



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

JORDAN

**STRATEGY PAPER
2007 – 2013**

&

**NATIONAL INDICATIVE PROGRAMME
2007 - 2010**

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SUMMARY

The Country Strategy Paper (CSP) drafted under the European Neighbourhood Partnership Instrument (ENPI) sets up a strategic framework for EU co-operation with Jordan on the period 2007-2013. This document presents the EU's co-operation objectives, its strategic response and priority objectives. On the basis of these strategic objectives, the National Indicative Programme (NIP) presents the EC response in terms of financial assistance and details the specific operations planned and their expected results for the period 2007-2010.

Jordan was one of the first countries to sign an Association Agreement (AA) and is among the five countries which have expressed an interest in the European Neighbourhood Policy (ENP) and which adopted an ENP Action Plan in 2005 covering the next three years. This Action Plan encompasses a new and ambitious agenda in the political, social and economic fields, designed to move Jordan closer to a set of shared values with the EU.

During the first year of implementing the EU-Jordan ENP Action Plan, a regular dialogue between the EU and Jordan took place through several sub-committees, involving discussions on the implementation of the different chapters of the Action Plan, enabling specific priorities to be identified. In addition, Jordan has worked on a reform agenda for the next ten years: the "National Agenda", completed by the Kulluna al Urdun initiative (We Are All Jordan), which set out detailed priorities and objectives to address national challenges. This reform agenda is fully in line with the Action Plan and can guide its implementation.

The EU is a long-standing partner of Jordan and aims to build on the successes of past co-operation to support the implementation of Jordan's plans for reforms with a range of relevant instruments, including financial assistance. These will help cover the cost of the reforms, with a strong emphasis on institution building.

Four main priority objectives have been defined with the Jordanian authorities for this first Country Strategy Paper under the Neighbourhood Policy:

- Political reform and good governance
- Trade and investment development
- Sustainability of the development process
- Institution building, financial stability and support to regulatory approximation

A total amount of €265 million will be allocated for the first National Indicative Programme, covering the period 2007-2010, to support these four priorities with EU financial assistance under the ENPI.

1. EU CO-OPERATION OBJECTIVES

The EU promotes its values and interests by operating simultaneously as a continental power and a global economic and political player, using various instruments, ranging from the Common Foreign and Security Policy (CFSP), assistance and trade to the external dimension of the EU's internal policies. In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

In addition, the 'European Consensus on Development', adopted in November 2005, provides, for the first time, a common vision to guide collaborative action by the EU on development, through both its Member States and the Community, in a spirit of co-operation. This new development policy reaffirms key principles of aid effectiveness: national ownership, partnership, alignment, and results orientation.

To share the benefits of the EU's 2004 enlargement with neighbouring countries by strengthening stability, security and well-being, the EU has developed a European Neighbourhood Policy (ENP), building on a mutual commitment to common values. It is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbours and offer them the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation. The ENP will also help address one of the strategic objectives the EU set out in the European Security Strategy in December 2003: building security in our neighbourhood.

The Euro-Mediterranean Partnership, launched at the 1995 Barcelona Conference between the EU and its southern Mediterranean partners, had developed principles of co-operation with the different partners: (i) the political and security partnership, (ii) economic and financial partnership and (ii) social, cultural and human partnership. Jordan played a dynamic role in the Euro-Mediterranean Partnership and signed an Association Agreement in 1997, which entered into force in 2002. The Association Agreement provides a legal basis and a comprehensive framework for the economic, political and social dimensions to the EU-Jordan partnership.

Jordan quickly expressed its interest in developing this EU-Jordan partnership through the ENP and rapidly engaged in negotiations with the EU on an Action Plan to support national reform objectives and further integration into European economic and social structures. Implementation of the Action Plan advances the approximation of Jordanian legislation, norms and standards to those of the European Union. This allows Jordan to move beyond cooperation to a significant degree of economic integration, with the objective of "a stake in the EU's internal market". The Action Plan helps devise and implement policies and measures to promote political reforms, economic growth, employment and social cohesion, reduce poverty and protect the environment, thereby contributing to the long-term objective of sustainable development. The Action Plan represents a common framework for EU relations with Jordan and is, therefore, the natural framework for the definition of the strategic approach developed in this CSP, ensuring consistency between this co-operation response and other core EU policies.

The ENP will strengthen the EU's comparative advantage as a trading and political partner. The prospective benefits for Jordan include increased economic relations, political co-operation and regulatory approximation in relevant fields, are attractive for Jordan. However, to benefit fully from this partnership, Jordan must pursue its reform agenda to address the vulnerability inherent in its economic, political, social and demographic situations. In a context of macroeconomic pressures and greater unemployment and inequality, undertaking reforms is not easy. The central objectives for the EU are to help Jordan address its national challenges, improve the welfare of the population and develop a strengthened partnership with the EU.

The strategic interest of Jordan for the EU lies on the country's willingness to undertake political and economic reforms and the positive influence it can bring in the region to promote reforms and contribute to peace and stability.

The ENP framework can offer comprehensive support to accompany the modernisation process. Building on good co-operation under the MEDA programme, and a generally satisfactory pace of programme implementation, the impact of the financial assistance can be maximised by:

- focusing on Jordan's own reform agenda, to ensure ownership;
- contributing to the implementation of the Action Plan and increasing the consistency with the different EU policies;
- supporting a limited number of objectives, by prioritising strategic sectors in which the EU has developed good co-operation with Jordan.

Given the ambitious agenda of the ENP and the extent of Jordan's challenges, the EU must strengthen its co-ordination mechanisms with other key actors in the country in order to succeed in achieving these objectives.

2. JORDAN'S CONTEXT AND CHALLENGES

2.1 Political situation

The Hashemite Kingdom of Jordan is a constitutional monarchy ruled by King Abdullah II. Jordan's Constitution was adopted in 1952. Jordan retains some principles of a parliamentary regime. However, the Constitution gives the King a high degree of legislative and executive authority. The last multi-party parliamentary elections were held in June 2003 and municipal elections the following month. In the Chamber of Deputies, which is elected to a 4-year term by universal suffrage, a number of seats are reserved for Christians, various minorities and a quota of women. Since parliamentary sessions were resumed in 2002, Jordan has experienced several changes of government. This characteristic of the Jordanian political landscape shows the difficulty facing the reform process, compounded by conservative pressures and tribal affiliations, and, more generally, by the exigencies of governing in a volatile regional situation. The current parliament includes representatives of the main political tendencies in Jordan, but the role of political parties needs to be reinvigorated.

The efficiency of the public sector has improved in recent years, further consolidated by the launching of a Public Sector Reform Strategy in November 2004. The strengthening of the audit bureau and the establishment of an anti-corruption commission are also contributing to increased transparency and accountability in the administration. Jordan's rank in the 2006 Transparency International Index is 40, the best performance in the region, and has adopted an anti-corruption law in October 2006.

Jordan is perceived as one of the most advanced countries in the region in terms of political reform, though it has yet to produce a fully representative and democratic system. It is trying to intensify efforts, in particular in priority areas such as: the independence of the judiciary, the reform of political parties and election law, equal treatment of women and developing independent media. Political reforms have so far led to progress in a number of areas, but the government is facing increasing difficulty in getting reforms through the current parliament.

Jordan has ratified the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW, 1979) but kept reservations on three articles (related to nationality rights, right to choose the residence and domicile, rights during marriage and its dissolution, rights and responsibilities as parents, irrespective of the marital status, right to choose a family name, a profession and an occupation). Violence against women and, in particular, crimes committed in the name of honour, remains a serious cultural issue in spite of government efforts to eliminate legislative loopholes in this field. However, the development of a modern role for women in the political and economic spheres is considered a priority by the Jordanian authorities.

While the Constitution provides for freedom of the media, there are a number of restrictions under the 1998 Press and Publications Law. The government has recognised the need to increase the independence of the media and to reduce government control of the media. The first measure adopted in this regard has been the dissolution of the Ministry of Information, replaced by a Higher Media Council. Steps have been taken to increase the freedom of the media, including legislative amendments and the creation of an institution to promote this venture. A new press and publications laws has been drafted, with the objective to not allow condemnation of journalists for the opinions expressed. Quality and professionalism of journalists should also be improved, in parallel of a better independence.

Jordan has ratified most of the core UN Human Rights Conventions. However, it has not signed the Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming to abolish the death penalty. The National Centre for Human Rights (NCHR) was established in 2002, to facilitate Jordan's accession to human rights conventions and ensure the compatibility of its national legislation with its human rights commitments. The NCHR is also responsible for raising awareness of public freedoms and democratic rights and contributes to the development of a dialogue with civil society.

In this respect, NGOs are allowed to work only in their stated specialised field and after presenting a detailed description of their planned activities and budget to the authorities. NGOs are not permitted to engage in political activities. Nevertheless, the number of NGOs in the Kingdom has increased and the government is developing a strategy of consultation with civil society. Jordan has ratified all Conventions of the ILO's Declaration on Fundamental Principles and Rights at Work except Convention No. 87 on the freedom of association and the protection of the right to organize. However, Jordan needs to effectively implement the ILO Conventions to which it is party. Some restrictions on the freedom of expression and association remain, but the creation of a Jordanian Economic and Social Committee, still debated, could pave the way for an effective national socio-economic dialogue.

Decentralisation is another government priority. A royal committee for the definition of regions has been set-up and the authorities are preparing the creation of a new administrative division at regional level and have drafted a municipal elections law, to allow for the direct election of mayors (currently appointed by the King).

As regards the Judiciary, the Jordanian government has recognised the need for further measures to guarantee its independence and to increase its efficiency. The government has recently amended the statutes of the judicial institute for the training of judges and has also modernised the court system and infrastructure. The Ministry of Justice has articulated its own strategy for reform, entitled the Judicial Upgrade Strategy (JUST), and implementation has started. International human rights NGOs expressed concerns about detention conditions, abuse and mistreatment of detainees, arbitrary arrests and detention as well as lack of transparent investigations and access to justice, but the Government is taking measures to improve judicial procedures and detention conditions. Given the regional context, security issues remain important for Jordan, especially since the November attacks. Jordan is committed to international co-operation in the fight against terrorism: the amended Penal Law increases the punishments of acts of terrorism and an anti-terrorism law has been adopted. Measures to reinforce fight against financing of organised crime are under consideration with an anti-money laundering law.

At regional level, Jordan is an important stabilising and modernising influence. Its active role in promoting political reform and its constructive and balanced attitude to the Israeli-Palestinian conflict, makes the country a very valuable partner in the Middle East peace process and in the economic and political modernisation of the Middle East. Jordan's capacity to remain proactive in the field of political development is a rare asset among the countries in the region. Jordan's objective is to become a modern Arab Islamic state reconciling Islam with modernity. In this context, it is firmly opposed to religious extremism and has been at the forefront of countering

extremist interpretations of Islam, incompatible with human rights and democracy, and aims at promoting inter-faith dialogue, especially through the *Amman Message*¹.

2.2 Economic situation

Jordan is one of the smallest countries in the region, with 5.6 million inhabitants in 2004, of whom around 79% live in urban areas. With scarce natural resources (in particular water), and a small industrial base, the services sector (contributing around 70% of GDP) dominates the economy.

Macroeconomic situation

Supported by strong export performance, Jordan macroeconomic performance has been impressive. Economic growth averaged 4.7% in the three years 2001-03, increasing to 7.7% and 7.2% in 2004 and 2005, respectively. The disruption caused by the Iraqi war remained temporary. Growth is mainly led by a vigorous export sector, in particular textiles and clothing exports to the US through the Qualifying Industrial Zones (QIZ), which give exporters duty- and quota-free access to the US market. This robust economic performance continued in 2005 driven by domestic consumer demand and supported by a booming construction and real estate sector fuelled by reconstruction in Iraq. High levels of remittances from the Gulf and growth in the services sector boosted private consumption. Exports' share of GDP is less than previous years, due in part possibly to the dismantling of the Multi-Fibre Agreement at the beginning of 2005. The terrorist bomb attacks on three hotels in Amman in November 2005 had only a limited effect on the economy, the main impact being a 30% fall in occupancy during the following months.

Since 1995, monetary policy has focused on maintaining price stability supported by a fixed peg of the Jordanian dinar to the US dollar. Inflation remained low at 3.8% but is increasing. Throughout 2005 and in early 2006, the Central Bank was tightening monetary policy and increasing interest rates in line with international rates and in view of the rapid growth of domestic credit.

One of Jordan's main economic weaknesses is its reliance on external grants to finance its fiscal deficit and make up for its inefficient direct tax system. The authorities intensified their efforts towards fiscal adjustment in the second half of 2005 under a strategy centred on eliminating fuel subsidies by 2007 and maintaining expenditure restraint. Notwithstanding these efforts, the budget deficit (incl. grants) for 2005 is estimated at 5.2% of GDP (compared to 1.7% in 2004) as grants dropped sharply and oil prices continued to rise. Supported by a strong economic growth, which boosted domestic revenues, the deficit *excluding grants* remains high (10.1% in 2005). Budgetary vulnerability has revealed the need to ensure solid revenues from taxation. Direct taxation is a complex and inequitable system, with widespread exemptions and tax privileges. One of the government's priorities is to develop a system that does not cause distortions between sectors of the economy and which minimises tax evasion, by unifying and simplifying income tax rates.

While the public debt to GDP ratio was reduced over the last years, it remains relatively high at close to 90% at end-2004. Foreign debt service also weighs heavily on government expenditure. External debt decreased to 57.9% of GDP in 2005, compared with 89.9% in 2000. The government aims to reach the ambitious targets set by the 2001 Public Debt Law, which sets ceilings for total and external public debt, respectively at 80% and 60% of GDP by end-2006.

The current account deficit (including grants) for 2005 is estimated at over 17% of GDP, compared with a surplus of 11.6% in 2003. Merchandise export growth remained robust but the trade deficit widened to US\$4.995 million (2004: 3.378) on account of a major increase due to strong domestic demand growth, higher oil prices and the high import content of exports. The evolution of the current account balance will depend on export growth, the level of external aid and capital inflows, as well as workers' remittances.

¹ The "Amman Message on Islam to Muslims and the world" was issued in November 2004. It seeks to reveal a message of tolerance and humanity; rejecting extremism as a deviation from Islamic beliefs.

The Jordanian authorities have developed a Financial Management Strategy to rationalise the preparation and implementation of the central budget, improve tax management and curb tax evasion. This will involve continuing the tax administration reform and introducing information technology and systems. This reform should help improve transparency and accountability.

Trade and private sector development²

Jordan's growth is exports-led and trade and private sector development have been central elements of the country's development strategy.

In terms of total trade, the EU is Jordan's biggest trade partner. It is Jordan's most important import partner (24.7% of Jordanian imports in 2005) and its seventh-biggest export market (3.5% of domestic exports in 2005). The US represents the largest export market for Jordanian goods (30.9% of exports in 2005), mainly due to its vigorous textiles and clothing exports to the US through the QIZ.

Exports are on the rise, but export growth to the EU is not linear and trade figures remain somewhat erratic and unpredictable. Indeed, although Jordan's exports to the EU have tended to increase, their share in Jordan's domestic exports has fluctuated around an average of 3.6%, without showing a clear trend. In addition, trade volumes remain small in absolute terms. A main weakness is that Jordan is deprived of natural resources, especially water. Another limitation is its narrow export portfolio, which calls for diversification in terms of both products and its export markets (only five of its largest country markets – USA, Iraq, India, Saudi Arabia and the UAE – account for two-thirds of Jordan's exports).

However, Jordan does enjoy some comparative advantages in the region such as a well-educated population possessing marketable skills, which has favourable implications for the further development of the service sector. The country's strategic position and good physical infrastructure present strong advantages for potential investors. As the domestic market is relatively small, Jordan generally attracts export-oriented investments. Jordan remains penalised by the lack of progress on south-south integration and would certainly benefit from an effective implementation of the Agadir agreement³.

There is considerable potential for developing modern, high-technology- industry, the most obvious being the pharmaceutical sector, which has developed well and over a relatively short time. In addition, the presence of world-class tourist attractions and a well-developed infrastructure for accommodating international tourists provides Jordan with a strong regional position in the tourism industry. Jordan could also develop its niche sectors, such as Dead Sea cosmetics and aluminium.

Jordan has made great strides in opening up and liberalising its economy, notably in investment and trade-related legislation, and in its privatisation programme. The country is relatively open to foreign investment and the investment climate can be considered generally favourable compared with the rest of the region, although both domestic and international investment decisions can be very dependent on regional security issues. Foreign investment levels have increased substantially over the last few years. The average annual growth rate in FDI in 2003-04 reached 33%. Yet EU investment in Jordan remains on the low side and investment flows have been concentrated in recently privatised industries. Obstacles remain to be removed, for example by rationalising the investment incentives scheme and effectively implementing investment laws.

The finance and banking sector is largely sound and well regulated. However, the financial services sector has not developed the range of products and services appropriate for an expanding private sector economy, although increasing competition in the banking sector is promoting greater change. The banking sector is characterised by conservatism, high liquidity and market fragmentation. Access to finance for start-ups and small companies is

² See Annex 4 for detailed information on trade between the EU and Jordan

³ The Agadir agreement is an agreement to establish a free-trade zone between Jordan, Morocco, Tunisia and Egypt.

difficult, with an emphasis on asset-based loans, often with restrictive collateral requirements. There is no effective venture capital industry in Jordan and long-term finance for companies is relatively difficult to obtain.

In 2005, a new umbrella organisation, JAED (Jordan Authority for Enterprise Development), was created under the Ministry of Industry and Trade, to ensure overall coordination of investment, trade and enterprise development operations. JAED should have a key role in defining policies, setting key performance indicators and monitoring results for the new network of related organisations⁴.

Notwithstanding the sound legal base for the private sector, a long-standing issue has been the weakness of strategic policy developments, particularly on export and investment promotion.

2.3 Social development

Jordan's gross national income per capita (estimated to be \$2 038 in 2005) is higher than the average of MEDA beneficiaries. Between 1997 and 2005 the country's Human Development Index (HDI) rose from 0.715 to 0.753 (on a scale of 0-1), an increase primarily resulting from improvements in the life expectancy and education components. Jordan currently ranks ninth out of 19 Arab countries for its HDI value. Jordan is notably one of the better-performing countries of the region in terms of life expectancy at birth (72 years old), adult literacy (91%), access to basic services and education (enrolment has reached, respectively, 91%, 80%, and 31% at primary, secondary and tertiary levels). However, with one of the highest fertility rates in the MEDA region (3.5 births per woman), and strong immigration, the average annual growth rate of Jordan's population amounts to 2.6% while the labour force is increasing at 4% per year.

Despite the good economic performance, the benefits of economic growth have not correspondingly accrued to the poor. Certain opportunities for this group have been provided by the development of the micro-credit industry. However, 14.2% of the Jordanians are still living below the poverty line⁵. Jordan has decided to devolve some responsibility for managing service delivery to the regions and municipalities, to ensure that the rural areas are given enough priority and that basic services are better covered. However, the country lacks a coherent approach to fighting poverty due to the multiplicity of initiatives, which are often insufficiently coordinated, and the variety of institutional actors dealing with this matter.

Many Jordanians are of Palestinian origin, and Jordan is the only Arab state to have granted all Palestinians the right to Jordanian citizenship. Some Palestinians continue to live in a number of refugee camps scattered throughout the West Bank and the northern part of Jordan (ten official Palestinian refugee camps are located in Jordan⁶). Here, the United Nations Relief Works Agency (UNRWA) is responsible for the welfare of the refugees, including their health and education. Though not a signatory to the UN Refugee Convention, Jordan has signed a memorandum of understanding with the UN High Commissioner for Refugees regarding the treatment of refugees and asylum seekers.

Job creation is evidently one of the main challenges for the Jordanian authorities, with the official unemployment rate increasing from 12.5% in 2004 to more than 15% in 2005. Moreover, youth unemployment remains particularly high at 30%, an acute social problem, since nearly 70% of the country's population is under the age of 29. With a labour force growing at 4% a year, creating additional new jobs for young job seekers is imperative, and the Jordanian authorities estimate that 50 000 new jobs need to be created annually even to maintain the current employment rate.

⁴ This includes in particular JIB (Jordan Investment Board) and JEDCO (Jordan Enterprise Development Corporation).

⁵ The poverty line currently stands at JD 32.6 per person per month; 777 000 Jordanians fall below this line.

⁶ These accommodate 307 785 registered refugees, or 17 per cent of the 1.7 million refugees registered with UNRWA in Jordan (source: UNRWA).

The mismatch between the output of the education system and the needs of the labour market requires a reorientation of education and employment policies. This was already a priority in the Social and Economic Transformation Plan – SETP – which will come to an end in 2006. Jordan's objective is to create, in the medium term, a knowledge-based society. With this aim, in July 2003 it developed a comprehensive five-year programme to promote education reform, the Education Reform for a Knowledge Economy (ERfKE), which receives support from important donors. To improve the quality of the public education system, the programme involves reorienting education policy, objectives and strategy by reforming governance and administration, transforming education programmes and practices, and improving the quality of education, physical learning environments and promoting early childhood education. ERfKE II, 2008-13 is currently in the planning stage.

If efforts to support educational reform have enabled sustainable outcomes to be achieved in basic and university education, there is no employment strategy to address the problems of the labour market: poor quality vocational education and training system, very low female participation in the labour market, importance of foreign migrant workers, difficulty of attracting skilled Jordanians, who prefer to emigrate to the Gulf countries⁷. Reforming the vocational training system, including the participation of the private sector, would make it more responsive to the needs of the economy, ensuring not only economic growth but also social stability.

2.4 Infrastructure, transport, environment and information society

Transport

The infrastructure of the country is well developed with transport and communications standards generally high for the region. However, Jordan is still a high-cost location in terms of logistics and transport costs, which are obstacles to improving the performance of the private sector. Several causes can be identified: state ownership of operators, red tape and monopolistic structures, lack of institutional coordination, uncompetitive road transport, onerous cross border procedures...

Jordan has developed an agenda of reforms related to the implementation of the Action Plan. However no proper National Transport Strategy has been drafted. Priorities in the field of transport are the liberalisation of the transport sector and the restructuring of state-owned transport operators. Of particular relevance are: the further privatisation of the component businesses of Royal Jordanian Airlines; the efforts to modernise the road transport sector (private and public), and the development of the railway sector on a public-private-partnership basis.

The continuation of transport sector reforms and the implementation of a comprehensive multimodal strategy are crucial for the development of an efficient transport system, which is a key factor for trade and regional integration. In this respect, the Ministry of Transport has established a Trade Facilitation Committee, with the aim of overcoming obstacles to trade flows, with the participation of different concerned institutions and ministries as well as private sector representatives. However, a trade facilitation strategy remains to be defined.

Energy

Jordan has developed an Energy Master Plan, in force since 2004. The regulatory reforms (creation of independent regulators) and the restructuring of the oil, gas and electricity sectors are ongoing ventures, although implementation of the legislative and regulatory reforms is slow. The potential of renewable energy sources and energy-efficiency measures in the Jordanian energy sector remains largely undeveloped, although it is a major challenge in a country highly dependent on oil. As regards regional cooperation, Jordan should embark on a policy of harmonising electricity and gas markets with its neighbours.

⁷ Jordan has been both a country of origin and destination for migrant workers. Skilled professionals emigrate from Jordan mainly to the Gulf States, while semi-skilled labour from Egypt, Syria and the Asian countries immigrate to the country to meet the needs of its agrarian, semi-industrial and services-oriented economy.

Environment and water resources management⁸

Jordan is one of the most water-stressed poor countries in the world, which makes availability and management of water resources a major challenge for the country. It is a socio-economic and environmental issue. Water quality is affected by untreated municipal waste-water discharge, industrial effluents, solid waste disposal and agricultural run-off. Despite a decade of major reforms and a comprehensive water strategy, the management, cost recovery and availability of water are still not fully addressed.

Deforestation, soil erosion and desertification will substantially increase if water-use trends and policies are not changed, with serious consequences for biodiversity and other natural assets and resources. As regards waste management, the increase in population, industrial activities and new consumption patterns have all contributed to larger volumes of solid and hazardous waste.

Jordan's Ministry of Environment has updated the 1991 National Environment Strategy and Action Plan with a main objective of ensuring sustainable development by mainstreaming environment into other national policies. Jordan has also adopted a number of sector-specific plans and programmes: the Water Strategy, adopted in 1997; National Biodiversity Strategy and Action Plan, adopted in 2003, and a National Strategy and Action Plan to Combat Desertification. The overall legislative framework for environmental protection is set by the 2003 Law for the Protection of the Environment.

Information society, research, innovation

Jordan has not yet adopted a comprehensive programme on the development of the Information Society, but an e-transaction law has come into effect and plans for e-Government, e-Commerce, e-Finance and for the use of information and communications technology in education are starting to be implemented. The reform of the electronic communications sector is progressing with the full liberalisation of the markets in 2006. Jordan is active in the field of research and innovation, having a network of universities and higher education institutions as well as research and technological applications centres. It is active in the international and regional scientific networks

2.5 Conclusion

Although economic and social indicators are generally satisfactory compared with the regional standards, a number of challenges remain. While Jordan is willing to undertake reforms, there are difficulties implementing them.

Jordan's challenges can be summarised as follows:

- Develop institutional administrative capacity to improve the performance of public services and promote good governance;
- Pursue the process of democratisation, increase protection and promotion of human rights, in particular women's rights;
- Ensure macroeconomic stability by *inter alia* reducing the large fiscal deficit and the burden of public debt in the face of a prospective sharp decrease in external grants and persistent high oil prices;
- Address the obstacles to increasing exports to the EU, investment and private sector development. These include the lack of effective export and investment strategies, uncompetitiveness, and financial products and services not appropriate for an expanding private sector economy;

⁸ See Annex 2 for further details of the environmental situation in Jordan

- Reduce the high rate of unemployment and the mismatch between the skills and qualifications of school-leavers and graduates and the needs of the labour market; increase the participation of women in the labour market; develop a coherent approach to reducing poverty and inequality;
- Improve efficiency and effectiveness in the management of infrastructure, in particular progress on the definition and implementation of policies in the transport (freight), energy, water supply and services sectors.

3. JORDAN'S REFORM AGENDA AND CONSTRAINTS ON IMPLEMENTATION

The National Agenda

In November 2005, Jordan has developed a comprehensive strategy of modernisation and delivered, a “National Agenda” of reforms, which develops a set of priorities and action plans in the political, social and economic fields. The chief objective of the National Agenda is “to improve the quality of life of Jordanians through the creation of income-generating opportunities, the improvement of standards of living and the guarantee of social welfare”. The Agenda was guided by the principle that this objective could be achieved by increasing the quality and effectiveness of the public administration and developing a public service focusing on results. Therefore, it is linked to the Public Sector Reform Strategy adopted in 2004.

This long-term programme should commit successive governments for the next ten years and thus address the frequent changes of governments on reforms implementation.

The National Agenda was conceived on a ‘holistic’ basis, the better to define comprehensive strategies and initiatives with a view to realising social, economic and political development. The themes developed in the document are (1) political development and inclusion, (2) legislation and justice, (3) investment development, (4) fiscal discipline and financial services, (5) employment support and vocational training, (6) social welfare, (7) education, higher education, scientific research and innovation, and (8) infrastructure upgrade.

For the presentation of the main objectives, three dimensions are developed:

- *Government policies and reforms*: the National Agenda presents a list of reforms to undertake in different fields including the investment framework, fiscal policy, good governance (building trust between citizens and institutions and adopting principles of transparency and accountability), justice (guaranteeing the rule of law and the independence of the judiciary), and employment and education policies.
- *Basic rights and freedoms*: this dimension concerns the extension of political rights (public participation in the decision-making process, strengthening the role of civil society institutions), and economic rights (strengthening the principles of social justice and equal opportunities).
- *Services, infrastructure and economic sectors*: this includes access to good-quality infrastructure, the development of human and economic resources and a more equitable distribution of the benefits of development.

Although the comprehensive nature of the approach adopted involves considering all the different sectors and their interrelations, some priorities emerge. For each of these, the National Agenda develops recommended strategies and reforms and includes specific targets to be achieved.

- Political reform and good governance are given a high priority. The National Agenda includes a number of draft laws on sensitive reforms including political parties, elections, and civil society.

- The economic reforms will be continued. Macroeconomic stability and reduction of fiscal imbalances remain a priority, with proposals for reforming the taxation system and phasing out oil and food subsidies. The Agenda also sets up objectives for developing small businesses, improving the investment environment and the competitiveness of some specific sectors.
- Improving access to infrastructure and basic services is a clear objective.
- A particular emphasis on addressing the key challenge of job creation, by reforming the vocational training system.

These reforms are articulated as steps in an ambitious process of real transformation, promoting social and economic progress for all Jordanians. However, the Jordanian authorities can face several constraints in implementing the National Agenda, including:

- Limited institutional capacity in government;
- Resistance to change from traditional forces and the difficulty of building a national consensus; need to develop public support for the reforms;
- Negligible involvement of private-sector and civil-society actors in policy making and implementing reforms;
- Lack of financial resources;
- Troubled regional political situation.

Kulluna al Urdun

To ensure a real ownership of the reform process, the authorities have developed a parallel initiative under the slogan *Kulluna al Urdun* (“*We Are All Jordan*”) aiming at bringing together various representatives of the Jordanian society⁹ to debate about the future of the country. It is intended to consolidate support for the objectives of the National Agenda, but taking into account the previous reform initiatives. A major innovation of this process is the involvement of youth in the debate on reforms, through the Youth Commission of *Kulluna al Urdun*.

Implementation of these reform plans will be done on the basis of a *three year executive programme* aiming at translating the priorities into more concrete actions, their cost being taken into account in the budgetary perspectives. The authorities also work on the definition of monitoring indicators to measure results and provide progress reports.

In the Jordanian context, where implementation remains always the real challenge, the credibility of the reform process will depend on the capacity to effectively deliver tangible benefits to the Jordanian population.

The EU’s strategy is therefore to contribute to a successful implementation of the reforms planned in the National Agenda and *Kulluna al Urdun*, which are in line with the content of the Action Plan. These documents can clearly reinforce each other, as the National Agenda articulates the priorities and the necessary specific reforms to be undertaken to achieve some of the key objectives jointly agreed in the Action Plan.

⁹ Government, Parliament, civil society, private sector, journalists, academics, municipalities...

4. OVERVIEW OF PAST AND ON-GOING EC CO-OPERATION, COORDINATION AND COHERENCE: LESSONS LEARNT

In recognition of Jordan's commitment to political and economic reform, sometimes under difficult circumstances, the EU has dedicated considerable financial resources to help it achieve its objectives. Since 1995, under the MEDA programme, more than €500 million have been allocated to Jordan, a high degree of support considering the size of its population¹⁰. The high disbursement rate illustrates the very satisfactory performance in absorbing funds and implementing programmes.

The previous CSP, covering 2002-06, identified the following priority areas: (i) trade enhancement and institution building, (ii) stable macroeconomic framework and economic reforms, (iii) social reforms and human resources development, (iv) development of infrastructure including regional cooperation, (v) strengthening of pluralism, civil society and the rule of law. Therefore, cooperation with Jordan covered a large range of economic, political and social issues, implemented through a variety of available instruments.

The preliminary findings of the audit of the MEDA programme in Jordan, prepared by the Court of Auditors, state that EU aid to Jordan has generally been relevant to the specific needs of the country. Although it is too early to assess the results of some ongoing operations, some general lessons can be outlined, on the basis of available evaluations, in order to fine tune the EU's approach for the next programming round.

An assessment of the instruments

The portfolio of projects and programmes shows a certain focus on economic reforms. With several Structural Adjustment Facilities, the EU provided support for economic and fiscal reforms to address the difficult budgetary situation. With the recently launched Sector Reform Facility (2005), support for structural reforms also targets improvement of the business environment. An evaluation of EU assistance to Jordan in the field of governance (2005) concluded that budget support could do more in the area of public-finance management and public accountability, which are of high importance for the success of Jordan's public-sector reform programme. Budget support has also been provided for the social sector, with a sectoral programme for poverty alleviation through local development (2004), in line with the methodology of Sector-Wide Approach Programmes (or SWAPs).

Budget support has proved a good instrument for supporting national strategies, increasing national ownership and facilitating a structured policy dialogue on broad reforms, and will be a privileged instrument in future co-operation. However, as highlighted in the Court of Auditors report on the MEDA programme in Jordan (2006), the success of the reform programmes depends on the existence of a clear commitment and an agenda for implementing reforms, and which can therefore be reinforced through capacity building measures. Indeed, improving the institutional capacity of the Jordanian administration accelerates the implementation of reforms.

To address this issue, different capacity-building operations have been provided through the SAAP (the Programme to Support the Implementation of the Association Agreement), a flexible and demand-driven programme. In this context, a number of twinning arrangements between Jordanian and EU institutions have been concluded in the fields of: standards and certification, veterinary and phytosanitary inspection services, customs, trade-policy capacity building, etc. The flexibility of such programmes and the relevance of twinning operations are generally appreciated by the Jordanian authorities. This kind of operation could be now extended to all the different priorities of the Action Plan. The experience so far with the SAAP demonstrated the relevance of a field-based mechanism, notably to ensure ownership, which could call for more decentralisation.

Technical assistance has also been provided in different fields, to develop the capacities of Jordanian social and economic stakeholders. The EU has been able to make a difference in developing the private sector, notably through the Euro-Jordanian Action for the Development of Enterprise (known as the EJADA programme), which

¹⁰ Based on 2001 population figures, commitments amount to €40 per capita for the period 2000-04.

provided a range of support for small and mid-sized businesses. The final objective of this programme, which will end in 2006, was to set up a Jordanian institution (JUMP, Jordanian Upgrading Modernisation Programme) to take over its activities. This example highlights the importance of having sustainable operations that build on Jordanian institutions. This objective will be maintained in future cooperation.

Sectors of cooperation

A general perception, notably in the EU Member States, of past and on-going co-operation is that, although it covers the three main areas of the Euro-Mediterranean partnership - political, economic and social reforms - political reform and support for civil society and socio-economic dialogue have not benefited from a large share of funds. The feeling is that a better balance needs to appear in the NIP 2007-2010.

The EC financed two programmes on political development and human rights in the 2002-2004 and 2005-2006 NIPs. The *Sharaka* programme (2002) consisted of support to NGOs and allowed the EU to carefully engage with a selected group of civil society organisations. For the programme on human rights and democracy (2005), a different strategic approach was adopted, involving a wider governance agenda of dialogue and collaboration between government and civil society. The 2005 evaluation of EU operations in the field of governance in Jordan concluded that the EU had gained experience in governance issues and should continue to provide support for civil society organisations with the objective of empowering civil society as a governance actor. Given the ambitions of the National Agenda in this field, the EU aims to develop this support, to create more opportunities for non-state actors to participate in political dialogue.

As underlined above, economic and trade issues have been predominant targets of the EU's financial assistance. The Court of Auditors' report and the evaluation of economic cooperation between the EU and Mediterranean countries (2003) assessed the relevance of the support provided in Jordan to private-sector development through technical assistance projects and to macroeconomic policies via budget-support programmes. A number of recommendations emerged, such as the need to help the authorities design national strategies, the relevance of a comprehensive approach and the importance of bilateral action for trade facilitation. These will be taken into account. The objective in this field will therefore be to ensure continuity with ongoing assistance by building on Jordanian institutions and to combine different instruments to promote economic and trade reforms. The link between transport reform and trade development should be enhanced.

On social issues, ongoing cooperation focuses mainly on poverty alleviation. It is too early to assess the impact of this programme. However, parallel EU action is beginning in support of another key social priority, developing human resources. In this field, together with a number of donors, the EU supports the Education Reform for Knowledge Economy project (ERfKE). Continuing EU cooperation in this field needs to be considered, taking into account the need to reform the vocational training system, which does not receive any substantial financial or technical support.

EU cooperation has also included support to water-sector reform, in close coordination with other active donors. Given the considerable needs in this area and the socio-economic impact of insufficient water resources, continued support by the EU must be considered.

The EU has not been very active in the energy sector. Support for regulatory reform has been provided but there is a need for a strategy on energy efficiency and alternative energy, a key challenge in Jordan, highly dependent on oil and therefore vulnerable to oil prices. Given the strategic importance of energy issues, the EU intends to become more visible in this field.

It is important to note that since the ENP was launched, the dialogue held in the sub-committees has also facilitated a better targeting of ongoing financial assistance on identified needs and priorities. It is therefore important, under the ENP, to improve the linkage between the identification of projects and the dialogue between the EU and Jordan.

Donors' coordination

In the field, the overall coordination, harmonisation and alignment of donor efforts is led by the UN, in close cooperation with the Ministry of Planning and International Cooperation and the different line Ministries. The "Donor/Lender Consultation Group (DLCG)" process initiated in Jordan in 2000 aims to facilitate dialogue on priorities and programmes in Jordan, reviewing assistance to the country and improving the harmonisation of operational activities with a view to maximizing their effectiveness and efficiency. This mechanism thus ensures coordination between Member States, as well as USAID, the UN and other active donors, such as Japan. The DLCG has established six thematic groups: education, social development, private sector reform, environment, water, governance and public-sector reform. The EU and its Member States are actively involved in the different groups and technical committees, chairing plenary sessions and coordinating meetings with the government.

Cooperation with EU Member States is effected through monthly meetings chaired by the EU, focusing on overall coordination issues, with a special emphasis on establishing an "EU road map for donor harmonisation and alignment".

Coordination with the World Bank and EIB is achieved under the Strategic Partnership Agreement between the three institutions, launched in 2004. Jordan was a pilot country for this partnership, which involves dialogue during the different phases of the project cycle, information sharing and defining complementary operations.

The US is the major donor in Jordan, notably through massive budget support (US\$ 996 million disbursed since 1997) and cooperation embracing technical and political dialogue. In this respect, the US and EU cooperation programmes have common features in that their support encompasses both financial assistance and a wider political and economic partnership. Given

5. THE EC RESPONSE STRATEGY

5.1 General principles of the EC strategic approach and priority objectives

Jordan's key strategic importance for the EU lies in its commitment to reforms, openness to political development, potential for deeper economic relations with the EU and willingness to cooperate with the EU in promoting reform in the region. The objective of the EU strategy for Jordan is to prepare a privileged partnership going beyond cooperation to a new level of deepened political cooperation and economic integration.

The strategic response must be both linked to Jordan's priorities and fully consistent with other EU policies. This consistency is ensured by the ENP policy framework. Indeed, the Action Plan represents a single framework for EU relations with Jordan, and the results of the EU-Jordan dialogue on implementing the ENP Action Plan - which involved the different services of the Commission - have guided the selection of priorities.

In this context, the response strategy must help support the implementation of the National Agenda, to improve standards of living and ensure social welfare for the Jordanian population. As underlined, Jordan's reform agenda is ambitious. Its implementation faces substantial constraints and capacity limitations. Therefore, in addition to targeted technical and financial assistance, the ENP will offer a number of opportunities to support the implementation of the Action Plan, such as trade openings, a stake in the internal market, participation in some Community programmes, and the opportunity to benefit from TAIEX seminars. These elements introduce a real innovation to our cooperation with neighbouring countries and represent another step towards integration with EU policies. They place new forms of support at Jordan's disposal. To benefit fully from these different types of participation, the synergies between the financial assistance and the other "ENP incentives" must be enhanced.

In the medium term, the EU's strategic approach offers the prospect of a New Neighbourhood Agreement, which will contain provisions for "privileged partner" status at the end of the implementation process for the first Action Plan.

In summary, the ENP thus offers a good framework within which to support Jordan's modernisation process. In this context, the EU will try to focus on a limited number of priorities, selected on the basis of the following principles:

- EU strategic interest and consistency with other EU policies
- Consistency with the National Agenda, Kulluna al Urdun and national goals
- Linkages with the conclusions of the sub-committees regarding the implementation of the Action Plan
- Strategic approach to donors' coordination, harmonisation and alignment, favouring a limited number of key areas where the EU has a comparative advantage and identifying possible areas of complementary or joint support with other donors, in particular the EU Member States and the European Investment Bank.

In this context, the main objectives of the EC strategy for Jordan for 2007-2013 are:

1. Supporting Jordan's political and security reform in the areas of democracy, human rights, good governance, justice and the fight against extremism
2. Developing further trade and investment relations: exploiting the full potential of the free movement of goods and services; preparing Jordan's participation in the internal market; improving trade logistics and transport
3. Ensuring the sustainability of the development process, with better management of human and natural resources
4. Further building the capacity of Jordanian institutions, by investing in strengthening public administration, ensuring financial stability and supporting regulatory approximation with EU legislation.

5.2 Analysis of priorities

The ENP offers a general framework in which financial assistance is part of a coherent offer of opportunities. For the selected priorities, while the support offered can be manifold, financial assistance is conceived as the main tool for achieving objectives common to the EU and Jordan.

Strategic objective 1: supporting Jordan's political reform including democracy, human rights, good governance, justice and co-operation in the fight against extremism

Jordan's commitment to political reform was illustrated by the establishment of the first sub-committee on human rights and democracy in 2005. This was a step towards an enhanced political dialogue between the EU and Jordan and enabled priorities for cooperation to be identified. Progress in implementing priority measures is jointly monitored.

Jordan is also a valuable partner in the fight against terrorism. Following the terrorist attacks of 9 November 2005, the Jordanian government is even more determined to develop its cooperation with the EU in the fight against terrorism and to actively promote the *Amman Message* to counter interpretations of Islam, disrespectful of human rights, in both the country and the region.

Jordan's initiatives to promote national dialogue and prepare a culture of democracy can build trust in the Jordanian population and therefore have a positive impact on the government's capacity to promote reforms. Jordan's path to democracy can also have a positive influence in the region. Therefore, promoting political

reform and strengthening cooperation in the fight against terrorism and radicalisation are priorities shared by Jordan and the EU.

However, located between two major conflict zones, Jordan's path towards democracy and greater respect for human rights is not an easy one. Attempts to destabilise the Kingdom through terrorist attack illustrate Jordan's vulnerability in this field. The country's capacity to modernise and democratise is also challenged by certain conservative pressures and the difficulty of alleviating the situation of the poor. Hence, the process of political reform appears fragile and the EU's support will be essential in promoting successful development in this field.

The defined approach involves providing financial assistance to support the agenda of political development. In this context, the EU will target financial assistance on Jordan's priorities for political reforms: free media development, participation of civil society, support for an independent judiciary, human rights (in particular women's rights) and the fight against radicalisation. On justice and security matters, in addition to specific activities financed by bilateral assistance, seminars to follow-up the conclusions of the justice and security sub-committee will be considered.

In addition, in view of the forthcoming electoral calendar in Jordan, the EU and Jordan can consider cooperation in areas related to electoral assistance, including in support of the Jordan electoral authorities and civil society.

Cooperation between the EU and Jordan will also include collaboration between Jordan's law enforcement bodies and EU networks and Community programmes.

Strategic objective 2: developing further trade and investment relations

Trade and investment have already helped enhance Jordan's access to a wide range of goods, services, technologies and knowledge. By stimulating private sector activity and attracting private capital, they contribute to job creation, and therefore generate resources for poverty reduction. Trade and investment liberalisation should remain the basis of Jordan's development strategy in the future.

The analysis of Jordan's trade performance in section two brings to light three important characteristics. First, the volume of Jordan's exports to the EU remains small and leaves room for improvement. Secondly, given the large share – more than 70% - of the service sector in Jordan's economy, trade in services should be designated a growth area. Thirdly, Jordan would benefit from further trade diversification both in its export portfolio and markets.

Over recent years, Jordan and the EU have made significant efforts to increase trade volumes and expand trade and investment opportunities. Liberalisation of trade in industrial goods is nearing completion, particularly once the one outstanding category of industrial products will have been subjected to a tariff dismantlement scheme as provided for in the AA. The EU welcomes the upgrading of the Jordan-Israel Trade and Cooperation Agreement in 2005 and the adoption by Jordan of the Pan-Euro-Med Protocol of Origin. This will allow Jordan and the Med-Partners with which it has concluded a Free Trade Agreement to benefit from Pan-Euro-Med cumulation of origin. The EU and Jordan have also concluded negotiations on the liberalisation of agricultural products, practically concluding the liberalisation of all goods. Trade of fishery products remains to be liberalised.

Given the large share of the service sector in both the EU and Jordanian economies, liberalising trade in services and right of establishment with Jordan is a strategic priority for the EU. The EU is the world's leading provider of and largest market for services. Gains stemming from liberalisation are potentially considerably greater than those from the liberalisation of trade in industrial goods. Services liberalisation will provide Jordan with access to the EU services market, the largest in the world, and the country will also benefit from EU service technologies and investment from the establishment of EU services providers in Jordan. Jordan is part of the 'first wave' of seven Mediterranean partners¹¹ having officially opened negotiations on the liberalisation on

¹¹ Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority and Tunisia.

services and the right of establishment at the Euro-Mediterranean Trade Ministerial Conference in Marrakech on 24 March 2006.

To help diversify Jordan's exports, a central element in the ENP is the objective of 'a stake in the internal market'. The main priority in this field will be to develop a uniform regulatory approach both in the area of trade in services and for trade in industrial products as barriers to trade relate to diverging regulatory frameworks than to tariffs. For industrial products, the development of common regulatory standards will lead to a Euro-Jordan market for such products. For the harmonised areas, a flexible application of the Agreements of Conformity Assessment and Acceptance of industrial products (ACAA) will apply to the priority sectors identified by Jordan. The implementation of the ACAAs will require the partner country to have aligned its own legislation with and implemented the relevant EU legislation for the selected sectors as well as the upgrading of the necessary quality infrastructure. Technical assistance could provide the necessary support and the possibility for increased participation in the activities of CEN/CENELEC/ETSI¹² will be examined. For the non-harmonised areas, the EU will examine the possibility of defining mechanisms to support free movement of goods, once specific problems have been clearly identified.

The Euro-Mediterranean Charter for Enterprise, endorsed by Jordan in October 2004, constitutes a tool for structuring policies in support of small and mid-sized businesses and private-sector development and to increase the participation of the private sector in the formulation of enterprise policy. At the Caserta Ministerial Conference in October 2004, Jordan committed itself to implement the Euro-Mediterranean Charter for Enterprise, and to participate in the reporting process on the Charter implementation. Improving business conditions by implementing this Charter is particularly important in the priority areas identified by Jordan, namely education to boost entrepreneurship, easier access to finance, business-support services of high quality, and innovative capacity among small businesses.

In addition to these policies, further financial and technical support to develop trade and investment is needed to fully exploit the potential of economic relations between Jordan and the EU. The objective is to provide a comprehensive package of assistance, which can include technical and financial support to businesses, in terms not only of market access, but also of innovation and technology transfer, as well as institutional support for investment and export-promotion institutions. The organisation of a business-to-business dialogue can also help develop trade and investment relations between Jordan and the EU.

Finally, to facilitate trade and to give Jordan a real possibility of having a stake in the internal market for industrial goods, it is important to improve and expand the transport networks, in order to facilitate Jordan's connectivity with its neighbours and the EU. EU financial assistance will provide support the development of a trade-facilitation strategy which would include reform of the transport sector and improvement of customs and trade procedures. This will include support for a transport strategy. In line with the work of the High Level Group on extending the trans-European transport network to neighbouring countries, an opening of relevant Community programmes to complete the Euro-Neighbourhood networks will be considered. Jordan should also continue its active participation to the established framework of Euro-Mediterranean co-operation on transport.

Strategic objective 3: ensuring the sustainability of Jordan's development process

Jordan needs to ensure that its development is sustainable by investing for growth, i.e. in better management of human and natural resources.

Further development of the Jordanian education and employment strategies is essential for promoting a technologically skilled and adaptable Jordanian workforce capable of absorbing the economic challenges facing the Kingdom and ensuring the development of the private sector. Moreover, addressing the major problem of unemployment has now become a central objective for improving the quality of life, ensuring the support of the

¹² CEN is the European Committee for Standardisation; CENELEC is the European Committee for Electrotechnical Standardisation and ETSI is the European Telecommunications Standards Institute.

Jordanian population for the reform process and reducing social tensions and inequalities. Indeed, poverty and unemployment are highly interlinked issues. Along the lines of the reform agenda, the EU will provide support to address the issue of labour market imbalances.

The ENP framework offers the possibility of developing people-to-people actions and exchanges. This includes reinforced participation in the Tempus programme, support for reforms of the higher education system aiming in particular to enhance quality and gradually converge with the European Higher Education Area. It also includes participation in the Youth programme, increased exchange opportunities for Jordanian nationals through the Erasmus Mundus programme, a new system of scholarships, and the promotion of European studies. Actions to facilitate networking, mobility of researchers and collaboration with EU research and technical organisations will be planned in the context of the 7th EU Research and Development Framework Programme). The European Commission and Jordan also plan to start negotiations on an agreement on scientific and technological cooperation.

Regarding public health, co-operation on the surveillance and control of communicable diseases would serve a mutual interest.

For the government of Jordan, upgrading infrastructure continues to be a priority enabler for social and economic development, starting with capacity expansion and operational enhancements in the water sector, securing stable, cost-effective, and increasingly environmentally-friendly energy-supply sources and establishing the basis for sustainable social and economic development. In view of the long-term perspective of educating people on how to better manage their natural resources as part of their daily livelihood, education for environmentally sustainable development and public awareness will be further reinforced within educational curricula and the policy-making process. On water management, a holistic approach is essential to protect water resources from industrial and urban contamination, manage water services and consumption patterns efficiently and promote water re-use, especially in agriculture. Waste management, air quality in urban and industrial areas and nature conservation are other environmental issues requiring immediate attention.

In addition, cooperation on renewable energy sources and energy-conservation practices (energy-efficiency measures) could help reduce Jordan's dependency on oil, promoting a knowledge economy and facilitating the use of renewable resources widely available to Jordan, such as solar and wind energy.

As regards environment, co-operation will be enhanced by the Horizon 2020 Initiative.

Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financial institutions in the fields of environment, energy and transport. Whenever interest rate subsidies are considered, their relevance shall be assessed on a case-by-case basis and care should be taken to avoid significant market distortions. As regards environment, relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources and energy efficiency. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, energy security of supply) and it appears difficult to get a project started, targeted subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other blending schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links necessary for their completion.

The impact of financial assistance on infrastructure development can be enhanced by approximating EU environmental, water and energy policy, and the possibility of participating in relevant Community programmes under the ENP.

Strategic objective 4: supporting institution building, financial stability and regulatory approximation

As underlined above, the limited capacity of Jordan's public institutions, civil society actors and social partners could slow the modernisation process and the implementation of the National Agenda. The authorities plan to establish a system to monitor the implementation of the National Agenda, involving all key actors. In parallel, the strengthening of Jordanian institutions, bodies and organisations is a general objective, which can help the country meet the different challenges in the three key strategic areas identified.

Improving public-service delivery and assessing public sector performance are priorities for Jordan, as illustrated by the adoption of the Public Sector Reform Strategy in 2004. The ongoing Public Financial Management Strategy was designed to be in clear synergy with the Public Sector Reform and aims to improve resource allocation as a contribution to stabilising public finance and reducing the fiscal deficit. The EU aims to support Jordan's policy to improve the budgetary situation, since a sound macroeconomic framework is a shared strategic interest of both the EU and Jordan and one which will also improve the quality of the business environment. Therefore, the EU will support the Public Sector Reform, including issues related to public financial management, to ensure the financial sustainability of the reform agenda.

In addition, the EU-Jordan Action Plan identifies a number of areas where regulatory approximation and convergence towards EU legislation and values can be relevant. This requires specific capacity building in Jordanian institutions. The EU has adequate instruments to cooperate in capacity building, including the twinning arrangements, and will provide financial assistance to support the building of human and social capital, legislative reform, assistance for strategy and policy making, and implementation. Institution building at the local level can also be considered.

In addition to this bilateral cooperation, TAIEX seminars will be also organised, to further present EU law in the fields where approximation with it can be considered. This will reinforce the impact of financial and technical cooperation.

These different instruments will be used to provide support in the different areas of cooperation under the Action Plan.

5.3 Complementarity and consistency with the Regional Strategy Paper and other ENPI programmes

The *regional ENPI programme for the southern neighbourhood* will help achieve objectives outlined in this strategy, as some activities implemented at regional or sub-regional level can provide added value or complementarity with bilateral operations.

On political development issues, bilateral assistance can support the implementation of political reforms, while regional activities will include support for creating regional networks and platforms for civil society organisations (complementary to the creation of national platforms at the national level), and media networks. Dialogue between cultures can also be approached at regional level, in the context of the Anna Lindh foundation.

Cooperation on justice and security issues is a shared priority for the EU and a number of southern neighbourhood partners. Regional activities will include judicial cooperation on cross-border issues, organised crime networks and human trafficking, as well as sharing best practice. This will be complementary to action undertaken bilaterally with Jordan, which will focus on institutional strengthening and implementing national strategies.

To usefully complement bilateral assistance on trade and private sector development, regional co-operation will contribute to developing south-south trade and regional co-operation initiatives, including support for the implementation of the Agadir agreement. Regional action on transport and energy will concentrate on trans-national activities (south-south and north-south connections), notably implementing and harmonising the Euro-Mediterranean regional markets transport network, while bilateral assistance can emphasise regulatory

reform and national strategy. Regional cooperation on environment will take into account the general goals of the Horizon 2020 Initiative, and include collaboration with the European Environment Agency.

Some activities could be usefully planned at the sub-regional level of cooperation, in particular, cooperation between Jordan, Israel and the Palestinian Authority in the fields of water and environment, trade and transport facilitation, and research.

In addition to the bilateral and regional budgets, two new programmes will be available. The *ENPI interregional programme* will include activities that will be implemented in the same way for all the neighbouring countries. This programme will mainly finance TEMPUS and the new Scholarship Programme, as well as TAIEX activities. In addition, the new *thematic programmes* will include in particular the **European Instrument for Democracy and Human Rights**, which will support non-governmental organisations working on human rights and democracy issues. Jordan could also usefully benefit from some other thematic programmes¹³.

5.4 Donors' coordination

Donors' coordination, harmonisation and alignment mechanisms in place in Jordan will be maintained. The activities of the different donors should generally be in line with the orientations of the National Agenda, since the Jordanian authorities have presented their priorities to the Donor/Lender Group in Jordan and requested the support of the different donors.

In this context, it appears that the Member States¹⁴ and the European Commission share views on priorities for cooperation. A number of Member States have identified capacity building as a priority (Greece, the Netherlands). Some will focus on good governance, women's rights, strengthening of civil society (the Netherlands, Spain, Sweden, UK), while France will concentrate on economic and administrative reforms. Cooperation on water management is important for several active donors in the EU, including Germany, France, Italy and Spain. Education also remains another important priority for some Member States who support the ERFKE reform (notably Germany). Finally, additional activities in the field of culture, science, tourism and health are planned by various Member States (Belgium, Hungary, Poland and Spain).

As the cooperation activities of the EU and its Member States generally target some common areas, a regular dialogue will be ensured. The monthly EU coordination meetings will, of course, continue and will contribute to the establishment of an EU Road Map for donor harmonisation and alignment. In addition, Member States are involved in the EU dialogue with Jordan on the ENP in the different sub-committees and can therefore be regularly informed about Jordan's progress in implementing the ENP Action Plan.

Coordination with the EIB has taken form of laying down priorities, to identify areas where complementary support could be provided. A joint meeting with the Jordanian authorities has taken place to identify mechanisms for enhancing co-operation, to improve the efficiency - and the visibility - of the two EU institutions. Common areas of interest are: energy, water, trade and transport facilitation, private sector development, and human resources development.

Exchanges with the World Bank have taken place in order to create synergies between the CSP and the Bank's Country Assistance Strategy (CAS), both of which were in process of being prepared during the same period. There is an opportunity for synergy between the EC and the World Bank assistance in the field of public sector reform, where the funding from both could be mutually reinforcing.

¹³ The other thematic programmes are: "non state actors and local authorities in development", "investing in people", "environment and sustainable management of natural resources", "food security" and "migration and asylum".

¹⁴ Further information on Member States' cooperation with Jordan can be found in Annex 4.

As underlined in section 4, given the importance of US co-operation and the existence of common interests, coordination with USAID will be enhanced. Priorities for US assistance to Jordan for the period 2005-2009 are (i) economic opportunities, (ii) water-resources management, (iii) democracy and governance, (iv) education and (v) health. Mechanisms for coordination between the two donors will be strengthened to increase synergies and the alignment of programmes in areas of common interest (democracy and good governance, trade, private sector development and water management).

5.5 Risks and conditions

The implementation of the proposed strategies and interventions are subject to certain risks, notably linked to regional political and economic developments. Indeed, Jordan's internal stability is clearly linked to progress in the Middle East Peace process and stability in Iraq.

Any deterioration in the perception of Jordan as a politically and socially "stable" country could have a negative - economic and political - impact. It would affect the investment climate and lead to a slowing of foreign investment, impacting negatively on macroeconomic stability. It could also change the priorities of the government. In this context, the terrorist attacks of 9 November 2005 highlighted Jordan's vulnerability, in particular given the growing extremist views in the region. Persistent inequality and poverty would increase the risk of social instability.

Progress in implementing reforms is also very dependent on the existence of a national dialogue and on the degree of consensus on the reforms. The consultation process developed in the context of the *Kulluna al Urdun* initiative represents a significant step in this direction, but some resistance might still exist in the future. Strong divergences of view on the reforms and the difficulty in maintaining a dialogue between all sections of Jordanian society on the process of modernisation would represent a major obstacle to the effective implementation of the different strategies set out in the National Agenda.

The budgetary situation is also a real source of concern. In a context of continuing high oil prices and lower aid (hence tighter constraints on the budget), the government could be induced to curtail some of its more ambitious reforms. The overall economic situation in the industrialised countries as well as the Gulf will also have an influence on the inflows of capital to Jordan and the remittances of Jordanian migrant workers.

As underlined above, the capacity to implement reforms should be reinforced if their benefits are to be fully realised. It is therefore important that the Jordanian authorities give a high priority to reforming the public sector.

Finally, the strategic approach and selection of priorities are in line with the content of Jordan's reform agenda and aim to facilitate its implementation. This presupposes that the Jordanian government provides its own support for this ambitious initiative. It is therefore very important that there is no substantial change to the framework for the country's modernisation process, policies are oriented towards its implementation and effective benefits can be demonstrated to the Jordanian people.

This Country Strategy takes into account the risks to which Jordan is subject and proposes a programme of assistance to help the country diminish its exposure to such risks. It thus includes targeted support for those sectors most exposed to the identified risks (especially trade enhancement and institution building, macroeconomic stability and economic reforms, and social stability), while preserving and enhancing respect for human rights, civil society and the rule of law. The selected themes of cooperation can boost Jordan's efforts to reduce its vulnerability.

6. NATIONAL INDICATIVE PROGRAMME 2007-2010

Different programmes and operations can contribute to the achievement of the strategic objectives listed in section 5.2 and will be covered by the bilateral allocation of EC financial assistance under the new ENP instrument during the period 2007-2010.

A significant part of the assistance will be allocated as a variable 'reform' premium to encourage the progress on reform, in particular political reform. Jordan should also be encouraged, along with other southern Mediterranean partners, to take advantage of this 'Governance Facility', launched at the EuroMed 10th Anniversary Summit in 2005, which will deliver increased funding to better-performing partners. If Jordan qualifies for this additional support, further co-operation can be considered in one of the four priorities, in line with the Action Plan and the National Agenda.

On-going and past co-operation with Jordan used a large range of instruments. Adequate tools will be selected at the identification phase. In this NIP, the projects' description can suggest, when possible, to favour the use of budget support, including sector approaches. In this context, it is important that there is a common understanding with the Jordanian authorities of the conditions for using this instrument. It requires the existence of a stable macro-economic management, a national policy reflecting a commitment to convergence with the European economy, a good quality of the public finance management system, as well as the definition of agreed performance indicators to measures and review progress. In addition, following a *sector approach* supposes the existence of an approved sectoral policy document and overall strategic framework, a sectoral medium term expenditure framework and an annual budget and the definition of a co-ordination process amongst the donors in the sector, led by Government. Other instruments can be used, including technical assistance, twinning, and interest rate subsidies -which can leverage investments by international financing institutions in the fields of environment, energy and transport-.

An appropriate monitoring system will be put in place for the different planned operations, to review progress. This supposes to address the need for baseline data and accurate statistics (notably social statistics, trade statistics, statistics on energy and on supply, use and quality of water) to provide appropriate analytical information. It will help the government monitor the reforms' implementation, measure progress towards the targets of the National Agenda in a context of enhanced results orientation, and communicate about achievements.

6.1 Priority 1: Political reform, democracy, human rights, good governance, justice and co-operation in the fight against extremism

Political reform is a key priority in the EU-Jordan Action Plan. The EC has entered into a good dialogue on political reform with Jordan, both through the sub-committee on human rights and democracy and through the ongoing co-operation in this field. To better reflect the importance of political reform, co-operation will be reinforced to help Jordan achieve the objectives set out in the National Agenda, and will encompass the fight against extremism.

1. Support to human rights, democracy and good governance

a) Justification

Jordan has undertaken initiatives to accelerate the process of democratisation. The commitment to political reform is illustrated by the proposals developed in the National Agenda (on civil society, women's empowerment, freedom of the media, political parties, etc.). In addition, the fight against extremist interpretations of Islam and the dialogue between cultures have become very important for Jordan, as illustrated by the Amman Message, especially following the November 2005 terrorist attacks. The fight against terrorism also requires a long-term approach to tackle the roots of this phenomenon. This can be achieved by investing in public education to transmit the vision of a moderate Islam.

Two successive projects have been agreed under the MEDA programme to support certain key aspects of the democratisation process. Given the importance of these issues, increased support is necessary to ensure that these efforts are sustained and to help meet the National Agenda's objectives. The programme can therefore continue and deepen the cooperation started in 2002.

b) Programme description and objectives

In line with the human rights and good governance programme, this programme will include several components to provide support in the following fields: political environment and dialogue with civil society; preparing a framework for the development of political parties; the rules of good governance; development and implementation of national policies and legislation in line with the relevant Human Rights instruments and standards; and the development of an independent press and media.

– Protecting women's rights

The programme will help the government establish a gender mainstreaming strategy, to develop women's civil, social and economic rights and increase their participation in political, social and economic life. The strategy will be put in place across the relevant Ministries. Specific activities will be defined to help eliminate violence against women (training judges, awareness raising, support for communities and NGOs active in this field, etc.).

– Developing civil society and participatory democracy

The programme will continue support for developing the dialogue between public authorities and non-state actors. This support would help non-state actors strengthen their structure by setting up platforms, networks or umbrella organisations and expanding their capacity to interact with (a) the government and parliamentary representatives and (b) small organisations. Action to facilitate dialogue between civil society and lower levels of government (municipal councils) will be also considered. These activities could be preceded by a 'mapping' exercise to assist Jordan in determining the relevant organisations to engage on a given issue, project or strategy.

– Developing an independent judicial institutional framework

In line with the reforms undertaken in the context of the JUST strategy, the programme will contribute to strengthening the capacity of the judiciary and training judges. Specialised courts are also needed to deal with commercial and business matters (competition, intellectual property).

– Promoting the Amman Message

The programme will support a public education initiative to disseminate the content and values of the Amman Message. The programme will select priority areas in Jordan where it will help communities and NGOs to organise information campaigns.

– Supporting freedom of the media

The programme will pursue activities to develop an independent press and other media. Initiatives to help communities use the media to raise awareness on issues such as crimes against women will be considered.

– Cooperation with the parliament

The programme could support the training of members of parliament in international law, policy making, legislative procedures and human-rights and gender-related issues. The possibility of exchanges (or twinning) between the European and Jordanian parliaments can be also considered.

This programme will be implemented in the same way as the ongoing "Human rights and democratisation" programme.

c) Expected results

- Better protection and promotion of human rights, in particular women's rights;
- a more independent judiciary;
- creation of civil society platforms/networks;
- increased dialogue between civil society/non-state actors, government and parliamentary representatives;
- more independent media and better reporting;
- a reduction of religious extremism in Jordan.

d) Indicative budget

The total budget will be €17 million, with an initial budget of €7 million in 2008 and an additional commitment of €10 million in 2010.

6.2 Priority 2: Trade and investment development

The financial assistance proposed in this field will provide comprehensive support to develop trade and investment. Three mutually-enhancing programmes are planned, which will ensure better consistency between the different operations to develop the private sector.

The general objective is to develop the private sector, investment and trade, to stimulate growth in Jordan and remove the obstacles to trade between Jordan and the EU so that Jordan may fully benefit from the relevant provisions of the Association Agreement and take a 'stake in the internal market'.

1. Support for the modernisation of the services sector

a) Justification

The Association Agreements concluded between the EU and each of its Mediterranean partners already liberalise trade in industrial goods and envisage the liberalisation of trade in services and investment. During the Euro-Mediterranean Trade Ministerial Conference in Marrakech on 24 March 2006, Jordan agreed, with seven other partners, to open negotiations on the liberalisation of trade in services and the right of establishment. Potentially, Jordan stands to gain considerably more from this than it has done from liberalisation of trade in industrial goods, as it will gain access to the EU services market, which is the largest in the world.

Jordan's economy is dominated by services, which represent around 75% of GDP. It is therefore strategic for Jordan to increase the competitiveness of its services sector to benefit from the liberalisation of trade in services.

b) Programme description and objectives

In December 2005, Jordan launched a study to identify the sectors where opportunities might arise, and outline the technical assistance programme. This programme would support the private sector and the regulatory bodies for each relevant sector, in parallel with the liberalisation of services. The programme can therefore be designed on the basis of the results and recommendations of this study.

The programme will support some service sectors, including the different regulatory bodies and the reform of the legislative framework.

The specific objectives of this programme are:

- to progress towards the liberalisation of services in Jordan

- to strengthen the services sector in Jordan
- to contribute to developing the ‘stake in the internal market’ for trade in services
- to help the government of Jordan implement its negotiation strategy for the liberalisation of services

The sustainability of this intervention must be ensured by close links with the Jordanian Institutions involved in the development of trade and private sector.

c) Expected results

- Increased added value of the services sector;
- increased competitiveness;
- closer regulatory alignment to the Community acquis of Jordanian legislation;
- increased trade in services between the EU and Jordan;
- capacity to support such services as may be transferred to Jordan

d) Indicative budget

The total budget will be € 30 million, with an initial budget of € 15 million in 2007 and an additional commitment of €15 million in 2009.

2. Support to enterprise and exports development

a) Justification

The EU is a long-standing partner in supporting private sector development. The EJADA programme, with a total budget of €45 million has supported SMEs in business upgrading, export promotion, financial support (the loan guarantee scheme) and institutional strengthening (setting up a competition directorate and promulgating new competition law). Potentially the most significant achievement of EJADA is the creation of a Jordanian institution to pursue its activities: the Jordanian Modernisation and Upgrading Programme (JUMP). The EJADA programme will end in 2006 and it is important that EU assistance continue in this field in order to ensure the sustainability of JUMP.

b) Programme description and objectives

This support must fit within the new institutional framework set up for private sector development activities. The Jordan Enterprise Development Corporation (JEDCO) is responsible for promoting exports and enterprise and the Jordanian authorities plan to transfer the activities of JUMP to JEDCO, which will then also be responsible for implementing export and enterprise policies.

The objective is to help Jordan develop export-oriented activities by developing the necessary production, innovation, export and marketing capacity in Jordanian companies.

This programme will be flexible, able to provide specific technical or financial support to JEDCO’s enterprise and export development activities. It will take into account Jordan’s commitment to implement the Euro-Mediterranean Charter for Enterprise, in particular the selected priority areas (education for entrepreneurship, easier access to finance, business support services of high quality, and innovative capacity of SMEs).

c) Expected results

- Development of the capacity and autonomy of enterprises and export promotion activities in Jordan and sustained support to SMEs;
- increased competitiveness of Jordanian SMEs;
- a supportive environment in which businesses can meet the challenge of free trade;
- progress towards the National Agenda's targets for 2012: with SMEs contributing 40% to employment.

d) Indicative budget

A total budget of €15 million is foreseen.

3. Trade and transport facilitation programme

a) Justification

It is a joint objective of the EU and Jordan to facilitate trade between Jordan, its neighbours and the EU. In order to support actively the development of trade and of the private sector in Jordan, it is necessary to improve transport and trade logistics and procedures. This includes efficient transport, better coordination of trade-related issues and promoting and accepting international standards. There is a need to improve the transport services (in line with the conclusion of the Marrakech Ministerial Conference on transport) and promote the seamless movement of goods through secure international trade supply chains in line with the World Customs Organisation Framework of Standards. In this context, the liberalisation of the services sector, and of transport services in particular, are of great relevance.

The Ministry of Transport chairs a Trade Facilitation Committee involving various Ministries (Industry and Trade, Customs Department) and private sector actors. The programme should build on this initiative and help the Ministry to implement a comprehensive trade logistics and procedures strategy, for which an updated transport strategy would be a preliminary requirement.

Given Jordan's ambition to be regional hub, transport costs must be reduced, the efficiency of transport services improved, and the role, functions and capabilities of Customs enhanced in order to enable integrated supply-chain management for all modes of transport (thereby maintaining the ongoing efforts at regulatory reform). The coordination of these different issues is indispensable and should involve private sector representatives.

b) Programme description and objectives

The general objective of this programme is to facilitate trade between Jordan, its neighbours and the EU. The specific objectives are to contribute to an efficient, safe and secure transport sector and to ensure better coordination of transport and trade logistics issues.

This project will assist the Ministry of Transport and the Trade Facilitation Committee to implement a trade facilitation strategy and will support the Ministry in its efforts to set-up a framework favourable to trade and transport logistics.

The areas covered by the programme can include:

- updating the sustainable transport policy, including creating a regulatory body for the land-freight sector; liberalising cargo tariffs;
- enhancing the efficiency of the transport sector, including continuing regulatory reform, implementing multimodal transport legislation and improving management of transport infrastructure;

- upgrading the infrastructure and restructuring Aqaba port with a view to its more efficient operation; developing intermodality and multi-modal services, addressing interoperability issues;
- facilitating airfreight; further liberalising road transport;
- implementing the World Customs Organisation Framework of Standards to secure and facilitate global trade (WCO Framework);
- improving cross-border trading procedures and practices;
- improving trade procedures and simplifying trade transactions in line with international standards;
- implementing coordination between the Ministry and other stakeholders;
- strengthening the participation of the private sector in trade facilitation policy;
- promoting compliance with relevant international standards and rules.

The programme will contribute to exploring practical ways of facilitating trade with neighbouring countries, including the ability of Customs to detect and deal with high-risk consignments and increase its administrative efficiency. This will speed up clearance and release of goods in a uniform way at all customs posts and border crossing points, including those with Iraq. The programme will also ensure coordination with other activities to facilitate trade at regional level.

Finally, this programme will take into account the priorities identified by the High Level Group on the extensions of the trans-European transport networks to neighbouring countries, notably the identified trans-national axes for connecting Jordan with its neighbours.

If the conditions are met, the programme could be a sector support programme (SWAP), which can be implemented through budget support, although it might require a technical assistance component. The Ministry of Transport will have overall responsibility for managing the programme, but a mechanism will be put in place to coordinate with other the other authorities concerned (Ministry of Industry and Trade, Customs Department, Chambers of Commerce and Industry, etc..).

c) Expected results

- Elaboration and implementation of a transport strategy and a trade facilitation strategy;
- increased coordination between the different members of the Trade Facilitation Committee and with the private sector;
- reduced transport costs and more efficient transport system; stronger regulatory bodies, multimodal legislation implemented; improved framework for developing a modern logistics industry;
- implementation of the World Customs Organisation Framework of Standards to secure and facilitate global trade (WCO Framework);
- Improved trade procedures;
- development of interconnections and bigger and smoother trade flows between Jordan, its neighbours and the EU.

d) Indicative budget

A budget of up €33 million is foreseen (but the amount will be fixed on the basis of the degree of ambition of the programme and the scope of activities).

6.3 Priority 3: Sustainability of the development process

Jordan's growth is export led, but it is important not only to create opportunities for private sector development and to exploit overseas markets, but also to ensure that this growth is sustainable, by investing in better

management of the factors affecting growth, in order, for example, to promote job creation, increase the productivity and employment of human resources and conserve scarce natural resources.

1. Support to education and employment policy

a) Justification

Jordan has high unemployment, which is a major cause of poverty in the country. The creation of income-generating or employment opportunities for the growing population of young people is therefore a key challenge for the economic dynamism of the country and its social stability. In this context, an effective income-creation and employment strategies is crucial.

There is an imbalance between supply and demand on the Jordanian labour market. Priority must be given to developing a comprehensive labour market policy, based on a good governance strategy including genuine and sustainable social dialogue with the participation of all the stakeholders. In order to sustain economic growth and competitiveness and ensure that the labour market functions smoothly, a comprehensive strategy is also needed to develop human resources. In this context, vocational training deserves particular attention in view of its potential for resolving current malfunctions on the labour market.

The creation of a demand-led reorientation of vocational education and training systems is high on the agenda of the Jordan authorities. Therefore, a comprehensive sector-wide programme, consistent with the orientations of the National Agenda, can prepare and accompany a reform of the vocational training system.

b) Programme description and objectives

The aim of the programme will be to upgrade the national labour and employment strategy on the basis of the National Agenda's orientations. Special attention will be paid to demand-oriented reform of the technical and vocational education and training system (TVET). The demand-driven upgrading of vocational training and secondary vocational education is a key component in (a) a comprehensive and effective labour market policy that can improve the employability of job-seekers, and (b) in promoting general competitiveness and social cohesion. Information and counselling for job-seekers and intermediation between labour supply and demand must be strengthened to ensure the overall efficiency and effectiveness of labour market inclusion services, including vocational training. This is in line with the mandate of the Ministry of Labour and with European employment strategy including namely active labour market policies, which the ENP aims to mainstream in partner countries.

In this context, the programme will strengthen the participation of the private sector in decision making on human-resource development, in the design and management of the vocational education and training systems, and increase its involvement in the delivery of vocational training by reinforcing the Vocational Training Corporation (VTC). In particular, initial and in-service training will be strengthened by increasing the capacity and quality of on-the-job training (alternate and apprenticeship) thus improving the employability of direct beneficiaries. The programme will also support special efforts to improve access of women to the labour market and employment of women and good governance on the labour market in general.

The programme will be consistent with the reform of the education sector. It is of the outmost importance to improve the performance of basic education (by improving achievement and reducing repetition and drop-outs rates) in order to transform the vocational training delivery system into an attractive and effective means of responding to the skill needs of enterprises in key economic sectors. It is equally important that the upgrading of technical vocational secondary education is closely linked to that of the vocational training system and follows the same demand-oriented logic.

Taking into account the need for a comprehensive overview of the context and suitable operational arrangements, the programme could be a sector support programme (SWAP), which can be implemented through direct budget support, if the conditions for such an approach are met. If the Ministry of Labour has not

developed the capacity to manage such a programme, an alternative programme to improve the quality of human resources could be implemented as a supplement to the ERfKE II programme, particularly for components not covered by other donors, or to local governments.

c) Expected results

- Vocational education and training systems better adapted to the labour market;
- active participation of the private sector in the vocational education and training systems;
- greater capacity of the Ministry of Labour, the VTC and other potential and existing stakeholders;
- progress towards the National Agenda's targets by 2012: 340 000 net new employees (compared with 2006); 70% of employers satisfied with the skills of certified trainees; women accounting for 15 to 20% of the employed population.

d) Indicative budget

The budget foreseen for this programme is up to €43 million (but the amount will be fixed on the basis of the degree of ambition of the programme and the scope of activities).

2. Development of renewable or alternative energy sources

a) Justification and objectives

The reduction of oil dependency is a key objective, given that the oil sector (government-owned) is inefficient from refining to distribution and has become largely bankrupt following the recent price hike in the international oil markets. The publicly-owned company remains afloat only thanks to an important government subsidy.

While gas is an attractive substitute for petroleum for electricity production, the rise in demand is forcing the government to search for new solutions. Important institutional measures have been introduced, in particular with respect to the regulatory framework for electricity, and will soon be extended to other energy sources. In this context, the development of renewable/alternative energy sources, such as solar and wind energy is particularly important. Not only can this help to reduce Jordan's dependency on oil, all of which is imported, but it is also in line with the prospect of a knowledge-based economy banking on a growing international market and addressing an essential ecological issue.

The government's National Energy Efficiency Strategy, endorsed in 2004, stresses the importance of promoting renewable energy technologies in order to reduce energy consumption based on fossil fuels without negatively affecting production or the standard of living. This will also lower the national oil bill and reduce harmful emissions. The government also called, in its National Strategy for 2005, for greater use of renewable energy sources, in particular wind power, to generate electricity on a commercial basis. The programme can build on several past and current European and global initiatives in the area of renewable energy and energy efficiency, notably at the regional level (e.g. MENAREC, the Middle East North Africa Renewable Energy Conference, applications of thermal solar energy in the Mediterranean basin, MED-ENEC energy efficiency in buildings...).

b) Programme description

The National Agenda refers to the need for energy efficiency, yet more work is needed to elaborate a clear strategy. The National Agenda includes a target share of 2% of total energy consumption produced from renewable energy sources in 2012 and 3% in 2017, as compared to the current share of 1%. This programme will help the government to improve its research and develop better schemes for renewable energy consumption and investments.

The programme will build on current studies on renewable energy potential launched by the Jordanian authorities and on a special strategy to promote renewable energy to be designed in the light of the conclusions of the study.

The Jordanian legal framework in the electricity sector is well established, with private companies involved in both production and distribution. The regulator is building a conducive framework for new initiatives. The programme will further enhance this role and will support Jordan's strategy to attract foreign investors.

The programme will also contribute to encourage energy efficiency and demand side management.

The activities of this programme can be reinforced by linking it to the Science and Technology Agreement and by access to the Research Framework programme. It could also provide an interesting opportunity for linking European universities with Jordanian universities.

c) Expected results

- Development of renewable and/or alternative energies, resulting in an increase in the share of renewable energy sources in total energy consumption;
- increased participation of foreign investors;
- progress towards National Agenda targets for 2012: renewable energy sources accounting for 2% of total energy consumption; 20% of households using solar energy for water heating;

d) Indicative budget

The budget planned for this programme is €10 million.

3. Water management programme

a) Justification

Water scarcity remains a fundamental issue in Jordan. Better management of water resources is key for the sustainability of socio-economic development. The EU has started a good cooperation with the Jordanian authorities in this field, with the programme 'Al Meyyah' agreed in 2005. Given the huge needs in this sector, this cooperation must be continued and developed to ensure the sustainability of the actions undertaken.

Future priorities for Jordan include strong campaigns on water usage (including addressing non-revenue water, leakages etc.) and recycling water for agriculture. Currently vegetables and food crops are rarely grown with recycled waste water in Jordan. Starting to use treated waste water to irrigate food crops at national level will be a major challenge.

b) Programme description and objectives

The programme will ensure the continuity of initiatives undertaken to increase efficiency in the water sector. The programme can support the provision of services throughout the water cycle, from provision of fresh water, desalinisation, distribution and treatment, but the main focus will be on the efficient use of treated water and increasing awareness of the population to encourage more efficient and rational water usage.

Different options to reach this objective will be explored: strengthening existing efforts funded by the donor community, building dedicated small-scale rural waste-water treatment plants (WWTPs) to irrigate tree crops and expanding to cover food crops; harnessing the technology developed in the regional MEDAWATER projects and replicating this technology in specific areas, one of which could be to develop the cut-flower industry in Jordan by irrigating flowers using treated waste water. The programme will take into account the regional dimension of water management issues and the need for closer regional cooperation.

Additional support will be earmarked for a large-scale strong public awareness campaign on water usage in the country, which will specifically target a long-term change in behaviours, encouraging consumers to take full responsibility and engaging in effective dialogue with all stakeholders.

The opportunity of developing a sector-wide approach will be examined.

c) Expected results

- more rational water usage;
- increased use of treated waste water for agricultural purposes throughout the country.

d) Indicative budget

The budget foreseen for this programme is €10 million.

6.4 Priority 4: Institution building, financial stability and support for regulatory approximation

The capacity of Jordanian institutions is a key factor for satisfactory implementation of the reform agenda. Two types of support are foreseen:

- support to the Public Sector Reform Strategy and the Public Financial Management Strategy in order to make public administration more efficient and ensure a better allocation and use of public funds;
- flexible support for institution building for different Ministries and public and private actors; supporting reform and, where relevant, disseminating the European *acquis*.

1. Support to the reform of public finance and public administration

a) Justification

The EU has supported the implementation of economic reforms in Jordan through different budget support operations (three Structural Adjustment Facilities and, most recently, the Sector Reform Facility). The objective is to ensure continuity with these operations to achieve the objectives of reduction of fiscal imbalances and better resources management, a key priority for Jordan. Better management of funds is also essential to support the financial sustainability of the reform agenda.

The Financial Management Reform Strategy has been designed in the broader context of Public Sector Reform and both areas are interlinked. A comprehensive support for public finance management and public sector reforms is necessary to ensure successful implementation of the whole reform agenda.

b) Programme description and objectives

The programme will support the implementation of the Public Financial Management Strategy and the Public Sector Reform, which will constitute the two main axes of this programme. This operation could take the approach of a sector programme supporting objectives articulated around two components:

- Public finance

The objective is to support Jordan's fiscal policy objectives, namely fiscal stability and a more efficient allocation of available financial resources according to national priorities. On the basis of the Financial Management Reform Strategy currently being implemented, this programme can include key selected areas of the strategy: preparation and execution of the central budget, combating tax evasion, tax reform (notably direct

taxation) - including reform of the tax administration - information technology and systems, transparency and accountability.

The programme will also support continuation of the privatisation strategy. Objectives in the area of pension reform will be also considered.

– Public sector reform

To facilitate the implementation of the Public Sector Reform Strategy, the programme will aim at improving policy coordination and decision making, monitoring of the implementation of the reform agenda (creation of a monitoring and evaluation unit in each ministry), ensuring institutional streamlining and improving service delivery standards. Finally, the programme will support the reform of human resource management.

The World Bank currently provides support for implementing the Public Sector Reform Strategy, through a Public Sector Reform Capacity Building Loan covering the period 2005-2009. Therefore, good coordination with the World Bank is necessary.

Specific operations planned under the Support to the Implementation of the Action Plan Programme (SAPP) can be complementary to this operation.

c) Expected results

- Reduced fiscal deficit (excl. grants);
- better allocation of financial resources and budget execution;
- better results orientation, accountability, and transparency in Jordanian Ministries;
- efficient management of human resources in the public sector, and introduction of merit-based criteria for hiring and promotion;
- service delivery standards defined;
- streamlined government structures and procedures;
- progress towards the National Agenda's targets for 2012: budget deficit (exc. grants) of 3.6% of GDP, public debt of 63% of GDP, tax revenues as a proportion of total government revenues of 71%.

d) Indicative budget

The total budget foreseen for this facility is up to 77 €million, with a first phase in 2007 (€47 million) and a second phase in 2010 (€30 million), but the budget will depend of the ambition of the programme.

2. Support to the implementation of the Action Plan programme (SAPP)

a) Justification

Two programmes of support for implementing the Association Agreement (SAAP) have been implemented in Jordan and *ad hoc* support has been provided in a number of areas, notably through twinning operations. The flexibility and ownership of this type of programme make it a strategic instrument for supporting the implementation of reforms and transferring capacity to Jordanian institutions. Given the needs of the Jordanian administration, a follow-up of these initiatives is necessary. A programme of support for implementing the Action Plan could help build capacity and strengthen institutions, thereby facilitating reform in different areas of interest and, where relevant, regulatory approximation with the EU.

b) Programme description and objectives

This programme will be designed in line with SAAP I and SAAP II to constitute a comprehensive, flexible and demand-driven programme and will provide support through technical assistance and twinning arrangements. The definition of priorities will pursue a double objective: (i) to ensure continuity with initiatives undertaken in the context of SAAP I and II where necessary, and (ii) to support Jordanian bodies and institutions which need strengthening to be able to implement reform. At this stage, the following activities are under consideration:

– Monitoring reforms' implementation and public sector performance

Specific targets and monitoring indicators are developed by the Jordanian authorities to guide reforms' implementation. The creation of an evaluation and monitoring unit in each Ministry is planned, to report on the achievement of the defined objectives. It is important to reinforce the capacity of the government performance unit to implement this system.

This should be prepared in the context of the general assessment of public sector performance. Therefore, as a complement to the programme to support Public Sector Reform, the SAPP could assist the government on specific issues, such as improving human resource management in the public sector.

– Institutional support to the trade and business environment

Jordan has set up a new institutional structure for private sector development, with the creation of the Jordan Agency for Enterprise Development (JAED), aimed at increasing coordination between enterprise development, export and investment strategies. The SAPP could support JAED's policy formulation and coordination activities, and its relations with JEDCO and the Jordan Investment Board (JIB). The objective is to support the formulation of enterprise policy development and national investment and export promotion strategies.

To help overcome obstacles to trade and investment, the SAPP could ensure follow-up of the ongoing support to customs legislation and procedures, standards and conformity assessment and sanitary and phytosanitary issues (SPS). Opportunities for approximation with EU legislation could be also considered in connection with establishment and company law, financial services and markets, taxation, competition and consumer protection policy, labour law standards, intellectual and industrial property rights, public procurement, electronic communications and statistics.

– Trade needs assessment

A trade needs assessment can be particularly relevant in Jordan, given the importance of current and future trade-related assistance. However, short- and medium-term priorities have generally been identified in the context of the Action Plan. Accordingly, a trade needs assessment in 2009/2010 could be seen as a stock-taking exercise to define priorities for trade cooperation under the next National Indicative Programme.

– Institutional support to economic and social actors

The Jordanian authorities recognise the need for more inclusive consultation on policy making and the implementation of reform. However, business associations, trade unions, employers, employees and other civil society actors must be prepared to fully participate in a socio-economic dialogue. This support could target the Jordanian Economic and Social Committee, created with the support of the European Economic and Social Committee.

– Cooperation on the fight against terrorism and financing of organised crime

SAAP II will help the Suspicious Financial Transactions Unit to strengthen its capacity to prevent the financing of organised crime. A follow-up could be considered and this cooperation could be extended to other key issues related to the prevention of terrorism and organised crime. The conclusions of the seminar on the fight against

terrorism and the sub-committee on justice and security will be taken into account in defining priorities for cooperation.

– *Good governance and transparency*

Jordan is formulating an anti-corruption strategy, which is currently supported by the SAAP. Further support in this field can be considered and could address the issue of public accountability. In addition, following ongoing cooperation on external audit, it would be important to consider developing public internal financial control.

Other priorities can be defined with the Jordanian authorities to address obstacles and constraints to implementing reform under the different chapters of the Action Plan. In particular, the SAPP can respond to the needs jointly identified by the EU and the Jordanian authorities in the different sub-committees, which discuss progress in implementing the Action Plan and help identify needs for technical assistance. Further preparatory work will be necessary to clarify which instrument is the most relevant (twinning or technical assistance) for each area of cooperation.

c) Expected results

- Strengthened capacity of the different Jordanian institutions to create and enforce a legislative environment supportive of socio-economic development;
- modernisation and alignment of the Jordanian legislative and regulatory framework, notably through transfer of EU know-how;
- development of Jordanian capacity to formulate and implement strategies and national policies;
- modernisation of the procedures and organisation of the public sector and the reinforcement of consultation mechanisms with economic and social actors;
- good performance in implementing the Action Plan and the National Agenda.

d) Indicative budget

The SAPP will have a total budget of € 30 million, with an initial budget of € 10 million in 2008 and an additional commitment of 20 €million for the second phase in 2010.

6.5 Budget and Phasing of the Programme

| Priorities | 2007 | 2008 | 2009 | 2010 | Total NIP | % Budget |
|---|-----------|-----------|-----------|-----------|------------|---------------|
| <i>Political reform, human rights, justice and co-operation on security and fight against extremism</i> | | | | | 17 | 6.5 % |
| Support for human rights, democracy and good governance | | 7 | | 10 | 17 | |
| <i>Trade and investment development</i> | | | | | 78 | 29.5 % |
| Support for the modernisation of the services sector | 15 | | 15 | | 30 | |
| Enterprise and export development | | 15 | | | 15 | |
| Trade and transport facilitation | | 33 | | | 33 | |
| <i>Sustainability of the growth process</i> | | | | | 63 | 24 % |
| Support to education and employment policy | | | 43 | | 43 | |
| Water management | | | | 10 | 10 | |
| Development of renewable or alternative energy sources | | | 10 | | 10 | |
| <i>Institution building, financial stability and support for regulatory approximation</i> | | | | | 107 | 40 % |
| SAPP | | 10 | | 20 | 30 | |
| Support to public finance and public administration reforms | 47 | | | 30 | 77 | |
| Total | 62 | 65 | 68 | 70 | 265 | 100% |

List of abbreviations and acronyms

| | |
|---------|--|
| AA | Association Agreement |
| ACAA | Agreements for Conformity, Acceptance and Recognition |
| AP | Action Plan (EU-Jordan ENP Action Plan) |
| CAS | Country Assistance Strategy (<i>of the World Bank</i>) |
| CEN | Comité Européen de Normalisation (<i>European Committee for Standardisation</i>) |
| CENELEC | Comité Européen de Normalisation Electrotechnique (<i>European Committee for Electrotechnical Standardisation</i>) |
| CEP | Country Environment Profile |
| CFSP | Common Foreign and Security Policy |
| CSP | Country Strategy Paper |
| DLCG | Donor/Lender Consultation Group |
| FTA | Free Trade Agreement |
| EIB | European Investment Bank |
| EIDHR | European Initiative for Democracy and Human Rights |
| EJADA | Euro-Jordanian Action for the Development of enterprise |
| ENP | European Neighbourhood Policy |
| ENPI | European Neighbourhood and Partnership Instrument |
| ERfKE | Education Reform for Knowledge Economy |
| FDI | Foreign Direct Investment |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| ILO | International Labour Organisation |
| JAED | Jordan Authority for Enterprise Development |
| JD | Jordanian Dinar (Jordan's currency) |
| JEDCO | Jordan Enterprise Development Corporation |
| JIB | Jordan Investment Board |
| JUMP | Jordanian Upgrading Modernisation Programme |
| JUST | Judicial Upgrade Strategy |
| NCHR | National Centre for Human rights |
| NGO | Non-governmental organisation |
| NIP | National Indicative Programme |
| QIZ | Qualifying Industrial Zone |
| SAAP | Support to the implementation of the Association Agreement Programme |
| SAF | Structural Adjustment Facility |
| SAPP | Support to the implementation of the Action Plan Programme |
| SETP | Social and Economic Transformation plan |
| SME | Small and medium Size enterprise |
| SPS | Sanitary and phytosanitary measures |
| SWAP | Sector-wide Approach |
| TAIEX | Technical Assistance Information Exchange Unit |
| TVET | Technical and vocational education and training system |
| UN | United Nations |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| USAID | US Agency for International Development |
| VT | Vocational training |
| VTC | Vocational training Corporation |
| WCO | World Customs Organisation |
| WTO | World Trade Organisation |

ANNEXES

ANNEX 1: MAP



ANNEX 2: JORDAN MAIN ECONOMIC AND SOCIAL INDICATORS

| | | | |
|-------------------------|-------------|-------------------------|-------------|
| Total area: | 88780 sq km | Total population | 5.4 million |
| Urban population | 79% | Amman population | 2.1 million |

1. Key Macroeconomic indicators, Public Finance and Balance of Payments

| | 2002 | 2003 | 2004 | 2005* | 2006* |
|---|--------|--------|--------|--------|--------|
| Real GDP growth (annual percentage change) | 5.7 | 4.1 | 7.7 | 7.2 | 4.0 |
| Consumer price index (annual average) | 1.8 | 1.6 | 3.4 | 3.5 | 9.4 |
| Gross domestic investment (in % of GDP) | 20.1 | 20.8 | 24.6 | 23.4 | 22.9 |
| Gross national savings (in % of GDP) | 25.8 | 32.4 | 24.5 | 6.6 | 8.7 |
| Total government external debt (in % of GDP) | 78.9 | 74.8 | 65.5 | 57.1 | 49.1 |
| Government & government guaranteed debt (in % of GDP) | 97.2 | 98.1 | 87.6 | 83.7 | 72.9 |
| Gross usable international reserves (\$ millions) | 3,474 | 4,745 | 4,755 | 4,732 | 3,772 |
| Fiscal Operations (in % of GDP) | | | | | |
| Total revenue and grants | 29.7 | 34.9 | 36.3 | 32.6 | 27.8 |
| <i>of which:</i> Grants | 5.1 | 11.7 | 10.8 | 4.9 | 2.0 |
| Income Tax revenues | 2.9 | 2.7 | 2.7 | 3.1 | 3.0 |
| General sales tax revenues | 7.5 | 8.3 | 10.1 | 11.0 | 11.2 |
| Total budgetary expenditure | 34.5 | 35.9 | 38.0 | 38.7 | 33.6 |
| Current expenditure | 27.3 | 28.6 | 28.5 | 32.8 | 27.2 |
| Capital expenditure | 6.4 | 8.3 | 8.9 | 5.9 | 5.9 |
| Overall balance, including grants | -4.9 | -1.0 | -1.7 | -5.2 | -5.8 |
| Overall balance, excluding grants | -9.9 | -12.8 | -12.5 | -11.8 | -7.9 |
| Balance of Payments | | | | | |
| Current account balance (in % of GDP) | 5.6 | 11.6 | -0.2 | -17.8 | -16.3 |
| Trade balance (in millions of US\$) | -1,731 | -1,996 | -3,378 | -4,995 | -5,268 |
| Annual growth of merchandise export (in %) | 20.7 | 11.2 | 26.0 | 9.9 | 7.4 |

Source: IMF (2006)

2. Living standards and social indicators (2004 data)

| | 1990 | 2004 |
|---|-------|---------|
| Population, total (<i>millions</i>) | 3.2 | 5.4 |
| Urban population (<i>% of total population</i>) | ... | 79% |
| GDP per capita, <i>in \$</i> | 1,810 | 2,260 |
| Labour force | ... | 1799318 |
| Labour force, average annual growth, <i>in %</i> | ... | 3.8% |
| Labour force, female (<i>in % of total labour force</i>) | 19% | 24% |
| Unemployment, total (<i>% of total labour force</i>) | ... | 12.5 |
| Life expectancy at birth, total (<i>years</i>) | 66 | 70 |
| Literacy (<i>% of population age 15+</i>) | ... | 90 |
| Male | 90 | 95.1 |
| Female | 72.1 | 84.7 |
| Gross primary enrolment (<i>% of school-age population</i>) | 99.9 | 98.2 |
| Female | ... | 99 |
| Total fertility rate | 5.4 | 3.4 |
| Contraceptive prevalence (<i>% of women aged 15-49</i>) | 35 | 56 |
| Improved sanitation facilities (<i>% of urban population with access</i>) | ... | 94 |

ANNEX 3: CO-OPERATION OF EU MEMBER STATES AND OTHER DONORS

Beyond their contribution to EC activities, Member States – 13 of which have missions in the country – maintain varying degrees of bilateral co-operation in Jordan.

Austria: For the time being Jordan is not among the priority countries for Austrian development co-operation. Projects will be approved on a case by case basis.

Belgium: Belgium supports archaeological projects and promotes scientific collaboration between Belgium and Jordan that focuses on the detection of potential sinkholes on the Dead Sea shores using satellite cartography.

Czech Republic: As for development assistance of the Czech Republic Jordan is not a priority country and is currently only funding one agricultural project, in the governorate of Ajloun.

France: France will focus its bilateral co-operation with Jordan on administrative and judiciary co-operation (good governance, economic and administrative reforms), and technical co-operation, notably in water and agriculture through a regional mission based in Amman. Along with the Embassy, the French Agency for Development (AFD) is now fully operational in Jordan. It will start funding its first project – on water and environment and on municipalities' development – in 2006 and will open a permanent office in Amman. Cultural and scientific co-operation will remain particularly active, with initiatives in the audio-visual sector (diffusion of French films, co-operation with the media etc.), cultural exchanges through the Cultural Centre and research co-operation through the French Institute of Research in the Middle-East (IFPO), technical co-operation in archaeology and heritage, university partnerships and the promotion of the French language.

Germany: Since 2001 the focus of German-Jordanian development co-operation is on the water sector (supply, waste-water treatment and re-use, sector management) working towards an integrated and sustainable form of water resource management. A joint five-year approach for the focal area water was established and is being updated. Germany also supports Jordan's education reform (ERfKE) by providing physical infrastructure for basic education. Other projects contribute to poverty alleviation and to the promotion of structural reform processes in Jordan. Regional programmes were established for vocational training and climate protection. Furthermore, a broad range of NGOs, Political Foundations and others are involved in bilateral and regional co-operation programmes in the areas of development, civil society and democracy. The German-Jordanian University has opened its doors in October 2005.

Greece: Jordan is considered as a priority target, as far as development assistance is concerned. Assistance is primarily aiming at small and medium size projects focusing on capacity building (particularly for Jordanian women) and less on infrastructure.

Hungary: Hungary's bilateral co-operation is concentrated mainly in three sectors: in the fields of culture and science; tourism; and higher education. Cultural co-operation is also particularly important. The forthcoming work plan of educational co-operation between 2006 and 2008 includes student exchange, research and study-grant programmes. However, Jordan is not a main target for Hungarian assistance.

Italy: As in the past, most of the activities will remain focused on water treatment and supply, SMEs development, health sector and budget support. In particular, budget support will be carried out through a new commercial debt swap agreement.

Netherlands: The emphasis of Netherlands' assistance to Jordan will be on good governance and human rights. Programmes promoting the democratisation process in all its aspects will be supported. Special attention will be given to capacity building, awareness rising of media and the respect for rights of women and children. The Netherlands also have projects within environment, social development and culture.

Poland: Polish –Jordanian bilateral co-operation is focused on scientific, cultural and educational fields based on an Executive Programme signed on September 2004. Similar scope of co-operation is envisaged for the year to come.

Spain: The priority sectors for the Spanish Co-operation the next (IV) joint commission will be: Health, Water, Tourism (heritage protection) and Capacity Building.

Sweden: Support will be considered in the areas of traffic safety, prisoner's rehabilitation, rescue services, human rights, and environment. Democratic governance is also an area of interest for possible future support.

United Kingdom: The UK will work to support Jordan's implementation of the National Agenda. This support will focus on promoting good governance, the rule of law and the role of women. The UK will continue its involvement in the Public Sector Reform process and in building up the strength of NGOs and civil society, helping to increase the role that Jordanian citizens play in the decisions which affect their lives.

Planned disbursements for 2006 (million €)

Sectors

Countries

| | AU | BE | CZ | FR | GE | GR | HU | IT | NL | PO | ES | SW | UK | EC |
|-----------------------------------|----|----|--------------|------------------|---------------|--------------|----|-------------|--------------|----|------------|------------|-------------|-------------|
| Agriculture/Forestry | | | 0.086 | 0.06 | | 0.075 | | | | | | | | |
| Business/Private Sector/Trade | | | | | | | | 4.5 | | | | | 0.1 | 15.7 |
| Civil Society/ Human Rights | | | | | | | | | 0.313 | | | | 0.3 | 0.36 |
| Communication/ Information | | | | 0.1 | | | | | | | | | | |
| Culture | | | | 0.05 | 0.025 | | | | | | 0.1 | | | |
| Education | | | | 0.4 | 11 | | | 1.8 | | | 0.2 | | 0.1 | |
| Energy | | | | | | | | | | | | | | |
| Environmental protection | | | | 3.01 | 0.15 | | | 0.5 | | | | | 0.05 | |
| Governance | | | | 0.26 + 15 (loan) | 0.5 | | | | | | | 0.5 | 2 | |
| Health | | | | 0.01 | | | | | | | | 0.01 | | |
| Industry, mining, construction | | | | | | | | | | | | 0.3 | | |
| Multisector/ Crosscutting | | | | | | | | | | | | | 0.2 | 1.42 |
| Other | | | | 0.12 | | | | | | | | | | |
| Poverty reduction | | | | | 0.75 | | | | 0.011 | | | | | 13.36 |
| Tourism and Antiquities | | | | 0.15 | 0.06 | | | | 0.01 | | | | 0.1 | 1.05 |
| Transport and storage | | | | | | | | | | | | 0.29 | | |
| Water supply and sanitation | | | | 12.59 | 18.2 | | | 27 | | | | | | 0.4 |
| Total | | | 0.086 | 31.29 | 30.685 | 0.075 | | 33.8 | 0.335 | | 1.7 | 1.0 | 2.85 | 32.3 |
| Debt relief | | | | | | | | | | | | | | |
| Regional/ Sub-regional programmes | | | | 0.3 | 0.5 | | | | 4.168 | | | | 5 | |

In complement to this annex, a 'Development Assistance Matrix' presenting actions of all donors in the different fields has been elaborated.

ANNEX

Support Methods of the European Investment Bank in Implementation of Financial Cooperation with the Mediterranean Partner Countries

JORDAN

As foreseen in the framework of the European Neighbourhood Policy, the European Investment Bank (EIB) can contribute to the financing of projects and programmes concerning investments in infrastructure and productive sectors. Priority is given to projects that help to create a favourable environment for private investment and for development of the private sector.

The amounts and modalities of financing are determined on the basis of detailed prior assessment of each project carried out in line with the Bank's procedures. Coherence of these projects with the objectives and external policies of the European Union is part of this assessment, as is also linking the EIB contribution to that of the European Commission.

In this context, the Bank mobilises all its available instruments, and in particular loans on own resources, risk capital and technical assistance.

Since the year 2000, EIB interventions in Jordan mainly concern the following sectors:

- Human Capital (education)
- Transport (road links)
- Energy (regional gas pipelines)

Several of the Bank's operations are being underpinned by technical assistance funded under the FEMIP TA Support programme.

In the future, priority areas for the EIB's activities will continue to include:

- Human Capital
- Transport (ports, road transport)
- Environment (water and wastewater)
- Energy (renewable energies)

The Bank will also continue to actively pursue opportunities to contribute to development of the Jordanian private sector, including the SME sector (diversifying global loan intermediaries) and large investment projects.

With regard to EIB operations on risk capital resources (equity, quasi-equity and participating loans in local currency), the Bank draws on funds made available from the Community budget. All operations are geared towards private sector development. The Bank will actively pursue opportunities to build-up a portfolio of operations in Jordan, with focus in particular on the following fields:

- Support to the development of the private equity practice and industry, in collaboration with local intermediaries, mainly through investment funds (national or regional). The EIB will give particular attention to (i) the application of best governance principles in the initiatives it supports; (ii) the development of seed/venture capital funds, promoting innovation.

- The Bank has successfully supported the development of Micro-Credit Financial Institutions in other MEDA-countries as a way to support local private sector development. Although still in a very preliminary stage, several possibilities may exist to support micro-finance in Jordan. Substantial work will, however, need to be undertaken before concrete investment initiatives are identified.
- The Bank will try to leverage on the Technical Assistance programme funded by the Community budget to provide the appropriate support to the intermediaries or final beneficiaries.

ANNEX 4: JORDAN'S TRADE PROFILE

1. EVOLUTION OF THE EU TRADE BALANCE WITH JORDAN

Jordanian exports to the EU amounted to €375 million in 2005. This was the highest export figure in recent years. This export figure is at least twice as high as Jordanian statistical figures indicate. A statistics mirror exercise would be helpful to indicate which figures are distorted.

Jordan's exports to the EU grew by 30% in 2004 and more than 41% in 2005. These are **excellent growth figures**. Exports to the EU grew despite the appreciation of the Jordanian Dinar against the euro.

Contrary to Jordan's exports to the US, **exports to the EU are much more diversified and therefore less vulnerable**. Jordan's exports to the EU include chemicals, and manufactured goods, which have a higher value-added than export to the US which consists for 90% of textiles and clothing.

Jordan has **a trade deficit with the EU**. This is **not surprising** as its robust growth is driven by investment depending heavily on imported intermediate goods. Jordan's deficit can also be explained by its lack of natural resources. In case of a long-term and high trade deficit, structural reforms and diversification of the economy are necessary. In its assistance to Jordan, the EU is already helping Jordan to make these steps.

| Year | Imports | Yearly % change | Share of total EU imports | Exports | Yearly % change | Share of total EU exports | Balance | Imports + Exports |
|-----------------------|---------|-----------------|---------------------------|---------|-----------------|---------------------------|---------|-------------------|
| 2001 | 159 | | 0,02 | 1.870 | | 0,21 | 1.711 | 2.029 |
| 2002 | 305 | 91,0 | 0,03 | 2.017 | 7,9 | 0,22 | 1.713 | 2.322 |
| 2003 | 204 | -33,0 | 0,02 | 1.875 | -7,0 | 0,21 | 1.671 | 2.079 |
| 2004 | 265 | 29,8 | 0,03 | 1.952 | 4,1 | 0,20 | 1.687 | 2.216 |
| 2005 | 375 | 41,7 | 0,03 | 2.311 | 18,4 | 0,22 | 1.936 | 2.687 |
| Average annual growth | | 23,9 | | | 5,4 | | | 7,3 |

Source: EUROSTAT (Comext, Statistical regime 4) TRADE H3 SLG/CG/DS, 20.01.06

The figures show that trade between Jordan and the EU has been growing at higher rates in the last two years, with **total EU-Jordan trade growing in 2005 by around 18%**. The volume of EU trade with Jordan is relatively small compared with exchanges with other EU trade partners. Jordan is ranked 65th in terms of total trade with the EU, and it is only the 104th export partner for the EU.

Jordan's largest export partner is the US, whereas the EU represents only the 7th (after the US, Iraq, India, Saudi Arabia, Syria and the United Arab Emirates). Nevertheless, **the EU is Jordan's main partner in terms of total trade**, before Saudi Arabia and the U.S. Its volume of exchanges with the EU represents 17.1% of Jordan's trade with the world.

This is mainly due to the volume of EU imports to Jordan. In fact, **the EU is, by far, Jordan's first import partner**: its imports to Jordan are 3.5 times more than those coming from the US, which is Jordan's 4th largest import partner, after Saudi Arabia and China.

2. TRADE BY PRODUCT GROUPING

The first product by order of importance in terms of EU total trade with Jordan is **machinery** (including parts for electronic, electric, telephonic, bakery, dairy and tobacco machineries) **and transport equipment** (aeroplanes and parts for aeroplanes, ships and navigational instruments, motor vehicles, tractors).

Pharmaceuticals are seen as one of the most promising new export sectors, with prospects for growth from outsourcing from EU companies. Pharmaceutical production is one of Jordan's largest industries, generating almost 20% of the country's GDP for manufacturing in 2002. Jordan exports approximately 70-80% of its pharmaceutical production, mainly to Arab countries (especially Algeria, Iraq and Saudi Arabia) and in 1999-2002 pharmaceutical exports increased by 30% to all markets.

The following factors make Jordan's pharmaceutical industry an attractive destination for foreign investment:

- Legal IPR protection;
- Extensive regional export-base;
- High quality production;
- Zero tax on profits generated by drug exports;
- High skilled, low wage workforce.

The **garment** sector has become the **major contributor to national exports** in the last few years. Garment exports have increased from 100 million \$ in 1999 to 925 million in 2004¹⁵. This is mainly due to the US sponsored Qualifying Industrial Zones (QIZ), thanks to which Jordanian exports have and are benefiting from duty and quota free access to the US market. Investment in the sector has also augmented, with an increase of 52.9% in 2003-2004, ranking the garment industry at first place in attracting investments, mainly from China, India, Pakistan and Korea. Garment is based on investments, managers, workers and materials from the Far East. It is hoped by all that garment sector will take significant steps forward in the long run in Jordan, but as the textile industry is very foot-loose and as the neighbouring countries (especially Syria, Egypt and Maghreb) have stronger and more rooted textile and garment industries, it is not very likely that this will be the case.

The Agro Food sector is still important in Jordanian economy, despite a constant decline accentuated since the 1990s (-9.4% in 1990-2004)¹⁶. Its contribution to the country's GDP was 2.1% in 2004. About 80% of the agricultural production consists of fruits and vegetables, representing 70% of agricultural exports. There is still a potential in vegetables, especially for the Gulf market and for the EU market after the liberalisation of trade in agricultural products. Agricultural exports constitute 10% of total Jordanian exports. Despite the limited local raw materials (and lack of water), the food industry is the second most important segment in Jordan to attract FDI¹⁷. There are important opportunities for the food processing industry, notably to supply the regional markets, given the country's wide integration in the international market and skilled labour force.

Jordan is considerably rich in **minerals**. In recent years, Jordan has been a major producer and exporter of potash and phosphate rock. Especially potash will remain an important export commodity. Bromine and magnesium occur in the Dead Sea, which boasts the highest concentration of minerals of any sea in the world. Dead Sea cosmetic industry in Jordan started in 1986 and is based on these mineral-rich salts (magnesium, potassium, and bromides). There is a considerable growing market for cosmetics. Jordan and Israel are the only two producers of Dead Sea cosmetics so far (world export quantity of Dead Sea cosmetics was represented by 92% of Israeli production and 8% of Jordanian production in 2003). Jordan has potential for taking up higher share in the world market thanks to competitive advantage in terms of cost of raw material and availability of high quality magnesium.

¹⁵ Source: JIB, Fact sheet on garment sector.

¹⁶ Source: Eurostat

¹⁷ Source: JIB, Fact sheet on the agro food sector.

3. EXPORT POTENTIAL / TRADE DIVERSIFICATION

Jordan should further diversify its export portfolio and exports markets and needs to **improve its specialization in high growth sectors**.¹⁸

From a *structural* point of view, high growth sectors in which Jordan has been specializing, so far, are notably garment, clothing (e.g. women's suits), pharmaceuticals and medicaments mixture and vegetables (not elsewhere specified in Common Customs Tariff). High growth sectors in which Jordan is not specialized are, for instance, IT, electronics, electric-medical, non-electronic machinery and motor vehicles.

On the other hand, Jordan still has **high market shares in sectors where world demand is declining**, such as certain minerals, and chemicals, cements, tomatoes and cigarettes.

From a *dynamic* point of view, the export products for which Jordan has obtained the best performances – winners in growth markets products – are garment, clothing (e.g. suits, jersey, pullovers, men's shirts), certain minerals and chemicals, vegetable (not elsewhere specified in Common Customs Tariff), tomatoes, animal or vegetable fat, cigarettes.

Winners in declining markets – products in which the country's market shares are growing despite the decline in world demand – are mainly calcium, aluminium and diphosphorus.

Losers in growth market shares – **underachievers**¹⁹ – are medicament mixtures (certain types) and certain minerals.

This having been said, *one can suggest that Jordan:*

- **improves specialization in high growth sectors**, with a special focus on IT and electronics, which seem to be the winner sectors for other countries;
- **further develops the pharmaceutical sector**, the most promising new export sector, in which it is already achieving positive results;
- continues to invest in the processed agricultural segment, where there could be opportunities for it as a regional supplier;
- does not count excessively on the garment sector, which has recently had a positive performance but is still vulnerable to stronger regional competitors
- and develops its production in *niche* sectors, such as Dead Sea cosmetics.

A **greater diversification in export markets** is also opportune, considering that Jordan's exports are limited mainly to the US, India, and its regional partners.

4. ASSOCIATION AGREEMENT AND OTHER FTAS

The *Euromed Association Agreement* with Jordan was signed in November 1997 and entered into force in May 2002.

Jordan has been a member of *GAFTA* (Greater Arab Free Trade Area). It concluded and initialled with Morocco, Tunisia and Egypt the *Agadir Free Trade Agreement*²⁰ in January 2003. The agreement foresees the

¹⁸ Source: International Trade Centre

¹⁹ These are productions in which the country has been falling behind, although international demand has been growing at above-average rates. The country's exports for these products have either declined or grown less dynamically than world trade

²⁰ Signature on 25 February 2004.

PanEuromed cumulation of origin. In June 2001, Jordan signed a free trade agreement with the *EFTA* states (Iceland, Liechtenstein, Norway and Switzerland), which entered into force in January 2002.

Jordan has concluded bilateral trade agreements with Algeria (signature in 1997, EIF in 1998), Lebanon (signature in 2002) and Israel. The trade and economic cooperation agreement with Israel (signature in 1995), was upgraded in 1997 in order to benefit from PanEuroMed cumulation of origin.

Jordan signed a bilateral FTA with the US in 2000 and with Singapore in 2004. It approached recently Croatia to conclude a trade agreement and negotiations with Turkey are currently ongoing.

5. VALUE AND PERCENTAGE OF TRADE LIBERALISED ACCORDING TO EU JORDAN ASSOCIATION AGREEMENT

Jordan's industrial exports to the EU: 100% tariff line coverage, corresponding to 100% trade liberalised.

Jordan's agricultural exports to the EU: 99.4% tariff line coverage, equivalent to 99.4% trade liberalised.

EU industrial exports to Jordan: 95.9% tariff line coverage, corresponding to 88.7% trade liberalised. A transition period of maximum 12 years is envisaged.

EU agricultural exports to Jordan: 92.3% tariff line coverage, equivalent to 90.2% trade liberalised.

380 tariff lines of fishery products are to date not yet included into the Association Agreement's liberalisation scheme.

6. WTO/DDA (*DOHA DEVELOPMENT AGENDA*)

Jordan joined the WTO in 2000, with an accession package of market-access commitments on goods and services, substantial by regional standards. As most Mediterranean partners, and reflecting constrained resources, it has taken a moderate profile in the DDA and has not explicitly declared its allegiance to any grouping. In the months preceding the suspension of the DDA, however, Jordan has been more assertive in negotiations. A potential "small economy" in DDA terms in consideration of its low share of world non-agricultural trade, Jordan could benefit from multilateral trade liberalisation through increased market access for its manufactured goods, including to emerging countries in Asia and other countries of the Middle East. Jordan is also negotiating its accession to the WTO Plurilateral Agreement on Government Procurement.

ANNEX 5: JORDAN'S ENVIRONMENT PROFILE

1 State of the environment

The key environment issues in Jordan relate to water resource management and water quality, waste management, nature protection, desertification and industrial pollution.

Air quality in Jordan is a concern in major industrial and heavy traffic areas, such as Zarqa, Aqaba and Amman. The main sources are domestic, commercial and industrial activities, power plants and road transportation.

As regards **water quality**, Jordan is one of the most water scarce countries in the world, which makes availability and management of water resources a key environment issue for the country. Jordan's Sustainable Development Strategy, "Agenda 21, Towards Sustainable Development" (1995) estimated that if trends and policies were not changed, non-renewable ground water resources would be exhausted in 50 years. Deforestation, soil erosion and desertification would substantially increase, with serious consequences for biodiversity and other natural assets and resources. Access to water and sanitation is available to most of the population. About 75% of the urban population and around 55% of the total population are connected to a wastewater treatment system. Water quality is affected by untreated municipal waste water discharge, industrial effluents, solid waste disposal and agricultural run-off.

Concerning **waste management**, the increase in population, industrial activities and the new consumption patterns and life styles have resulted in the generation of larger volumes of solid and hazardous waste. It constitutes a challenge, including with regard to prevention, collection, treatment, recovery and final disposal. The collection, transportation, and disposal of solid waste are the responsibility of the municipalities, using landfills as the main disposal method. A hazardous waste disposal site is available in Swaqa (south of Amman) but the infrastructure is not yet ready.

With regard to **nature protection**, Jordan has a broad range of vegetation types, representing different elements of flora and fauna. While the rest of the country is arid, much of the country's diversity is due to the formation of the Great Rift Valley, where a rich eco-system is present. Furthermore, Jordan has some highly specialised habitats, the most noteworthy being the Dead Sea. The Gulf of Aqaba has a unique biological diversity and is a global priority for conservation. Jordan's rich biodiversity is threatened and many species have become classified as threatened, endangered, or even extinct on the regional and global levels.

With regard to **land use**, approximately 85% of Jordan is desert, around 13% of land area is agricultural land and 20% of crop land is irrigated. 1% of Jordan consists of forests. Desertification and land degradation is a challenge. Deforestation is an issue, even if forests fires have decreased in number and in terms of damaged area.

With regard to **industrial pollution**, the main industries in Jordan include phosphate mining, petroleum refining, cement and potash .

Important **trans-boundary environmental issues** include the shared use of the Jordan River among Jordan, Israel and the Palestinian Authority and the protection and use of the Red Sea.

As regards **global environment issues** and climate change in particular, Jordan acceded to the Kyoto Protocol to the UN Framework Convention on Climate Change in 2003 and therefore needs to implement the relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

2 Environment policy

Jordan adopted its National Environment Strategy in 1991, and the corresponding Action Plan in 1994. The plan outlines five strategic initiatives for long-term progress in the environmental sphere: (1) a comprehensive legal

framework for environmental management; (2) strengthening of existing environmental institutions and agencies, particularly the Department of Environment and the Royal Society for the Conservation of Nature; (3) an expanded role for Jordan's protected areas; (4) promotion of public awareness of, and participation in, environmental protection programmes; (5) giving sectoral priority to water conservation and slowing Jordan's rapid population growth. The NEAP is currently under review with a view to being finalised in 2006.

In 1999, the "Jordan Agenda 21 of the UN: Towards Sustainable Development" was adopted. This document identifies the sustainable use of environmental resources such as water, soil and vegetation as one of Jordan's most urgent challenges. An Agenda 21 Committee, of government, NGO and private sector representatives has been set up to periodically review progress towards the Agenda goals and assess the continued relevance of the objectives.

The National Agenda, indicating general national policy priorities for the period 2006-2015, mentions, among key issues in the field of environment, the strengthening of the regulatory and institutional framework, waste management, air quality, natural resources, land use and water related infrastructure.

Jordan has also adopted a number of sector-specific plans and programmes. Jordan's Water Strategy, adopted in 1997, aims at maximising the effective use of water resources. It seeks to establish a national water database, to make full and sustainable use of groundwater resources and to collect and treat wastewater for subsequent reuse. Jordan adopted a national biodiversity strategy and action plan in 2003, and a national strategy and action Plan to combat desertification have been established. A national water management plan and a land use plan are under preparation.

A draft environmental information strategy was drawn up in 1999. The major challenges identified were absence of a coordinating body for access and dissemination of environmental information, lack of information technology (IT), infrastructure and qualified personnel within environment related institutions and legislative weaknesses. There is also a national environmental awareness and communication strategy.

A state of the environment report is under preparation, with a view to finalisation in 2006.

3 Environment legislation and implementation

The 2003 framework legislation and relevant bylaws (e.g. on environmental police and environmental impact assessment) have recently been adopted or revised.

As regards legislation on **horizontal issues**, a bylaw on environmental impact assessment is being implemented on new projects in Jordan, including in the Aqaba Special Economic Zone.

In the field of **air quality**, a clean air draft act was issued in 2000. It sets out responsibilities for determining maximum allowable concentrations, and a number of standards which set allowable limits for ambient air pollutants.

Regarding **water quality**, the main legislation is a bylaw setting water quality objectives and standards for wastewater treatment plants and waste disposal sites. It also addresses water savings opportunities in the industrial, agricultural and construction sector.

Regulations on solid **waste management** and on the management, transport and handling of harmful and hazardous substances have been approved.

With regard to **industrial pollution**, there is a system of permits for industrial activities, but enforcement remains a challenge.

Overall, framework and sectoral legislation is in place in many areas but needs to be nevertheless further reviewed. Jordan faces difficulties with implementation and enforcement of environment legislation due to a limited administrative capacity and financial resources.

4 Administrative capacity

The Ministry of Environment was established in 2003 and is currently undergoing comprehensive reform.

Other Ministries, such as the Ministries of Water and Irrigation, Agriculture, Industry and Trade, Energy and Mineral Resources and Planning are also involved in environment issues, together with bodies such as the Jordan Valley Authority and Petra regional Authority.

NGOs have received delegated responsibilities to implement environmental actions. Thus, the RSCN (Royal Society for the Conservation of Nature) establishes and manages Natural Reserves, the JES (Jordan Environment Society) works on environmental awareness and the RSS (Royal Scientific Society) works on implementing environmental monitoring especially on water bodies and water issues.

In order to enhance strategic planning and implementation and enforcement of environment legislation, strengthening of administrative capacities, in particular regional and local levels constitutes an important challenge, including with regard to co-ordination between relevant authorities.

5 Participation in regional and international processes

Jordan has ratified the relevant **international and regional conventions** to which it is signatory.

On the regional level, Jordan participates in the **Council of Arab Ministers for the Environment** and the **Regional Convention for the Protection of the Red Sea**.

In November 2005, Jordan, with the other Euro-Mediterranean partners, committed to “**the Horizon 2020 initiative**” to tackle major sources of pollution including industrial emissions, municipal waste and urban waste water. Successful achievement of the goal will require a combination of both regional and national actions with the support of all actors in the Mediterranean.

Jordan also participates in the **Mediterranean component of the EU Water Initiative**, a regional component of the EU Water Initiative as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders.

On the **bilateral level**, cooperation agreements on environment issues exist between Jordan and e.g. Syria, Israel, Tunisia, Morocco and Iraq.

6 Key areas where action is required

Jordan faces significant challenges to promote environment protection. Key areas include water resource management and water quality, waste management, nature protection, desertification and industrial pollution.

With regard to climate change, Jordan needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Jordan has significant possibilities to use flexible mechanisms under this Protocol.

The institutional and administrative capacity requires strengthening, in particular as regards coordination, implementation and enforcement. Promotion of public awareness of environment issues is important for the implementation of environment policy.

The key environment areas where action is required are identified in the environment section of the EU - Jordan Action Plan, established in the framework of the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities as well as on international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to fulfilling the objectives of the Association Agreement.