the added opportunity to proactively manage risks and costs throughout a greater extent of the value chain, including the management of the price and sustainability impacts of raising livestock.

Environmental regulations are a major factor in resource pricing changes, both locally and globally. Internationally, there are big pending changes for the sector. In Australia, the government is establishing a national carbon trading scheme to limit the amount of greenhouse gas pollution of companies.[18] If applied to the sector, the Australian Meat Industry Council predicted increased productions costs (e.g. US$0.96/kg), decline in meat consumption, and a 112% drop in their cash margins.[19]

Our research indicates that the Jordanian meat processing companies are aware of the need to cut down energy and water consumption thereby improving their economic performance. Several Jordanian meat processors have already reported savings from turning to process innovation and cleaner production techniques to cut down on their utility expenses and ensure compliance with environmental regulation.

National Best Practice: Business Standards and Compliance
Quality Food

Quality Food has been working to improving its environmental performance and is certified to ISO 9002 and ISO 14001. Quality Food initially focused on managing and reducing its water and energy consumption, by measuring water and energy consumption and linking it to a monetary unit e.g. water consumption per output (JD/tonne). To reduce consumption, the “Good Housekeeping Guide”, an easy to apply and inexpensive instrument used to manage their environmental performance, achieving 77% reduction of water consumption per tonne of meat produced and 41% reduction of electricity consumption in 4 years. Quality Food Company proactively worked with Jordan’s Royal Scientific Society’s Cleaner Production Unit to assess and implement Cleaner Production methods, which have already achieved cost savings.

National Best Practice: Business Standards and Compliance
National Poultry and JUMP

National Poultry received assistance from the Jordan Upgrading and Modernization Programme (JUMP) to install solar thermal systems that cut fuel costs. JUMP is a programme managed by a steering committee headed by H.E. Minister of Industry and Trade with public and private sector representatives, and supported subsidising energy audits and costs for installing solar thermal heaters and other technologies to enhance the eco-efficiency of Jordanian industries.[20]

The main challenge to achieving further progress is that meat processing companies do not feel that they know how to do more in this regard. In Jordan, the government can support the use of clean technology by reviewing opportunities for financial incentives, adjusting environmental legislation to focus on clean design, and reducing import tariffs for clean technology. Awareness, training, and collaboration across stakeholders about clean production would support the sector to further improve and ensure sound strategy. Jordan's Royal Scientific Society's Cleaner Production Unit, for example, specialises in assessing and recommending pathways of cleaner production to firms, and has already had success in the meat processing sector.

National Best Practice: Business Standards and Compliance
The Cleaner Production Unit (CPU)

The Cleaner Production Unit (CPU) was commissioned by the State Secretariat for Economic Affairs (SECO). The CPU aims to contribute towards a sustainable industrial production mode in Jordan increasing the long-term competitive position of enterprises while reducing their environmental pollution by applying cost-effective measures and technologies. The CPU has had many success stories in the paint, metal, hotel and food industries in Jordan and continues to provide cleaner production assessment and implementation measures to other industries.

4.3.4.4 Recommendations

Companies should:

- Investigate adoption of standards that would open new (international) markets;
- Work with organisations such as the Cleaner Production Unit to implement improved standards of, for example, environmental performance; and
- Improve environmental performance (reduce water/energy consumption and waste production) through improved environmental management practices and resource management. Focus on innovations that reduce, and promote reductions in, carbon impacts (product mix will increasingly include assessment of carbon footprint).

Government, Regulators and Civil Society should:

- With relevant stakeholders and experts, conduct training to promote clean production methods (process innovation) across the entire sector.

E RESPONSIBLE SUPPLY CHAINS

4.3.5 Responsible Supply Chains

> *"In the future consumers will care more about where their food comes from and how it is produced."*
> Interview with a meat processing company, June 2009

4.3.5.1 Key Issues

The extent to which companies manage their supply chain differs from sector to sector, but in the area of meat processing, international best practice is to consider "from paddock to plate", that is to say to trace the origins of the meat right back to how it was reared, and all the way forward to consumption. Cutting edge life cycle analysis also considers "end of life" which refers to the disposal of packaging, transport and other waste material emitted as a bi-product of the manufacturing and consumption process.

A responsible supply chain relates to managing social and environmental impacts along the whole value chain, aiming at maximising benefits and minimising negative impacts. Figure 4.1 illustrates some of the social and environmental issues linked to the meat processing supply chain.

This kind of "life cycle" analysis takes a significant investment of time and resources, which is beyond the reach of this research. However in this section we seek to give an overview of the consequences of a life cycle analysis for the Jordanian meat processing sector.

4.3.5.2 Impact on Competitiveness

Developing responsible supply chains has several impacts on competitiveness. First, it has the potential to reduce costs by improving productivity and quality. Second, stronger control over supply chains increases consumer safety. International buyers (and consumers) are increasingly concerned with the traceability of food and the carbon and water footprint of products. The innovation manager of a Kiwi producer in New Zealand said a water measure could prove favourable for New Zealand exporters. "For New Zealand, it is a new area, and potentially it provides us with a competitive advantage."[21] For carbon footprinting, anything that adds carbon emissions to the value chain will be scrutinised. Pressure is going to increase to significantly reduce

FIGURE 4.1 MEAT PROCESSING SUPPLY CHAIN

LIVESTOCK PRODUCTION

- Water Consumption
- Cost of Feed
- Usage of Transgenic, Antibiotics, Hormones, GM (crops)

SLAUGHTERHOUSE

- Waste
- Hygiene, Health & Safety

TRANSPORTATION

- Energy Consumption
- Road Safety
- Transportation Efficiency
- Infrastructure

PROCESSING

- Health & Safety of Employees
- Energy/Water Consumption
- Local Employment
- Waste, Emissions, Effluents

STORAGE/DISTRIBUTION

- Reduce Packaging Material and Waste
- Reuse of Trays and Pallets
- Energy Efficiency

CUSTOMER

- Health Awareness
- Safe Food

Source: New Zealand Business Council for Sustainable Development
www.nzbcsd.org.nz/supplychain

the distance that any meat travels over the course of its life cycle from "paddock to plate".

So in order to compete on the international market, Jordan's meat processors need to raise their game in finding out more about their supply chains, then 1) taking action to improve environmental and social performance while 2) ensuring that the sector is positioned within the most energy, water, and carbon-competitive value chains.

4.3.5.3 Performance and Good Practices

From paddock to plate

Our research suggest that a few companies do engage with their suppliers and one meat processing company claimed that just 4 years ago consumers did not care if poultry was grain fed or given animal protein; however, consumer interest in health and animal welfare is slowly growing and the company concerned has already had to take this into consideration by ensuring all poultry is grain fed.

Globally, supply chain management and life cycle assessments represent best practices – both for individual companies as well as governmental organisations supporting the meat processing sector. The New Zealand Business Council for Sustainable Development offers a useful guide on how to conduct a full life cycle analysis.[22] And the British government has set up a Meat Supply Chain Task force to secure the future of the industry in the UK operating in a sustainable way. To achieve this goal, it brings together key representatives from all sections of the industry to improve collaboration.[23]

Some leading international meat processors, such as Smithfield, already conduct life cycle analyses as part of their annual corporate social responsibility reports. Many companies, such as Nestlé, see supply chain management as a shared endeavor with suppliers, and an essential component of the business model.

International Best Practice: Responsible Supply Chains
Nestlé

Nestlé's multinational presence as both an employer and as a highly recognisable brand, brings huge challenges and risks for supply chain mismanagement. To counter these risks, the company strives to strengthen a sustained business model by adding value in all areas of their supply chain, by acting as a positive force within the communities they operate in and by being open and inclusive in all stakeholder engagements. To achieve these aspirations, Nestlé has developed a number of initiatives, for example offering free advice to 1,500 farmers globally in the areas of water efficiency and crop cultivation. Additionally, Nestlé has contributed 30 million Swiss francs in micro loans given predominately to local suppliers to encourage commerce and reduce dependency on hand outs. Other measures in this 'localised growth' approach include establishing processing facilities geographically close to suppliers and farmers, minimising the environmental impact of produce travelling long distances to be processed and acting as vehicles for the development of rural communities in emerging markets.

Nestlé procures two thirds of all raw materials (costing 22.5 billion Swiss francs) from developing economies and works with 594,223 farmers internationally. The company believes that sustained success and growth of these farmers is essential to the company's core business success. Through their mutually beneficial approach to supply chain management Nestlé guarantees supplier loyalty, allows them to monitor and improve quality, encourage good local community relations and allows them admission into previous untapped markets in developing countries.[24]

Carbon and water footprint
Previous and subsequent sections discuss the impact of climate change policies and increased consumer awareness on the meat and poultry sector. Consumers are more aware of the environmental impact of their consumption and seek knowledge about this. While "food miles" of a product, or the distance food travels from paddock to plate, suggest how high the environmental impact of the food will be, research has shown that it is not an adequate measure.[25] A wider range of impacts, including the food miles indicator, tells a more complete story.

Cranswick Plc, one of the UK's largest suppliers of cooked meats and convenience foods, made a commitment in January 2009 to reduce the company's carbon footprint (measured in tonnes of CO_2 of product) by 20% by the end of 2010/11 financial year. To achieve this end, Environmental Management systems will be implemented on all sites and a Carbon Action Plan developed and implemented with the Carbon Trust.[26]

National Best Practice: Responsible Supply Chains
The Carbon Reduction Label

The Carbon Reduction Label is designed to support the transition to a low carbon economy. It shows the carbon footprint, the total amount of carbon dioxide (CO_2) and other greenhouse gases that are emitted during the whole life and production cycle of a product: manufacturing, distribution and use.

The Carbon Reduction Label is awarded to those companies committed to reducing their carbon footprint within two years. The label can act as a transmitter between companies and consumers, providing a solid basis for consumers to make informed decisions and rewarding carbon conscious companies.

To ensure consistency in measuring carbon footprints, The Carbon Trust developed a greenhouse gas calculation methodology. The label is supported by a set of standards and guidance documents establishing a robust framework for calculating the total emission of GHG in carbon equivalents from a product across its life cycle.

A number of Food and Drink manufactures participated including Cadbury Schweppes, Coca-Cola, Muller Dairy UK Limited, Walkers and Scottish & Newcastle. Expertise gained through the trial provides interim indicators of the relative merits of different potential food supply systems.[27]

While carbon footprinting is already high on the international agenda, water is emerging as a crucial issue for future global development. This is particularly relevant to the meat sector, where for example the production of one kilogramme of beef requires 16,000 litres of water.[28]

International Best Practice: Responsible Supply Chains
Water Footprint Network

December 2008 the Water Footprint Network was launched as a joint initiative of the University of Twente, the World Wide Fund for Nature (WWF), UNESCO-IHE Institute for Water Education, the Water Neutral Foundation, the World Business Council on Sustainable Development, the International Finance Corporation (part of the World Bank group) and the Netherlands Water Partnership.[29] The mission of the Network of to promote the transition towards sustainable, fair and efficient use of fresh water resources worldwide by advancing the concept of the 'water footprint', a spatially and temporally explicit indicator of direct and indirect water use of consumers and producers; increasing awareness and developing standards.[30]

Transportation
In other chapters we have considered social aspects of responsible competitiveness. A life cycle analysis would also uncover the heavy transport-related environmental implications associated with Jordan's meat processing sector. According to the Ministry of Agriculture, some 45,000 tonnes of red meat and over 25,000 tonnes of white meat is imported to Jordan. Beyond poultry, very little of the meat used in processing is domestically reared. The environmental impact of this long transportation would be captured by a carbon footprint analysis.

Yet, this is not the only aspect as long distance transports not only have an environmental impact but can create issues about the welfare of the animals.

International Best Practice: Responsible Supply Chains
UK Food and Drink Federation (FDF)

The Food and Drink sector directly employs over 400,000 people in the UK and accounts for 15% of UK's total manufacturing sector by value. The UK Food and Drink Federation is the voice of the industry[31] and supports its members to respond to challenges that have the biggest impact on the industry. One of the three priorities is Sustainability and Competitiveness.

FDF members are committed to "embed environmental standards in their transport practices, including contracts with hauliers as they fall for renewal, to achieve fewer and friendlier food transport miles and contribute to an absolute target for the food chain to reduce its environmental and social impacts by 20% by 2012 compared to 2002".[32]

FDF members want to achieve 'fewer and friendlier' food transport miles and reduce impacts of road congestion, damage to infrastructure and road accidents as well as reduce air and noise pollutions and CO_2 emissions. FDF's members work together closely with industry partners, retailers and transport providers on collaborative projects.

In July 2008, FDF launched its "Checklist and Clause on Greener Food Transport"; the checklist summarises transport best practices in the day-to-day operation of a fleet and covers issues such as maximising vehicle loading, empty running and driver trainings. 47 companies with a combined turnover of £17 billion have already signed up, committing to using the ten point checklist thereby embedding environmental standards into the heart of companies transport practices, including contracts with third parties.[33]

General Mills, distributor of cereals, snacks and processed foods and a member of the FDF, uses multiple strategies to achieve 'fewer and friendlier' food transport miles. Products transported from manufacturing plants in Southern France and Northern Spain to the UK are being done as much as possible by sea – as sea freight is considered the most efficient mode of transport in terms of sustainability impact. Within the UK, General Mills pursues the policy of stacking vehicles to the maximum. Pallets of cereal and soup can be shipped together, the remainder of a partially loaded truck with heavy soup can be filled with light-weight cereal. This saves about 270 vehicle movements per year and about 230,000 road miles.[34] The third pillar of the strategy is to use only third party transportation companies that can consolidate deliveries across a number of manufacturers to increase vehicle utilisation through reducing mileage per delivery and reduce empty running.[35] General Mills succeeded in reducing cost of transportation and improving efficiency and reliability, at the same time minimising environmental impacts.[36]

National Best Practice: Responsible Supply Chains
Long Distance Animal Transportation

Each year, millions of Australian animals are shipped to the Middle East for slaughter – travelling thousands of miles over a period of weeks. Consumers in the Middle East and in Amman prefer that the animals are delivered alive to be then slaughtered "halal".

Australian animal rights concerned with the welfare of the animals during transportation and on arrival have managed to begin influencing the Australian meat industry. The Australian meat industry association *Meat and Livestock Australia* works closely with the Australian Government to assist the Australian industry to improve the welfare of livestock throughout the export process. Experts and trainers are sent from Australia to deliver training on animal handling, nutrition and heat stress delivered in the Middle East.[37] Princess Alia of Jordan is endorsing endeavors to improve the conditions in long distance animal transport. An agenda has been set to improve slaughter facilities and Australia is supporting the campaign and sending new equipment. Alternatively live transport of animals could be substituted with certified Halal meat produced in Australia.[38]

International Best Practice: Responsible Supply Chains
Sustainable Packaging

Sustainable packaging is expected to grow to 32% of the total global packaging market by 2014, up from 21% in 2009.[39]

Increasing fuel cost – more efficient packaging can reduce transportation cost; potential increase in regulations; consumer choice and global retailers like Wal-Mart are raising the bar and driving the development and usage of sustainable packaging.

Wal-Mart introduced the 'Sustainable Packaging Scorecard' evaluating suppliers on their performance and supports the achievement of Wal-Mart to reduce packaging in its supply chain by 5% in 2013. Based on estimations, achieving this goal will lead to a reduction of over 600,000 tons of CO_2, over 200,000- trucks off the road and saving of over 50 million gallons of diesel fuel saved annually (Wal-Mart U.S. only).[40]

A market analysis study by Datamonitor 'Sustainable Packaging Trends: Consumer Perspectives and Product Opportunities', conducted during the second half of 2008 surveyed 15 countries across Europe, Asia Pacific, the US and South America. "On average, 48% of respondents said they would seek alternative products if they thought their first choice contained excessive packing. South Korea and China once again expressed the strongest intentions with 69% and 68% respectively. Some 40 per cent of UK respondents agreed, a slightly higher proportion than in the US, but lower than other European countries such as France, Spain and Sweden."[41]

Paul Curtis, executive director of the Packaging Council, New Zealand's industry voice for packaging issues said "Five years ago when we embarked on the Packaging Accord, the primary environmental objective for packaging was recyclability. Today companies are looking at all of the environmental impacts across the packaging lifecycle. The winners show case how industry is taking a complete supply chain approach to new product development and not just looking at recyclability."[42]

4.3.5.4 Recommendations

Companies should:

- Ensure increased awareness of the supply chain including full traceability. Adoption of standards such as ISO 14001 across the supply chain supports such efforts; and
- Identify areas to add economic and social value to the product while reducing environmental impacts (including the carbon footprint) – from farm level, to transport, to processing, to packaging and marketing.

Associations and Regulators should:

- Work with companies and other stakeholders, such as the Cleaner Production Unit, to conduct a full life cycle analysis of the sector from the Jordanian context.

F PRODUCT AND SERVICE INNOVATION

4.3.6 Innovation in Products and Services

> *"In the line with Quality Food Company's environmental policy, we at Quality Food are determined on applying cleaner production principles that result in the best utilisation of available resources and the production of products in an environmentally friendly manner, this reflects the determination of our team members in complying with company's mission of protecting the environment and serving the local community."*
> **Khaldoun Zawaideh,** Quality Food Company, interview in July 2009

4.3.6.1 Key Issues

In the meat processing sector, innovation means understanding and profiting from consumer and industry trends. Amidst changing consumer behaviour locally and in export markets towards considerations of the environment, health, and animal welfare, these issues become areas of focus for product innovation.

4.3.6.2 Impact on Competitiveness

Increasing information disclosure requirements from both consumer and regulators, alongside growing consumer awareness of the environmental and social impact of the products they consume, is already translating globally into changing consumer behaviour and a growing market for organic meat products. This increasing health awareness and persistent trend in industrial countries to reduce meat consumption is challenging the sector globally to come up with innovative products that meet the needs of the consumers. The industry will profit from these trends if the sector spearheads consumer awareness and aggressively markets their healthy products, including furthering and building the interest in organic products. Product innovation is also an opportunity to diversify products, thereby staying ahead of and setting trends.

4.3.6.3 Performance and Good Practices

Product innovation: organic, healthy, and beyond

Jordan firms are already starting to diversify products, such as leaner offerings targeted at the health market. Interviews suggest limited success thus far, for various reasons that are likely to be significantly addressed by the responsible competitiveness recommendations in this chapter.

Globally, organic farming is now practiced in more than 140 countries on over 1.2 million farms. In the UK, sales of organic products increased by 1.7% in 2008, a £2.1 billion market, with the beef market constituting £41.7 million, lamb £18.5 million, and poultry £44.8million. Revenues slowed but continued growing during the economic downturn, demonstrating viability in a downturn, and growth opportunities as economies strengthen.[43] Regionally, consumer demand for organic markets is tentatively increasing, alongside increasing concerns around health issues like diabetes and obesity. Success stories like Sekem in Egypt prove there is a business model for organic foods in the region.[44] In Jordan, the organic market is not yet developed, but guiding elements are falling into place, such as increased consumer interest in animal welfare and production methods. Agriculture is beginning to offer organic products. In 2007, the Ministry of Agriculture finalised a strategy for regulating and encouraging organic agriculture in Jordan, first introduced in a pilot project for producing organic olives in 2004 in partnership with the Japanese development agencies, resulting in the export of three tonnes of Jordanian organic olive oil to Japan in 2006.[45] The Ministry of Agriculture aims to broaden the focus to include various crops and animal farms.

International Best Practice: Product and Service Innovation

Organic Halal Meat

Abraham Natural Produce – Food with Integrity, is a family business founded in 2006 in Somerset, UK to provide genuine 'organic' Halal meat, ethically sourced and honestly priced. The owners wanted to provide quality Halal meat that was not sub-standard. The meat is sourced locally and is certified by the Soil Association. 5% of the profits are given to charity. This strategy is a innovative combination of several increasing consumer demands.[46]

By-products
Meat processing creates much waste at the different stages. Not only are regulations around waste increasing nationally, better waste management can also lead to cost savings in worst cases, and new streams of revenues in better cases. National Poultry is already working on reaping profits from strategic waste management, whereby 25% of the waste from slaughter-houses feed into a rendering plant that manufactures the waste into animal protein, sold to other industries to be used as additives. Furthermore, animal fat, a by-product of these processes, is used to fuel the new boiler they have purchased, saving on the use of diesel fuel.

International Best Practice: Process Innovation
Tyson

Tyson – a major meat producer in the US slaughters roughly 25% of the total US meat supply, thereby creating over 1100 million litres of animal fat. Tyson established a Renewable Products Unit to explore ways to commercialise these by-products, turning them into alternative energy. Tyson plans to produce up to 250 million gallons of biofuel a year from beef, pork, and chicken fat within 3-4 years, with more options being reviewed. "The charter of the [Renewable Product Unit] is consistent with our 'value-up strategy,' since it's focused on increasing margins on our by-product and supports our core value of environmental stewardship."[47]

4.3.6.4 Recommendations

Companies should:
- Focus on high health value innovations (e.g. organic).

Government, Regulators and Civil Society should:
- Conduct a market analysis to research the potential of new environmentally and socially-friendly products in both national and regional markets; and
- Hold a workshop to discuss end use.

G RESPONSIBLE COMMUNICATIONS

4.3.7 Responsible Communications

> *"Discussions are under way with the government to prepare for the new consumer protection entity and we, at the society, are ready to cooperate with all government entities to protect consumer rights"*
> **Mohammad Obeidat,** Consumer Protection Society President[48]

4.3.7.1 Key Issues

Responsible Communications is largely about transparency, and how well the sector communicates and engages with all of its stakeholders. In the meat processing sector, this means building trust and customer loyalty to products offered, both in the local market, and building a trustworthy Jordanian brand amongst international buyers. Trust building is accomplished through effective and consistent consumer protection, marketing and consumer awareness, labelling and certifications, and reporting.

4.3.7.2 Impact on Competitiveness

Amidst concerns about potential food scandals, or global threatening diseases such as mad cow disease and the avian flu, or increasing rates of health issues such as cholesterol or heart attacks, trust building is of upmost importance in this industry. Locally, pricing has recently been an issue particularly at Ramadan. Controversy and mistrust of the industry over pricing and consumer production hinder competitiveness. Building consumer trust and engaging with stakeholders also lets the public know that the firm and the sector is a good employer and can attract motivated employees.

Beyond engaging the individual consumer, transparency is important for the very lifespan of the sector. The increasing and large impacts of water scarcity and the looming low carbon market will have costly impacts on the sector. Reporting and disclosure lend themselves to better management of such critical environmental and competitive issues. Disclosure of carbon and water footprinting is expected to be required. By acting responsibly now, the sector can prepare for these risks and changes, and acts as an educator of consumers about the environmental and social impact of their food proactively. This is important to the nation, while creating and ensuring the sector's future market.

The ambition of the meat processing industry to improve exports is driven by building the Jordanian brand at an international level. The brand is strengthened not only by certifications and adherence to state and international standards, but also by transparency and reporting, which also build trust.

4.3.7.3 Performance and Good Practices

Reporting

Responsible Competitiveness Driver: G. Responsible Communications		
Indicator	**JORDAN**	**OECD**
# of processors with sustainability/CSR reports (as % of sector)	0%	19%
# of companies disclosing carbon emissions	0%	13%
# of companies disclosing water usage	0%	13%

While the tracking of carbon emissions and water usage is increasing, as well as firms' willingness to share this information upon request, no Jordanian meat processing firms publish their environmental and social activities and objectives. One firm in the sector has said they are in the process of developing a CSR report. The expectation is that this will increase, both locally and globally. The Global Reporting Initiative (GRI) issues the globally most accepted guideline for sustainability reporting. In addition to the main guidelines, is in the process of developing sector guidelines for the food sector, anticipating that food sector companies are going to proactively increase reporting on their environmental and social performance. The guidelines will include product specific indicators for supply chain management.[49]

Jordan's meat industry has quality standards, given the national regulations and high level of adaption of international business standards. This puts the sector in a great position to commence reporting given that important pieces of sustainability reporting are already being tracked. Much information is already collected and shared with stakeholders, just not easily accessible by the general public. This is a tremendous opportunity for the sector to be proactive and to position itself as a role model globally. In OECD benchmarked firms, only 19% of meat processing companies publish sustainability reports, while 89% banks publish sustainability reports.

International Best Practice: Innovation in Product Sustainability Disclosure
Wal-Mart

In 2009, Wal-Mart announced to develop a worldwide sustainability product index. In future Wal-Marts products will carry labels that provide information on the products performance in the areas of energy and climate; natural resources; material efficiency; and people and community and will lead to greater transparency on quality and history of all products. It is expected to act as a driver for higher quality and lower cost and helping customers to make more informed choices.

Initially Wal-Mart will ask its more than 100,000 global suppliers to engage in a survey with 15 questions. Subsequently a life cycle analysis database will be developed by a consortium of universities working with suppliers, retailers, governments and non-profits. Finally, the gained information will be delivered to the customers via a still to be determined system of labelling.[50]

As the world largest public corporation by revenue in 2008, Wal-Mart's Sustainability Index Initiative is expected to create worldwide momentum, inspiring suppliers to analyse their operations for their environmental impact thereby identifying opportunities to improve operational efficiencies and create benefits both in the short- and long-term.

Consumer protection
In this sector, consumer trust is fragile and essential. As mentioned, food scandals or threat of disease can make consumer loyalty and demand extremely elastic. Confidence can be built through strong consumer protection, for example the Jordan National Society for Consumer Protection. This can dissuade myths and ensure trustworthy firms are rewarded. Integrating consumer protection and awareness into the structure of the government would also greatly build consumer confidence. In Egypt, the Consumer Protection Agency is part of the Ministry of Trade and Industry as a governmental organisation, thereby having increased infrastructure and resources to perform this important focused role. Their role is even to further build the roles of non-governmental consumer awareness and protection groups. Third party information ensures consumers know and trust good firms.

National Best Practice: Responsible Communications
Jordan National Society for Consumer Protection (NSCP)

> *"Through this initiative, we aspire to promote a new consumer culture and raise public awareness on rational consumption methods"*
> **Khalil Haj Tawfiq**, Foodstuff Traders Association

The NSCP was established in 1989 and aims to raise public awareness on consumer issues and work with government and regional institutions and to fight monopoly, price fixing and market abuse. Since 1995, NSCP represents consumers in the National Codex Committee (NCC), in the administrative council of the Jordan Institute for Standards and metrology (JISM) and in all technical committees concerned with food standards.[51] In 2009, the society launched an interactive website, www.beitalmoneh.org, as a tool to connect local consumers with activists and the media. The site also features price lists, studies and tips, allowing visitors to leave feedback and comments to facilitate dialogue with activists. Another website, www.almostahlek.net, was established by the Foodstuff Traders Association (FTA).

Marketing and consumer awareness
Sales and marketing are cornerstones to profitability. Good marketers know what consumers want, and can communicate new opportunities and considerations that are likely to resonate with consumers. For example, given the increasing costs of water and energy usage, it is in the best interest of the industry for consumers to be aware of these rising costs, thereby making it acceptable for them to share these costs without drastically decreasing demand due to rising costs. This is important because consumers in Jordan are price sensitive, not simply willing to pay any price for quality.

Consumer awareness creates and is critical for product innovation. Increased awareness about the environment and health can support the sale of organic and healthy products. Consumer awareness and marketing increase the value that consumers place on a product, and thus their willingness to pay. Offering more healthy and organic products, in addition to current product lines, does not lose customers, but brings in more profit for customers who are health and environmentally conscious. And the more aware consumers are of health and environmental issues, the bigger this market size. Furthermore, through directly participating in promoting consumer awareness, the sector further builds public trust and the Jordan brand.

Certifications like the Jordan Quality Mark are important for consumer awareness and builds trust. Marketing and positioning is paramount to ensuring good work and quality standards of firms are rewarded.

International Best Practice: Responsible Communications
Argentinean beef industry

The Argentinean beef industry forecasts growth in 2009 at a rate of 20%. However the industry has had to work hard at its image. Originally, it was individual companies like Pampas Plains which led the way in developing marketing strategies linking the product to the plush Argentine climate and landscape, so consumers associate the product with high quality, and the particular flavour of the beef. Marketing strategies have also taken advantage of crises in other markets, particularly BSE in the UK.

More recently, the Institute for the Promotion of Argentine Beef (IPCVA), in operation for two years, has pulled companies and government, from beef producers to retailers, together to work in partnership to promote the nation's beef in export markets. Quality control, market research and participation in major trade fairs are essential to this strategic brand building. They also assure consumers by providing information on the origins of the beef, type of feeding etc. As consumers become more conscious of the origins of their food, knowledge and transparency about the entire supply becomes more important. This approach has proved so successful it has been adopted by the New Zealand lamb industry, and there are plans for a new campaign by the Welsh sheep industry.[52]

Labelling – nutritional value
Although not yet compulsory locally, more and more meat products provide a nutrition label that discloses the nutritional value and ingredients of the product. These labels are not only required for products targeted for export markets but also serve to educate local consumers about their food intake for diet management. The overconsumption of meat can lead to serious diseases like diabetes and obesity. There are high occurrences of diabetes in the whole region; in Jordan 16% of people have raised blood glucose.[53]

A study using information from USDA's Continuing Survey of Food Intake by Individuals, and the associated Diet and Health Knowledge survey, compared fat and cholesterol intake in diets of consumers who read and use nutrition labels with those who do not. The results suggest that consumers who use labels to guide food choices have lower intake of fat, saturated fat, and cholesterol.[54]

The Jordan Exporters Association has played a commendable role in providing training to numerous companies on how to develop these nutrition labels, even bringing in experts who used to be employed by the US FDA in order to assist local manufacturers to adhere to the labelling mandates imposed by export markets.

4.3.7.4 Recommendations

Companies should:

- Adopt sustainability reporting, with a focus on key issues (safety, quality, pricing, environmental impacts, social impacts).

Regulators should:

- Increase labelling regulations for local sales; and
- Institutionalise consumer protection into governmental ministry.

Civil Society and Associations should:

- Reach out to meat businesses to conduct joint campaigns on diabetes and healthy eating for example; and
- Increase the role and influence of consumer protection and awareness organisations.

4.4 SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

This chapter has acknowledged some of the responsible competitiveness successes of the Jordan meat processing sector, while concentrating on the areas that have the greatest opportunity to contribute to the growth of the sector while optimising impacts on sustainable development.

The recommendations have been framed around the seven key drivers of responsible competitiveness analysed for this research, and are targeted to meat and poultry processing companies, government, regulators, the industry federation, and in some cases, broader society.

As part of their emphasis on maximising competitiveness, these recommendations have also been identified based on the extent to which they are fundamentally essential, and/or their relative ease of implementation. Fundamentally essential actions include:

- **Focus on process and product innovation** that reduce energy, water, carbon, and other environmental impacts (product mix will increasingly include assessment of environmental footprint);

- **Ensure full traceability of the supply chain**, and conduct life cycle analysis to identify areas to add value to the product – from farm level, to transport, to processing, to packaging and marketing; and

- **Work cooperatively with industry associations and regulators**, with a focus on innovation, recognising that sustainability issues will increasingly dominate the sector and that responsible competitiveness is essential to survival of the sector.

The recommendations that are easiest to implement are:

- Encourage staff-management communications, with regular consultations. Start measuring employee satisfaction with frequent assessments of staff concerns. **Improving management-staff relations in this way leads to higher performance in attracting and retaining talent**; and

- Adopt sustainability reporting, with a focus on key issues (safety, quality, pricing, environmental impacts, social impacts). **Transparency allows easier measuring of performance, and builds trust amongst consumers and other stakeholders.**

Overall, the meat processing industry is facing immense challenges which require a holistic approach, alongside micro-level actions that can advance the economic, environmental, and social performance of each company in the sector. Recommendations are summarised in the following table.

Summary of Recommendations for Enhancing Responsible Competitiveness in the Banking Sector

A RESPONSIBLE BUSINESS CLIMATE

Recommendations for Business

- Work cooperatively with industry associations and regulators, and with a focus on innovation, recognising that sustainability issues will increasingly dominate the sector and that responsible competitiveness is essential to survival of the sector. This applies to cooperation on carbon impacts (including transport chains), water impacts (usage, contamination), energy impacts, quality, food safety; process innovation, and product and service innovation, amongst other issues and opportunities.

Recommendations for Government, Regulators, and Civil Society

- Improve trade negotiation capacities and streamlining of administrative and documentation procedures;
- Improve training of inspectors, for example to enhance knowledge of environmental management systems;
- Develop closer links with the Ministry of Environment to support companies that do not adhere to improved standards;
- Maintain the sector's current position against protectionist tariffs, as advocated by the sector;
- Support sector competitiveness through market analysis, better marketing, and other means;
- Together with sector companies, NGOs and the media, seek to ensure that "Brand Jordan", both nationally and internationally, is associated with strong environmental and social company performance; fair and enforced legislation; and consistent efforts to raise the bar of best practice;
- Create incentives for companies using renewable energy sources such as solar power;
- Upgrade existing legislation on quantity of water used, to include quality of water at end of production processes;
- Encourage disclosure of environmental performance for transparency and progress measurement.
- NGOs and consumer associations to monitor sector progress on social and environmental performance; and
- Media to raise the importance of issues relating to responsible competitiveness.

B SMART PHILANTHROPY

Recommendations for Business

- Work with civil society groups to establish community needs, in areas such as literacy, training on hygiene, husbandry, and sustainable agriculture;
- Establish communication channels with local communities to better resolve conflicts, such as monthly meetings attended by mediating groups such as local NGOs; and
- If budget allows, appoint a dedicated Community Relations Manager; otherwise ensure that community relations is represented at senior management level, and discussions recorded in Board meetings.

Recommendations for Government, Regulators, and Civil Society

- Conduct training on business-NGO partnerships specifically aimed at rural development opportunities;
- Encourage good practice through financial or other incentives such as Smart Philanthropy Awards; and
- Engage more with meat processing companies and present opportunities for partnership.

C ATTRACTING AND DEVELOPING TALENT

Recommendations for Business

- Work with other stakeholders, including education authorities and NGOs, to encourage local employment development;
- Act to promote gender balanced workforces: systematically address the reasons why women are unable or do not want to work in this sector (including shift work, safety for women in the workplace, provision of female-friendly facilities);
- Changing behavioral habits, such as improved hygiene, needs to happen from an early age. Companies can work with local education authorities to ensure hygiene is taught in local communities from an early age;
- Ensure motivated workers are effectively remunerated – employ incentive systems for high performing employees;
- Encourage staff-management communications, with regular consultations. Start measuring employee satisfaction with frequent assessments of staff concerns; and
- Collaborate with other manufacturing organisations in the local area, to operate employee transport schemes (e.g. to and from Amman) and training.

Recommendations for Government, Regulators, and Civil Society

- Start collecting talent management data to measure industry practice e.g. local recruitment ratios, gender-balanced workforces, wages and investment in training. The tracking and public sharing of this data also incentivises companies to improve their performance; and
- Education authorities and NGOs can collaborate with meat processing companies and other manufacturers to develop local employment schemes.

D BUSINESS STANDARDS AND COMPLIANCE

Recommendations for Business

- Investigate adoption of standards that would open new (international) markets;
- Work with organisations such as the Cleaner Production Unit to implement improved standards of, for example, environmental performance; and
- Improve environmental performance (reduce water/energy consumption and waste production) through improved environmental management practices and resource management. Focus on innovations that reduce, and promote reductions in, carbon impacts (product mix will increasingly include assessment of carbon footprint).

Recommendations for Government, Regulators, and Civil Society

- With relevant stakeholders and experts, conduct training to promote clean production methods (process innovation) across the entire sector.

E RESPONSIBLE SUPPLY CHAINS

Recommendations for Business

- Ensure increased awareness of the supply chain including full traceability. Adoption of standards such as ISO 14001 across the supply chain supports such efforts; and
- Identify areas to add economic and social value to the product while reducing environmental impacts (including the carbon footprint) – from farm level, to transport, to processing, to packaging and marketing.

Recommendations for Government, Regulators, and Civil Society

- Work with companies and other stakeholders, such as the Cleaner Production Unit, to conduct a full life cycle analysis of the sector from the Jordanian context.

F PRODUCT AND SERVICE INNOVATION

Recommendations for Business

- Focus on high health value innovations (e.g. organic).

Recommendations for Government, Regulators, and Civil Society

- Conduct a market analysis to research the potential of new environmentally and socially-friendly products in both national and regional markets; and
- Hold a workshop to discuss end use.

G RESPONSIBLE COMMUNICATIONS

Recommendations for Business

- Adopt sustainability reporting, with a focus on key issues (safety, quality, pricing, environmental impacts, social impacts).

Recommendations for Government, Regulators, and Civil Society

- Increase labelling regulations for local sales;
- Institutionalise consumer protection into governmental ministry;
- Reach out to meat businesses to conduct joint campaigns on diabetes and healthy eating for example; and
- Increase the role and influence of consumer protection and awareness organisations.

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CONCLUSION

5

Conclusion

In the context of a global economic downturn, many countries are making difficult decisions regarding future growth plans. In some cases, the commitment to an environmentally and socially sustainable society is taking second place next to the need to continue attracting FDI, keeping people in work no matter what the wage, and stalling investment in low carbon growth opportunities or in education. As Jordan undoubtedly faces the same decisions, this report aims to show how responsibility can go hand-in-hand with growth and competitiveness.

Responsible Competitiveness is a tool to understand how public policies, business action and civil society enablers all contribute to building an economy that responds to and drives development agendas, while continuing to promote growth. Taking the seven drivers of responsible competitiveness, this report has systematically assessed Jordan's current progress in three sectors and produced recommendations that, with sufficient uptake and support from government, business and society, will result in competitive gains and build national competitive advantage.

Jordan has already made sound progress to advancing responsible competitiveness, demonstrated by its position in the *2009 Arab Responsible Competitiveness Index*, in which it ranked 7 out of 15 MENA countries. National strategies including Jordan Vision 2020 and the 2005 National Agenda are signals of Jordan's commitments to both growth and sustainability. Returning to Jordan's pathway to reach average OECD performance in the Responsible Competitiveness Index (see Figure 2 on page 27) reveals that the biggest opportunities for Jordan to close the 17.5 point gap were highlighted as talent management, responsible business climate, product and service innovation and engaging stakeholders. A deeper investigation into three of the country's leading sectors reinforces the message that these areas are essential to achieving Jordan's growth and development prospects.

The three sectors of study in this report, **banking**, **insurance** and **meat processing**, face vastly different economic and sustainability challenges, but it has become clear that those challenges are intertwined. The banking and insurance sectors hold reasonably safe markets in public sector clients, but wish to expand their market base significantly. International financial services are doing just that by offering new ranges of "responsible" products to new clients from previously untargeted consumer groups. As a commodity, meat processing is vulnerable to changes in consumer demand and supply chain fluctuations, while being increasingly threatened by the rising costs of the water and energy required to stay in business. Cutting costs via cleaner production, while developing stronger supply chain management and influencing consumer behaviour towards healthier living, is both a survival strategy as well as a sustainability initiative.

Several strategies have been presented in this report for the banking, insurance and meat processing sectors to achieve responsible competitiveness. Some of the commonalities between the recommendations include:

- Consideration of how **product and service innovation can tap new markets.** For the financial services sectors, this requires more innovative engagement with largely untapped market segments such as small and medium-sized enterprises, entrepreneurs and low income groups, to understand their demands and break down the traditional barriers preventing entrance into these markets. There are also numerous opportunities to offer environment-related product and service offerings, tapping into growing concern about environmental issues amongst Jordanians. For meat processors, a deeper investigation into developing and marketing organic, halal and specialist healthy products will yield results as the national and international market for meat shifts.

- **Increasing disclosure** in the form of sustainability reporting as a means to win customer trust, measure progress, and foster competition. Regulators have a role to play in raising the minimum bar of required disclosure, but companies can also take the lead in developing their own reporting systems. International uptake of sustainability or corporate social responsibility reporting, and application of guidelines produced by the Global Reporting Initiative, is testament to how disclosure can drive gains in respect from stakeholders and new business opportunities.

- **Adopting voluntary standards and enhancing the traceability of supply chains** as a means to increase efficiency, reduce costs, limit risk and improve reputation. Meat processors are already aware of the value that voluntary standards, such as ISO14001, HAACP and the Jordan Quality Mark, can bring. The next step for that sector is to look further down the supply chain and up towards distribution and packaging – from paddock to plate - to find areas where cost can be further reduced and sustainability enforced. For the banking and insurance sectors, this requires a more seismic shift in approach to consider the greater impact of those sectors through service offerings and incentivising the behaviour of clients through lending or insurance products. The financial services sectors can look to international initiatives such as the UN Principles for Responsible Investment, the Equator Principles, the Carbon Disclosure project and the UN Insurance Working Group for guidance and support in this regard.

- Finally, successful sectors **engage with a wide range of stakeholders** to inform and help shape sector decisions, including consumers, business associations, suppliers, civil society organisations, government and even education providers. Collaboration does not have to be anti-competitive: many of the most profitable and sustainable sector initiatives are based on the idea that sharing knowledge creates new opportunities as well as helps solve challenges that are not easily addressed by any individual company.

There are certainly challenges to implementing long-term, and long-lasting, change. Business can lack incentives to act upon foreign notions of responsibility and can raise concerns about the costs of "going alone" without support from associations or government. Similarly, government suffers resource constraints and is often unable to regulate or enforce to the extent deemed appropriate. Civil society can feel excluded or that creating responsible business is not their concern. Key responsible competitive opportunities and approaches include:

- **Government: Look beyond regulation**. What is the leadership role government can play with limited resources? Encouraging the adoption of voluntary standards is one of the most effectively used strategies of advanced societies. Convening, facilitating training, fostering relations with best practice international governments, businesses, and international initiatives are just some of the options available.

- **Businesses: Consider collaboration**. When the survival of the sector is at stake, how can businesses collaborate without impeding competition, to share learning and develop solutions? Working with competitors to tackle sector-wide issues is often cheaper than going it alone. The same applies to sectors with enormous untapped markets, where collaborative innovation can rapidly accelerate access to those markets and break down real or perceived barriers. Sector capacity building, market research and investigation into international best practice are just some of the ways to achieve responsible competitiveness.

- **Civil society: Engage**. NGOs, associations, consumer groups, why not take concerns directly to the targets of those concerns, and seek collaborative solutions? The most responsibly competitive nations foster dialogue and joint problem-solving between all stakeholders.

Overcoming the challenges above is not easy. Systemic barriers including traditional roles between stakeholders, entrenched political positions and very real concerns over cost, are genuine blockages to achieving responsible competitiveness. However, if there is a common commitment to the end goal of responsible competitiveness, as well as a commitment to the collaboration required to achieve such a goal, then the results will not be far behind.

This report, *Responsible Competitiveness in Jordan: Strategies for the banking, insurance and meat processing sectors*, outlines next steps towards Jordan's attainment of an economy built on notions of trust and fairness and that rewards and incentivises responsible business practice. The newly established Responsible Competitiveness Steering Committee, as well as stakeholders involved in the development of this project, remain custodians to ensuring Jordan can seize some of the opportunities presented in this report.

Notes

Annex

Methodology

ABOUT THE RESPONSIBLE COMPETITIVENESS FRAMEWORK

The Responsible Competitiveness framework has been developed to assess how public policy commitments, business action and civil society enablers contribute to building an economy that is both profitable and beneficial to society and the environment.

At the national level, AccountAbility's bi-annual *Responsible Competitiveness Index (RCI)*, since 2004, has measured performance across 21 indicators drawn from publicly available sources resulting in a ranking of 108 economies. The framework was applied for the first time at the regional level in the Arab world. The *Arab Responsible Competitiveness Index (ARCI)* report contains 30 localised indicators addressing regionally critical issues such as energy availability and talent, and was launched at the World Economic Forum in Jordan in May 2009.

Sector level responsible competitiveness requires a less quantitative approach because many of the indicators gathered at national level are also applicable at the sector level but cannot be further broken down. For example, a nation's ratification of workers' rights or national-level investment in education has ramifications at the sector level, but with few exceptions does quantitative data exist concerning the treatment of workers in a specific sector, or for the contributions a sector has made towards education.

AccountAbility's sector methodology takes seven drivers of responsible competitiveness and seeks to address how public policy, business action and social enablers contribute towards those drivers.

The Seven Drivers of Responsible Competitiveness

A. **Responsible Business Climate** considers how business, government and other stakeholders such as the media can contribute towards raising the bar in areas of basic business practice that link to a fair and responsible business climate. Issues include financial management, corporate governance, competition and transparency.

B. **Smart Philanthropy** is about how businesses can leverage their core competencies to manage the impact of charitable contributions to support the business's strategy, operations, brand and bottom line, while supporting the national development agenda.

C. Attracting and Developing Talent concerns how a thriving workforce can drive the economy, by considering the role of the education system, employee rights and benefits, training and career development and equal employment opportunities as promoted by business, government and society.

D. Business Standards and Compliance includes quality standards, corporate ethics, health and safety standards and environmental policies above and beyond mandatory, legislation, including the use of voluntary or "suggested" sector standards.

E. Responsible Supply Chains examines how companies are working to improve social and environmental issues both upstream and downstream along their supply chain.

F. Product and Service Innovation investigates how firms innovate to create new products and services that address important social and environmental challenges and opportunities, as well as the role of government and society in promoting innovation.

G. Responsible Communications analyses how well companies use effective, honest, and transparent communication internally and externally, and how other stakeholders impact or promote such communication.

AccountAbility and Sustainability Excellence collected information in this framework between September 2008 and August 2009. In so doing, the project has engaged and mobilised many different stakeholders.

- **Sector data:** Information was collected and analysed against the framework outlined above. Data was collected through desk research, from sector and other reports, as well as through the methods described below.

- **Convenings**: Organised in collaboration with MOPIC, three initial sector convenings took place in June 2009 at which the responsible competitiveness framework was described and key issues identified. A second round of sector convenings in August and September 2009 had the specific aim of testing research findings. The draft recommendations were shared, debated, and amended for increased practicality.

- **Sector surveys:** In association with MOPIC and aligned with data collection for the Annual Competitiveness Report, companies were invited to complete surveys regarding their own and their sector's responsible competitiveness performance.

- **Interviews:** A minimum of eight interviews were conducted for each sector of study, in addition to cross sector interviews, with a range of relevant stakeholders including companies, government ministries, research institutes and other civil society representatives. Interviews followed the responsible competitiveness framework and were qualitative in nature.

- **Steering Committee**: Established by Her Excellency the Minister of Planning and International Cooperation, Suhair Al-Ali, the Steering Committee is a permanent and high level commitment from the public and private sector to promote responsible competitiveness in Jordan.

- **Technical Committee**: The Technical Committee was established to oversee the research process. Members of this committee were nominated by the Steering Committee. Technical Committee members were invited to provide feedback at various stages of the research process, both individually and as part of the second round of convenings.

- **Sector Selection**: Upon completing initial research for sector selection of this report, it was decided to align the sector analysis of this report with the sectors analyzed in the Jordan National Competitivness Report 2008-2009, thereby expanding the analysis and competitiveness of these sectors. These sectors were selected by the Ministry of Planning and International Cooperation based on their size and importance to the Jordanian economy.

SECTOR SPECIFIC BENCHMARKING METHODOLOGIES

1. Banking

The report benchmarks six Jordanian banks against 18 OECD banks from three OECD countries (six banks per country). The Jordanian banks were selected according to total assets, credit facilities and net pre-tax profit information drawn from the *Association of Banks in Jordan Annual Report 2007*. Accordingly, the six Jordanian banks selected for benchmarking were:

1) **Arab Bank**
2) **Housing Bank for Trade & Finance**
3) **Jordan Kuwaiti Bank**
4) **Central Bank of Jordan**
5) **Jordan Islamic Bank**
6) **Jordan Ahli Bank**

The OECD countries were selected based on their Sustainability Development reputation, according to rankings in the Dow Jones Sustainability Indices. The countries were then selected based on the number of banks per country from this list. As a result, Canada, the UK and Australia were selected.

Banks were then selected based on size according to the Forbes Global 2000 list. The selected banks are:

	Canada	UK	Australia
1	Royal Bank of Canada	HSBC Holdings	Commonwealth Bank
2	Toronto-Dominion Bank	Barclays	National Australia Bank
3	Bank of Nova Scotia	Standard Chartered Group	Westpac Banking Group
4	Bank of Montreal	Lloyds Banking Group	ANZ Banking
5	Canadian Imperial Bank	Royal Bank of Scotland	Bendigo Bank
6	National Bank of Canada	The Co-operative Bank	Bank of Queensland

2. Insurance

The report benchmarks six Jordanian insurance companies against 17 insurance companies from three OECD countries. The Jordanian insurance companies were selected against market capitalisation and share percentages according to the Jordan Insurance Federation, Annual Insurance Business Report 2007 and the Amman Stock Exchange. The six insurance companies are:

1) **Arab Orient Insurance Company**
2) **Jordan Insurance Company**
3) **Arab German Insurance**
4) **Middle East (MEICO)**
5) **Jordan International Insurance**
6) **Jordan French Insurance Company**

The OECD countries were selected based on their Sustainability Development reputation, according to rankings in the Dow Jones Sustainability Indices. The countries were then selected based on the number of insurance companies per country from this list. As a result, the UK, the US and Switzerland were selected.

Insurance companies were then selected on size according to the Forbes Global 2000 list. The selected insurance companies are:

	UK	US	Switzerland
1	Aviva	Travelers Cos	Zurich Financial Services
2	Prudential	MetLife	Swiss Re Group
3	RSA Insurance Group	Chubb	Bâloise Group
4	Standard Life	Aon	Swiss Life Holding
5	Willis Group Holdings	Marsh & McLennan	Helvetia Patria
6	Legal & General Group	Allstate	

3. Meat processing

In contrast to other sector chapters in this report, the benchmarking against OECD countries and companies in the meat sector is a qualitative-only analysis, with the exception of the Responsible Communications driver. Not all Responsible Competitiveness drivers are conducive to quantitative measurement in an emerging market context, and this is compounded by the fact that many indicators measured by global meat processing leaders have not previously been measured by Jordanian meat processors, and may not yet even be in the language or dialogue of the sector nationally.

The methodology, therefore, considers the performance of all Jordan meat processors (where information gained was primarily through direct engagement) against a basket of some of the best performing meat processing companies from three OECD countries. In particular, four companies from the US, six companies from Germany, and five companies from the UK were considered as the OECD sample.

In the case of benchmarking the Responsible Communications driver, the report benchmarks six Jordanian processed meat companies against 16 processed meat companies from three OECD countries. The Jordanian processed meat companies are amongst the biggest processed meat in terms of capital size published at the Companies Control Department. The six processed meat companies are:

1) **Hijazi and Ghousheh Group**
2) **Nabil Company for Food Products**
3) **Quality Food Co. Ltd.**
4) **National Poultry Company**
5) **Siniora Food Industries Company**
6) **Hammoudeh Food Industry Company**

While the OECD countries for the financial services sectors were chosen based on the countries' Sustainability Development reputation, countries with large contributions of the meat processing sector to GDP were selected according to the prevalence of 'Food Producers' and 'FDR Food & Drug Retailers' in the Dow Jones Sustainability Indices 2008. The UK and US were found to be leaders. Levels of disclosure within the industry are relatively low, so the final choice of OECD countries were selected based upon:

- Being a major meat producer;
- Having a reasonable sustainability track record; and
- The availability of data.

We found that the US, Germany and UK met the above criteria, and they are amongst the biggest 20 meat producing countries according to Food and Agriculture Organisation statistics from 2005.

Four of the five US companies were selected based on the Recent Acquisitions of US Meat Companies published by Congressional Research Services 2009. The four companies are:

1) **Tyson Foods**
2) **Smithfield Foods, Inc.**
3) **JBS S.A. (US)**
4) **Cargill Incorporated**

The fifth company, Pilgrim's Pride Corporate was selected because it is one of the largest chicken companies in the United States and Mexico, and it is currently ranked No. 304 on the Fortune 500 list of largest U.S. corporations.

The six German companies were selected based on the revenue size according to the wer-zu-wem website. The six companies are:

1) **Reinert**
2) **Lutz**
3) **Moksel**
4) **Hochwald**
5) **Brandenburg**
6) **Herta**

The five UK companies are the compilation of key brands and manufacturers operating in the meat and poultry sector according to the Meat and Poultry report published by Food Manufacturer in association with RTS Resource Ltd. The five UK companies are:

1) **Anglo Beef Processors**
2) **ANM Group**
3) **A K Stoddart**
4) **George Adams**
5) **Cranswick Food Group**

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- His Excellency Amer Hadidi, Minister of Industry & Trade
- His Excellency Khalid Irani, Minister of the Environment
- His Excellency Ummaya Toukan, Governor of the Central Bank of Jordan
- His Excellency Bassel Hindawi, Director General of the Insurance Commission of Jordan
- His Excellency Bassam Saket, Chairman of the Jordan Securities Commission
- Dr. Hatem Halawani, Chairman of the Jordan Chamber of Industry
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About the Organisations

AccountAbility

AccountAbility (www.accountability21.net) works to promote accountability innovations for sustainable development.

AccountAbility founded in 1995, is a global, not-for-profit self-managed partnership with bases in Beijing, Geneva, London, Sao Paulo and Washington D.C., and country representatives in Brazil, Canada, China, Jordan, Spain, Sweden and the US. AccountAbility is a global network of leading business, public and civil institutions working to build and demonstrate the possibilities for tomorrow's global markets and governance through thought-leadership and advisory services.

SUSTAINABILITY
EXCELLENCE

Sustainability Excellence (www.sustainabilityexcellence.com) provides corporate responsibility services to businesses, governments and civil society in the Arab world. It works with many of the pioneering organisations adopting sustainability management in the region to deliver responsible competitiveness and related programs. It is also AccountAbility's lead regional partner, collaborating to deliver Responsible Competitiveness and related programs in the Arab region.

MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

The Ministry of Planning and International Cooperation (www.mop.gov.jo) aims to produce sustainable socioeconomic development by promoting good governance, promoting a safe environment for current and future generations, and the development of infrastructure.

RESPONSIBLE COMPETITIVENESS IN JORDAN

Strategies for the banking, insurance and meat processing sectors

Responsible Competitiveness in Jordan has been compiled by AccountAbility and Sustainability Excellence in partnership with the Swiss State Secretariat for Economic Affairs (SECO), and Jordan's Ministry of Planning and International Cooperation (MOPIC).

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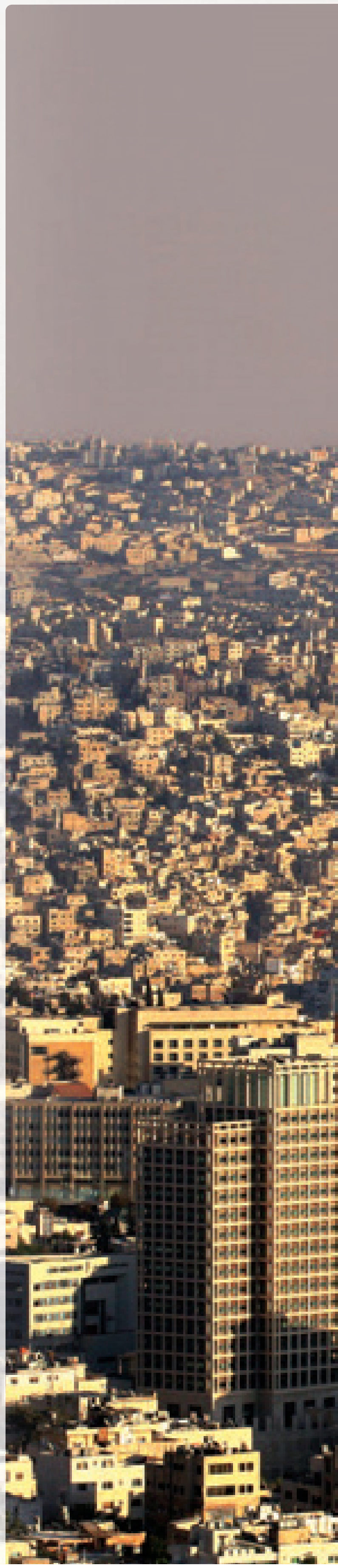
Responsible Competitiveness

Sectoral



RESPONSIBLE COMPETITIVENESS IN JORDAN

Responsible Competitiveness is the leadership, policies and practices that build sustainable development. Countries, cities, sectors and businesses are recognising that responsible approaches to doing business are routes to new sources of value creation, improving reputation, managing risks, enhancing productivity and unlocking both product and process innovation.

Responsible Competitiveness in Jordan: Strategies for the banking, insurance and meat processing sectors aims to support the integration of environmental and social concerns into the trade and economic policies of the Jordan government, in a manner that enhances competitiveness. The sector approach presented in this report develops responsible competitiveness strategies for three important sectors to Jordan's economy: banking, insurance and meat processing. While financial services and food manufacturing sectors are very different in supply chain, business model and end services, this research has found many similarities in the opportunities the sectors face. Gaps and opportunities relate directly to Jordan's performance as ranked against other MENA countries in the 2009 *Arab Responsible Competeveness Index*, indicating that interventions in these sectors have the potential to impact national objectives around resource management, talent, and competitiveness through innovation.

Lead sponsor