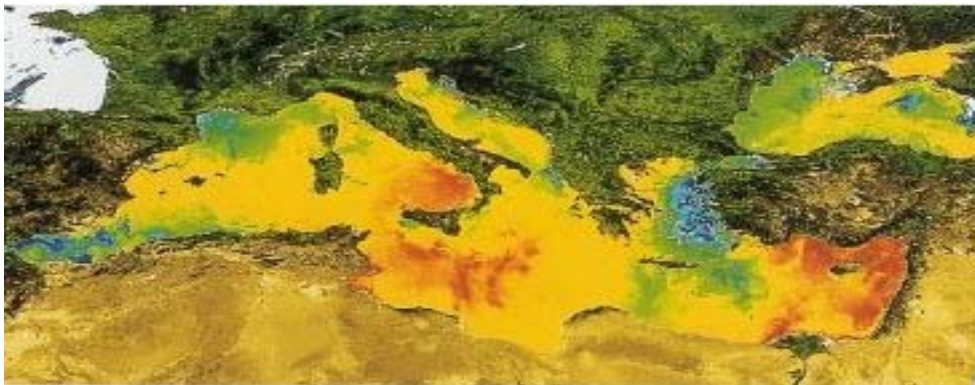




EURO-MED PARTNERSHIP

JORDAN

National Indicative programme 2005-2006



I. SUMMARY

1. INTRODUCTION

The thread of the programming exercise for 2005-2006 is the Country Strategic Paper CSP of the Commission for 2002-2006, as well as the recent political framework such as the New Neighbourhood Policy. The priorities of the new programming exercise have taken into account the agenda of reforms of the Jordanian authorities, the progress in the Association Agreement, and the experiences gained through the previous cooperation exercises. Considering that the timing for the Mid Term Review of the CSP corresponded with that of the programming for 2005-2006, it was decided to express the adjustments of the CSP directly through the National Indicative Programme (NIP) for 2005-2006. Therefore, the CSP 2002-2006, taking into account the recommendations of the Mid Term Review, continues to be valid for the period 2005-2006.

2. ORIENTATIONS OF THE COUNTRY STRATEGIC PAPER AND OF THE NIP 2002-2004

The Country Strategy Paper (CSP) for Jordan adopted in 2001 supplied the strategic framework that EU co-operation offers in the period 2002-2006. The EU strategy as defined in the CSP has three main objectives: (1) to promote the effective implementation of the EU-Jordan Association Agreement; (2) to assist Jordan in facing social, economic and institutional challenges; and (3) to accompany the necessary transition process to modernise the country.

On the basis of these three main objectives, the National Indicative Paper 2002-2004 has identified the following five priorities, for a total indicative budget of 142 M€:

- Enhancement of trade and institution building by supporting the implementation of the Association Agreement and the regional development in Aqaba Special Economic Zone (ASEZ).
- Sustaining a stable macro-economic framework and economic reforms: by supporting reforms related to trade and financial liberalisation and by sustaining the industrial modernisation.
- Social reforms and human resources development.
- Development of infrastructures with support for enhanced private participation in the water sector
- Strengthening of pluralism, human rights, civil society and the rule of law.

3. MID TERM REVIEW

3.1 Preamble

Country Strategy Papers (CSPs) are intended as an instrument for guiding, managing and reviewing EU assistance programmes. They are essential management tools to ensure that external assistance reflects EU's policy objectives and priorities. The completion of the "first generation" of CSPs/RSP for the MED region took place in December 2001.

With a view to the continuous improvement of the quality of the CSPs, the Council in March 2003 adopted conclusions on the use of the Common Framework for CSPs¹. In these conclusions, the Council invites the Commission to undertake a Mid Term Review (MTR) of each CSP in accordance with existing rules and lays down key orientations for the CSP review. Four parameters have been identified as basic reference points for the review process: (i) new developments in the country, (ii) new EC/EU policy objectives and commitments, (iii) results and performance, and (iv) lessons learnt and potential improvement.

As far as the MED region is concerned, the general conclusion is that there is no need for an extended review, given the rather general content of the CSP/RSP 2002-2006 and their recent adoption. Minor revisions in the CSPs/RSP relate to already identified sectors corresponding to new EU/EC policy objectives and commitments (*see infra*). Since the MTR coincides with the 2005-2006 programming exercise, it was decided to express the CSPs/RSP adjustments through the national/regional indicative programmes.

3.2 Country overall context since 2001

Since 2001, there have been unforeseen events which affected Jordan's overall situation.

Jordan has been the country most exposed to the war in Iraq. The war has had a severe economical and social impact on Jordan which adversely affected the balance of payments, increased the current account deficit and contributed to fiscal destabilization. In general, the political international profile of Jordan in the region has been further strengthened with the role played by Jordan in the Middle East Peace Process.

Despite the political and economic instability in the world and in the Middle East region, Jordan has managed to undertake important political, economic and social reforms. The "Jordan first" and the "Social and Economic Transformation Plan" and the "National and Social Economic Plan" provide a new impulse to the modernisation, democratisation and liberalisation process in Jordan, along the lines of EC strategy. Jordan has also taken serious steps to modernize its legislative and regulatory framework, in order to provide a more conducive regulatory environment in support of private sector development, comply with WTO requirements, and prepare for free trade with the EU and other trade partners.

The elections in 2003 and the constitution of a new Parliament were decisive steps in the normalisation of democratic life in the country. In the same year, Jordan also renewed its commitment to work actively in the promotion and protection of Human Rights and Democratic principles.

During the past years, Jordan has pursued a vigorous strategy of trade liberalisation. Since 1998, Jordan has been a member of the Greater Arab Free Trade Area (GAFTA), signing bilateral free trade agreements with most countries of the region. In 2000, it became member of the WTO, and it signed bilateral free trade agreements with EFTA in 2001 and with the EU and the USA in 2002.

In the area of regional dialogue and sub-regional co-operation, the EU welcomed the conclusion and initialling, in Amman in January 2003, of the Agadir Agreement, which

¹ Council Conclusions on the Progress Report on the Implementation of the Common Framework for Country Strategy Papers, adopted by the General Affairs and External Relations Council on 18 March 2003.

provides for free trade between Jordan, Morocco, Tunisia and Egypt by 2006, as an important step towards the creation of a Euro-Mediterranean free trade area. The entry into force of this Agreement will strengthen the South-South dimension of the Euro-Mediterranean Partnership.

In addition, Jordan has also intensified the implementation of export-oriented policies, notably by creating duty-free Qualifying Industrial Zones (QIZs) and establishing the Aqaba Special Economic Zone (ASEZ). Jordan is also committed to progressive liberalisation of the service sector, as indicated by its commitments during the process of WTO accession, as well as during the GATS negotiations. As a service-orientated economy, it hopes that liberalisation of this sector will promote greater inflows of FDI.

However, in spite of the encouraging macroeconomic results, social development remained lagging, as poverty and unemployment still remain at high levels of 11.6% and 15% respectively. Furthermore, the quality and efficiency of basic government services stayed below the desired levels, particularly in rural and remote areas. In 2002, private investment witnessed negligible growth due to the slow implementation of large development projects and privatisation schemes, which in turn, required sizable public investment mainly in infrastructure development to attract the desired levels of private capital.

The Jordanians have welcomed the communications of the EU with regard to the "New Neighbourhood Policy - Wider Europe" and the one on "reinvigorating Human rights in the Mediterranean area". Given their commitment to economic, social and political reform, Jordan is well placed to lead regional efforts towards the implementation of the New Neighbourhood policy and the promotion of Human rights.

3.3 New EU Policies/Initiatives

In the course of 2002-2003, a number of policy orientations have been adopted by the Commission, which will have an impact on our relations with the Mediterranean partners in the near future. Most significantly, the communication on "*Wider Europe and the New Framework for Relations with our Eastern and Southern Neighbours*" sets out a new framework for relations over the coming decade with the Southern Mediterranean. The communication notes the growing interdependence between the EU and its neighbouring partners in terms of stability, security and sustainable development. In the suggested **New Neighbourhood Policy**, the communication proposes that, over the coming decade, the EU should aim to work in partnership with its Southern neighbours to develop a zone of prosperity and a friendly neighbourhood - a "ring of friends" - with whom the EU enjoys close, peaceful and co-operative relations. This new policy aims at building upon the framework of co-operation provided by the Association Agreement with the aim of strengthening our partnership and bringing closer our neighbours to the EU. In return for concrete progress reflecting the shared values, and effective implementation of political, economic and institutional reforms, all the neighbouring countries can be offered the prospect of a stake in the EU's internal market. The new neighbourhood policy expands and develops the content of the specific objectives included in the Association Agreement provisions and could pave the way for further integration and liberalisation to promote the free movement of persons, goods, services and capital (four freedoms). In addition, for the period up to 2006, the countries of the south Mediterranean are to be invited to participate actively in MEDA neighbourhood programmes under preparation, aimed at strengthening the impact of trans-border co-operation with the Mediterranean EU Member States.

Other relevant policy orientations include: trade related technical assistance and the Doha round, JAI related issues, better governance, human rights and democratisation in the MED region, and environmental initiatives agreed at the Johannesburg Summit on Sustainable Development.

The launch of the new WTO Round - **the Doha Development Agenda** - comprises both further market openings and additional rule making, underpinned by commitments to strengthen substantial assistance to build capacity in developing countries. The main objective of the new round is to assist developing countries' integration into the world trade system in a way that will help them combat poverty.

The Council conclusions of Tampere (1999), Santa Maria da Feira (2000) and Sevilla (2002) defined a common policy regarding the integration of **Justice and Home Affairs** issues in the EU external policy. The Action Plan adopted in Valencia (2002), in addition to the Barcelona Declaration, gave further orientations for reinforced co-operation in the MED region in three main sectors: migration, reform of the judiciary and the fight against criminality.

Better governance, promotion of **democracy** and respect for **human rights** constitute core objectives of the EU's external policies. In line with the conclusions drawn up in the 2002 UNDP Arab Human Development Report, the Commission recently adopted a Communication on "*Reinvigorating European Actions on Human Rights and Democratisation with Mediterranean partners*" which aims at maximising the effectiveness of the instruments at the disposal of the EU and its Mediterranean partners in the field of human rights and democracy. The communication sets out working guidelines to promote Human Rights and fundamental freedoms in co-operation with the Mediterranean partners. It proposes 10 concrete recommendations to improve the political dialogue between the EU and its Mediterranean partners, as well as EU financial co-operation on Human Rights issues. Their implementation will be enhanced by three levels of complementarity: between the political dialogue and financial assistance, between the MEDA programme and assistance under the European Initiative for Democracy and Human Rights (EIDHR), and finally between the national and regional dimensions.

A global commitment to the cause of **sustainable development** was restated at the Johannesburg Summit, through an ambitious action-oriented programme with clear and measurable objectives, demonstrating the increasing importance of **environmental issues** in achieving the Millennium Development Goals. The key areas for EU action are water and energy. In Johannesburg, the EU launched two partnerships, one on water and sanitation and one on energy for the poor. The **EU Water initiative** ("Water for Life") will help coordinate existing financing mechanisms with a focus on three parameters: supply, sanitation and integrated resources management. At the moment, concrete follow-up is expected for the Mediterranean countries in the framework of the existing financing instrument (i.e. MEDA). The programming 2005-2006 foresees a specific operation in the environment sector, in particular linked to the water reform in Jordan.

On the basis of the above considerations, it can be said that the new EU policies have been considered in the programming exercise 2005-2006 and that all the areas mentioned are covered in the strategic answer of the Country Strategic Paper 2002-2006.

3.4 Results and weaknesses/lessons learned/improvements

Jordan is a country strongly committed to the reinforcement of cooperation with EU towards common objectives, and is by far the best performer in relation to EU MEDA funds, with 68% of commitments disbursed. The success of most EC assistance programme is due to Jordan's advanced position in the implementation of the Association Agreement, to its absorption capacity and commitment to the Barcelona Process (trade liberalisation and related economic reforms).

The Association Agreement has created a framework targeting assistance to the enabling environment of economic actors, with a balanced approach that appropriately addresses the social impact of economic reforms.

There is a strong interest in the EU and in Jordan to take stock of the substantial progress made in the last years regarding economic modernisation and reform to achieve more ambitious objectives in our partnership.

However, the regional instability often neutralises the results of Jordanian efforts. Failure to implement the Middle East Road Map and to establish a stable regime in the region leaves a cloud of uncertainty hanging over Jordan and could hamper economic development and growth. Such growth will also be necessary to absorb the influx on the labour market of one of the fastest-growing populations in the Arab world (with a conservatively estimated unemployment rate of 15%).

4. PROGRESS OF THE ASSOCIATION AGREEMENT

With the entry into force of the Association Agreement (signed by the Jordanians in 1997) on May 1, 2002, a new dimension of enhanced co-operation in the political, economic and social spheres has been opened in relations between the European Union and Jordan. The excellent state of bilateral relations and the importance attached by both sides to maintaining a solid relationship is reflected, notably, in the visits of high-ranking representatives from the EU to Jordan and visits of senior members of the Government of Jordan to the EU.

The Association Council meetings held in October 2001 and in October 2003 enhanced efforts for the development of bilateral relations and to take stock of progress made in the implementation of the Association Agreement.

Significant efforts have been made in order to bring the Association Process rapidly up to speed. After the first year of implementation of the Association Agreement and the programme of support to the Association Agreement, included in the National Indicative Paper for 2002-2004, the results have not yet completely translated into more prosperity and growth. The challenge ahead for Jordan and the EU, as defined in the last EU-Jordan Association Council, is to make the Association Agreement relevant to the Jordanian and EU populations by translating the economic reform and legislative approximation efforts into more prosperity and growth. This requires increasing the pace of reforms and substantially developing investment and trade.

With this objective, Jordan and the EU have created sub-committees that will help to accelerate the implementation of the Association Agreement in a number of priority areas including trade, investment, energy, transport, research and technological development.

5. PRIORITIES OF THE NIP FOR 2005-2006

The global allocation to Jordan for 2005-2006 is 110 M€.

There is a strong interest in the EU and in Jordan to take stock of the substantial progress made in the last years regarding economic modernisation and reform to take on more ambitious objectives in our partnership.

In this context, the financial co-operation between the EC and Jordan plays an important role in supporting activities that contribute to the achievement of our common objectives.

Faced with new challenges, the Government of Jordan has embarked on a wide set of reforms with the aim of achieving and sustaining economic growth of the country and reducing poverty and unemployment. In the political field, the Government wants to focus on four priorities: the development of an independent media; promoting the economic and political role of women; the reform of the electoral law and party systems, and the development of an independent judiciary system. In the economic area, the Jordanian Social and Economic Transformation Programme (SETP) in 2002 and recently the National Social and Economic Plan (NSEP), spell out the main objectives of the Government agenda for the coming years. The reforms should address the legislation, policies and regulatory framework in order to enhance the investment climate and developing private investment to enable the private sector to undertake a leading development role. On the other hand, the quality of life for all Jordanians needs to be improved by a number of reforms in the areas of education, health, rural development, and other basic government services.

The EC welcomes the Jordanian Government's reforms for achieving real progress in socio-economic development. The reforms are in line with the priorities included in the Country Strategy Paper for 2002-2006 and the recent initiative on the New Neighbourhood Policy.

Accordingly, future EC bilateral assistance for 2005-2006 should assist Jordan in pursuing its reform agenda. Its overarching objective remains aligned with Jordan's goals: sustained growth to create jobs and permanently reduce poverty. The efforts of regulatory liberalisation and legislative reform along the lines of the provisions of the Association Agreement must be vigorously pursued as a friendly environment for investment and trade is a prerequisite for a healthy economic development.

Along the line of the NSEP, the skills of the Jordanian labour force also need to be upgraded in their technological capacity to help increase the competitiveness of industrial sectors that will need to compete on the European and World stage. In this context, the EU can gradually offer to Jordan better access to the European Research Area within the context of the New Neighbourhood Policy through the 6th Research Development and Technology Programme (RDT). The objective is to increase the innovation content of the Jordanian industry and labour force to open new perspectives in the world market to Jordanian exports. An industry better equipped from the technological point of view together with a friendlier legislative environment will be more attractive to foreign investment. Basic research should not be neglected and in particular its applications to the industrial sector.

The rapid pace of economic reform must be translated into economic benefits for the public at large. In this respect, the poor and near-poor will not have the capacity to benefit from the changing society. Therefore, it is important to address this social unbalance and promote the

integration of all Jordanians in the economic development. This can only be achieved by a national strategy of poverty reduction and one of job creation.

Finally, all these efforts will be fruitless if political reform is not carried forward with determination. It is impossible to achieve a prosperous society without the full participation of women and youth in the economic and political life of the country. This requires respect for the fundamental freedoms and human rights and the rule of law in the social and economic life. Economic development cannot flourish without good governance practices that allow a level playing field for all economic actors and protects the individual economic and political rights of each human being. The UNDP Arab Human Development Report rightly identifies a number of deficits - knowledge, women's empowerment and governance - as prerequisites for economic development in the region.

The communication on the New Neighbourhood policy also goes hand in hand with the promotion of Human Rights and democracy, in line with article 2 of the Association Agreement. This puts human rights and good governance at the centre stage of our political dialogue.

5.1 FEMIP (EIB)

Moreover, in the framework of the Barcelona Process, the EIB has strengthened its financial partnership with the Mediterranean Partner Countries (MPC) through the creation of a specialised instrument, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP - October 2002). At the end of 2003, it was decided to reinforce the FEMIP, by adding new financial instruments and changing some organisational features in order to increase activities in favour of the private sector and cooperation with Partner Countries.

Under FEMIP on the annual volume of EIB lending in all partner countries will gradually increase from € 1,4 to € 2 billion in 2006. These resources are to support a much-broadened activity range, with a priority for private sector development. Of particular importance are those projects in the areas of Environment, Human Capital and which are of mutual interest to the Union and Mediterranean Partner Countries or reinforcing "South-South" cooperation. Financing on own resources will be complemented with EU budgetary resources for technical assistance, both upstream and downstream. This will help with the preparation and implementation of investment projects. In addition, the EIB continues to avail of considerable amounts of risk capital resources for private sector development.

Amongst those priorities, the EIB and the Commission have decided specific objectives regarding:

- The reduction of the negative impact of human activity on the environment.
- The alignment of environmental norms with international agreements and treaties (European directives, Kyoto, etc.).
- The private sector development.

In those areas, EIB loans on own resources may be supported by interest rate subsidies (financed through EC budgetary funds).

II. CONTENT OF THE NATIONAL INDICATIVE PROGRAMME

The National Indicative Programme (NIP) for 2005-2006 represents a complement to the previous NIP. The Country Strategic Paper 2002-2006 and the recent political developments supply the strategic framework for financial co-operation with Jordan. These developments concern in particular, the new communication of the European Commission on the "New Neighbourhood Policy", the UNDP report on human development in the Arab world, the report of the World Bank on better governance in Middle East and North Africa, the communication of the European Commission on "strengthening human rights and democracy" in MEDA countries, the issues on migrations and justice and home affairs, and the outcomes of the Doha agenda on sustainable development and the Johannesburg summit on environment issues.

The CSP 2002-2006, continues to be valid for the period 2005-2006. However, the recent war in Iraq has affected Jordan's economic development prospects, and has contributed to a noticeable reduction in the interest of international capital in Jordan in addition to a marked deterioration in tourism revenues. Moreover, Jordan remains highly exposed to the risk of large migration waves. The reform of the judiciary system remains a high priority, as does the fight against organized criminality and money laundering. The question of conflict prevention deserves specific attention.

Building on Jordan's reforms, EC financial cooperation for 2005-2006 should concentrate on the following four priority areas:

- Support to the preparation for the New Neighbourhood policy and the implementation of the Association Agreement.
- Support to the social sector.
- Development of a knowledge society.
- Development of Democracy, Human Rights and Good Governance.

1. SUPPORT TO PREPARATION FOR THE EUROPEAN NEIGHBOURHOOD POLICY: LEGISLATIVE REFORM AND ECONOMIC DEVELOPMENT

The main objective of the European Neighbourhood Policy is to promote stability and prosperity beyond borders of the EU. With this goal, the EU is ready to develop further with its neighbours the Association Agreement and offer preferential treatment and market opening to those willing to take up the challenge. The European Neighbourhood Policy provides the right framework for accompanying and supporting Jordan's undertakings towards political and economic reform and legislative modernisation conducive to economic development and growth.

Through the Social and Economic Transformation Plan and the National Social and Economic Plan, the Government of Jordan aims to launch a new strategy to accelerate economic growth in order to effectively enhance the welfare and standards of living of all Jordanians. The European Neighbourhood Policy will be implemented through an action plan that will be developed jointly by the EU and Jordan and that will include common priorities in five areas: justice and home affairs, networks, people to people contacts, extension of the internal market and trade. Those areas are largely converging with the priorities of the Jordanian Government and with the Association Agreement.

The objectives of the NIP will support the implementation of the Association Agreement in the priority areas selected in the action plan in preparation for the implementation of the European Neighbourhood Policy. This objective is broadly defined in the NIP through the support to two main instruments:

- The Support for the implementation of the Association Agreement.
- Support for the economic reforms under an economic reform facility.

1.1 Support to the Neighbourhood policy through the Association Agreement

a) Justification

Following the entry into force of the EU-Jordan Association Agreement, the EC launched in 2002 a programme of support to the Association Agreement (SAA programme), with the overall objective of assisting Jordan in the implementation of the Agreement which will require legislative and regulatory alignment of policies and regulations in the different fields, as well as the upgrading of Jordanian institutions to carry out necessary reforms.

The SAA programme makes available to Jordan the expertise gained in supporting the EU's neighbouring countries in reforming the legislative framework to improve the economic environment. It is a core interest of EU and Jordan to accelerate this process.

In the context of the programming for 2005-2006, the EC will continue to sustain Jordan in the implementation of the AA. The policy needs, which are to be addressed through this instrument, will be progressively defined jointly by Jordan and the EU in the light of experience in implementing the Association Agreement and the European Neighbourhood policy. In particular, the sub-committees created under the Association Committee represent an opportunity for a dialogue on the areas where legislative reform is to be continued and define the needs to be met through the SAA programme.

b) Specific objectives

The specific objective of the Support to the Association Agreement II is to continue to support Jordanian authorities in the implementation of the areas of the Association Agreement selected as priorities in the action plan of implementation of the ENP. This programme will cover chapters of the Association Agreement not already covered by the programme of support to the Association Agreement I. Specifically, the programme will help implement legislative, administrative and institutional measures aimed at fully reaping the benefits of the New Neighbourhood Policy in the following areas: justice and home affairs, networks, people-to-people contacts, extension of the internal market and trade. The acceleration of the reforms in the energy and transport areas is also very important. In the energy sector, the reform of electricity needs to be addressed, as well as the promotion of a more efficient energy demand management and a harmonisation of the energy sector rules and standards with those of the EU. In the transport area, reforms will need to cover all transportation modes and the harmonisation of standards as well as safety and security measures.

Those areas are largely converging with the priorities of the Jordanian Government and with the Association Agreement.

In addition, the programme should cover co-operation in social and cultural matters, and the strengthening of the rule of law and judicial co-operation. The improvement of the legislative and regulatory framework in the environment area should also be covered.

c) Description of the programme

The support for the implementation of the Association Agreement will consist of short and medium term technical assistance, the exchange of know-how with counterparts in the EU through twinning with EU national and community institutions and more traditional forms of training. Within the context of the European Neighbourhood Policy the twinning operations will be of particular importance in order to reinforce the administrative capacity of Jordan through partnership co-operation programmes between Jordanian public administrations and an EU Member State.

d) Expected results

- The modernisation and alignment of the legislative and regulatory framework of Jordan's internal market with that of the EU in the four main areas of the action plan.
- The development of Jordanian institutional capacity to create and enforce a legislative environment supportive of economic development.
- The development of a Jordanian capacity to draw up strategies and national policies.
- The modernisation of the administrative procedures and organisational methods.
- The implementation of the provisions of the Association Agreement in the priority areas of the action plan.
- An appropriate environment for business to meet the challenge of free trade.
- Improving the investment climate through the removal of administrative and procedural obstacles facing investors.
- Development of the management of European Community aid into a management unit of all aid, capable of handling, notably, twinning operations financed under other programmes.

e) Performance indicators

- Legislation and regulatory framework foreseen by or related to the Association Agreement and WTO adopted and applied.
- Administration and Judiciary trained and equipped to implement new legislation and regulation.

f) Indicative budget

15 M€.

1.2 The Sector Reform Facility

a) Justification

The economic development needed by Jordan to tackle its challenges need, in addition to the improvement of the legislative environment, the development of a strategy and an implementation plan targeting the development of Jordan's industrial and services sector

competitiveness. This objective requires particular support to: 1) upgrade the industrial and services sector capacity, 2) improve the skills of the labour force, 3) improve the management capacity of industries, 4) improving access of the private sector to financial resources and 5) reinforce the policy capacity of the Government, including fiscal consolidation.

Faced with these challenges, Jordan has embarked on a set of reforms, which is articulated in the National Social and Economic Action Plan 2004-2006. This plan will focus on sustaining the thrust of the socio-economic process in order to achieve sustainable development at both the micro and macro levels.

In this context, the EC will support Jordan in facing economic challenges in its transformation and modernisation process by supporting private sector development, creating the environment for promoting investment and develop export-oriented industries.

b) Specific objectives

- **Support to private sector development/Trade development.** The Government needs to develop a strategy that will address the main obstacles hampering the development of the private sector and will help increase competitiveness. The strategy will include a selection of priority areas targeted by the Government, the actions that the Government intends to undertake in the legislative framework, the programmes of support to these priority areas and the financial, tax and non-tax incentives. The NIP sector reform facility will support the implementation of this strategy. The Jordanian Upgrading and Modernisation Programme (**JUMP**) that will take over the activities of EJADA could be one of the elements of this strategy. Fiscal consolidation and the improvement of the quality and efficiency of the public finances need to continue to be addressed. Jordan needs to develop an export oriented industrial sector by developing the necessary production, innovation and marketing capacity. The Government needs to develop a strategy of support to the sectors where an export capacity can be developed. The Government strategy has to look at quality and certification, innovation, marketing, competitiveness and services. New export opportunities need to be identified in non-traditional sectors.
- **Investment Promotion.** Jordan's potential to attract foreign investment needs to be exploited by improving the legislative environment for foreign investors as well as by developing a strategy for targeting foreign investors. Equally important is the need to mobilise the domestic investment capacity by developing the financial sector as well as by supporting entrepreneurship.

c) Description of the programme

This support should provide sector support to a National Strategy of industrial development. A part of the budget could be earmarked to provide assistance in the development of such a strategy. The funds made available by the EC under this programme will be released in tranches and according to an agreed framework of indicators and results agreed with the Jordanian authorities.

d) Expected results

In the area of Investment promotion:

- Development of a National Investment Promotion Strategy.
- Increase the share of FDI.

- Mobilise domestic investment.
- Improvement of the investment structure.
- Development of innovative sectors.
- Development of an investment promotion agency.
- Development of product standards.

In the area of trade and export development:

- Development of a strategy of support to the export-oriented industries.
- Increased export share of the industrial sector.
- Development or strengthening of an export development agency.
- Dismantling of trade tariffs.
- Dismantling of technical barriers for trade.
- Development of intellectual property rights.

In the area of the private sector:

- Achieve positive growth rates in total factor productivity.
- Increased competitiveness and productivity of institutions and companies of the private sector.
- Achieving sustainable economic growth and creating employment opportunities through the development of a competitive private sector, in particular for women (women holding only 10% of all jobs in the private sector).
- Improvement of financial sector: supporting start-ups, growing companies and innovative industries, specifically the SME's; improved recovery of failed loans.
- Synergies with the 6th framework programme and the research co-operations in funding innovative actions to increase the investment potential.

e) **Performance indicators**

- Growth rates in total factor productivity.
- Growth rates of FDI, private investment/total investment, lending to the private sector/total lending.
- Number of new enterprises.
- Number of women employed.
- Growth rate of investments in industry.
- Growth rate of industrial exports in traditional and non-traditional markets.

f) **Indicative budget**

40 M€.

2. **SUPPORT TO THE SOCIAL SECTOR**

2.1 **Context and grounds**

With the objective of alleviating the social impact of fiscal and economic reforms in Jordan, the Government of Jordan and the EC agreed, in the National Indicative Programme (NIP) for 2002-2004, two projects in the social field aimed at contributing to a long-term strategy to improve living conditions of impoverished segments of the population and to support the re-integration of the displaced work-force into the economic life in the context of industrial restructuring and privatisation of industries.

With the goal to identify strategies for the EC to support poverty reduction in Jordan, a study on poverty has been carried out which comprises an analysis of poverty, poverty reduction strategies, the institutional context in Jordan and possible strategies for reducing poverty in Jordan.

In order to mitigate the impact of the war in Iraq on Jordan's economy, and following a Jordanian Government request, the EC agreed to re-direct the assistance initially foreseen in the NIP 2002-2004 by allocating an emergency budgetary support programme of 35 M€. This contribution should help the Government in its efforts to offset the impact of the war.

However despite this assistance, Jordan will need to pursue its efforts to achieve social and economic development and better address its citizen's basic social needs. The National Social and Economic Plan and the Jordan Poverty Alleviation Programme represent important steps dealing with poverty alleviation and social development. Macro-economic results of Jordan's transformation efforts are encouraging. However, social development is lagging behind as poverty and unemployment still remain at a high level. The NSEP sets out the Government of Jordan's targets to reduce poverty to less than 8% and unemployment to 11.3% by 2006. The NSEP also highlights the importance of enhancing the performance of local governments and involving them in broader national objectives of poverty reduction and increasing standards of living.

2.2 Specific objectives

- Achieving social stability through comprehensive social development policies aimed at the development of society.
- Improve the quality of public services, to enhance and improve the quality of life of families and individuals through the investment and development of human resources and their capabilities.
- Addressing poverty and unemployment through the active participation in the development of local communities and contributing to the sustainable use of natural resources.

2.3 Description of the programme

In the context of the new programming for 2005-2006, the EC is willing to continue to support national efforts for reducing poverty in Jordan. Its support should build on the information provided in the identification study already carried out. New EC assistance in this field should ideally support government reforms with a grant for a poverty reduction programme based on concrete targets within an agreed specific framework.

Along the line of the NSEP, good governance and decentralisation, including strengthening truly participatory methods shall be integrated for successful structural reforms. Next to the public sector, civil society organisations are important agents for social and political development.

2.4 Expected results

- A clear overall strategy to address the needs of the most economically and socially vulnerable groups (amongst these groups, women's needs in particular will be considered).

- Poverty and unemployment in Jordan are reduced.
- Development of social cohesion.
- Enhancement of the role of local communities in the development of social development policies and in the sustainable use of natural resources.

2.5 Performance indicators

- Lower the unemployment rate from the current level of 15,3%.
- Number of people covered by poverty alleviation mechanisms, in particular in high poverty zones.
- Improvements of social indicators in rural areas in comparison to the indicators in the urban areas.
- Number of job creations, in particular in small and medium enterprises.

2.6 Indicative budget

42 M€.

3. KNOWLEDGE SOCIETY

3.1 Research and Innovation

a) Justification

Economic development is triggered by participation in the knowledge-based economy and more particularly by the development of a knowledge society and the skills of the Jordanian labour force.

An innovation culture is essential for the development of competitive products and services by Jordanian enterprises in the context of the New Neighbourhood Policy. Despite its importance, no programme has been included so far in the EU bilateral financial co-operation with Jordan in this sector.

With a view to speeding up economic growth, the programming exercise represents an opportunity to revisit this issue.

The proposed EU-Jordan scientific co-operation Agreement provides a useful context for this priority. The EU 6th Research Development and Technology Programme (RDT) represents a key opportunity in this context. This programme, covering the period 2002-2006, provides for the participation of Jordan, the EU and other Mediterranean partner countries, in all instruments supporting a wide range of activities, whereas in the past, their participation was limited to specific activities.

Despite all the EC programmes already opened to Jordan, there is a compelling need for a coherent and integrated strategic approach for the development of Jordanian participation in the field of research and innovation. The competitiveness of companies and the employment they can provide depend to a great extent on RDT. RDT is also essential for the support of other national policies.

b) Specific objectives

- Increased participation of Jordanian researchers in European research and development projects.
- Absorption of highly educated scientific/technical graduates, thus addressing a specific unemployment black spot.
- Improvement of Jordan's image abroad as a competitive production centre for technologically advanced products.

c) Description of the programme

The support shall be in the form of technical assistance, including twinning activities, and financial support in the following areas:

- Developing a structured national centre acting as a contact point and responsible for diffusing information on community activities and projects opened in the field of research and development. The Centre would be responsible for delivering information to the Jordanian scientific community.
- Providing adequate awareness and guidance for potential participants in a network of help desks which could be established to help foster participation of Jordanian industry and technology centres in the 6th RDT and other existing instruments.
- Training of science policy makers and research administrators in management of international contracts in the research area.
- Identifying, together with the Jordanian Government, specific downstream needs to support innovation in the private sector aimed at benefiting more fully from the 6th RDT and its successor.
- Encouraging movement of Jordanian researchers to the Member States research organisation through the participation in the Marie Curie Actions foreseen in the 6th RD FP on mobility, training, knowledge transfer and excellence recognition. The reintegration of those researchers in their country of origin will be included in the allocated fellowships in order to encourage the researchers to plan the period of their stay in Europe and thus to build up the research capacity of their country of origin.
- Supporting the use of Information and Communication Technologies (ICTs) in fostering socio-economic development. Actions could focus on improving quality of services, increasing awareness of its benefits, and through a series of other co-ordinated actions as giving incentives to encourage investment in the fields of ICT.
- Support the roll-out of broadband infrastructure between universities and research centres, possibly by completing the trans-European network.

Specific imbalances affecting female researchers will be addressed.

d) Expected results

- Increased participation of Jordanian researchers and laboratories in the 6th RTD programme as well as other European programmes in the research area.
- Increased participation in the Marie Curie Actions on mobility of researchers.
- Strengthening scientific cooperation with European countries.

e) Performance indicators

- Number of Jordanian researchers and laboratories participating in the 6th RTD programme.
- Number of projects presented under the other European programmes in the research area.

f) Indicative budget

5 M€.

3.2 Higher Education Co-operation: TEMPUS IV programme

a) Background and justification

In recognition of the important role of higher education in developing human resources and occupation skills and of exchange in promoting understanding between cultures, there is a need for closer EU-Jordan co-operation in the field of higher education. Moreover, the development of training leading to qualifications are needed in the context of economic reforms to help increase the competitiveness of industrial sectors. Considering the success of the TEMPUS programme in the previous programming exercise, it is proposed to extend the programme.

b) Specific objectives

The extension of the TEMPUS programme aims at strengthening and deepening the whole fabric of relations between eligible countries through its emphasis on co-operation in higher education. This will contribute significantly to the achievement of the social and cultural goals of the Barcelona Process and will assist the Jordanian higher education system, and the teachers and students in the mobility of higher education. Specific imbalances affecting female students and teachers will also be addressed.

c) Programme description

The extension of TEMPUS will allow for Jordanian access to the Tempus IV programme. This covers participation in Joint European projects (joint education and training actions; measures for the reform and development of higher education; the promotion of co-operation between universities, industry and institutions; higher education staff and student mobility). Teachers, researchers, trainers, university administrators, senior ministerial officials, educational planners and other experts may use study grants to finance visits that promote the quality, development and restructuring of higher education and training.

d) Expected results

- Continuation of the support to the reform and development of higher education structures and establishments and their management.
- Development of training leading to qualifications needed in the context of economic reform: Improvement in the links between the higher educational system and industry.
- Enhancing collaboration between the EU-Jordanian academic communities and between the higher education sector and the wider world.
- The joint development of common curricula and qualifications in priority areas.

- Better access of women to research programmes and mobility.

e) Performance indicators

- Participation of Jordanians in TEMPUS and in particular women.
- Application of skills and integration in the education system or industry at return (follow-up of beneficiaries of EU programmes).

f) Indicative budget

3 M€.

4. DEVELOPMENT OF DEMOCRACY, HUMAN RIGHTS, GOOD GOVERNANCE

4.1 Context and Justification

The issue of human rights and good governance in the Mediterranean partnership has always been a prominent feature in our relations with the Mediterranean countries.

High among the objectives of the Association Agreement and the New Neighbourhood Policy is the creation of an area of peace and stability based on the principles of human rights and good governance.

In its communication on "Reinvigorating EU actions on Human Rights and Democratisation", the Commission outlines the importance of improving dialogue between the EU and its Mediterranean partners on human rights issues. This communication is consistent with the UNDP Arab Human Development report of 2002, endorsed by Jordan.

In recent years, Jordan has made significant progress and invested substantial efforts towards the promotion and enhancement of respect for human rights, democratisation and governance: Improving public management and democratic life, promotion of the participation of civil society including women in the political and economic life, the protection of women and children, civil rights and social development.

In 2003, the EC financed a 2 M€ project aimed at promoting human rights and democracy in Jordan, through non-governmental organisations and community-based organisations. This project is the first ever launched between the EC and a partner country in the Mediterranean region under a bilateral funding mechanism.

In the context of the new programming, the EC is willing to support the national efforts undertaken for actions aiming at increasing governance in a broad sense. The actions will accompany the priorities areas of the Jordanian reform.

4.2 Specific objectives

The main objective is to assist the Jordanian efforts in the enhancement of its political reforms towards the establishment of a more democratic society, in particular, by:

- Raising public awareness about democratic principles and human rights.
- Promoting freedom of expression, of opinion, of association and of assembly.
- Increasing quality and independence of the media, strengthening women's rights and women's participation in political, social, administrative and economic life.
- The establishment of a modern judiciary system in line with international relevant instruments as regards the protection of fundamental rights and the rights of the defence.

4.3 Description of the programme

Considering the Jordanian authorities commitment to pursue its reform in the field of Human Rights, Governance and Democratisation, actions could be concentrated in the following areas:

- Realising the role and importance of the appropriate legal framework in attracting domestic and foreign private investments, the government has defined a two-year strategic plan for the development of an independent, reliable and competent legal and **judicial system** in Jordan. In this field, the EC could give a contribution aimed at assisting Jordanian efforts to build administrative and training capacities for the judiciary; Increase efficiency and modernisation in the courts system. Assistance might also be considered in the field of improving the independence of the judiciary and the enforcement of the legal system, such as the civilian police.
- Another priority of the Government's agenda is the development of independent media. Among other measures, the Government is willing to develop the **Higher Media Council** to help in establishing a modern media policy geared towards qualitative transformations in the legal, regulative and professional structure of the Jordanian media society.
- In the field of human rights and civil society, Jordan has accomplished over the years, important progress towards safeguarding human rights, in particular with the creation of the **National Centre for Human rights**. Further actions need to address empowerment of women and to improve participation of civil society, in particular with the aim of increasing awareness among citizens of their rights and duties, in the field of equal rights for women.
- The Government also wants to focus on the reform of the parties and **electoral system** to enhance Jordanian democratic life. More specifically, actions are necessary to modify the electoral law and the political parties system with the aim of enabling the development of strong political parties.
- Participation of **civil society**: within the framework of non-governmental organisations, intense activity has been carried out in different sectors. However, major efforts are necessary in order to allow civil society and NGOs to operate in more effective ways.
- Actions of enforcement of legislation in the area of democratisation and human rights could also be considered under the programme on supporting the **Association Agreement**. Special attention will be given to institutional development and law-enforcement co-operation, using flexible instruments such as administrative twinning and exchanges of senior civil servants and legal officials.

More generally, for a whole range of sectors, the issues of mainstreaming of the principles of good governance, democratisation and the strategic dialogue with civil society are essential. These principles require that they should be analysed during the process of identification, appraisal and implementation of the various projects and programmes. EC co-operation should always be based on these principles and contribute towards those goals whenever possible.

4.4 Expected results

- Increased awareness in the areas of good governance and human rights in public opinion, in administration and the private sector.
- Improvement of the constitutional guarantees conferred to the judicial branch in all aspects of the sector (independence, transparency, efficiency).

- More liberal rules and regulations in the areas of information and communication.
- More effective involvement of civil society in promoting social developments.
- Reform of the elections law and political parties.
- Increased freedom of association and assembly.
- Increased participation of women in the economic, social, administrative and political life of the country.

4.5 Performance indicators

- Number of women representatives in local and national parliaments; number of women entrepreneurs and women representatives in professional associations/chambers.
- Creation of mechanisms and adoption of legislation to protect human rights.
- Number of complaints of citizens to the National Centre for Human rights.
- Increasing access of citizens to justice.
- Mechanisms of involvement of civil society.

4.6 Indicative budget

5 M€.

5. CROSSCUTTING ISSUES

As in the previous programming exercise, reducing gender disparities in all EC-funded programmes will need to be addressed with special attention to women's rights, and their specific needs to enhance their role in economic life and to benefit from appropriate social support. The Government of Jordan has advocated a number of policies and programmes to advance women's status. However, significant inequalities still persist and actions are needed to identify issues and propose solutions.

Sustainable development, good environmental governance and preventing the deterioration of the environment will need to be taken into account in all EC-funded programmes and projects as cross-cutting issues.

Budget and Phasing of the Programme

STRATEGIC PRIORITIES/ PROGRAMME	INDICATIVE AMOUNT	
	2005	2006
<u>Priority 1: Promoting the EU-Jordan Association Agreement / Support to the preparation of the Neighbourhood Policy:</u> <ul style="list-style-type: none"> • Support to Neighbourhood policy through the Association Agreement. • Sector Reform Facility. 	10 M€ 40 M€	5 M€
<u>Priority 2 : Support to the Social sector</u>		42 M€
<u>Priority 3: Development of knowledge society</u> <ul style="list-style-type: none"> • Research and Innovation. • TEMPUS programme. 	2	5 M€ 1 M€
<u>Priority 4:</u> Technical assistance to the development of Democracy, Good Governance and Human rights	3 M€	2 M€
Amounts in € million: 110 M€	55 M€	55 M€

Indicators related to the Millennium Declaration

INDICATORS	1995	1999	2000
1.Proportion of population below \$1 per day	≤2,0	n.a.	n.a.
2.Prevalence of child malnutrition (% of children under 5)	6,4	n.a.	n.a.
3.Under-five mortality rate (per 1.000)	34,2	31,3	30,3
4.Net enrolment ratio in primary education	67,5	93,6	n.a.
5.Percentage of cohort reaching grade 5	n.a.	97,7	n.a.
6.Ratio of girls to boys in primary and secondary education	96,5	96,5	n.a.
7.Proportion of births attended by skilled health personnel	97,0	n.a.	n.a.
8.Proportion of 1 year old children immunised against measles	92,0	94,0	n.a.
9.HIV prevalence among women 15-24 years old	n.a.	n.a.	n.a.
10.Proportion of population with sustainable access to an improved water source	n.a.	n.a.	96,0

Source: World Bank/MDG

Economic situation

Jordan - Selected Economic Indicators, 1997-2002

	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP growth (in %)	2,1	3,1	2,9	3,1	4,2	4,2	5,1	4,0
Unemployment rate (ILO definition)	12	13,2	13,4	13,5	13,7	14,7	15,0	15,0
CPI inflation (end of year; in %)	65	3	3,1	0,6	0,7	1,8	1,8	2,5
Broad money (end of year; % change)	-0,9	7,6	6,3	15,5	7,6	5,8	7,0	12,8
Consolidated government balance (% of GDP)	-7,4	-7,3	-9,7	-7,0	-8,9	-8,1	-10,2	-13,3
Current account balance (% of GDP)	-3,2	0,4	0,3	5,4	0,7	-0,1	4,9	8,0
Official net international reserves (end of year)								
In millions of US dollars	2.055	2.436	1.988	2.770	3.441	3.174	4.100	
In months of imports of G&NFS	4	5	4	6	7	6		
Public external debt (% of GDP) (end of year)	110,3	101,9	96,3	96,6	79,2	76,1	77,6	73,4
Debt service (in % of exports of GNFS)	25,7	23,1	23,3	22,9	20,6	20,4	18,8	21,2
Exchange rate (dinar/EUR) ¹ (end of year)	0,96	0,9	0,83	0,7	0,7	0,6	0,7	0,8
Real effective exchange rate (annual change in %, 1990=100)	104	114	113	124,0	134,0	143,0	134,0	131,0
Population (thousands)	4.325	4.459	4.597	4740,0	4887,0	5031,0	5307,0	5460,0

Source : National sources, WB, IMF.

¹Exchange rate dinar/USD is fixed at 0,71.

EC and Member States with co-operation with Jordan - Planned disbursements for 2003 (€M)

Sectors	EC	B	DK	D	EL	E	F	IR	I	L	NL	A	P	FI	S	UK	Total
Education							0,43								2,44	0,02	
Health						*	0,09								0,04		
Water supply and sanitation	2,00						6,08		20,0								
Government and Civil Society	0,55								0,2							1,46	
Social infrast. and services	0,99																
Transport and storage																	
Banking and financial services	21,78																
Business/Private sector									5,0								
Energy															4,00		
Agriculture, forestry, fishing						*	0,10										
Trade and tourism	3,72					*											
Environmental Protection							0,04										
Gender							0,03										
Commodity aid																	
Budget support /SAP	30,00																
Food aid																	
Debt relief																	
Emergency assistance							1,30										
Support to NGOs						0,50			2,0							0,26	
Others						1,37	0,48									2,43	
Total	59,03	0		27,0	0,22	1,87	8,68		27,2		na	0			6,48	4,17	

* Included in "Other".

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