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A Market Systems Analysis on SMEs’ business incentives to contribute to social insurance schemes in Jordan

Deep dive in the Construction and Food Processing Sectors

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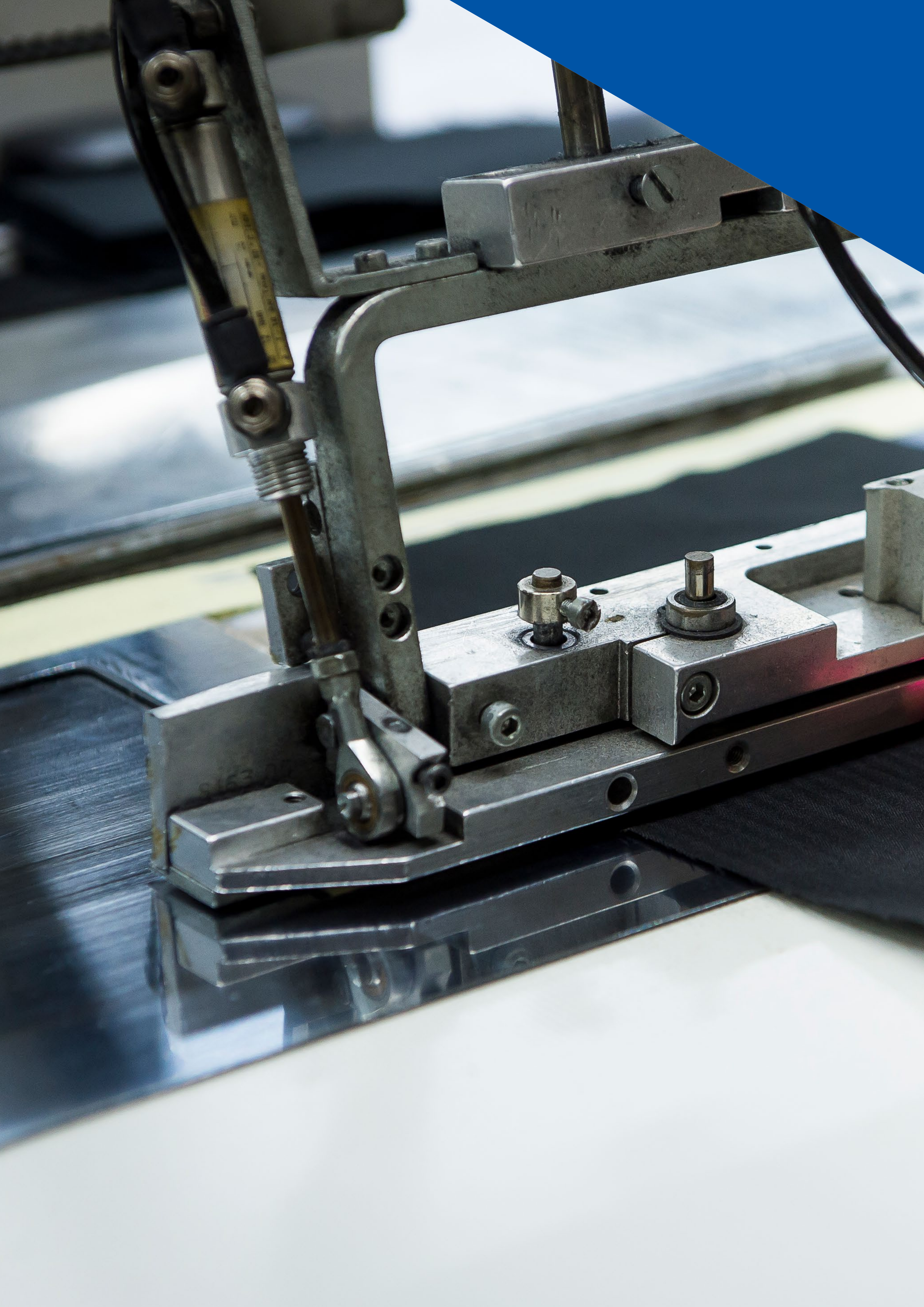

Executive summary

In Jordan, social security is a legal requirement for all workers, covering illness, unemployment, work injuries, maternity, and old age. Despite significant progress by the Government of Jordan, a substantial number of workers remain unregistered, particularly in highly informal sectors and among vulnerable groups such as female workers and non-Jordanian workers. Approximately three quarters of Jordanian female workers and 80 per cent of non-Jordanian workers are not registered in the social security scheme.

Building on the regulatory framework of the Jordan Social Security Corporation (SSC), the ILO's Estidama++ programme has been designed to synergize with SSC's initiatives to ensure greater inclusiveness of social security and address structural imbalances in coverage. The primary focus of Estidama++ is to incentivize the registration of workers and the formalization of SMEs to increase the outreach and inclusiveness of the social protection system. However, the sustainability and success of the programme will also depend on employers' willingness to support the system and register their workers under the scheme.

Given that approximately 60 per cent of workers[1], including non-Jordanian workers, are employed by SMEs, and 85 per cent of employees in workplaces of fewer than ten persons are in informal employment[2], Estidama++ seeks to identify strategies to reinforce or create incentives for SMEs to contribute to the social security system and transition to formality. To achieve this, the Estidama project team collaborated with the ILO Inclusive Markets team to adapt market systems methodologies to understand and shape SMEs' business incentives toward social security schemes in Jordan. As such, this market system analysis[3] aims to:

- Identify sectors in Jordan where a strategic business case exists for SMEs to contribute to social insurance schemes, including for non-Jordanian, female workers, and youth.
- Analyse the existing challenges and opportunities in these sectors and understand how they influence SMEs' business decisions and staff management, particularly concerning social security.
- Provide practical and realistic recommendations on potential areas of intervention in the selected sectors to unlock, reinforce, and/or create additional incentives for SMEs managers (and workers) to contribute to social insurance schemes for their workers. These recommendations are meant to be used as a foundation to inform the development of fine-tuned interventions in consultation with key partners of Estidama++.

The construction and food processing sectors were chosen through a sector selection exercise due to their high scores in feasibility, growth potential, and relevance to SMEs and the target worker groups of Estidama++. Their complementary characteristics further reinforce their strategic importance for the project as the construction sector predominantly employs migrant and refugee workers, while the food processing sector has a strong representation of female workers. The analysis focused on understanding how constraints and opportunities in these sectors influence SMEs' business decisions and workforce management, particularly regarding social security coverage.

In the construction sector, the challenging business environment, high costs of materials, and limited market size results in slim profit margins for SMEs. Consequently, SME owners often cut overheads and avoid investing in worker skills and retention, which negatively affects business operations, quality of construction, worker safety, and social security coverage. The analysis highlights several areas where business incentives could be leveraged, notably around work injury, which constitutes a significant concern for SME owners.

In the food processing sector, similar challenges around production costs and competitiveness in domestic and export markets prevent many SMEs from taking risks to innovate, grow and invest in the skills and retention of their workforce. This risk aversion affects their ability to grow, consolidate export channels, and increase formalization. The analysis found that SMEs willing to make the jump have taken steps to address worker absenteeism, a pervasive issue that limits productivity.

Overall, the analysis emphasizes the need for more flexible or innovative social security arrangements, considering the nature of the sectors and of SMEs' operations and overall value for money of social security coverage. It identifies strategic entry points within the core value chains and in both supporting functions and regulations

1 According to the Jordan Chamber of Industry and based on the created job opportunities surveys published by the Department of Statistics.

2 "Opportunities for Extending Social Security Coverage in Jordan", ILO 2021.

3 This report was written by Elisa Mandelli (ILO Geneva) with contributions from Usama Al'Za-tari as well as from Merten Sievers, Nadja Nutz, Lou Tessier, Damalie Tebajjukira and Léa Richard and Cheuk Yu Cheryl Chan (ILO Geneva), Fernando Martinez Cure, Chantal Sirisena and Jullnar Kurdi (ILO DWT Beirut).

that could help address current needs and opportunities in these sectors by establishing conditional links with social security and labour enforcement.

The report recommends combining "push" and "pull" interventions, terms and concepts adapted from the ILO Approach to Inclusive Markets Systems (AIMS) in displacement contexts, to address specific issues related to business incentives for social security. More specifically:

- Push interventions: aim to encourage SMEs to expand and improve worker coverage by leveraging business incentives and by providing conditional access to in-kind and financial support. On the other side, push interventions seek to strengthen enforcement measures to increase risk of SSC non- compliance for SMEs.
- Pull interventions: focus on expanding market opportunities and supporting business growth of SMEs while proactively ensuring that this growth includes improved social security coverage for vulnerable workers.

While push interventions seem to offer more straightforward venues for implementation and impact on the target group, the challenging business environment and limited market opportunities available to SMEs make pull interventions crucial. They help to expand the market space for SME's (in both domestic and export markets) and enhance profit and business growth to sustain, systemically and at scale, the extension of social security coverage. Building on the data and exchanges generated by these interventions, Estidama++ and more generally the ILO is strategically placed to influence and inform the Government of Jordan on concrete strategies to place SMEs on a pathway towards formalization, while also building a broader narrative on the importance of SMEs in contributing to employment and economic growth.

The following table outlines 18 potential push and pull areas of interventions specific to the construction and food processing sectors, as well as on cross-cutting areas. These recommendations are not detailed activities ready for implementation but rather intervention pathways to be prioritized, developed, tested and fine-tuned in collaboration with key stakeholders. As such, this report and the following recommendations are meant as used as base for consultation and discussion guiding the design of concrete activities moving forward.

	PUSH	PULL
CONSTRUCTION	▶ Assess the feasibility of improved work injury and health insurance coverage ▶ Build the business case on the skills-productivity-OSH correlation ▶ Introduce pricing of OSH (and SSC ?) costs as fixed line items in project proposals . ▶ Advise upcoming reform on SME's public procurement	▶ Explore and pilot new business models for local supply of building materials ▶ Strengthen enforcing mechanisms on procurement and subcontracting ▶ Improve specialized training offer on energy-saving machinery and practice + project management and OSH
FOOD PROCESSING	▶ Build the business case for the staff turnover-absenteeism-productivity correlation ▶ Build the business case connecting food safety standards with workers' skills and profit ▶ Co-fund business models to temporarily enhance worker' benefits	▶ Temporary levy/support for energy-intensive SMEs in the food processing sector ▶ Co-invest in conditional export accelerating packages ▶ Improving the role of key actors as market facilitators ▶ Strengthen mechanisms for contract enforcement
CROSS-CUTTING	▶ Advise and support the pilot of daily SS contributions ▶ Advise on the introduction of simplified tax regime ▶ Coordination over enforcement of rules and regulations	

1

Introduction

The Government of Jordan has made significant efforts in expanding social security coverage as part of its development agenda, particularly through establishing a social assistance fund and expanding the social security system to the private sector[4]. Additionally, recent government strategies have aimed at integrating a larger number of informal workers into the social security system. This integration has been part of a broader attempt to formalize the informal sector, which is crucial for improving the resilience of vulnerable populations, especially in light of economic shocks like the COVID-19 pandemic. During the pandemic, Jordan demonstrated a robust response by setting up emergency support programs that reached nearly 250,000 new beneficiaries, using both contributory and non-contributory mechanisms to extend social security to those most in need. [5]

Despite this progress, the discrepancy in social security registration rates between Jordanian male and female workers and non-Jordanian workers remains stark. Only about a quarter of Jordanian female workers and an even smaller proportion of non-Jordanian female workers are registered to social security, compared to three-quarters of Jordanian male workers.6 Several factors contribute to the limited coverage, including financial and operational barriers, such as the cost of contributions and lack of awareness about social security benefits.

In response, the government and various international organizations have initiated projects like Estidama++, (see sub-chapter below) which provides phased contribution subsidies and prioritizes outreach to women, refugees and refugees, aiming to significantly boost worker registration by 2025.

The Jordanian government continues to emphasize the importance of extending social security coverage through legislative reforms and targeted programs that address both the affordability for vulnerable workers and the sustainability of the social security system. Plans to further integrate health insurance schemes into the broader social security system highlight ongoing efforts to provide a more comprehensive safety net for all workers.[7]

1.1 The project: Estidama++

Against this framework, the ILO Estidama++ project aims to enhance the situation of vulnerable workers by extending their social protection rights, access to coverage rewards, and contribution subsidies, thereby ensuring their registration in the social security system. Initiated in December 2020 and set to continue through October 2025, this project is a collaborative effort funded by the Kingdoms of the Netherlands and Norway, as well as the United Kingdom, with a total investment of around USD 45 million. It is implemented by the ILO in collaboration with the Social Security Corporation (SSC) responsible for managing the social security scheme in Jordan.

Building on the regulatory framework for social security in Jordan, the ILO's Estidama++ programme has been designed as a new facility for synergetic response to support SSC's previous initiatives on ensuring greater inclusiveness of social protection and addressing structural imbalances in coverage. The project also extend the scope of the previous phase of Estidama by targeting formal workers regardless of their nationality, legal or migration status with a special focus on refugees.

In working towards this overall development objective, Estidama++ directly supports vulnerable workers to participate in the Jordanian SSC by:

- Providing a contribution subsidy and coverage reward to incentivise registration and reduce the financial barriers to support vulnerable workers to make their contributions over the course of the project.
- Institutionalising the Estidama++ programme and strengthening wider legal and regulatory frameworks to support the extension of social security to vulnerable workers and promote their transition to formality.
- Undertaking outreach campaigns to create awareness around social insurance rights and the Estidama++ programme.

While the focus of Estidama++ in its initial phase is on incentivizing registration of workers and formalization of Small and Medium Enterprises (SMEs)[8] to increase

4 " Legislative and Policy Coherence on the Extension of Social Security Coverage in Jordan", ILO 2022.

5 Data from the "ILO Social Protection Hub: Jordan".

6 "Jordan - Social Security Corporation (SSC): Toward Coverage Expansion and a More Adequate, Equitable and Sustainable Pension System", World Bank 2021.

7 Ibid.

8 In Jordan's industrial sector, the Jordan Enterprise Development Corporation (JEDCO) defines micro-enterprises as those with up to 5 workers, small enterprises as those employing up to 20 workers, and medium enterprises as those with up to 100 workers. However, different institutions, such as the Central Bank of Jordan, apply varying definitions, particularly when distinguishing SMEs based on the sector in which they operate. These discrepancies reflect the complexity of defining SMEs consistently across sectors. For the purposes of the Estidama++ project,

outreach and inclusiveness of the social protection system, the sustainability and success of the programme in the long run will also depend on employers' willingness to support the system, and registration of their workers under the scheme. Estidama++ is therefore in parallel thinking about possible incentives for employers to support registration of their workers and/or ways to reinforce such incentives to ensure compliance in the long term. As the bulk of workers in Jordan, particularly non-Jordanian workers, is employed by SMEs,[9] Estidama++ will need to think in particular about possible strategies to reinforce or create incentives for SMEs to contribute to the social security system and transition to formality.

It is widely acknowledged that the lack of social protection coverage is most prevalent in SMEs that operate in the informal sector. The ILO Recommendation 204 concerning the transition from the informal to the formal economy issued in 2015 therefore calls for integrated and coherent programmes and policy frameworks that link efforts to help enterprises formalize to actions to improve the overall business environment, access to education and effective OSH policies in a way that aims to "progressively extend the coverage of social insurance to those in the informal economy".[10]

The ILO has done extensive research and work on the link between formalization and social protection schemes to understand the specific barriers that SMEs and their workers face to formalize and join social protection schemes, as well as their incentives to do so[11]. On the other hand, the ILO has been a pioneer of using a systems approach to better understand and shape private sector actor's incentives, with the aim of supporting better and inclusive jobs for marginalized groups.

1.2 Study purpose and scope

The objective of the study is to mobilize the ILO's market systems approaches to help the Estidama++ programme in Jordan target specific sectors to unlock, reinforce and/or create incentives for SMEs to contribute to the Jordan Social Security scheme. In particular, the study seeks to:

- Identify sectors in Jordan in which non-Jordanian and female workers traditionally find employment that should be targeted by the programme because clear benefits and thus a strategic business case for SMEs to contribute to social insurance schemes exist, including for non-Jordanian, female workers and youth.
- Analyse the existing challenges and opportunities in these sectors and understanding how they influence SMEs' business decisions and staff management, particularly concerning social protection.
- Provide practical and realistic recommendations on potential areas of interventions in the selected sectors that will unlock, reinforce and/or create additional incentives for SMEs managers (and workers) to contribute to social insurance schemes for their non-Jordanian, female and youth workers.

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this study has specifically focused on SMEs employing between 10 and 50 workers, aligning with the project's objectives and target groups.

9 According to a recent job opportunities surveys published by the Department of Statistic cited by the Jordan Chamber of Industry, "SMEs constitute approximately 99.5% of the total economic establishments operating in the Kingdom and occupy approximately 60% of the total workforce".

10 See ILO Recommendation 204 concerning the transition from the informal to the formal economy

11 See for instance ILO (2021) Extending Social Security to Workers in the Informal Economy

1.3 Research methods

The research uses the ILO's methods for market systems analysis and in particular the ILO's Value Chain Development for Decent Work guide and the Guide to market-based livelihood interventions for refugees. It also leverages ILO's expertise on social protection and transition to formality.[12] The study uses different types of data (i.e. primary and secondary) and triangulation methods. The research process was carried out in two main steps:

1. **Desk research:** to gather secondary data from available literature, including national laws, sector data, market trends, and existing research conducted by other development agencies and institutions. This has allowed the research team to compile a long list of high-potential sectors and to draw an overview of the selected sectors and their specific challenges in Jordan.

2. Field research: to collect primary data through two field missions in Amman and few remote interviews with companies based in Amman and Ajloun in January and March 2024. During these missions, a total of 34 businesses, organisations and experts were interviewed. The interviews were semi-structured and conducted with SMEs business owners and collaborators, government officials, private sector associations, non-governmental organisations, and key industry informants (see Annex A for details).

12 See for instance ILO (2021) Extending Social Security to Workers in the Informal Economy ILO and ILO Recommendation 204 concerning the transition from the informal to the formal economy.

2

Context

2.1 Country context

Jordan is a lower middle-income country[13] that might be considered predominantly aservices-based economy.[14] The country has faced significant political and economic challenges in recent years, beginning with a large influx of Syrian refugees and the closure of borders with several neighbouring countries, severely limiting trade and the import of critical inputs such as oil and gas. Jordan is also implementing austerity measures supported by the International Monetary Fund (IMF), increasing the costs of essential goods and services, limiting government investment, and increasing the strain on critical safety nets. Lingering effects of the COVID-19 pandemic coupled with regional conflict have also exacerbated such challenges, affecting trade and vital sectors such as tourism.

Jordan experienced a modest GDP growth of 2.4 percent in 2022, returning to pre-COVID levels.[15] This growth was primarily driven by the services sector, including transport and communications, finance and insurance, and wholesale and retail trade, as well as agriculture.[16] ILO data[17] also indicates that credit to the private sector and inflows from workers' remittances were among the most important determinants of growth in Jordan over the period 2004–2021.

The Kingdom faces relatively high unemployment, with an unemployment rate of 22.3 percent in the third quarter of 2023.[18] Youth unemployment is estimated to be over 46 percent, and overall labor force participation is decreasing. [19] The labor force participation rate of women is notably among the lowest in the world, standing at 18 percent[20] across formal and informal sectors. According to the ILO[21], reasons for the low to women's participation and retention in the workforce is the unequal burden of childcare responsibilities that women disproportionately bear and the inadequate infrastructure, legal and policy support available to them to help redistribute unpaid care work.

Jordan hosts one of the world's highest shares of refugees in the region, with refugees representing one out of every 16 people in Jordan according to the UNHCR.[22] Most refugees come from Syria (almost 90 per cent), followed by Iraq, Yemen, Sudan, Somali and more recently Palestine. Over 80 per cent of them live in host communities outside of refugee camps. The country has made remarkable efforts to ensure refugee inclusion in national systems, including social security, healthcare, education and the labour market but employments opportunities for refugees as well as vulnerable migrants (mostly from Egypt) remains limited and confined to the informal sector. The increasing influx of refugees and ongoing regional instability have further strained an already burdened economy and labor market, intensifying pressure on resources and employment opportunities and social tensions in the country.

2.2 The Social protection framework

Social security is a fundamental human right that offers protection and insurance against life's risks and social needs. As defined by relevant ILO standards, it provides individuals and their families with essential health care and financial security during illness, unemployment, work injuries, maternity, and old age.

Jordan's social security framework is governed by the Social Security Law No. 1 of 2014, which was amended several times since its creation in 1978. The Law is outlined in several national strategies, including the National Social Protection Strategy (2019-2025), which focuses on providing Jordanians with: i) dignified living, ii) decent work opportunities, and iii) empowering social services.[23] The Social Security Corporation (SSC) is the designated

13 "World Bank Group country classifications by income level for FY24 (July 1, 2023- June 30, 2024)", World Bank Blogs, https://blogs.worldbank.org/en/opendata/new-world-bank-group-country-classifications-income-level-fy24

14 World Bank Indicators website.

15 "Jordan Economic Monitor", World Bank, Fall 2023.

16 Ibid.

17 « Growth, Macroeconomic Policies and Employment. The impact of macroeconomic and trade policies on employment generation in Jordan", ILO 2023.

18 "22.3% is the Unemployment Rate during the Third Quarter of 2023", Department of Statistics, December 7, 2023.

19 "The World Bank in Jordan", The World Bank, February 5, 2024, https://www.worldbank.org/en/country/jordan/overview

20 "Assessment of the Maternity Insurance in Jordan", ILO 2021.

21 Ibid.

22 "Global Trends", UNHCR 2022.

23 "National Social Protection Strategy 2019 – 2025", Hashemite Kingdom of Jordan.

authority responsible for collecting contributions and administering benefits.

Social security coverage applies (de jure) to all Jordanian and non-Jordanian workers, irrespective of their contract type and duration. In addition to extending the right of social protection to all residents, the law also specifies insurance benefits related to work injury, unemployment, disability, maternity, old age and death. Tailored provisions exist for the self-employed and worker in specific sectors. For instance, during the pandemic, SSC waived employee contributions for agricultural workers, requiring employers' contributions only on work injury and maternity leave. In 2020 a by-law was adopted that made coverage mandatory for the self-employed in the agriculture, construction, maintenance, public service, transport, tourism, and art and media sectors.

Contributions to social security schemes are structured as follows:

- **Employee Contribution: 7.5%** of the salary is deducted monthly from the worker's salary.
- **Employer Contribution: 14.25%** of the salary is covered by the employer on a monthly basis on behalf of the employee, and not deducted from the worker's wage.
- **Additional Contribution:** for those in hazardous professions as defined by law, employers pay an extra 1%.

As such, for a minimum wage salary of 260 JD (approximately 350 USD), the total contribution amounts to 56.55 Jordanian dinars (around 80 USD) each month.

While in principle all workers are entitled to social security coverage, domestic workers and workers working under 16 days a month, as well as most workers in the agriculture sector are not required to be enrolled in social security.[24] While non-Jordanian employees are also subject to the same requirements as Jordanian employees, coverage for non-Jordanian own-account workers, employers and contributing family members is not enforced. However, registration non-Jordanian workers requires social security numbers, passport information, and personal numbers, which are found in the work permits released by the Ministry of Labour.[25]

As highlighted by a recent ILO study[26], thanks to social security reforms the share of employees contributing to social security increased significantly from 46.7 percent in 2007 to 85 percent in 2021. However, the share of employees' compensation in social security contributions has been decreasing since 2007. According to the study, this decline indicates that employees and employers are declaring a lower wage deductible for social security than the actual wage. Moreover, the analysis of food processing and construction sectors in this report suggests that several of these salaries are not declared at all, with the perceived risk of non-compliance among employers and employees being relatively low. Finally, it appears clear that many SME owners (and possibly workers?) struggle to cover the relatively high percentage of contribution and are rather sceptical about the value for money and efficiency of the social security scheme.

Despite this, many initiatives by public and development actors to extend social security primarily focus on raising workers' awareness and facilitating their access to social security and they **rarely consider targeting employers, even less so SMEs.** This issue is further emphasized by the fact that employers and their perspectives are seldom highlighted by government and development actors when addressing social security challenges and strategies for extending coverage. When mentioned, the focus on employers is often quickly dismissed, with the common perspective being that employers simply need to comply with the law on the mandatory nature of social security contributions, which should be enforced. While law enforcement is undoubtedly a crucial component of strategies to extend coverage, it's equally important to carefully consider employers' viewpoints to ensure a sustainable contribution to the scheme both now and in the future. Against this framework, this study aims to shed light on the perspectives of managers and business owners, particularly SME, which face unique challenges, yet play a critical role in job creation in Jordan. Data collected from GIZ in 2017[27] indicated that 98% of registered enterprises employed fewer than 20 people.

Generally, the number of unregistered workers remains large, and the extension of coverage of social security

24 "Opportunities for extending social security coverage in Jordan", ILO Regional Office for the Arab States, 2021.

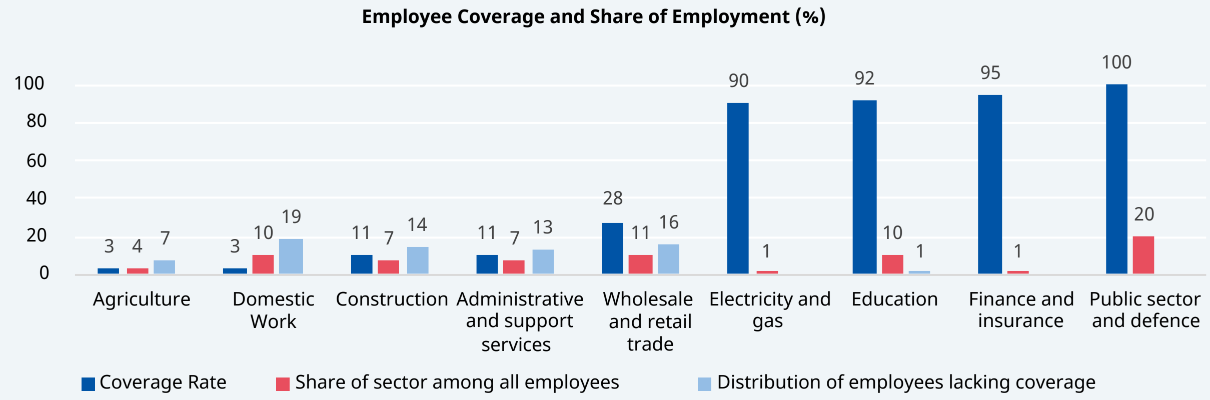
25 ILO and SSC, "Social Security in Jordan", 2021.

26 "Growth, Macroeconomic Policies and Employment: The impact of macroeconomic and trade policies on employment generation in Jordan", ILO 2023.

27 "Employment Promotion Programme (EPP) Jordan – Economic Trends in Jordan's Local Job Market", GIZ 2017.

to vulnerable workers is hampered by a number of operational and financial barriers. Only a quarter of Jordanian female workers (and even fewer non- Jordanian female workers) are registered in social security, compared to three-quarters of all working Jordanian men. Lack of access to social protection is particularly concerning for non-Jordanian workers, with an estimated 80% of non-Jordanian workers not being registered with the Social Security system. It has been observed that a number of sectors, such as construction and seasonal food processing, tend to employ informal workers and day laborers, who lack social security coverage.[28] The estimated coverage rates of employees across a number of sectors is shown in the figure below.

▶ Figure 1- Distribution of employees lacking coverage



Source: ILO

Several actors are currently providing mix of cash and in-kind assistance to contribute to the social security system and increase coverage of vulnerable groups, including:

- National Aid Fund (NAF): the primary social assistance entity providing cash and in-kind assistance to Jordanians living below the poverty line or with disabilities, while also providing payments during emergencies.[29] Approximately 220,000 Jordanians benefit from NAF support.[30]
- The Zakat Fund: the fund collects and distributes Zakat (Islamic almsgiving) and distributes it to eligible communities and individuals throughout Jordan, providing cash and in-kind assistance, orphan sponsorship, healthcare, livelihood, and other kinds of support.[31]
- Development Agencies: although NAF and the Zakat Fund focus mainly on Jordanian citizens, refugees residing in Jordan are supported by various development agencies and national and international donors, most prominent among them the United Nations Relief and Works Agency (UNRWA), which provides support to Palestinian refugees, and the United Nations High Commissioner for Refugees (UNHCR), which supports Syrian refugees, including through cash assistance.[32]

The SSC has recently begun to subsidize social security contributions for MSMEs with not more than 10 employees and own account workers through the Estidama++ fund (see project description), established in June 2022. Supported by the ILO, with funding from the Netherlands,

28 "Opportunities for extending social security coverage in Jordan", ILO Regional Office for the Arab States, 2021.
29 National Aid Fund, https://naf.gov.jo/Default/En
30 "National Aid Fund provides support to 220,000 families", Jordan Daily, April 2nd, 2024.
31 "Jordanian Zakat Fund", Ministry Of Awqaf And Islamic Affairs.
32 "Syria Regional Refugee Response", Operational Data Portal (ODP).

Norway and the United Kingdom, the fund encourages the formalization of workers by subsidizing contributions of workers with wages of not more than JOD 500 for 12 months, targeting own account workers in various professions, including in handicrafts, flexible and free permit holders in the agriculture sector, and refugees.[33]

The SSC is currently engaging in various discussions and research groups aimed at reforming Jordan's social security scheme. Although specific changes are not yet confirmed, interviews with the SSC research department revealed several potential adjustments. These include temporarily lowering worker and employer contributions while reducing pension coverage, which is perceived as less relevant in the short and medium term, especially by younger workers. This proposed reduction could apply to contracts for young workers and the levy could be adopted for a duration of 5 to 10 years. Additionally, there are discussions on introducing more flexible contribution mechanisms, particularly for daily workers in the domestic sector. SSC is also exploring ways to enhance collaboration and data sharing among public authorities to improve contribution collection and increase compliance.

33 "The Social Security Corporation announces the implementation of the second phase of the 'Estidama++' Program", Social Security Corporation (SSC), August 2023.

3

Sectors' Overview

3.1 Sector selection

In line with the ILO methodology for market system analysis, the research team in collaboration with the Estidama++ team has conducted a sector selection process on a long list of nine34 sectors based on three criteria:

- **Potential** for extension of social insurance schemes to SMEs: this included sectors where clear benefits and thus a clear business case existed for SMEs to contribute to social insurance schemes for their workers (e.g., labour shortages or high turnover, image and reputation, access to public procurements or highly regulated markets, and/or productivity boost through motivation and work-quality) or sectors where there was potential to design schemes to unlock, create or reinforce incentives for SMEs (e.g., certifications, tax incentives, access to training or BDS).
- **Relevance** to Estidama++ target groups: the sectors selected were those in which non-Jordanian and female Jordanian and non-Jordanian workers traditionally found employment, ensuring that efforts to encourage SMEs' contributions to social insurance schemes ultimately resulted in increased social insurance for non-Jordanian, female workers and youth.
- **Feasibility** of implementation: the sectors aligned with Government and ILO's priorities in Jordan but also offered a conducive environment for action as well as potential motivated and capable partners to implement innovative interventions.

The process resulted in the selection of the **construction and food processing sectors**, which presented high potential vis-a-vis the aforementioned criteria and strategically complemented each other.

The construction sector in Jordan shows stable growth indicators, particularly in non-public construction projects (individual housing and commercial buildings). SMEs play a crucial role in this sector, as they are the ones primarily employing workers and executing projects within subcontracting frameworks. The construction industry predominantly employs migrant and refugee workers, especially Egyptians and Syrians, who frequently face poor working conditions, including a lack of social security coverage, with issues such as work injuries being particularly prevalent.

On the other hand, the food processing sector has been a significant driver of job creation in Jordan and is a priority sector for the Government, which has developed several strategies aimed at accelerating value addition, boosting exports, and promoting import substitution. While large companies dominate sub-sectors like meat processing, SMEs are more prevalent in sub-sectors such as dried fruits, sweets, spices, and to some extent, dairy. The food processing sector also sees a high participation rate of Jordanian women (compared to other sectors), particularly in small companies and within the informal economy.

Moreover, both sectors demonstrated promising indicators in terms of the feasibility of linking SMEs' business incentives with the extension of social security coverage, especially when compared to sectors like agriculture or domestic work, where employers are not even legally obligated to contribute to social security schemes.

The following chapters provide a brief overview of the economic trends in the key sectors, followed by a more in-depth analysis of their respective market systems.

3.2 Construction

As with other sectors, the construction industry in Jordan is still recovering from the impact of the COVID-19 pandemic, which resulted in losses exceeding JD 100 million.[35] Even before the pandemic, the sector faced significant challenges, including a drastic reduction in public works due to declining tax revenue, reforms to the income tax law, and bottlenecks in procurement bureaucracy. These issues were further exacerbated by the pandemic, leaving many construction companies unable to pay employees and maintain equipment during the global crisis, compounded by a lack of government support and compensation. More recently, rising instability in the region has led to an exponential increase in global raw material (estimated to +55 per cent[36]) and transportation costs, as well as energy prices, significantly driving up production costs and squeezing margins, particularly for SMEs.

Despite these challenges and the broader decline of the broader industry sector[37] (excluding manufacturing) to Jordan's GDP, falling to 4.8 per cent of GDP, down from 7.3 per

34 These are : agriculture, domestic work, construction, ICT, manufacturing, handicrafts, food processing, restaurants, and wholesale and retail trade.

35 "Construction Challenge in Jordan", Market Research Jordan, consulted in August 2024.

36 Ibid.

37 These includes construction, mining, quarrying, electricity production and extractive industries (petroleum and natural gas).

cent in 2010 and 8.5 per cent in 2000[38], the construction sector continues to present encouraging performance indicators with an annual production output of nearly USD 2.4 billion corresponding to approximately 2.2 per cent to Jordan's GDP[39] in 2023.

Moreover, while the contribution of industry subsectors (excluding manufacturing) to total employment is limited, (on average less than 1 per cent of total employment), construction sector stands out with its share of 6 per cent of total employment of males workers in 2021.[40] These figures can be explained by the labour-intensive nature of the employment in the sector but don't take into account the large proportion of informal workforce employed in construction. Construction experts from the University of Jordan estimate that 60 to 70 per cent of the construction work in Jordan is currently happening in the informal economy.[41]

Interventions in this sector have the potential to improve the working conditions of a large portion of informal workers, more specifically migrants and refugees from Egypt and Syria and, to a lesser extent, from Southeast Asia. Workers in the construction sector are generally divided into mid-skilled and low-skilled categories. Skilled workers are often recruited on a project basis, while low-skilled workers are typically hired on a daily basis. Major decent work deficits related to informal employment financial exploitation, wage discrimination, delayed or withheld compensation are observed.[42] Poor Occupational Safety and Health (OSH) practices are pervasive in the sector, with workers, especially of smaller construction enterprises, frequently observed lacking protective equipment and operating in unsafe working conditions. While official statistics are unavailable, workers associations report high rates of work injuries on construction sites that remains undeclared and unrecorded as employers try to avoid fines and blacklisting from authorities. Due to the pervasive informality in the sector, the majority of workers lack social security protection with the ILO estimating that 89 percent of workers, including 96 percent of non-Jordanian workers, are without social security coverage. [43] This has severe repercussions, particularly in terms of work injury protection, as construction workers face high risks on construction sites. Compensation for work-related injuries and medical expenses largely depends on informal arrangements and the goodwill of employers, as formal mechanisms are often unavailable (see dedicated section on work injury).

As is the case elsewhere, the construction sector in Jordan operates through a subcontracting mechanism where private developers, often from Saudi Arabia for larger construction projects, commission work to contractors. These contractors, typically medium to large companies, are responsible for coordinating and executing the projects according to design plans. They, in turn, subcontract the actual construction work to multiple SMEs, which may further subcontract tasks to even smaller firms. Subcontracting agreements range from formal to informal, particularly as the chain extends. Each SME tends to specialize in specific aspects of the construction process, such as plumbing, electrical installations, or tiling.

The Jordan Chamber of Industry estimates that 2,600 formal enterprises operate in Jordan's construction sector[44] mainly in urban areas, but detailed data on the types, numbers, and sizes of MSMEs are lacking. Estimating the significant proportion of enterprises and workers operating in the informal space remains challenging. Many enterprises, particularly SMEs, may operate within the formal economy for specific construction projects, especially for large procurement contracts, while simultaneously engaging in informal operations, particularly in the construction of individual houses. Consequently, the construction sector, with its high participation of both formal and informal MSMEs, offers a significant entry point for the Estidama++ project.

The sector seems to offer a fertile foundation for collaboration with public authorities, as it has been the focus of several initiatives from the Government of Jordan. Between 2000 and 2019, the Government has for instance implemented different measures to combat real estate speculation and the ongoing affordable housing crisis by incentivizing developers to build more and smaller units, and by making mortgages more accessible to Jordanians through subsidies and tax relief.[45] Government interest in the sector is further evidenced by recent investments in improving the accuracy and updating statistics for the construction industry, as well as planned reforms to develop new guidelines and selection criteria that

38 Growth, Macroeconomic Policies and Employment: The impact of macroeconomic and trade policies on employment generation in Jordan", ILO 2023.

39 "Construction outputs stand at JD1.7 billion, sector employs 17,000 — JCI", The Jordan Times, August 9, 2023.

40 See ref. 33.

41 As per estimation shared during an interview with members of the Construction Engineering and Management (CEM) group of the University of Jordan.

42 "Jordan & Lebanon Construction Tracker: Analysing trends", Business & Human Rights Resource Centre August 29, 2018, https://media.business-humanrights.org/media/documents/files/Jordan_and_Lebanon_Tracker_Analysis_120918.pdf

43 ILO. 2021. "Opportunities for extending social security coverage in Jordan". https://www.ilo.org/media/377551/download

44 See ref. 34.

45 "The crisis of affordable housing in Jordan", Policy Brief no 7, Éditions AFD, 2021.

intentionally favor SMEs in securing public tenders, including in construction projects.

The Ministry of Public Works and Housing (MoPWH) is the primary entity responsible for supporting and overseeing the sector, developing and enforcing standards, and managing Jordan's public procurement through the Government Tenders Department. Non-profit support to the sector is provided by several entities, including:

- The Jordan Construction Contractors Association (JCCA) and its Contractors Training Center, which provide ecosystem support through the developing of contractor classifications, the developing and implementation of training programs, and along with the Union of Construction Workers, the resolving of disputes between contractors and employees, and advocacy with the government.
- The Jordan Engineers Association (JEA) which represents, trains and develops, and qualifies and certifies Jordanian engineers, in addition to providing other benefits such as soft loans for various purposes (ex: housing, vehicle purchase, etc.).
- The Chambers of Commerce and Industry, which support industrial and commercial construction enterprises through advocacy with the government, including in formalization, and through technical assistance.

In conclusion, the construction sector presents strategic opportunities for the project to explore initiatives that can reach a critical mass of informal and vulnerable workers, particularly migrants and refugees, who are not covered by social security and face significant work deficits. Some of these deficits could potentially be mitigated by benefits provided under the current social security scheme, such as work injury coverage. Furthermore, with sustained demand in the private construction subsector, the sector provides valuable entry points to leverage business incentives for SMEs to invest in their workforce and strengthen their position in a highly competitive market. Additionally, the Government of Jordan's focus on the construction sector as a vital engine for job creation and housing, coupled with a well-established network of public and private sector actors, offers a strong foundation to pilot transformative business models.

3.3 Food processing

The food processing sector continues to play a key role in driving the country's economic growth of Jordan with a contribution of 6.3 per cent of Jordan's GDP and annual production output of approximately 5.1 billion USD.[46] In 2016, the sector accounted for 10.2 per cent of Jordan's total industrial exports[47] with Arab markets representing around 75 per cent of the sector's exports, and Iraq and Saudi Arabia being the largest importers of Jordanian processed food exports followed by the US and Europe.[48] The average annual growth rate for Jordan's key food processing subsectors was approximately 4.9 per cent between 2013 and 2017. According to a GIZ study, this growth was largely driven by the expanding number of households and the influx of Syrian refugees. However, the significant loss of market share due to regional political instability in nearby markets like Iraq, Syria and more recently Palestine and Israel, Jordan has been able to compensate by increasing exports to other Arab markets, particularly in the Gulf Cooperation Council (GCC) countries.

In Western markets such as the U.S. Europe as well as Australia, business owners have observed an increasing demand for "ethnic Arabic products," particularly among the Arabic communities residing in these regions. This niche segment is characterized by a growing appetite for traditional Jordanian and other Arabic foods, which are gaining traction beyond Arabic communities.

The food processing sector has historically attracted significant attention from the Jordanian government, not only as a critical export driver but also as a means for import substitution. Since 1970s, the Government of Jordan has pursued different strategies, including subsidies for local products, high tariffs, and financial incentives to protect domestic industries from foreign competition. Interviews with government and sector-supporting institutions revealed that this narrative continues to shape the sector's direction, especially after the impact of the pandemic on global supply chains. This is particularly relevant as Jordan imports approximately 98 per cent of fresh and processed food[49] due to its limited agricultural production linked to water scarcity. Some Jordanian products such as dairy and processed food are increasingly gaining traction in the substitution imported ones. However, from the perspective of SME owners, local products continue to struggle to compete with imports—particularly from China and Turkey—due to the high

46 " Processed Food, Agriculture and Animal Husbandry Sector Study" Jordan Chamber of Industry, July 2018.

47 Ibid

48 "Jordan's Food Processing Sector Analysis and Strategy for Sectoral Improvement", GIZ, 2019.

49 According to data from January 2024 from the U.S. International Trade Administration.

costs of production, largely driven by reliance on imported raw materials.

Jordan's food processing sector includes a range of subsectors such as:

- Processed and preserved meat;
- Dairy products;
- Processing and preserved fruits and vegetables;
- Bakery and Arabic sweets;
- Animal and vegetable fats and oils;
- Spices and products from the milling industry;
- Cocoa, chocolate and sugar confectionery;
- Processed fish and crustaceans;
- Macaroni and pasta products;
- Animal feed

While some subsectors are dominated by medium and large firms (e.g. processed meet) , other subsectors such as sweets, spices, pasta and dairy are driven by MSMEs, which account for 95 per cent of the enterprises in the sector according to GIZ.[50]

The food processing sector is frequently emphasized by government authorities and the media as a key driver of job creation, particularly for Jordanian workers, employing 50,378 people as of 2019.[51] However, these statistics do not capture the informal workers and especially female workers who often represents 80 per cent of the workforce in some SMEs[52], particularly in production and packaging. The female workers representation in the sector is rather unique considering the country's overall low female labour force participation: 14 per cent compared to 54 per cent of male workers. Nevertheless, female workers in the sector often face significant work deficits, including informal employment, lack of access to social security, and challenges related to gender pay gaps and safety concerns during long commutes. Absenteeism and high employee turnover among unskilled (female and male) workers are cited by MSMEs and other stakeholders as a significant challenge in the sector, with enterprises frequently relying on outsourcing companies to supply temporary replacing labour.

The sector is well regulated by overarching bodies such as the Jordan Standards and Metrology Organization (JSMO) and the Jordan Food and Drug Administration (JFDA), which play crucial roles in maintaining food safety and quality. While the government has invested in food safety infrastructure, challenges seem to persist in the area of labour skills in in a comprehensive food traceability system.

Other government entities, including the Ministry of Industry, Trade, and Supply (MoITS), provide support through various programs, such as the Industrial Support Fund and the Women's Economic Empowerment Unit. However, despite the sector's significance, no comprehensive national strategy is currently in place to promote its growth, with the most recent effort being the Jordan Vision 2020, which dates back to 2006.

Jordan has several associations dedicated to specific food products, such as the Jordan Olive Oil Products Export Association and the Jordan Exporters & Producers Association for Fruit & Vegetables (JEPA). However, there is no singular association representing the food processing sector as a whole. The General Trade Union of Workers in Food Industries does, however, serve workers in food processing, as well as those in agriculture and irrigation.

In conclusion, the food processing sector offers strategic opportunities for project engagement, as it is characterized by high value addition and significant growth potential in both domestic and export markets. It also has a notable concentration of SMEs and female workers, who are rarely represented in such proportions in other sectors. The government's prioritization of the sector, particularly regarding import substitution, provides strategic entry points to pilot initiatives that could improve coverage for informal female workers, especially in terms of maternity benefits.

50 See ref. 46.

51 Ibid.

52 As estimated by MSMEs owners interviewed for this research and observed during on-site visits. This tendency has also been reported by the cited GIZ study.


kg
JD/kg
JD
0.014
0.00
0.00

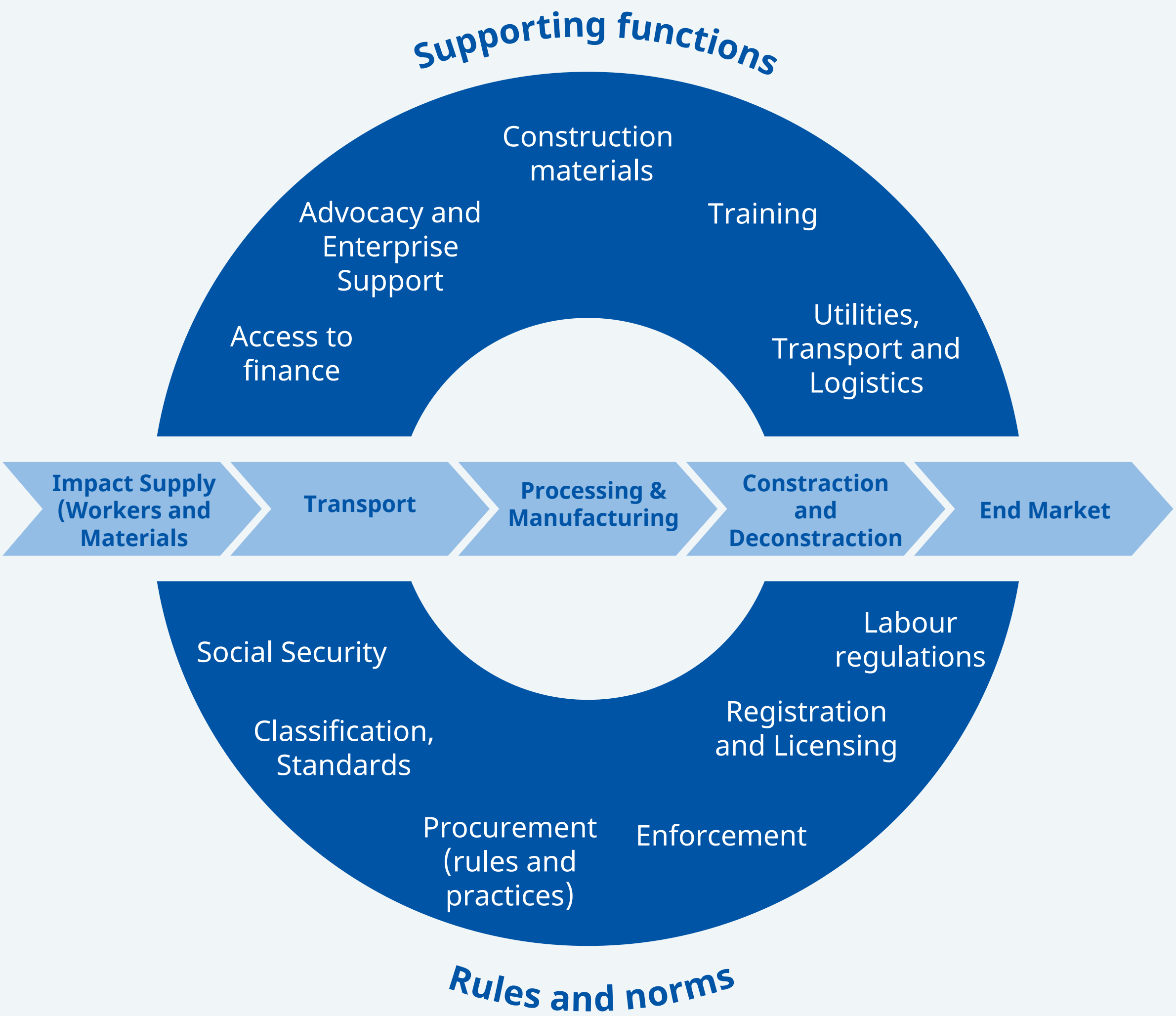
4

Market systems of the construction sector

The market system is the overall picture of how a sector operates. It doesn't just focus on the transactions within the core value chain — from developer to contractor to end user — but also considers various factors and actors that influence how businesses and employees work and take decisions within this value chain. These factors include 'supporting functions' (such as access to materials and skills) and 'rules' (such as work permit regulations, OSH, and construction standards). Figure 1 presents an illustrative market system for the construction sector in Jordan.

As many previous ILO market systems analyses have examined construction sectors in various countries and contexts (see here), this analysis will keep to the minimum the description of the overall system and delve deeper into unpacking how sector's actors take decisions related to their business, including with regards to their workforce and their social security coverage.

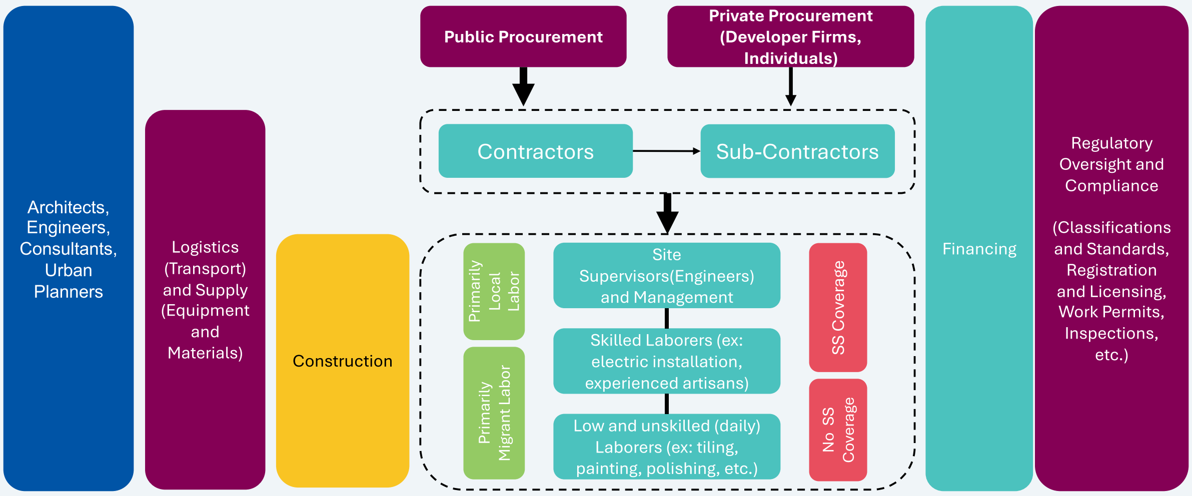
▶ **Figure 2- The construction market system in Jordan**



4.1 Core value chain

As is often the case in construction sector, the core value chain of the construction market system in Jordan can be divided into: i) funders of the construction project, ii) designers and other professionals who plan and design the project, iii) contractors and subcontractors undertaking the works, and iv) the client/financier who approves the final construction product. As mentioned in the overview of the sector, the analysis will look closer at the private procurement sub-sector as this is where most of the construction projects are currently released and the space where most of the SMEs operate. Figure 2 provides a simplified overview of the construction value chain actors and workers and how they interact. The analysis that follows aims to delve deeply into the most critical topics that emerged from the interviews with actors in the core value chain.

▶ Figure 3- Construction actor map



Source: Own.

4.1.1 Private developers setting the rules of the dance

Developers can generally be classified into three segments:

- Public authorities: financing public infrastructure or buildings.
- Private developer firms: funding the construction of office, commercial, or housing developments.
- Private individuals: commissioning the construction of individual residential homes and businesses.

This specific analysis will primarily focus on the second segment, private developer firms, and to a lesser extent, the third segment, private individuals. SMEs reported that these market segments generate the majority of the construction projects for which they are better positioned to engage. All interviewed actors in the sector highlighted that public projects in Jordan are scarce due to high public debt and the overall financial crisis, which has significantly reduced the number of public investments in infrastructure. SMEs also face intense competition for the few available public projects, which are often awarded to larger or well-connected firms.

Although this analysis will not delve into the public construction subsector, it is important to note that the Department of Public Tendering is currently developing new guidelines and selection criteria to intentionally and positively favour SMEs in securing public tenders. This development is significant for future engagement in the construction sector and indicates how public authorities are beginning to consider better inclusion of SMEs in public tendering and, possibly, as key actors in the private sector and important engines contributing to economic development.

With regards to private developers, the research team was unable to secure interviews with these actors, who did not respond to interview requests. Consequently, the information on developers and their behaviour is derived from the perspectives of other sector actors operating in the subsector of private construction, including SMEs, contractors, and associations, and has not been triangulated with the interested parties. Sector actors indicate that private developer firms are often large companies and investors from Saudi Arabia or regional firms, for instance telecommunication companies building communication towers. SMEs typically do not have direct relationships with developers, as they primarily interact with main contractors and follow their agendas. Contractors, on the other hand, are reluctant to provide contacts and specific information about the behaviour, practices, and incentives of developers. However, one of the most frequently mentioned issues related to developers is their disregard for regulations that prohibit them from conducting construction work themselves, instead of requiring them to contract a registered construction firm. As further explained in the of rules and regulations section, developers often award construction projects to non-existent construction firms, which are often essentially composed of a single engineer. This allows them to carry out the construction work themselves through informal agreements with contractors and subcontractors keeping costs low.

This practice creates unfair competition for formal and legally compliant SMEs, who must compete with these fake firms and operate on low or negative margin budgets. The situation significantly limits the number of projects available to SMEs and forces them into a race to the bottom for the lowest budget proposal (see next section).

4.1.2. Contractors seeking low costs or enhanced quality?

Contractors in Jordan's construction sector are usually medium to large companies responsible for coordinating and executing projects according to design plans. They often subcontract actual construction work to several SMEs, typically from four and up to ten per project, depending on its size. Each SME focuses on specific aspects of the construction, such as plumbing, electrical installations, or tiling and others. Subcontracting agreements range from formal to informal, especially as they extend down the chain. SME owners report that main contractors typically lack substantial workforces and rely heavily on SMEs. Contractors often delegate not only construction work but also the purchase of materials to SMEs (see also building materials).

There are differing views on contractor practices. SMEs claim that contractors focus on minimizing costs and maximizing profits, often at the expense of quality, fair contracting agreements and worker conditions. According to SMEs, this race to the bottom is also heavily influenced by the unfair competition of fake construction firms used by developers to bypass procurement laws and increase profits (see previous section and rules and regulations). Moreover, contractors reportedly offer little advance notice for subcontracting and impose tight deadlines. This dynamic creates challenges, such as rushed timelines, insufficient materials, and difficulties retaining skilled workers between projects. Payment delays are a significant issue, with some SMEs experiencing up to a year's delay. SMEs attribute this to contractors speculating on funds by holding payments in their bank accounts to earn interest (see also section on access to finance).

This payment delay problem is exacerbated by the limited legal recourse available to SMEs in Jordan. The current business framework does not provide adequate solutions, as failure to pay within contract terms only results in imprisonment, not financial restitution (see section on contract enforcement) SMEs often resort to persistent follow-ups with contractors and prefer working with trusted partners to reduce risks.

The few contractors who met with the research team provided a contrasting perspective. They highlighted significant issues with quality and construction standards in Jordan (see also BDS and skills section). According to them, SMEs often act unprofessionally and struggle to adequately plan for time, costs, workforce, and materials needed for projects. This leads to project delays, undermining the contractor's reputation with developers and incurring unexpected costs if rework and reparations are required. Contractors believe that many SME owners, often engineers, lack business and project management skills and rely on a non-specialized workforce.

4.1.3. Investing in the workforce: an impossible bet for SMEs ?

Construction SMEs of different sizes and specializations are the primary actors executing construction work. These business owners typically employ a small number of engineers, often family members, and a few mid-level skilled or specialized workers who are hired on project-basis for four to six months. These skilled workers are responsible for supervising and guiding the majority of the workforce, which consists of low-skilled workers hired daily on an informal basis.

Depending on their size and position within the contracting and subcontracting chain of a project, their relationship with the main contractor or subcontractor may or may not be formally registered in a contract. It's important to note that even when subcontracting is formally registered, it is rarely indicated by the contractor in the construction project presented to developers and relevant authorities at the project's outset. For SMEs, this means they rarely know in advance if they will be awarded a subcontract (usually less than two months notice), making it challenging to plan adequately their engagement with construction projects as well as their needs in term of budget , workforce and material.

As such, SMEs keep their regular workforce to a minimum to avoid year-round overheads, which they report not being able to cover and/or which would significantly reduce their already limited profit margins during the breaks between construction projects. This is especially significant when staff costs involve social security coverage, which is perceived as yet another heavy "tax" impossible to bear during breaks (see also relevant tax burden section in the food processing chapter). Typically, only the owners and one or two engineers have full-time or part-time contracts that include social security coverage, while the rest of the workforce is hired on an informal, semi-formal, project-based, or daily basis. More specifically, SMEs primarily employ mid-level and low-skilled workers.

Mid-skilled workers

Mid-level workers are for the large majority Egyptian migrants with mid to medium-high level skills acquired through training and extensive on-the-job experience in Egypt and Jordan. Typically, SMEs employ two to four mid-level workers who move across different construction sites. These workers source and supervise daily low-skilled workers from informal markets (meeting points or informal contacts), ensuring day-to-day construction activities are completed efficiently. In many cases, mid-level workers have specialized skills, such as tiling or plumbing, that cannot be performed by low-skilled workers, especially without supervision.

Trusted mid-level workers may also be responsible for purchasing materials. SMEs develop a trust relationship with these workers, who often work for several SMEs simultaneously and are known in the sector. To retain these skilled workers, who are difficult to find due to their scarcity, SMEs offer attractive working conditions, including timely payment, higher salaries, and sometimes social security coverage.

The social security coverage is negotiated with mid-level workers, with some workers preferring the amount to be added to their salary instead of being deducted for social security. Others, usually more experienced workers, prefer social security coverage as they view it as a secure saving they can withdraw as a lump sum when they return to Egypt (see social security section).

SME owners indicate that they arrange for workers to be contracted and covered by social security for approximately 6 to 8 months each year, working on various projects. During the remaining months, these workers often find employment with other construction sites, likely informally, or travel back to Egypt to visit their families.

Given the scarcity and value of mid-level workers in the labour market, the research team inquired if SMEs would be inclined to hire more mid-level workers if more became available, possibly through upskilling programs targeting low-level workers. SME owners indicated that they currently employ the exact number of workers necessary to keep overhead costs under control, as they do not secure a sufficient number of projects each year to justify additional hires.

Low-skilled daily workers

Low skilled workers from Egypt, Syria, and Southeast Asia are commonly recruited on a daily basis by reliable mid-level workers at well-known gathering spots in the urban areas or through informal networks. The activities performed by these workers vary widely, from shoveling and transporting building materials to perform basic construction activities under the supervision of the mid-level workers. None of these workers have formal contracts nor social security coverage. The recruitment of these low-skilled workers are characterized by a high turnover rate, and, according to SMEs owners, no special effort is made to rehire those they have worked with previously. The research team was unable to speak with mid-level workers responsible for the hiring to confirm whether there is truly no preference in the selection process.[53]

SME owners perceive work performed by these low-skilled workers as very basic and easily replaceable, in their words, "anyone can do it". Consequently, from their perspective, there is little motivation to retain these workers, improve their working conditions, or invest in developing their skills.

However, construction associations have pointed out that SME owners often underestimate the significant impact that the poor skills of low-level workers can have on the overall quality of the work, even when these workers are engaged in basic tasks (see "Business support and skills development services"). For instance, in many cases low-skilled workers mix cement with too much water to make it easier and quicker to apply, which ultimately compromises the cement's strength and durability. Additionally, mid-level workers may have a different view on this as SME owners report that these workers often spend time training low-skilled ones in specific tasks and instructing them on how to navigate the construction site safely and operate machinery properly to prevent injuries. It's important to note that SME owners reports that low-skilled daily workers are the most prone to accidents on construction sites. They attribute this high injury rate to the workers' lack of knowledge and experience. The next section delves deeper into how work injury is currently handled by SMEs.

4.1.4 The concern of work injury and coping strategies

Work injury is the most common and pressing concern mentioned by SME owners regarding their workforce. This concern is linked to two interconnected factors:

1. **Financial burden and unplanned expenses**. When workers are injured and are not covered by social security—which is often the case—business owners bear the financial responsibility for their medical treatment. Even though these workers operate outside the formal employment sector, the moral and social norms in Jordan obligate employers to care for injured workers and assume responsibility for their treatment and compensation. In cases of severe accidents or fatalities, employers may also need to compensate the injured worker or their family. This creates an unexpected financial burden for employers, who must also cover the costs of replacing and paying additional workers during the injured worker's absence.
2. **Risk of being reported and blacklisted.** Though less frequently mentioned by SME owners, other stakeholders in the sector highlight the risk that injured workers, especially if inadequately compensated, may report the employer to the authorities, more specifically to the Ministry of Labour Inspection Department. If reported, the inspectors will provide written warnings and eventually impose fines on the employer for non-compliance with labour and social security regulations, as well as Occupational Safety and Health (OSH) measures in the construction site. The fines for non-compliance can vary significantly, ranging from 200 JOD to a maximum of 1'000 JOD[54] (approx. USD 280 to USD 1'400) for labour violations and the payment of retroactive social security contributions. Additionally, employers are required to regularize the workers' status and retroactively cover the costs of their social security contributions. Additionally, repeated reports can result in the company being blacklisted by the Ministry of Labour, subjecting them to regular inspections and monitoring.

Occupational safety and health (OSH) risks are inherent to any construction site and seems to be particularly pronounced in Jordan, where there is a significant lack of a preventive culture regarding safety measures and workers are frequently observed operating in unsafe working conditions. SMEs tend to depend on brief instructions provided by mid-level workers to daily workers, and the use of protective gear, like helmets, is limited.

On the other hand, the authorities responsible for inspections currently focus more on big companies and larger construction sites. As a result, the likelihood of SMEs being inspected is often low (see also section on fragmented compliance). SME owners indicate that the amount of the fines, coupled with the low likelihood of being reported *and* fined, present a manageable risk when weighed against the substantial costs of labor formalization, especially in terms of social security coverage. In addition, there seems to be considerable confusion and misinformation regarding how work injury

53 As the research progressed, the perspective of mid-level workers became increasingly important. Mistrust of public authorities and development actors limited SME owners' willingness to engage, making it difficult to access workers' views directly. Therefore, in developing the potential interventions discussed in the dedicated chapter, it will be crucial to reduce this information gap and involve mid-level workers to ensure more relevant and effective solutions.

54 According to the "Labour Code, Law No. 8 of 1996". Dated 2nd March 1996.

coverage operates, especially concerning its conditionality based on contracts, employers, duration, and validity (see also social security coverage). For example, one SME employer believed that if a worker is injured, the employer could enroll the worker in social security retroactively, and the work injury coverage would apply. Another employer mentioned that if a worker is covered by social security but gets injured at a different construction site, the coverage would not apply. In contrast, a third employer believed that coverage would apply regardless of the construction site. Yet another employer suggested that the coverage would not be valid if the worker's permit is not in the correct sector, such as having an agricultural permit while working on a construction site. This indicates a significant lack of clarity among SME owners about the specifics of work injury coverage under social security.

A missing value-for-money ?

Work injury coverage is often cited by SME owners as the primary benefit of social security. However, many SME owners question the cost-effectiveness of investing in overall social security coverage just for the benefits related to work injury. While none of the owners interviewed has made clear calculations comparing the costs of social security per worker with informal compensation expenses in case of injury, they generally believe that the benefit does not justify the investment.

One SME owner, for instance, found a better deal with a private insurance company. He negotiated a contract that allows him to insure a limited number of unnamed workers per project. For high-risk construction tasks, such as working at heights or with heavy machinery, he insures 30 workers without identifying them by name. This approach reduces his risk and provides partial coverage for daily workers who are not easily covered under the current social security framework. He reported signing a contract of 1'500 JD for six months.

The research team attempted to contact the insurance company to further explore this and other insurance products but was unable to secure an interview. This example illustrates the competition that social security schemes face from private insurance companies in the construction sector. These private insurers offer flexible products that, although not compliant with regulations or ILO recommendations regarding labour rights and adequate OSH practices, cater more closely to the realities and needs of the construction industry, daily workers, and SME owners.

4.2 Supporting functions

This section analyses four supporting functions that were identified as key factors hindering the competitiveness, profit and growth of SMEs and influencing their decision-making regarding expenses, staff management and innovation.

4.2.1 Business support and skills development services: underutilization and skepticism

Business owners in the construction sector in Jordan seem to predominantly rely on their own capacities, resources, and networks to sustain their businesses. They rarely mention the use of associations or external support services to improve specific areas of their business or learn new practices. Most of these business owners are graduated engineers who have either gained experience through their own practice or inherited their knowledge and business from their family. This self-reliance extends to staff skills development (see also core value chain section).

▶ Example: Mistrust in formal qualification

One business owner was required to hire an engineer with a higher degree to supervise a project due to the developer's request. Despite hiring an engineer with excellent academic credentials, the new hire proved to be incompetent, and the lower-degree engineer had to take over the work. This experience reinforced the business owner's mistrust of formal qualifications and certifications, and even more for mid- and lower-level workers. He questioned the value of certifications, as practical skills and experience, demonstrated on-site, hold more weight in his assessment.

These business owners typically employ a small number of engineers, often family members, and a few mid-level skilled or specialized workers who are hired on a project basis (2 to 6 months) or with a one year contract. These skilled workers are responsible for supervising and guiding the majority of the workforce, which consists of low-skilled workers hired daily on an informal basis. Mid-skilled workers are predominantly Egyptians without formal qualifications who have learned their trade through experience in Egypt and in Jordan, often delivering quality work based on that experience.

Given the scarcity of skilled workers and the high demand for them, the research team investigated the availability of skills development services. There have been ad hoc and project-funded initiatives led by the Skills Development Council or directly implemented by projects such as the ILO's project on " Employment Intensive Investment Program (EIIP) and Decent Work in Jordan", which has trained a number of refugees in construction. However, when asked about the relevance of skills development and certification, SME business owners expressed skepticism. They believe that skills are best developed and demonstrated on the construction site, often based on recommendations from other companies in their network. Additionally, as previously mentioned, SME owners indicated that given the limited number of projects they secure annually, they do not find it necessary to hire more mid-level workers beyond their current workforce.

The reliance on personal networks and the skepticism towards formal skills development and certification highlight a significant challenge in the construction sector. While there are efforts to provide training and certification, the prevailing belief among business owners is that practical experience and recommendations are more reliable indicators of a worker's capability. This mindset limits the adoption of formal support services and emphasizes the need for more practical, experience-based training programs that align with the industry's expectations.

Concerns over quality and professionalism

Beyond the skills of mid and lower-level workers, actors such as contractor associations, large construction firms, and associations of contractors expressed concerns over the lack of professionalism among SMEs owners and higher-level workers. The most prominent issues mentioned include poor quality of construction work, often requiring rework from the developer or an additional subcontractor, which delays projects and generates unforeseen costs for the developer. Associations highlighted that this is often connected to the poor skills of low-level workers, who, even when performing very basic activities, can significantly impact the overall quality of the work. For example, one common issue is cement mixed with too much water by low-skilled workers to make it easier and quicker to apply, which substantially hinders the robustness of the cement.

Other deficiencies observed by contractors, associations and public procurement include limited skills in producing supporting documents and filling out forms for procurement applications but also poor pricing practices, such as over- or under-quoting, the inability to provide business and financial documents, and weak management processes in producing progress reports, issuing payment certificates, and filing claims. Consequently, clients and main contractors prioritize collaborating with companies they have worked with before. They argue that this situation hinders other SMEs' ability to advance in the grading system, bid for larger contracts, increase revenue, and generate employment. These SMEs remain entrenched in the informal sector, where they have little bargaining power, generate minimal profit, and are motivated to cut expenses to win bids, including reducing labour and occupational safety and health expenditures.

Despite all these issues, the sector does not seem to offer regular business development services, as most of the support described by sector associations and Chambers are ad hoc and one-time trainings or events sponsored by specific projects and initiatives. None of the interviewed SME owner has reported to have used the services of private business development consultants. This lack of consistent and tailored support services further entrenches SMEs in their current state, limiting their growth and development potential.

4.2.2. Building materials: navigating delays and escalating costs

SMEs in the construction sector in Jordan encounter significant challenges related to the cost and sourcing of building materials. Interviews with SME owners reveal that construction material together with energy (see following section) represent their two major sources of production costs. Currently, all SME owners import construction materials, from cement, bricks and steel wires to prefabricated items such as stair parts, electric panels etc., from China, the US, Turkey and Italy due to the limited domestic production. A significant exception to this rule would be the local limestone produced in Jordanian mines and commonly used for the façade of residential buildings.

Imported building materials in Jordan are subject to customs duties that vary based on the type and origin of the goods. Business owners report that these fees typically range from 20 to 30 per cent and a VAT of 16 per cent is applied on top of the customs duties for imported goods, further increasing the overall cost. Additionally, the cost of imported materials has risen recently due to instability in the region, disrupting traditional import routes and increasing container costs, transport risks, and delays. These disruptions pose a significant problem for SMEs, which cannot afford to stockpile materials due to financial constraints and the lack of storage space. Furthermore, the unpredictable nature of construction projects makes it difficult for SMEs to plan ahead and place material orders in advance. Typically, materials are purchased only after securing a project and/or even after receiving the first payment instalment, often causing significant delays in starting and completing construction work.

The research team had the opportunity to speak with representatives of a local company producing essential building materials such as cement, steel wires, bricks, and concrete blocks. The company emphasizes its ability to provide high-quality materials with short delivery times, outperforming the quality and lead times associated with imports from China and other countries. The company currently focuses on supplying large construction projects within local and regional markets. When asked about their interest in supplying to SMEs, they indicated a lack of interest, citing that their business model requires large orders to be profitable, whereas SMEs typically place smaller orders.

Since the conversation was with the public relations team and the research team was unable to speak with representatives responsible for sales and business strategy, there are several information gaps. It remains unclear whether the company has seriously considered SMEs or what their current growth and expansion strategy entails. On the other hand, one SMEs owner that has explored local sourcing of specialized prefabricated telecommunication towers, has reported that the costs of these materials were much higher than imported ones. However, the scenario may be different when looking at raw non-prefabricated materials.

4.2.3. Energy Cost: a growing burden for SMEs

In addition to material costs, energy costs represent a substantial burden for SMEs. The cost of electricity and other energy sources has increased due to regional instability, further driving up production costs. This situation exacerbates the financial strain on SMEs, already struggling with high material costs. This is a common challenge cutting across sectors and is further analysed in the food processing market analysis here. It is important to note that experts in the sector at the University of Jordan have extensively researched the impact of energy-inefficient machinery in the construction industry and have identified several much-needed innovations to improve the performance of the Jordanian construction sector.[55]

4.2.4. Finance: Limited offer or low demand?

All SMEs interviewed in both the construction and food processing sectors have highlighted a common challenge: limited cash flow. This limitation hinders their ability to ensure smooth purchases of inputs and raw materials, timely payment of staff and transport, and, in the case of SMEs in the construction sector, the ability to freeze part of their capital into several bid bonds to be eligible and selected for construction projects (see text box on the right).

▶Bid bonds

Bid bonds work as a financial guarantee that, if selected, the bidder will honour their bid and execute the contract according to the agreed terms. These bonds protect the project owner by ensuring the bidder has a financial stake in the project, adding a layer of security and commitment. On the other hand, bid bonds can significantly limit SMEs' ability to simultaneously compete for several projects due to their lack of capital.

55 See existing and upcoming studies by Rateb Sweis (interviewed by the research team): https://djasljsa.academia.edu/RatebSweis

> I don't have enough cash for what I need but at least my business remains mine
>
> ▶ **SMEs owner,** construction sector

Despite these cash flow challenges, none of the interviewed SMEs have contracted loans. The SMEs mentioned that access to finance tailored to their needs and suitable financing conditions are very limited. They identified high-interest rates, ranging from 10 up to 20 per cent per annum, as a significant barrier to affordable finance. Many SME owners, including those in the food processing sector, expressed that with such high interest rates, taking a loan would mean redirecting all their profits to repay it, with a high risk of going bankrupt. A commonly echoed sentiment was, "I don't have enough cash for what I need but at least the business remains mine".

Many SME owners are unwilling to take loans, perceiving them as risky and an additional hassle that does not pay off, potentially jeopardizing their business ownership. They displayed a strong mistrust towards loans, often referring to other SMEs owners that have taken loans as "desperate", moving from loan to loan and ending up in bankruptcy.

To better understand the availability of financial products tailored to SMEs, the research team reached out to local banks for interviews but was unsuccessful. The banks responded that they do not have specialized products or focus on SMEs, which may indicate a limited interest in SMEs as a potential client segment.

Furthermore, many SME owners are uncomfortable with traditional financing for religious reasons, yet they also do not trust Islamic financing options. Thus, access to finance appears to be a complex issue where the demand, not just the supply, is restraining this supporting function. This aspect is linked to a broader challenge related to the business environment that seems to push SMEs to maintain the status quo and be risk-averse, avoiding growth to steer clear of potential challenges. See also section X for further discussion.

4.3. Rules and regulations

This section examines key rules and regulations that significantly impact both labor and social security practices, as well as the broader business environment in which SMEs in the construction sector operate. These rules and regulations are related to procurement and to the (lack of) compliance to laws on SSC, labour, OSH and construction.

4.3.1. Procurement: a misalignment between rules and practices

Procurement rules in private works are regulated by the Law of Construction Contractors of 2014.[56] According to this regulation, developers or private clients are not allowed to conduct construction work by themselves and must contract a registered construction firm. The municipality validates the procurement contract, including the detailed budget, before construction can proceed. However, all the SMEs owners interviewed have highlighted a systemic misalignment between these rules and the actual procurement practices in the residential and general private construction sector in Jordan.

In practice, contractors frequently engage in informal agreements with non-existent construction firms. These firms are often merely engineers who register as SMEs without genuinely operating as construction companies. These fictional SMEs submit budget proposals with highly competitive but unrealistic costs. In alternative, the budget of the proposal submitted by the fake firm is revised and drastically reduced after the developer has announced that this firm has been selected as the most competitive bidder. However, in reality, the fake SME receives a small commission for its role, while the construction work is actually executed by the developer, who typically employs informal SMEs or directly hires engineers and informal workers. This scheme allows the developer to reduce costs, avoid paying commissions and taxes and maximize profits. By operating within a grey and informal area, the developer holds no formal obligations or responsibilities towards the contractors, sub-contractors, or their workers.

This situation creates unfair competition for formal and legally compliant SMEs, who need to compete with "fake" construction firms and their low or negative margin budgets. It significantly limits the number of projects available to them and pushes SMEs into a race to the bottom for the lowest budget proposal. This reduction affects various aspects of their operations, including cuts into OSH practices and

56 Construction Contractor Law, amendment 2014.

material as well as on staff costs, including social security coverage. This misalignment not only undermines the regulatory framework but also hampers the growth and sustainability of legitimate SMEs in the construction sector.

This issue is widely recognized by various stakeholders in the construction sector, who frequently attribute it to a broader problem of corruption. The lack of enforcement of procurement regulations by the responsible authorities exacerbates the situation.

4.3.2. Fragmented compliance: work permits, OSH, social security and construction standards

The construction sector in Jordan faces significant challenges related to fragmented regulation and compliance, as well as an overall lack of coordination and coherence between the different authorities setting these standards. For the purpose of this research, the analysis will focus on the most prominent regulations related to labour and work permits, Occupational Safety and Health (OSH), and construction standards. These regulatory areas address different aspects of the construction sector but are, in practice, closely interconnected.

Work Permit

The construction sector in Jordan employs a significant number of migrant workers, particularly from Egypt, Syria and Southeast Asia, making work permit regulations crucial. Work permits in Jordan are influenced by several laws and directives, in particular by the Labour Law No. 8 of 1996 and its Amendments, governed by Ministry of Labour. As per this law, employers are supposed to act as sponsors for migrant workers, handling recruitment before workers enter Jordan, paying for transportation, work permit fees, and other recruitment costs. Workers are employed full-time for a single employer-sponsor on a one-year contract, and this includes enrolment to social security.

Mid-skilled workers are typically hired for periods ranging from two to five months, low-skilled workers are employed on a daily basis, and only a few mid-skilled workers are retained annually for longer-term projects. Additionally, many construction workers in Jordan operate informally, often using agricultural work permits. These permits are easier to obtain due to the existence of a parallel formal and semi-formal work-permit market, and because the agriculture sector is currently exempt from social security contributions, though this might change with the upcoming reform of the social security scheme in the country. On the other hand, Syrian refugees, have the option to apply for a flexible work permit, granted exclusively to self-employed and sponsored by workers themselves. The advantage of this permit is that it allows workers to move freely from employer to employer and from sector to sector.

Due to limited staff resources, labour inspections primarily target large construction sites or those with registered worker complaints. Non-compliance consequences are more severe for workers, who risk expulsion from the country, than for employers, who face the risk of written warnings and eventually a fine ranging from 200 JOD to a maximum of 1'000 JOD[57] (approx. USD 280 to USD 1'400) for labour violations and the payment of retroactive social security contributions. The cost of the fine is considered by the SMEs owners as lower than the financial burden of committing to an annual work permit and associated social security contributions.

Within the current context, SME employers have little incentive to regularize work permits for their workers: they are unable and unwilling to commit to annual contracts and they can still access a pool of informal workers, while facing low enforcement risks. This situation perpetuates work deficits and limits social security coverage. Improvements in this area need to be tied to other aspects where incentives can be leveraged.

Social security coverage

As mentioned, the lack of compliance with work permit regulations is closely influencing the social security coverage of migrant workers. The Social Security Law does not discriminate based on nationality or status, and any workers can potentially be enrolled in the social security system. However, enrolment in social security is not possible without a valid work permit, which excludes the majority of informal workers in the sector from the start, including those with agricultural work permits, as this sector is currently exempt from contributions. According to the SSC Modified Regulation No. 108 of 2020, Syrian refugees with flexible work permits pay a reduced contribution rate of 5.25% (and naturally no employer contributions) of the monthly wage and an initial two months lumpsum contributions is required in order to get the flexible work permit issued. According to an ILO study[58], Syrian workers with flexible work permits are also largely excluded from social security due to the unclear employer-employee relationship. This has been confirmed

57 According to the "Labour Code, Law No. 8 of 1996". Dated 2nd March 1996.

58 "Impact of work permits on decent work for Syrians in Jordan", ILO 2021.

by interviews, where employers, workers' associations, and other sector actors provided differing messages regarding the responsibilities and sources of contributions for flexible permit workers.

Furthermore, it is important to note that workers employed by informal SMEs are not eligible for social security enrolment. This excludes a significant portion of workers involved in informal construction activities, which, according to construction experts from the University of Jordan, is estimated to encompass approximately 60 to 70 of the construction works in the Kingdom.

OSH

As highlighted in section related to work injury, the construction sector in Jordan, similar to many other countries, faces significant challenges related to poor Occupational Safety and Health (OSH) practices, particularly within SMEs. This severely impacts decent work conditions in the sector and also poses a significant concern for SME owners, who must contend with unexpected costs and a moderate to low risk of being reported. The OSH regulations in Jordan's construction sector are governed by several rules and directives issued by the Ministry of Labour, including:

- Labour Law No. 8 of 1996 and its Amendments. This foundational law mandates safe working conditions and the prevention of workplace accidents and injuries across all sectors, including construction.
- Occupational Health, Safety, and Risk Prevention Regulation. Issued under Article 85 of the Labour Law, this regulation requires employers to establish comprehensive OSH policies, conduct hazard evaluations, and implement safety measures.
- Preventative and Remedial Medical Care Regulation. This regulation mandates on-site medical units for employers with 50 or more workers and requires first aid training for at least one employee in smaller companies.

Despite these regulations, compliance remains low, particularly among SMEs. Budget constraints force many small businesses to cut corners on safety measures to keep overhead costs manageable and remain competitive in the market. Enforcement of these regulations is also inconsistent. Labour inspections by the Ministry of Labour and their OSH Directorate[59] tend to prioritize large construction sites or cases where complaints have been registered by workers, or where companies have a history of labour infractions.

Additionally, limited human resources mean that general labour inspections often focus more on formalizing workers and checking work permits rather than thoroughly assessing OSH practices, which is supposedly to be the mandate of the OSH directorate within the Ministry. It remains unclear whether labour inspectors, who generally have a broad labour profile, are adequately equipped to assess the adequacy of OSH practices on construction sites. This gap in enforcement and expertise further exacerbates the poor safety conditions in the sector.

Construction standards

Linked to the OSH regulations is the broader issue of the correlation between the skills of workers and the quality of construction work delivered by SMEs. Construction standards are mainly regulated by the Jordanian Building and Construction Law (No. 15 of 2004) and the Ministry of Public Works and Housing. This ministry oversees the implementation and compliance with the building codes and construction standards set forth in the Jordanian Building and Construction Law. Additionally, the Jordan Standards and Metrology Organization (JSMO) plays a role in setting the technical specifications and standards for construction materials and practices, ensuring they meet both national and international requirements.

Conversations with the Jordanian Construction Contractors Association (JCCA) and other key actors in the sector revealed a general concern over the lack of enforcement of these construction standards as these are rarely checked aside from public construction projects. These actors highlight that the lack of enforcement undermines safety and environmental standards, while also lowering incentives for SMEs to invest in improving the quality of their work. This includes, but is not limited to, upskilling and retaining their workforce.

On the other hand, SME owners point fingers at contractors and developers, arguing that these parties are not interested in better quality work. Instead, they are willing to compromise on quality to reduce costs and delivery times, thus increasing their profits. This dynamic creates a challenging environment for enforcing and adhering to high construction standards in Jordan but also highlights the need to strategically balance improved enforcement measures with intervention aimed at increasing the attractiveness of operating in the formal space and deliver quality construction work.

59 As reported by the research team of the Ministry of Labour as the research team was not able to secure a meeting with inspectors.

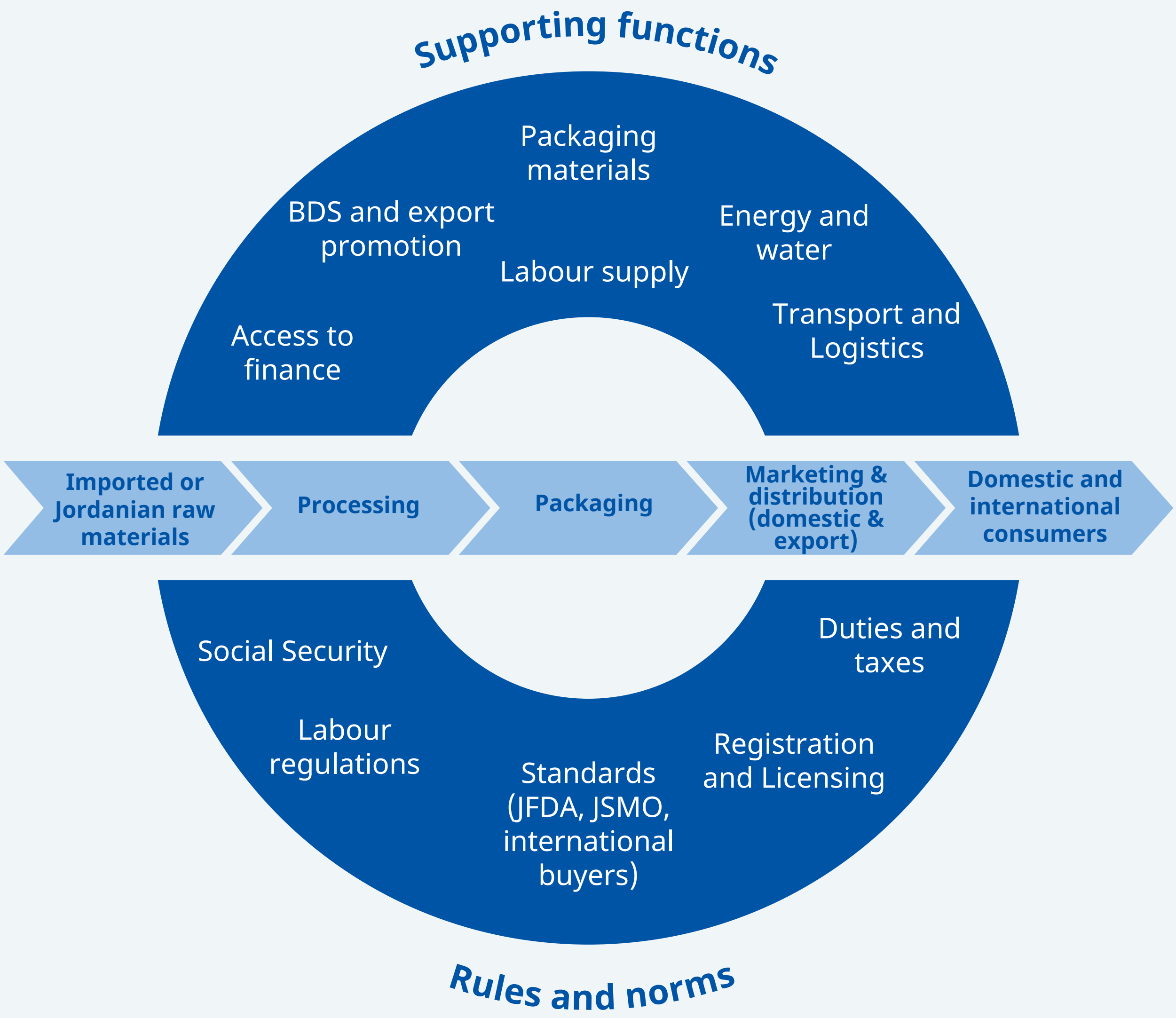
5

Market systems of the food processing sector

The market system is the overall picture of how a sector operates. It doesn't just focus on the transactions and actors within the core value chain but also considers various factors that influence how businesses and employees work and interact within this value chain. These factors include 'supporting functions' (such as access to packaging and skills) and 'rules' (such as quality standards and factors influencing the business environment).

As previous studies have examined the food processing sector in Jordan[60], this analysis will keep to the minimum the description of the overall system and delve deeper into unpacking how the sector's actors take decisions related to their business, including with regards to their workforce and their social security coverage.

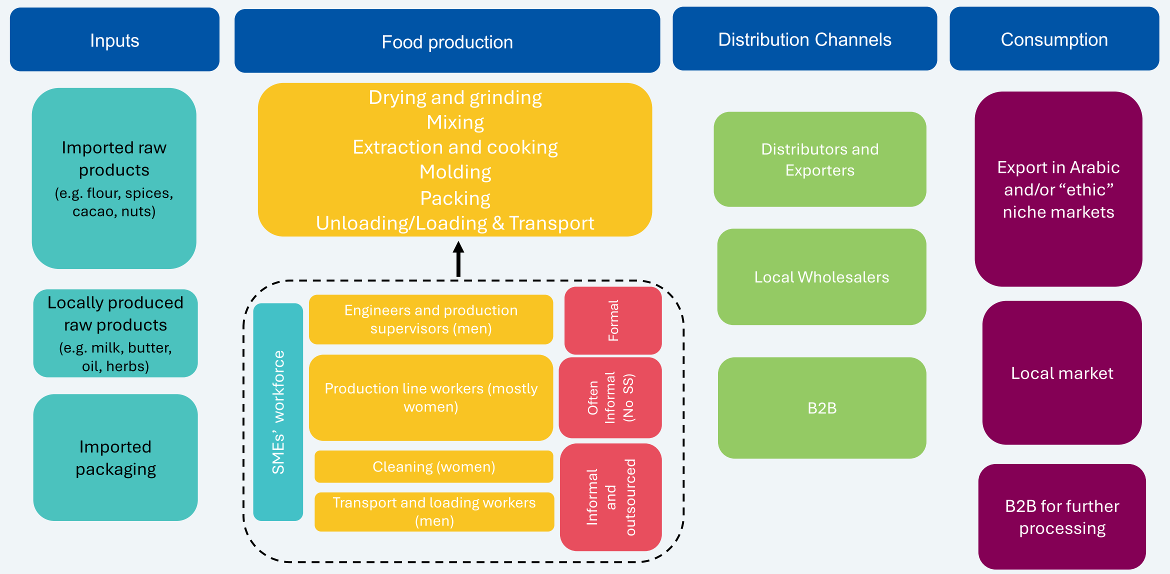
▶ **Figure 3- The food processing market system in Jordan**



60 See in particular this recent GIZ study on " Jordan's food processing sector analysis and strategy for sectoral improvement", 2019.

5.1. Core value chain

▶ **Figure 4- Core food processing sector (focus on SMEs)**



Source: Own.

Food processing SMEs in Jordan are predominantly located in Amman, although the research team also engaged with companies based in Ajloun. These SMEs engage in various sub-sectors, including dry herbs and spices, dairy, sweets and chocolates, pasta, processed foods and vegetables, vegetable oils, and animal feed. Due to Jordan's low agricultural output, most companies import raw materials from the region or Asia (see section on competitiveness). They engage in various levels of processing, from basic operations like drying, grinding, and mixing (for spices, herbs, vegetable oils, and dry fruits and nuts) to more advanced transformations, such as extraction, cooking, and molding (for products like pasta, dairy, and sweets)[61].

In most of the cases, SMEs operate in both domestic and export markets, primarily targeting the Gulf region as part of a diversification strategy to manage risks and income sources (see Ethnic markets and other trends).

5.1.1. SMEs' workforce

SMEs interviewed for this study typically employed between 10 and 40 workers[62], including:

- Owners: often engineers or business management professionals who have inherited the family business.
- High-skilled workers: usually 2 to 3 individuals responsible for staff management and overseeing production lines and the purchase of raw materials.
- Mid/low-level workers: 5 to 20, mostly women, engaged in production line tasks, in many cases considered "skilled" by SME owners because of their acquired dexterity and experience in the production line (see also female workers) and in other cases described as "low-skilled workers with experience" performing tasks that "anyone can do with minimal training".

61 Processed and conserved meats is a one of the fastest growing sub-sectors with high level of value addition in Jordan. However, the sub-sector is reported to be largely dominated by large enterprises, SMEs mostly supplying to these companies inputs such as spices mixes. This seems to also be the case of tomato paste.

62 As previously mentioned, in Jordan's industrial sector, particularly within the manufacturing sub-sector, the Jordan Enterprise Development Corporation (JEDCO) defines micro-enterprises as those with up to 5 workers, small enterprises as those employing up to 20 workers, and medium enterprises as those with up to 100 workers. However, different institutions, such as the Central Bank of Jordan, apply varying definitions, particularly when distinguishing SMEs based on the sector in which they operate (e.g., agriculture versus manufacturing). These discrepancies reflect the complexity of defining SMEs consistently across sectors. For the purposes of the Estidama++ project, this study has specifically focused on SMEs employing between 10 and 50 workers, aligning with the project's objectives and target groups.

- Low-skilled workers: 3 to 5 mostly men, involved in loading and unloading materials, cleaning (also women), and supporting transportation.

While high-skilled workers typically hold formal contracts and social security coverage, the employment modality of mid- to low-level workers varies. SMEs frequently utilize a combination of regular staff, particularly on production lines, and temporary workers for tasks like cleaning or to supplement workforce needs during absences, illness, or periods of increased demand. In many cases these daily workers were hired through external labour supply and outsourcing companies (see daily workers supply).

Medium-sized and more established enterprises tend to have more formalized employment structures with fewer or no daily workers, and only directly hired staff, even for low-skilled roles. SME's decisions regarding their work-force are linked to the cost of production in Jordan but also to the availability of affordable and committed workers. Both factors are further analysed in the following sections.

5.1.2. Absenteeism and availability of committed workers

Undoubtedly, the most frequently mentioned challenge by interviewed SME owners regarding their workforce is absenteeism. SME owners report several occasions where workers fail to show up at the workplace without prior notice. This unpredictable behaviour often leads to the closure or slowdown of production lines for an entire day, or in the case of transport workers, it results in delays in receiving raw materials or delivering orders. SME owners express frustration, describing this issue as pervasive and initially attributing it to a "cultural" problem. They went further to explain that, more generally, they struggle to find workers for their business, let alone committed ones.

When the research team insisted to unpack this "cultural" problem and availability of workers with them, SME owners and other actors in the sector63 provided the following explanations:

- Family emergencies or celebrations. Jordanian workers often have extensive family networks, leading to situations where they need to attend to sick family members, handle sudden deaths, or participate in weddings, funerals and other family events.
- Worker sickness. SME owners suspect that some absences are justified by fabricated medical certificates, with workers claiming illness only after their absence.
- Minimum wage and lack of commitment. Many SMEs, regardless of their size, offer minimum wages with minimal salary increases over several years. Some SME owners perceive a mentality among Jordanian workers for which they believe "they deserve better" in terms of pay or less demanding and work-intensive jobs. This is also the case for low-skilled workers who would hope to find low-skilled roles in public institutions, for instance as "tea boy", security guards or cleaning. Beyond the perceptions of SME owners, it's possible that the current minimum wage may not be sufficient for the type of work required in the sector, especially considering the rising cost of living in Jordan. However, it's unclear whether this wage discrepancy aligns with compensation in other sectors (excluding the public sector), given the country's challenging economic circumstances and business environment.
- Gender dynamics. While SME owners generally see women as more committed and prefer hiring them (see female workers), they report challenges when family pressures lead women to quit jobs upon marriage or pregnancy. In cases of pregnancy, some statements from SME owners suggest that they may be the ones deciding to terminate the worker's contract to avoid covering for maternity leave.
- Transport. As SMEs only offer minimum wage, this compels SMEs to recruit workers from outside Amman, as local workers are reluctant to accept these wages. As such, workers employed by SMEs are often coming from outside Amman resulting in long daily commutes using informal transport networks, often overcrowded, slow and requiring several changes to reach the destination. Some SMEs owners have suggested that transport may contribute to absenteeism and turnover.

Despite variations in the reasons cited above, absenteeism remains the most pressing concern for SME owners, who express deep worry and frustration on their inability to find an effective solution to this problem. On this subject, the research team could observe that larger enterprises with more "professional" (and less family-based) management practices, more established export channels, and regular workers, report a significant

63 It is important to note that the research team was unable to ask the same question to the workers themselves. The question was posed to workers' representatives, who provided similar explanations to those given by SME owners. However, it is recommended to include the direct perspective of workers as part of the intervention design.

decrease in absenteeism. This trend is further explored in "The tipping point for social security coverage" section.

5.1.3. The value and constrains of female workers

While no official statistics are available, women are well-represented in the workforce of SMEs in the food processing sector in Jordan[64]. SME owners reported that women constitute 80% to 90% of their workforce, particularly in production and packaging lines, while men are more often found in roles involving loading, unloading, transportation, and handling of machinery.

SME owners value female workers for both their skills and commitment. Women are seen as naturally accustomed at handling food, particularly traditional Arabic products like spices and sweets. Their manual dexterity and precision are highly prized for tasks requiring quick, repetitive movements on the production line, and for maintaining quality control. One SME owner shared a story of a woman who had worked at his pasta company for over 15 years. She could detect by hand a few grams underfill in packaged spaghetti, highlighting her refined skills and attention to detail.

Moreover, women are often perceived as more committed to their work, partly because they have fewer employment opportunities compared to men and because they rely on these jobs to support their families. SME owners express a willingness to hire more female workers but are constrained by cultural norms that limit women from working late hours, also due to safety concerns and transportation issues. Additionally, SME owners consider that young women are more likely to leave their jobs upon marriage due to family pressures.

Maternity remains a sensitive issue which was difficult to unpack during interviews. Some owners indicated that culturally, women often leave their jobs upon becoming pregnant. Others hinted that as managers, they might be the ones deciding to terminate the contracts of pregnant workers to avoid the costs of maternity leave. Some other owners reported to have covered maternity leaves through social security. When the research team asked if they view maternity coverage as a substantial benefit of the social security system, SME owners responded with little enthusiasm. They suggested that the advantage was negligible compared to the overall cost of social security contributions.

We could assume that, unlike work injury coverage, there are fewer incentives for SMEs to enroll their female workers to social security as a way to reduce costs associated with maternity leave. This is partly because there is no social expectation for employers to cover maternity leave, even informally. Cultural norms often place the responsibility for supporting pregnant women on their husbands and families, not their employers nor society. Additionally, sue to cultural norms mentioned above, there is little assurance that women will return to work after their maternity leave (which is fixed at ten weeks in Jordan), further disincentivizing employers from supporting maternity coverage.

5.1.4. The tipping point for social security coverage

SMEs in the food processing sector face challenges similar to those in the construction sector concerning their reluctance to cover social security for their regular workers (see social security coverage). This reluctance is largely due to high worker turnover and the need to minimize overheads in an already competitive market (see limited competitiveness section below). However, unlike construction SMEs, those in food processing are more inclined to employ regular workers and invest in their skills and retention.

This trend toward regular employment and skill investment becomes evident as SMEs transition from traditional, family-run operations to more professional, growth-oriented businesses, particularly those expanding in export markets. The research team observed that while family businesses often cover social protection for only a core group of staff (management, high-skilled, and 3 to 5 mid-skilled), more professionally managed SMEs tend to provide full or majority coverage for their workforce. Two interconnected factors seem to drive this shift:

- **Enhance productivity and quality**: as SMEs grow and professionalize, owners recognize the importance of investing and retaining skilled workers to enhance productivity and quality in the production line, improve time-efficiency, reduce waste and ultimately boost profit (see absenteeism section). Social protection is viewed as a (mandatory) element of this investment

64 This is conclusion is based on what has been reported by MSMEs owners interviewed for this research and observed during on-site visits. This tendency has also been highlighted by the GIZ study on the sector (see ref. 60).

for formalizing and maintaining regular employment contracts with workers.

- **Pressure for compliance**: with growth and increased professionalism, SMEs become more visible to Jordanian authorities and, possibly, buyers, raising the likelihood of inspections and regulatory scrutiny. This aspect was strongly highlighted through various experiences shared by SME owners in their interactions with Jordanian authorities. This increased visibility creates the institutional pressure for SMEs to comply with social security and other regulations.

What remains to be understood is the tipping point at which SME owners decide to invest in their workforce (and to adopt social security coverage) and what data or changes in their business operations or target markets drive this shift.

Moreover, insights from SME owners and other sector actors, such as labor supply SMEs (also known as recruitment agencies), indicate that family-run businesses transitioning towards more professional business management still rely on daily workers for specific tasks or to cover absences (see section supply of daily workers). However, the current social security framework does not support daily labour arrangements and SME owners are obliged to choose between hiring informal, often low or very low-skilled workers, and employing fully regularized (hence more expensive) mid-level skilled workers.

5.1.5. "We are not competitive"

Interviewed SME owners have all used the term "not competitive" to describe the position of Jordanian food processing SMEs in both the export and domestic markets. The most mentioned reasons for this are:

- **High costs of raw materials and packaging.** Due to low agricultural production in Jordan, most raw materials are imported from the region or Asia and processed in Jordan (mostly in Amman). Packaging materials are also imported, mostly from China (see "packaging"). Expensive transportation costs (see "Costly and unstable transport") further add to the expenses, making Jordanian processed food less competitive compared to other producers in the region (e.g. from Turkey) or in Asia who have better access to local resources, packaging and more efficient transport channels.
- **Other high production costs.** Besides raw materials and packaging, significant costs for energy and water (see dedicated section), coupled with high taxation pressures (see tax burden)—which, from the perspective of SME owners include social security contributions—create a challenging business environment for SMEs. These expenses are seen as burdensome and reduce SMEs' ability to compete on price.
- **Lack of support and promotion.** SME owners consider that there is insufficient proactive promotion, certification and branding of Jordanian products in both domestic and export markets. According to them, existing promotional efforts are fragmented and limited, often benefiting only a few politically connected companies in few and isolated trade exhibitions.
- **Limited innovation and diversification.** Other sector actors, such as Jordan Export and the Chamber of Commerce, argue that SMEs have not invested adequately in diversifying and innovating their product offerings. Many SMEs continue to market the same products and packaging as previous generations, limiting their appeal in modern, competitive markets. This discourse is in line with government strategies[65] to promote Jordanian products, although specific interventions to be implemented remains unclear.

Overall, improving competitiveness is a common goal among SME owners and sector actors and aligns with government strategies to promote Jordanian products (see overview of the sector). However, specific interventions to support this strategy remain unclear. Addressing these issues with market-led interventions could represent a startegic entry point to tap into SMEs' business incentives and significantly enhance their position in both the domestic and the export markets.

5.1.6. Ethnic markets and other trends

Exports markets

Jordan's primary export market for processed foods is the regional Arabic and Gulf market, accounting for over 75 per cent of its exports. This market includes both emerging and well-established sectors such as dry herbs and spices, Arabic sweets, and dairy products like labneh and tahini. The remaining 25 per cent of Jordan's processed food exports are mainly distributed between North America

65 Including "Jordan 2025 – A National Vision and Strategy" and "Jordan Economic Growth Plan 2018– 2022".

and Europe[66]. Lebanese and Turkish products are often mentioned as direct competitors of Jordanians ones in both segments, although the protracted economic crisis in Lebanon and recent instability in the region has contributed to better position Jordanian SMEs.

In Western markets, business owners have observed an increasing demand for "ethnic Arabic products," particularly among the Arabic communities residing in these regions. This niche segment is characterized by a growing appetite for traditional Jordanian and other Arabic foods, which are gaining traction beyond Arabic communities. Many Jordanian SMEs are currently in the exploratory stage of penetrating these markets and they are still struggling to identify and establish the export channels and buyers' linkages, meet quality standards, and understand specific consumer behaviors and preferences in terms of packaging, visuals, and product types.

Other SMEs, unable to tap into the "ethnic" segment due to their product nature (e.g. snack bars, chocolate, pasta, etc.), are exploring other niche markets such as superfoods, functional foods (enhanced with vitamins and nutrients), or special diets foods designed for specific health needs (low-carbs, diabetes, gluten intolerance, etc.). However, the GIZ study on the sector[67] highlights the difficulty of gaining approval for superfoods in the EU, the US, and several Gulf markets, particularly if their health benefits are not scientifically proven.

Overall, while the Arab market remains a cornerstone of Jordan's processed food exports, the emerging opportunities in the ethnic and superfoods niches markets of North America and Europe are drawing significant interest. As SMEs are eager to tap into the opportunities of these still unknown market segments, support to accelerate their positioning through market intelligence and market facilitation might be an interesting entry point to leverage their business incentives for social security coverage.

Local markets

With the COVID-19 pandemic and subsequent lockdowns, government and development donors have emphasized import substitution to boost local production and consumption. However, many interviewed SMEs report that their strategies for risk diversification and improving profit margins are moving in the opposite direction, focusing on securing and enhancing buyer relationships in export markets. This shift towards export markets is driven by several challenges in the domestic market mentioned by SME owners, including:

- Limited market size: consumption is low, especially amid current instability in the region.
- Competition of imported products: particularly from China, Turkey and UAE where a lack of proactive and effective government regulation on imports makes it difficult for local SMEs to compete.
- Low competitiveness of Jordanian companies: high production costs, including due to the need to import raw materials because of low agricultural production in Jordan, cost of workforce due to social security coverage and a heavy taxation system, diminish the competitiveness of local companies.

To manage their domestic market presence, SMEs are diversifying by selling fully processed products to supermarkets and engaging in business-to-business sales of less processed or bulk-packaged products.

5.2. Supporting functions

This section analyses six supporting functions that were identified as key factors increasing production costs and hindering the competitiveness, profit and growth of SMEs and influencing their decision-making regarding staff.

5.2.1. Supply of (daily?) workers

In addition to directly employed workers, either formally or informally, SMEs often use labor supply companies (also known as recruitment agencies) to provide daily or less regular workers. These workers are typically employed for low-skill tasks such as cleaning around production lines, loading and unloading, or for temporary roles in the production line during peak periods or to cover absences.

The research team interviewed three recruitment agencies to gain insight into this labor supply sub-sector. These agencies operate in multiple sectors and provide a range of workers from high-skilled professionals to low-skilled laborers. For formal agreements, companies sign contracts with labor supply agencies for a specific number of workers for a minimum of one month to comply with social security regulations. The recruitment agencies handle the sourcing, contracting, and basic training

66 See ref. 60.

67 Ibid

of these workers, as well as the setup of social security subscriptions, while the client companies provide specific technical on-site training.

Agency owners highlight their value in selecting committed and reliable workers who can be assigned across different companies within the same sector. They also claim to supervise these workers, ensuring compliance with labor regulations such as maximum working hours and timely payment. These agencies serve various clients, from large corporations to SMEs, and explain that their services offload the significant burden of recruitment (in term of time and financial investment) from their clients.

The supply of daily laborers, though in high demand, is problematic under the current social security system, which does not accommodate such flexible arrangements. As such, formal and informal recruitment agencies have informal agreements with companies to supply daily workers but report to the authorities that the worker has worked less than 16 days per month, and such, has no obligation to be enrolled in the social security system. In many cases, workers have been employed for more than 16 days, either with the same company or across several companies. Moreover, recruiters report that this threshold disincentivizes recruitment agencies operating in this grey space from employing the same workers beyond this period. To avoid enrolling them in the social security system, agencies often rotate workers before they reach the 16-day limit. This practice results in precarious working conditions, as workers lack job stability and consistent social security coverage, further exacerbating their employment insecurity.

> Daily workers are in high demand and are what these sectors are asking for, but we can't respond
>
> **Recruitment agency**

Agencies report to frequently receiving requests for daily workers from companies in both the food processing and construction sectors but have to turn down these offers if they are unable to convince the company to commit for longer-term employment. One agency representative noted: "Daily workers are in high demand and are what these sectors are asking for, but we can't respond". Recruitment agencies express readiness to adapt to a potential easing of restrictions on daily workers and they are all looking with interest at the rumored upcoming reform on daily workers in the domestic sector.[68]

This situation highlights a significant gap in social security coverage concerning the demand for flexible labor arrangements in Jordan. It also points at the opportunities linked to the existing infrastructure and willingness among recruitment agencies to formalize and capture this segment if regulatory changes are made.

5.2.2. Energy bills and efficiency

Another significant issue reported by SME owners is the high cost of utilities, particularly energy (fuel and electricity) and, to a lesser extent, water. According to the already mentioned GIZ study[69], energy costs (fuel, electricity, and water) make up about 52 per cent of all intermediate consumption costs, excluding raw materials. The study highlights that the impact on costs appears to decrease with higher turnover, suggesting that energy cost issues are not only linked to rising fuel and electricity prices but also from an inefficient use of resources by small and medium businesses.

This is illustrated by the fact that larger and more established enterprises interviewed by the research team[70] have meticulously measured energy efficiency in their operations. Based on this data, they have decided to invest in energy-saving machinery. On the other hand, many SMEs have invested little in energy-efficient equipment, often relying on decades-old machineries that have been in use since their business was established and passed down through generations. This suggests that energy efficiency, both through replacing outdated machinery and enhancing operational practices, remains an underexplored area for SMEs where incentives could be leveraged while aligning government's commitment to a greener economy[71] and points to potential synergies for future initiatives.

68 The domestic care sector is currently exempted from social security contributions. However, as reported during interviews with companies in this sector as part of the sector selection phase, SSC is currently exploring the possibility of reforming the system to incorporate domestic workers, possibly with more flexibility concerning daily contributions.

69 See ref. 60.

70 One of these enterprises reported 185 regular and formalized workers.

71 See for instance the "National Green Growth Plan for Jordan (NGGP) 2021-2025"

5.2.3. Costly and unstable transport

A pervasive challenge in Jordan's business sectors is the high cost and delays in transportation. Political instability in the region and disrupted trade routes significantly impact companies, driving up transportation expenses and production costs, and reducing competitiveness in both domestic and export markets. This issue affects not only exporters but also businesses reliant on imported raw materials, which include the majority of Jordanian companies. This is particularly critical for SMEs in the food sector, dependent on imported agricultural products for processing.

Beyond costs, delays and security concerns—exacerbated by the Gaza conflicts—lead to significant disruptions, including attacks on shipments and substantial delivery delays. Non-perishable and dry processed foods, such as spices and dried herbs, fare better, while perishable items, like tahini or labneh, often face hygiene and conservation issues due to unpredictable transport conditions. Businesses report feeling powerless to address these challenges and find turning to the domestic market unsecure, given the competition from imported goods and issues with contract enforcement (see contract enforcement).

5.2.4. For each market, its own packaging

Packaging is a key factor in SMEs' ability to compete and access markets with high added value and ready-to-consume food products. SME owners emphasize that securing the right packaging, tailored to the standards and preferences of specific markets, substantially determine their success in entering and positioning themselves in those markets. Beyond adhering to regulatory standards (see Keeping up with changing standards section), effective packaging also requires updated market-specific intelligence on the latest consumer behaviors, which many SMEs lack, particularly in relation to the US, Canadian, and European markets. For example, the owner of a snack bar company shared his experience with entering the US market. After finalizing his product, the buyer insisted on redesigning the packaging to remove all Arabic text to avoid any association with ethnic products (see ethnic market).

The previously mentioned GIZ study[72], estimates that packaging constitutes about 35 per cent of total production costs, excluding raw materials. Most packaging materials are imported, predominantly from China, which increases costs due to transportation and international price fluctuations. Additionally, obtaining samples from Chinese suppliers can be difficult, as they usually demand large orders. This uncertainty makes SMEs hesitant to innovate or explore different packaging options without assurance of the final outcome.

5.2.5. Struggling alone: missing or inadequate BDS?

Overall, SMEs have a tendency to operate in isolation, relying solely on their own resources, knowledge, network and skills. When asked about business development services (BDS) and support from enterprise development authorities, SME owners reported a lack of specific assistance but also some level of distrust and skepticism towards these institutions. Their interactions with these actors typically involve tentative and limited advocacy efforts for regulatory improvements but rarely extend to business development support such as import/export market intelligence, brokering of buyer/supplier relationships, product or packaging advisory, or sharing information on emerging market trends.

SME owners often describe these entities as being heavily influenced by political dynamics and disconnected from the realities of small business operations. On the other hand, representatives from these organizations express frustration over the perceived lack of professionalism and business acumen among SMEs, who often rely on personal relationships in their decision-making, including for testing new export markets (i.e.: knowing someone or having a family member in the target country) rather than leveraging the information available on the organizations' websites and platforms. Direct support from these entities to SMEs appears to be tied to specific funding and project opportunities, mainly providing light training to prepare for receiving seed or accelerator grants.

This disconnection and lack of updated and adapted business development, results in SMEs missing out on crucial support that could enhance their competitiveness and growth.

5.2.6. Finance

With the exception of the sector specific issue of bid bonds, SMEs in the food processing sector face similar challenges of lack of liquidity and delayed payments and have shared the same discourse on access to finance as the SMEs interviewed in the construction sector. Please

72 See ref. 60.

refer to the section "Finance: Limited offer or low demand?" in the construction sector chapter. Linkages with delayed payments and the consequent mistrust in the domestic market are also made in the contract enforcement section.

5.3. Rules and regulations

This section examines key rules and regulations that significantly impact both labor and social security practices, as well as the broader business environment in which SMEs in the food processing sector operate. These rules and regulations are related to quality standards, contract enforcement, taxes and to the (lack of) compliance with social security coverage.

5.3.1. Keeping up with changing standards

Jordan's institutional landscape regulating standards and requirements for SMEs in the sector is complex and dynamic. This analysis will zoom-in four actors that are particularly relevant for SME's business operations and could potentially serve as entry points to leverage business incentives and enforcement efforts. In particular: the municipalities, JDFA, JSMO and international buyers.

The municipalities

Municipalities like the Greater Amman Municipality are responsible for inspecting registered companies to ensure that enterprises comply with physical and functional facility requirements (e.g., space, parking, ceiling height, etc.). Based on these annual inspections, municipalities issue vocational licenses required for companies to operate. SME owners report that although obtaining these licenses isn't difficult in terms of requirements, the process is time-consuming and can delay their operations. Municipal officers often have busy schedules, making it difficult to book inspections when needed. They conduct meticulous checks where even minor alterations to buildings and infrastructure must be documented and justified in the submitted plans. This rigorous process can be time-consuming, leading to delays in operations as businesses await the issuance of their vocational licenses.

Interestingly, these meticulous inspections focus only on physical infrastructure and do not collect any data on the compliance of these companies with labour standards nor on safety standards of production.

The Jordan Food and Drug Administration (JFDA)

The Jordan Food and Drug Administration (JFDA) oversees the safety and quality control of food products and pharmaceuticals. It ensures compliance with national standards on different fronts, including:

- Food Conformity Evaluation: JFDA tests food samples against sanitary measures and standards issued by the Jordan Standards and Metrology Organization (JSMO). SMEs need these certificates to sell products domestically and abroad, where additional requirements apply. Samples are not collected during on-site inspections but need to be brought by the companies to the JFDA laboratory.
- Health Standards for Food Handlers: JFDA mandates biannual health checks for food-handling staff, issuing certificates necessary for their work. Workers need to travel to specific offices and take on-site tests. SME owners find the frequency and logistics of this requirement impractical due to associated costs (covered by them) and loss of work time.

Despite SME owners reporting few issues with JFDA regulations, JFDA highlights significant challenges. An interviewed representative estimated that 80 per cent of SME food samples fail to meet safety standards during laboratory tests.[73] JFDA attributes this issue to poor food handling practices by the staff as SMEs do not invest enough on staff training due to high turnover of regular workers and due to the fact that many of these workers are daily and informally recruited.

Even if a much lower percentage of test failure would prove to be accurate, this indicates that there are deeper challenges in SMEs meeting health and safety standards than initially assumed and that a correlation could be established among workers' skills (specifically in food handling), staff turnover and possibly profit. Improving food safety practices and investing in staff skills and retention could enhance SMEs' compliance with JFDA regulations, potentially leading to better quality, time savings, and increased profitability.

International buyers and importers

International buyers and importers significantly influence quality and safety standards, with requirements varying by country. For Jordanian SMEs, Gulf countries (UAE, Qatar) are more accessible export markets compared to the EU, US, and Canada, which have stricter standards for products and packaging. SME owners and industry

73 This is a rough estimation shared by a JFDA officer during an interview and could not be verified by official statistics.

stakeholders highlight that the main challenge with hygienic and quality standards applied by Gulf countries is their continuous evolution, along with changing forms and documentation required by buyers and customs. This lack of clear communication can lead to shipment refusals, delays, and spoilage.

In EU and US markets, there is a growing demand for organic and additive-free products. However, SME owners note that meeting these standards often requires substantial investment, which many small businesses are not ready to undertake considering the fact that their costs of production decrease their competitiveness in those markets.

5.3.2. Weak contract enforcement

One of the most frequently mentioned challenges by SME owners in Jordan regarding the domestic market is the issue of unpaid invoices from local buyers. Many SME owners shared experiences where contractual agreements with Jordanian buyers resulted in significant unpaid debts, sometimes accumulating over decades. One business owner revealed a box filled with unpaid invoices dating back several decades, highlighting the extent and long-standing nature of this issue.

When asked about pursuing legal action, SME owners express frustration with the inefficiency of Jordanian contract enforcement. They report that the legal system often results in the debtor being jailed without any financial recovery for the creditor, especially if the debtor has declared fake bankruptcy.[74] This situation allows these companies to reopen under new names and continue their operations, perpetuating the cycle of unpaid debts.

According to the interviewed SMEs, the problem of unpaid debts is multifaceted. On one side, companies struggle with inadequate budget planning, especially under the wight of what they perceive a heavy and increasing taxation (see following section). Owners admit they themselves often delay payments until they can ensure to have enough liquidity to cover tax bills. On the other side, the risk of facing serious consequences for non-payment is low. Many companies avoid the inefficient enforcement system and instead hope to recover their money eventually. Additionally, in the tight-knit business community, maintaining relationships, even with unreliable partners, is crucial for survival.

Consequently, SME owners tend to do business only with trusted companies and are reluctant to expand their operations in the domestic market. This challenge in the business environment also affects companies in the construction sector and broadly contributes to SMEs' general mistrust of the business environment and domestic market and it discourages them from pursuing growth, expansion, and innovation to avoid unnecessary risks and problems.

5.3.3. Cumulating tax burden

SME owners express frustration with the tax system, which they consider a significant financial burden and a key factor limiting their competitiveness (see also competitiveness). SMEs feel they are heavily taxed on multiple fronts: firstly, on imported raw materials and packaging, and then on sales rather than on actual profits.

Many point out the incongruity of being subjected to the same tax regime as pharmaceutical companies, despite the differing nature of these businesses. Additionally, they criticize the disparity, as heavy taxation is not applied to imported products that compete directly with them or to foreign companies. In fact, under the Investment Promotion Law, foreign investors receive tax exemptions on fixed assets for three years and can import raw materials duty-free into Jordan.

SMEs also highlight that the complexity and lack of transparency of the tax systems makes it difficult for them to plan their budgets effectively. Consequently, many hold off on payments and investments to ensure they have enough liquidity to cover their tax obligations (see also contract enforcement and finance)

74 However, news indicate that amendments to the Execution Law and Penal Code granting leniency to defaulting debtors and prohibiting their imprisonment in a variety of might come into force mid-2025.

5.3.4. Social security coverage

The rules regulating social security coverage are not specific to the sector but specific considerations on the decision-making of business owners have been unpacked and broken down in several sections. In particular:

- The decision of more established and more professionally-managed enterprises to regularize workers and hence, contribute to social security, as part of a broader strategy to ensure staff retention and increase productivity is analysed in the section on "The tipping point for social security coverage".
- As many SMEs food sample seem to fail to pass the JFDA test, the section on changing quality standards explain a potential correlation between poor workers' skills (specifically in food handling), staff turnover and the informal nature of daily workers not covered by SS.
- Considerations on the lack of social security coverage of female workers as well as the limited business incentives and lack of social pressure to ensure maternity leave is explored in the section on the value and constrains of female workers.
- The absence of flexible options to cover for high-in-demand daily workers as well as the exiting incentives and practices of recruitment agencies are analysed in the Supply of (daily?) workers section.
- The decision-making process of SME owners often involving holding off on payments to suppliers and limiting investments in innovation to ensure that they can cover taxes, which in their view includes social security contributions, is mentioned in the enforcement and taxation sections.

6

Summary of constraints and incentives

The analysis of the construction and food processing sectors focused on understanding how constraints and opportunities influence SMEs' business decisions and workforce management, particularly regarding social security coverage.

In the construction sector, the challenging business environment (see rules and regulations), high costs of building materials, and limited market size make profit margins slim for SMEs. As a result of this and of limited enforcement of labour and other regulations, SME owners' first reflex is to cut overheads and avoid investing in the skills and retention of their workers (see Investing in the workforce), which negatively impacts business operations, worker safety and rights as well as social security coverage. Among various ways to incentivize compliance, the analysis highlights work injury coverage as a significant area of concern for SME owners.

In the food processing sector, similar challenges around production costs (imported raw materials, packaging, energy, taxes) and competitiveness in domestic and export markets prevent many SMEs from taking risks to innovate and invest in improved practices and infrastructure. This risk aversion affects their ability to grow, consolidate export channels, and increase formalization. The analysis found that SMEs willing to make the jump have taken steps to address worker absenteeism, a pervasive issue that limits productivity (see the tipping point). Understanding the correlation between regularization, social security coverage, and absenteeism is key to facilitate transformative business models.

Overall, the analysis emphasizes the need for more flexible social security arrangements (i.e. daily and less regular workers), considering contribution duration and overall value for money (see maternity, work injury and health insurance). It also identifies strategic **entry points within the core value chains and in both the supporting functions and the regulations of the sectors** that could help address the current needs and opportunities in these sectors by boosting growth and increased compliance and by establishing conditional links with social security and labour enforcement (e.g.: procurement, building materials, enhanced quality including on food standards, strengthen compliance to regulations, BDS and market facilitation in construction and food processing, markets, energy, access to finance).

7

Potential areas of intervention

This section provides recommendations on concrete areas of intervention for the Estidama++ project to leverage SMEs' business incentives to contribute to social security schemes. These recommendations are **not detailed activities ready for implementation but rather intervention pathways to be prioritized, developed, and tested** in collaboration with key stakeholders. Following the market system approach, projects should pilot various interventions, aiming for systemic change, while accepting that some pilots may not succeed due to factors beyond the project's control.

The report recommends combining "push" and "pull" interventions, terms and concepts borrowed from the ILO Approach to Inclusive Markets Systems (AIMS) in displacement contexts and here adapted to address specific issues related to business incentives for social security. More specifically:

- **Push interventions**: aim to encourage SMEs to expand and improve worker coverage by leveraging business incentives and by providing conditional access to in-kind and financial support. On the other side, push interventions seek to strengthen enforcement measures to increase risk of SSC non- compliance for SMEs.
- **Pull interventions:** focus on expanding market opportunities and supporting business growth of SMEs while proactively ensuring that this growth includes improved social security coverage for vulnerable workers.

While projects might be tempted to prioritize push interventions as they are more familiar to traditional project practices and might be perceived to deliver quicker, more direct impacts on social security coverage, the challenging business environment and limited market opportunities for SMEs in Jordan (e.g. construction projects and competitive market segments) make pull interventions crucial. Pull interventions are essential for expanding market opportunities and enhancing profit and business growth to enable improved coverage and ensure sustainability and systemic impact at scale.

The following table outlines 18 potential push and pull areas of interventions specific to the construction and food processing sectors, as well as cross-cutting. These interventions are further explained in the subsequent sections.

	PUSH	PULL
CONSTRUCTION	▶ Assess the feasibility of improved work injury and health insurance coverage ▶ Build the business case on the skills-productivity-OSH correlation ▶ Introduce pricing of OSH (and SSC ?) costs as fixed line items in project proposals . ▶ Advise upcoming reform on SME's public procurement	▶ Explore and pilot new business models for local supply of building materials ▶ Strengthen enforcing mechanisms on procurement and subcontracting ▶ Improve specialized training offer on energy-saving machinery and practice + project management and OSH
FOOD PROCESSING	▶ Build the business case for the staff turnover-absenteeism-productivity correlation ▶ Build the business case connecting food safety standards with workers' skills and profit ▶ Co-fund business models to temporarily enhance worker' benefits	▶ Temporary levy/support for energy-intensive SMEs in the food processing sector ▶ Co-invest in conditional export accelerating packages ▶ Improving the role of key actors as market facilitators ▶ Strengthen mechanisms for contract enforcement
CROSS-CUTTING	▶ Advise and support the pilot of daily SS contributions ▶ Advise on the introduction of simplified tax regime ▶ Coordination over enforcement of rules and regulations	

7.1. Construction Interventions

7.1.1. Assess and test the feasibility of improved work injury and health insurance coverage [PUSH]

As analysed in the work injury section, work injury is the most prominent concern mentioned by SME owners regarding their workforce. It represents an unplanned cost that they currently cover informally outside the social security scheme since the current model does not allow flexible contributions, which would be more aligned with the nature of the employment in this (and other) sector. Even if the current scheme would allow adapted registration and contribution payment processes, SME owners consider the benefit they get in return not worth the trouble (and the investment). As a result, some SMEs owners have turned to private insurance companies to insure their workers on a project-base and unnamed, and to cover health insurance for the more regular employees.

The project should commission a quick assessment or "market offer check" of the current offer and demand for private insurance regarding work injury and health. This assessment should understand how private insurance constitutes a competitor to social security schemes and identify specific factors that determine its attractiveness and affordability for SME owners in the construction sector. Based on these key factors, the assessment should also evaluate the feasibility, advantages, and disadvantages of the two (not mutually exclusive) scenarios:

A. Propose a viable model on how **SSC could enhance its offer o**n work injury and integrate partial or total health insurance coverage, taking into account lessons learned from other social security systems.

B. Identify commercially viable interventions to **strengthen the current private offerings** including by identifying gaps that could be filled by the private offer (if commercially viable) or by existing or improved public social security system measures.

Both models and interventions could be piloted on a small scale among SMEs in the construction sector to test their feasibility and build the business case for the broader rollout of one or both public and private improved offer.

Key stakeholders: SSC (Research Department), Private Insurance Companies, SME owners, Health service providers.

7.1.2. Improve specialized training offer on energy-saving machinery and practice + project management and OSH [PULL]

As analysed in the core value chain, SME owners and their trusted mid-level workers are constantly striving to keep overheads under control due to high production costs linked to energy, imported materials, transport, and low margins. Savings are often achieved by investing minimally in staff considered to be performing low-skilled jobs, who are also poorly trained and protected through Occupational Safety and Health (OSH) practices and materials. On the other hand, developers, contractors, and other stakeholders frequently complain about poor construction quality, delays, unplanned costs, and repairs due to the inadequate management skills of these SMEs.

The proposed area of intervention seeks to combine training in areas relevant to SME owners, such as the latest innovations in energy-saving machinery, practices, and materials, with training in effective and cost-saving management in construction project and OSH. This holistic approach aims to improve overall SME performance and the system's efficiency, positively impacting how low-skilled workers are hired and supervised on construction sites. The project could explore the current offer of training provided by actors in the sector while considering inputs from experts of the University of Jordan, particularly in the area of energy saving innovations. This initiative could also include semi-subsidized but conditional support to accessing energy-saving machinery, materials, and OSH resources (see intervention on energy efficiency).

Key stakeholders: SME owners and mid-level workers, University of Jordan, Constructor Association., Construction Workers Association in the Construction, Sector Skills Council.

7.1.3. Build the business case on the skills-productivity-OSH correlation [PUSH]

As explained in the analysis of the workforce, SME owners value the skills of their mid-skilled workers but they consider low-skilled daily workers to be highly replaceable, believing they perform very simple tasks that "anyone can do". Mid-level workers, who the research team could not interview, might have a different view as they are responsible for providing basic on-site training to the low-skilled. They may lose time and money in training, in supervision and in redoing some of the work poorly executed by untrained workers. Their incentives to select the same trusted or semi-skilled workers, even if on a daily basis, might be higher than those of SME owners. Additionally, SME owners acknowledge that the lack of skills among daily workers makes them more vulnerable to work injuries as "they do not know how to move around a construction site" and use machinery. Other actors in the sector, including developers and contractors, are concerned about the quality of work delivered by some SMEs.

The proposed intervention suggests delving deeper into collecting evidence at SME level that establishes a correlation between the lack of worker skills, staff rotation, work injury rates (and costs) with indicators of productivity, quality, and ultimately profit.

The informal nature of employment and business management in the sector, combined with overall mistrust of governmental and institutional monitoring, may be a barrier in convincing SMEs to participate in this exercise. Therefore, it is key to consult SMEs (including mid-level workers!) beforehand to identify additional indicators on the performance of their business on which they might be interested in obtaining information on free of charge. This could relate to energy efficiency of machinery, material waste, and could be combined with conditional support for accessing finance, materials, and energy-saving subsidies (see section).

The ILO SME Performance Measurement Toolkit provides interesting insights on business-level indicators related to decent work and measurement methods.

Building the business case on this correlation will help advance the social security agenda while providing the necessary justification to pilot interventions, for instance regarding daily workers and work injury.

Key stakeholders: SMEs owners, mid-level workers, low-skilled workers.

7.1.4. Explore and pilot new business models for local supply of building materials [PULL]

Building materials are largely imported, generating high costs for SMEs and limiting their profit margins (see here). The slow delivery timelines, especially in light of the current regional conflict, also reduce SMEs' ability to adequately plan resources (including on workforce) for a construction project for which they typically have little notice. In Jordan, medium to large companies are already producing better quality and green construction materials or assembling ready-to-use ones. However, they are not currently targeting SMEs as clients as they believe they can't reach the volume required to make an order profitable.

The proposed area of intervention suggests further exploring the demand and supply of locally sourced construction materials and understanding if there would be interest from both construction SMEs and construction material companies to pilot commercially viable business models (see further down text box Business models for decent work). The model could be tested with few companies and with financial support from the project to lower the risk for both parties in trying out new suppliers and new clients. This partially subsidized test should integrate conditionalities for SMEs regarding social security coverage and possibly their involvement in other push-based interventions (training and correlation studies).

Key stakeholders: SMEs owners, construction material companies, construction skills Council.

7.1.5. Introduce pricing of OSH (and SSC?) costs as fixed line items in project proposals [PUSH]

The project could explore previous ILO experiences (see here) in better regulating and standardizing OSH budgets in procurement procedures. OSH costs and possibly social security coverage and wages would have to be indicated in a fixed and standardised budget line, instead of built-up rates combining multiple costs, and this from the design stage and across the subcontracting structure. This in view of achieving two objectives:

- To disincentivize SMEs to cut overhead costs related to OSH (SSC and wages) and increasing business case for investing in their workforce
- To reduce the scope and attractivity of fake budget proposals in illegal procurement practices (see unfair procurement), hence expanding the market for compliant ones. This could be considered a push intervention.

Pushing the client to calculate wages, social security benefits, and OSH as fixed line items and maintaining full oversight of all workers' contract details—both for contractors and subcontractors—helps to ensure that employers do not reduce these costs, which ultimately also reduce the competitiveness of unrealistic budget proposals presented by fake construction firms. These costs would therefore be considered non-negotiable across the entire value chain[75], from clients to subcontractors. The project could explore feasibility and entry point with key procurement regulating actors (e.g., municipalities, contractor associations)

Key stakeholders: Municipality department issuing construction licenses, Constructor Association., Ministry of Labour (OSH Inspectors).

7.1.6. Advise upcoming reform on SME's public procurement [PUSH]

As mentioned in the developers section, the Department of Public Tendering is currently working on a public procurement reform with new guidelines and selection criteria to intentionally and positively favor SMEs in securing public tenders. While public work currently does not constitute the largest share of the market in Jordan, it represents an interesting development that could substantially expand available markets for SMEs in the near future.

It would be crucial for the project to engage in influencing the current reform to ensure that this shift ultimately contributes to the social security agenda. The project could facilitate the engagement of SSC representatives in defining new eligibility criteria (not only for SMEs but also for larger firms) that directly reference to a reasonable number of workers covered by flexible social security coverage during the duration of the public work.

It is important that adapted eligibility criteria for social security are also applied to current procurement practices with larger firms and across the entire procurement chain. This would ensure equitable treatment and facilitate a trickle-down effect on SMEs who are formally or informally delivering the construction work for larger firms. Linkages could be established with the standardization of OSH and SSC budget lines (see previous intervention).

Key stakeholders: Ministry of Public Works and Housing (Public tenders department), SSC, SMEs.

7.1.7. Strengthen enforcing mechanisms on procurement and subcontracting [PUSH]

The unfair competition from "fake" construction companies, which are artificially contracted by developers to cut costs and circumvent procurement regulations, is a major problem highlighted by SME owners. They feel deeply frustrated by this unfair competition, which they say substantially reduces their market share and profit margins due to the race to the bottom in budget proposals. Addressing this issue would not only improve the number of project opportunities available to compliant SMEs (ultimately stimulating growth) but could also serve as a strong argument to gain SME buy-in for other interventions aimed at transitioning to more formal practices, including employment practices and social protection coverage. Essentially, it is about making the business case for adopting formal business practices and increasing incentives for compliance with current regulations. Despite its regulatory nature, this intervention is classified as a pull intervention due to its focus on creating incentives and capturing market segments, rather than solely enforcing compliance as a push intervention would.

Despite the sensitivity around the subject of corruption, it is highly recommended for the project to explore venues, in collaboration with key stakeholders, to strengthen mechanism for coordination and enforcement on procurement practices, including by integrating innovations with regards to budget lines. As part of initial roundtables and coordination meetings which could also cover less sensitive topics (e.g. OSH and energy-saving trainings), it would be essential to understand whether any institution has the incentive to tackle this problem, enforce regulations, and capture the market segment currently monopolized by developers. Strengthening procurement and subcontracting mechanisms could help create a fairer competitive environment, encouraging SMEs to adopt formal practices and comply with regulations.

Key stakeholders: SMEs, municipalities (licence department), Contractor Association, construction skills Council, Ministry of Labour, Ministry of Public Works and Housing.

75 It is also worth noting that some countries have chosen to adjust the point in the value chain at which contributions are collected. In the Indian construction industry, for example, contributions of similar fixed lines are collected in the form of levies paid by principal contractors, based on the total value of the construction contract. This has allowed to reach more than 70 per cent of workers in many states. Source: ILO "Opportunities for extending social security coverage in Jordan", 2021.

7.2. Food processing interventions

7.2.1. Build the business case for the "staff turnover- absenteeism-productivity" correlation [PUSH]

As analysed in the dedicated section, absenteeism is the most pressing concern for SME owners regarding their workforce. Despite acknowledging the negative repercussions on their daily operations, few have tried to measure the impact of frequent absenteeism on productivity, and even fewer have taken actions to understand and reduce the problem. However, a couple of more consolidated SMEs with professional management styles interviewed by the research team have decided to abolish the use of daily workers, formally contracting all workers (including with social security coverage), and have observed a drastic reduction in absenteeism rates. But what is the ideal "tipping point" for an SME in Jordan to start investing in a regular workforce, and which combination of benefits for workers makes the difference in reducing absenteeism while keeping overheads under control?

The proposed area of intervention combines two interlinked actions:

1. **Workers survey and focus groups.** This survey, possibly combined with focus groups, aims to capture workers' perspectives on absenteeism, addressing the factors hidden behind the often-mentioned "cultural" reason. In addition, the survey should gather information on what specific job improvements have decreased absenteeism in larger companies and more established SMEs (e.g. monthly social security contributions, health insurance, transport, female safety, minimal salary increases, Friday/Saturday off, flexible/part-time hours for married women, and absence arrangements).

2. **Collect Evidence on the "staff turnover-absenteeism-productivity-profit" correlation.** Delve deeper into collecting evidence that establishes a correlation between staff turnover, productivity, and profit. Similar to the business case on work injury in the construction sector, it is suggested to consult SMEs owners beforehand to identify other performance and less sensitive indicators they might be interested in obtaining information on, free of charge. This could relate to energy efficiency of machinery, an area already measured by those consolidated SMEs mentioned before, as well as defect rates, average annual turnover, and customer retention. It would then be strategic to compare the impact of these indicators and absenteeism on profit and loss metrics. The ILO SME Performance Measurement Toolkit provides interesting insights on business-level indicators related to decent work and measurement methods.

Building the business case on this correlation will help advance the employment formalization agenda and will provide evidence on the overall importance of investing on the workforce to boost profits. More specifically, this aims at better understanding the impact (or absence of!) social security coverage on workers perceived well-being and motivation.

This potential area of intervention has been discussed with few SME owners who expressed interest but emphasized the importance of introducing non-disclosure agreements and using regional or even national business consultants that understand the challenges and business environment in Jordan, as opposed to relying on international experts whose inputs are sometimes out of context.

Key stakeholders: SMEs owners, workers.

7.2.2. Co-fund business models to temporarily enhance workers' benefits [PUSH]

Based on the collected evidence from the previous area of intervention and the results of the ongoing RCTs commissioned by Estidama to measure the impact of social security subsidies, the project could consider co-investing with selected SMEs on 1-3 key, commercially viable worker benefit improvements (see hypotheses above). Close measurement of the results and impact of these pilot interventions will help generate additional data to prove the concept, which can be used to develop inclusive business models for decent work (see text box) that could be replicated (by other actors and companies) across the sector.

These models should be developed and implemented in close collaboration with key sectorial actors in the supporting function and the rules and regulation as they have the potential to inform sectorial policies and strategies and guide BDS support of actors such as the Chamber of Industry, Jordan Exports and others.

Key stakeholders: SMEs owners, workers, Chamber of Industry, Jordan Exports

▶ **Business models for Decent Work**

According to the ILO, business models for decent work are centred around the idea of creating sustainable and large-scale changes in market systems by catalysing private sector investments into new or improved way of working, products or services.

The primary goal is to ensure that these innovations not only bring benefits to target groups but also align with the core incentives of companies to deliver value after the program support ends. To achieve this, business models must pass the twin tests of commercial viability and development impact. This means that they need to be profitable for market actors to ensure sustainability while also delivering positive outcomes for the target groups involved.

Source: " Business models for decent work", ILO 2019.

7.2.3. Build the business case connecting food safety standards with workers' skills and profit [PUSH]

While SME owners interviewed did not report specific challenges related to food health standards, the Jordan Food and Drug Administration (JFDA) shared a concerning estimation that up to 80 per cent of SMEs' food samples[76] fail to meet safety standards during laboratory tests. According to JFDA, this issue is linked to poor handling practices by low-skilled, particularly irregular, workers.

If this or even a much lower percentage proves to be accurate, a correlation could be established among workers' skills (specifically in food handling), staff turnover and possibly profit. Similar to the business case on productivity, the project could commission an evidence-gathering assignment to collect data at both the SME level and from JFDA to correlate this hypothesis. This would involve assessing the impact of test rejections and other consequences of poor food handling processes on profit.

Establishing an evidence-based argument for workers' skills development linked to staff retention and employment formalization (including social protection) could help identify entry points to strengthen food safety handling practices among SMEs with the support of JFDA. This intervention could ultimately improve compliance with health standards and enhance overall business performance.

Linkages could potentially be established with the data gathering exercise on the productivity business case, although it might be wise to better isolate key factors to provide solid evidence on impact. The project could consider having different "control groups" of SMEs to test various correlations.

Key stakeholders: SMEs owners, workers, JFDA.

7.2.4. Temporary levy/support for energy-intensive SMEs in the food processing sector [PULL]

SME owners highlight that high production costs make them less competitive in both domestic and export markets. In the domestic market, they compete with imported products from the region and from China, and in export markets, they face competition from producers in countries like Turkey and, before the conflict, Lebanon, who offer similar products at lower prices. Energy and water costs represent a substantial part of these production costs, accounting for up to 52% of all intermediate consumption costs, excluding raw materials, according to GIZ[77]. Beyond high prices and taxes, high bills are also due to obsolete and energy-inefficient machinery and practices.

Energy efficiency remains an underexplored area for SMEs where incentives could be leveraged, aligning with the government's commitment to accelerate value addition in the sector while contributing to a transition to a greener economy[78]. In collaboration with key stakeholders such as the Ministry of Energy and Mineral Resources, Ministry of Finance (Tax department), Chamber of Commerce, and Jordan Exports Association, the project could identify good practices and feasible pilot on energy efficiency for energy-intensive SMEs.

76 This is a rough estimation shared by a JFDA officer during an interview and could not be verified by official statistics.

77 Jordan's Food Processing Sector Analysis and Strategy for Sectoral Improvement", GIZ, 2019.

78 "The National Food Security Strategy 2021 – 2030", Ministry of Agriculture, 2021.

This support would aim to co-invest in subsidies to compensate for energy cost increases and for investments in energy efficiency (machinery, practices, and materials). The partnership would have to identify the most viable and transformative mechanisms to make this support conditional to employment formalization and social security commitments, for instance, by establishing eligibility criteria or commitments on the number of days of worker time under formal contract and social security coverage.

Ultimately, this area intervention aims at pushing increased coverage also by improving competitiveness and hence increasing the potential market share of Jordanian SMEs (pull intervention).

Key stakeholders: SMEs owners, workers, Chamber of Industry, Jordan Exports, SSC.

7.2.5. Improving the role of key actors as market facilitators [PULL]

SMEs are substantially relying on export markets to compensate for low margins and the limited size of the domestic market. However, it appears that the majority of them depend on their own resources, skills and networks to identify market channels and facilitate linkages with potential buyers. Many SMEs have inherited connections from their predecessors (e.g. their fathers) in the company. Both the SMEs owners and export associations have emphasized the need for continued and updated market intelligence, market facilitation, and exposure to export markets, particularly emerging ones.

Building on existing efforts, the project could support key actors such as Jordan Exports and the Chamber of Commerce to strengthen their market facilitation capacity and offer, including on: mapping of potential buyers and input suppliers, product diversification/innovation, quality standards, and untapped market demand. Facilitating spaces for interaction with buyers and suppliers is crucial. This initiative should be accompanied by strong efforts to re-establish trust and linkages with SMEs, for instance, by proposing surveys and roundtables to assess the needs of SMEs and showcase the expertise of these key stakeholders in reading and capturing market trends and emerging opportunities, such as ethnic markets. As other development donors may have provided similar support in the past an in present day, the project could build and complement those efforts by propose a coherent and comprehensive support (see also accelerator package below) but in particular by introducing conditionalities with regards to social security coverage and other decent work improvements.

Moreover, the project could explore how market facilitation and accelerator packages (see below) could be oriented toward import substitution in domestic markets. However, while this aligns with the government's agenda, SME owners are reluctant to expand their operations in domestic markets. In fact, they are often moving in the opposite direction, especially if no efforts are made to better regulate import and contract enforcement.

Key stakeholders: SMEs owners , Chamber of Industry, Jordan Exports, SSC.

7.2.6. Co-invest in conditional export accelerators packages [PULL]

This intervention area complements the previous one and suggests combining improved capacity and legitimacy of key BDS and export support providers with co-funded export accelerator packages. These packages, supported by Estidama, public stakeholders, and recipient SMEs, would fund investments in product diversification/innovation, advisory services for adapting and upscaling quality/packaging, digital marketing, pilot bulk products, and participation in international trade fairs.

The project and its partners should identify the most viable and transformative mechanisms to make this support conditional on employment formalization and social security commitments. This could be achieved by establishing eligibility criteria or commitments on the number of days of worker time under formal contracts and social security coverage.

Key stakeholders: SMEs owners , Chamber of Industry, Jordan Exports, SSC.

7.2.7. Strengthen mechanisms for contract enforcement [PULL]

Domestic markets for processed products face several challenges, with the most mentioned by SME owners being the problem of breach of payment from local buyers. When asked about pursuing legal action, SME owners express frustration with the inefficiency of Jordanian contract enforcement mechanisms, which makes it more financially wise for SMEs to forgo efforts to recover their funds. Their risk diversification strategy is to limit their domestic market operations to a few trusted buyers and instead expand export operations. Although these operations are more expensive and demanding, transactions in this space present a much lower risk of payment breaches.

Estidama++ could contribute to the expansion of market segments in the domestic market that could be captured by SMEs. This would be instrumental in strengthening contract enforcement mechanisms in the food processing sector (and in others, including construction) and influencing the overall business environment. By exploring lessons learned from the ILO Enabling Environment for Sustainable Enterprises (EESE) approach, the project could support responsible authorities in assessing current bottlenecks in the food processing sector. Leveraging the experience of SMEs, the project could offer clear recommendations for areas of improvement that could be piloted for instance in the area of automatization and digital payment, sensibilization and broader enforcement .

Influencing the business environment, particularly in terms of contract enforcement, is undoubtedly a challenging area of work that may encompass the project's scope and its capacity to fully address within its timeline. However, this topic could serve as a strong argument to gain SME buy-in for other interventions aimed at transitioning to more formal practices, including employment practices and social protection coverage. Similarly to the intervention on procurement practices in the construction sector, it is about demonstrating that the project is acknowledging the root causes hindering SMEs' ability to generate more profit in Jordan and, hence, better contribute to social security schemes. The project could help making the business case for adopting formal business practices and increasing incentives for compliance with current regulations. While Estidama might not witness the testing or implementation of these models within its project cycle, it can lay the groundwork for the ILO and other development actors to support pilot initiatives. Moreover, the added value of the ILO project could be to highlight how contract enforcement is part of a broader strategy and vision towards SME growth and increased formalization as the current business environment hinders this pathway (see also intervention below on daily work contributions).

Key stakeholders: SMEs owners , Chamber of Industry, Ministry of Industry, Ministry of Justice.

7.3. Cross-cutting interventions

7.3.1. Advise and support the pilot of daily SS contributions

Daily workers constitute a substantial part of the workforce, particularly in the construction sector and, to a lesser extent, in the food processing sector. In the construction sector, SMEs rely heavily on well-known gathering points and informal networks, whereas food processing SMEs often use recruitment agencies (also known as labor supply companies). Recruitment agencies report that beyond the food and construction sectors, companies across various industries and sizes frequently request daily workers. This demand is currently met by informal labor supply companies or by formal ones that operate in gray areas circumventing current regulations, particularly those related to social security, which currently do not support daily contributions.

The issue of daily work emerges as a clear area where several business incentives converge:

- SMEs seek to outsource the cumbersome formal recruitment process and get better skilled workers while keeping overheads generated by longer contracts under control.
- Recruitment agencies want to respond to market demand, currently captured by informal business, but face legal limitations.
- Daily workers, especially vulnerable and low-skilled ones, often cannot access more regular and semi-skilled work and, under current conditions, cannot access safety nets like social security.

As the Social Security Corporation is already exploring reforms to include more flexible contributions, for instance, for domestic workers, the project could play a strategic advisory role in informing this transition and integrating reflections on daily workers. Support could be provided in three fronts:

1. **Gathering evidence lessons learned on existing models and their impact** (tax revenue, enterprise and employment formalization) when introducing daily worker contributions, or at least more flexible ones, in line with ILO Social Security (Minimum Standards) Convention, 1952 (No. 102).
2. **Informing the development, testing, and impact measurement of commercially viable models** for daily worker contributions in the food processing and

construction sectors. This intervention could leverage the business incentives and readiness of labor supply companies and, in the case of the construction sector, of the Construction Skills Council, which has been reflecting on how to propose a similar model while providing basic training to workers to improve the overall quality of construction projects in the sector. Beyond co-sharing the risk for SSC of trying something new, Estidama's role will be pivotal in anticipating the financial and logistic feasibility of these models and setting up a solid M&E framework to monitor implementation and provide evidence on success or areas needing improvement.

3. **Building on the data** and exchanges generated in this intervention **to influence and inform** the Government of Jordan on concrete **strategies to place SMEs in a pathway towards formalization**, while also developing a broader narrative on the importance of SMEs in contributing to employment and economic growth.

Key stakeholders: SSC , Recruitment agencies, Construction Skills Council, Ministry of Finance.

7.3.2. Advise on the introduction of simplified tax regime

Similar to the intervention for daily contribution reform, Estidama could play an advisory role in presenting scenarios, models, and feasibility information on simplified or unified tax regimes for SMEs. This role includes sharing ILO's lessons learned and implementation models from other countries, such as the "*monotributo*" schemes in Latin America[79], which have shown positive impacts on tax revenue, enterprise formalization, employment, and social security coverage extension.

Within these scenarios, the SSC could be proposed as the initial entry point and recipient for the mono-tax, with subsequent redistribution among other authorities. While the recipient and mono-tax scenarios might be controversial, the Jordanian attitude towards SMEs—often overlooked by inspections, strategies, and overall enforcement—suggests there may be more room to test ambitious innovations. SMEs are frequently perceived as not worth the effort due to their limited visibility and influence in political discussions and reforms. This perception is reinforced by their perceived limited contributions to tax revenue and employment[80].

Additionally, recommendations might include temporarily reducing employer and worker contribution percentages, levies on areas currently hindering SME growth and competitiveness (e.g., energy, import taxes for raw) and preferential access to public procurement, grants and accelerators packages, and introducing improved work injury and health insurance as well as more flexible contribution and repayment schemes (e.g., daily or monthly contributions).

It is crucial to define ceilings to target vulnerable SMEs and those needing extra support to be put on a path towards formalization and growth. Establishing clear linkages with social security coverage extension is also essential, especially if in these scenarios SSC is not the primary recipient of the mono-tax.

While Estidama might not witness the testing or implementation of these models during its implementation period, it can pave the way for ILO and other development actors to support pilot testing. Generally, Estidama can influence the Government of Jordan's narrative and vision on concrete strategies to place SMEs on a path towards formalization and boosting their impact on decent work creation.

7.3.3. Coordination over enforcement of rules and regulations

The analysis of rules, regulations, and standards in both the construction and food processing sectors has highlighted the low compliance of SMEs with current labor and social security regulations. Due to the highly informal nature of these sectors and limited resources for inspections within the Ministry of Labour and the SSC, SMEs are often overlooked and remain under the radar of enforcement. The perceived limited "weight" of SMEs in the social security system and overall tax revenues is often considered not worth the effort despite growing evidence on SMEs' contribution on employment[81] and GDP.

While leveraging business incentives through conditional support and by expanding opportunities to increase their profit, grow, and invest in their workforce (including through social security coverage) is essential, enforcement of rules has also to be enhanced. The project should

79 "Argentina: Expanding coverage through the *Monotributo* scheme", ILO 2022.

80 Despite available invalidating this hypothesis, see reference 61.

81 "Small Matters: Global evidence on the contribution to employment by the self-employed, micro-enterprises and SMEs", ILO 2019.

explore how to combine incentive-based interventions with more compliance-oriented ones to increasing the risk of fines for non-compliant SMEs, thereby enhancing their incentives to comply.

Rather than pushing for one-time inspections of SMEs, which may increase frustration and reinforce strategies to stay under the radar (including by avoiding growth and profit-making), it is suggested to map out existing and new enforcement and inspection interventions and supporting coordination among key stakeholders in these areas. One area to be explored is for instance the annual on-site inspections conducted by municipalities to release licenses to food processing SMEs as well as their role in validating procurement processes for construction licensing. Currently, these inspections do not effectively collect information or enforce labor and social security rules. Understanding why this gap exists and if any actor in the system has an incentive to cover it could be an interesting area to explore.

The project could also explore other coordination areas, notably as part of the advisory on simplified tax regimes models (see here).

Key stakeholders: Municipalities , Ministry of Labour, SSC, Ministry of Public Works and Housing, JFDA .

Conclusion

The business environment and economic situation in Jordan, coupled with the substantial weight of social security contributions on SME budgets, make transformative and systemic interventions leveraging business incentives quite challenging to implement and yield results within the project's timeframe. However, ongoing social security reform discussions open a strategic space for Estidama++ to influence and provide evidence on the impact of transformative models and schemes.

In a context where many development actors rightly focus on raising awareness and facilitating workers' contributions to social security schemes, Estidama++ has the potential to add new dimensions to the development agenda by proposing clear pathways for SMEs to enhance growth and profitability in ways that leads to positive outcomes on social security coverage of vulnerable workers. In particular, the project can play a strategic role in lowering the risk of innovating and testing ambitious business models for the Social Security Corporation, SMEs, and other sector actors in the construction and food processing sectors to explore new ways of working and adopting new perspectives on the importance of investing in workers, including through social security coverage.

Combining interventions that aim to encourage SMEs to expand and improve worker coverage by linking incentives to accessing in-kind and financial support, conditional on social security efforts, with targeted efforts to expand market opportunities for SMEs, will be crucial to achieve sustainable impact at scale.

While the project might not witness during the implementation of all the models and areas of intervention proposed in this report, it can contribute to gather the evidence and build the business cases that could pave the way for ILO and other development actors to set up these initiatives in the future. Moreover, Estidama++ can influence the Government of Jordan's narrative and vision on concrete strategies to place SMEs on a path towards formalization and boosting their impact on decent work creation.

Finally, it should be noted that the areas of intervention proposed in this report are not detailed activities ready for implementation but rather intervention pathways to be prioritized, developed, and tested in collaboration with key stakeholders. Moreover, although this analysis has tried to be as comprehensive as possible, the project should seek to revisit, update, and build upon this information as part of their engagement with key stakeholders. This iterative process will help define concrete models and activities which should ultimately be lead and driven by local actors.

▶ Annex A: Interview List[82]

Jordan Construction Contractors Association

Domestic Workers/Recruiting Agents Association (duplicated)

GIZ Employment-oriented MSME promotion Project

Jordan Chamber of Industry: Food and Catering Industries Sectors

Jordan Chamber of Commerce Representative of Construction & Building Materials Sector

Jordan Exporters and Producers Association for Fruits and Vegetables (JEPA)

Jordan Exports

Jordan Food and Drugs Administration (JFDA)

Ministry of Industry, Trade and Supply: Women's Economic Empowerment Unit (duplicated)

Ministry of Labour: Policies Department

Ministry of Public Works and Housing: Government Tenders Department

Phenix Center for Economic & Informatics Studies (NGO)

Recruitment agencies (three)

Sector Skills Council (Construction)

SMEs owners and managers in the construction sector (seven)

SMEs owners and managers in the food processing sector (eight)

Social Security Corporation: Inspections Dep., Legal Advisors, Research Dep. (partially)

General Trade Union of Constructions Workers General Trade Union of Workers in Food Industries

Construction Engineering and Management (CEM) group, University of Jordan

82 Names of interviewed respondents and SMEs have been omitted to ensure confidentiality of the information shared with the research team.

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