



EURO-MED PARTNERSHIP

JORDAN

COUNTRY STRATEGY PAPER 2002 - 2006

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NATIONAL INDICATIVE PROGRAMME 2002 – 2004



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CSP 2002 – 2006 JORDAN

1. EXECUTIVE SUMMARY

As provided for in the MEDA regulation (EC No 2698/2000 and EC No 1488/96), the Country Strategy Paper (CSP) supplies a strategic framework in which EC assistance will be offered in the period 2002-2006. It sets out EU co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The national indicative programme (NIP) attached to the strategy sets out the EU response in more detail, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation for the period 2002-2004.

Jordan is a full participant in the Barcelona process. Situated in a politically unstable region Jordan is particularly vulnerable to any development related to one of its neighbours and especially to ebbs and flows in the Peace Process, which has great strategic significance for the Kingdom. Since his accession to the throne, King Abdullah and his Government have consolidated good relations with the West and repaired relations with the Arab world, damaged in the 90's by Jordan's stance in the Gulf war and the signing of the 1994 Peace Treaty with Israel. The country remains a consistent force for peace in the region and a key partner in attempts to find a political solution to the conflict. Moreover, the country's democratisation process, though with shortcomings, is one of the more advanced in the region.

Attempts at macro-economic stabilisation over the past five years, though volatile, have been fairly successful and have been accompanied by broad economic reforms undertaken in co-operation with IMF, World Bank, EU, US-AID and other donors. King Abdullah has displayed strong leadership in the drive to modernisation. The process includes far-reaching trade liberalisation (conclusion of EU-Jordan Association Agreement (AA) in 1997, accession to WTO in 2000, conclusion of Free Trade Agreements (FTA) with USA (2000), EFTA (2001), accession to Greater Arab Free Trade Area (GAFTA) and conclusion of an increasing number of bilateral trade agreements with regional partners, fiscal reforms, improved debt management, investment promotion and the successful launch of privatisation. However, Jordan remains highly dependent on external financing (grants) to cover part of its budget deficit (still around 7 % of GDP before grants). Prospects for continued and strong economic growth to improve per capita income in the face of high population growth remain mixed.

The main challenges facing Jordan over the medium term are, against the volatile external environment, to sustain and enhance macro-economic stability, continue economic reforms with a view to developing a modern competitive private sector, while reducing Government involvement in economic activities. A broad reform of the public sector has begun and should result in improved quality and efficiency of services, and, more specifically, a smooth implementation of trade liberalisation obligations deriving from WTO accession, association with EU, and regional and bilateral free trade agreements (FTA). Given the high demographic growth – only seven countries world-wide have a younger population - Jordan must improve the socio-economic equilibrium through the design and implementation of a comprehensive poverty alleviation strategy, employment creation especially for young people and through redeployment in the context of privatisation and restructuring. Jordan is one of the world's ten poorest countries in terms of water resources and must ensure a cost-efficient management of existing and new water

resources and develop a sustainable, long-term strategy to reconcile conflicting needs of the population, industry and agriculture.

Within that context and taking into account the objectives of the Barcelona process, the EC can most effectively assist the partner country in meeting those challenges by focusing on the following priority sectors: trade enhancement and regional cooperation; support for economic reforms; in the field of human resources assistance with the socio-economic consequences of modernisation, including vocational and continuous training, and support for the design and implementation of a comprehensive poverty alleviation strategy; improvement in the quality and cost efficiency of water services through increased private participation in water infrastructures, enhanced management of border water resources and strengthening of pluralism, civil society and rule of law.

2. EU POLICY OBJECTIVES

The EU's cooperation objectives with Jordan are anchored in the Barcelona Process, a proximity policy which reflects the political and strategic importance of the Mediterranean region to the EU. The main goals as set out in the Barcelona Declaration and in the Common strategy adopted by the European Council in Feira in June 2000 are

- creating an area of peace and stability based on fundamental principles, including respect for human rights and democracy;
- creating an area of shared prosperity through sustainable and balanced development and especially the progressive establishment of free trade between the EU and its partners and among the partners themselves with a view to the creation of the wider Euro-Mediterranean free trade area by 2010;
- the improvement of mutual understanding among the peoples of the region and the development of an active civil society.

This process is underpinned by a network of bilateral relations between each partner country and the EU, embodied in Association Agreements which provide for political dialogue, free trade between each partner and the EU to be established over a transitional period and various forms of co-operation.

The MEDA programme provides financial support for the objectives of the Association Agreements and the Barcelona Process. Taking into account the priority areas identified for Community Development Policy, the MEDA programme concentrates on a few key objectives, supporting

- development of pluralistic democratic society based on respect for human rights and the rule of law;
- the implementation of the Association Agreements, with a particular focus on development of the Euro-Med market;
- economic and social reform linked to the implementation of the Association Agreements;
- sub-regional cooperation, by encouraging South-South development and economic integration initiatives, helping existing Association Agreement signatories to move to free trade between themselves.

Moreover, this country strategy takes into account the Principles and Objectives of Community Development Policy as elaborated in the Joint Council and Commission

Declaration on Development Cooperation of November 2000. Indeed, the reduction and eventual eradication of poverty through providing support for sustainable development, the promotion of the gradual integration of partner countries in to the world economy and a determination to combat inequality are fully compatible with and supportive to the goals of the Barcelona Process. Refocusing the Community activities in a more limited number of areas and the implementation of measures that ensure a more effective and efficient cooperation are equally objectives that are pursued in the context of this strategy.

3. POLICY AGENDA OF THE COUNTRY

When Jordan was unable to meet its external obligations in 1989, the country embarked on broad-based economic reforms, which have since been backed up by successive programmes agreed with IMF, World Bank, EC and bilateral donors.

Support for macro-economic stability went along with five rescheduling arrangements for Jordan's external debt with the Paris Club between 1989 and 1999.

Current Government economic policy is underpinned by the IMF Extended Fund Facility, which runs from 1999 to April 2002 and targets:

- containment of external and internal debt (reducing external debt to GDP ratio from more than 100% to around 70 % by 2006 through cuts in public expenditure, limitation of new debt obligations, debt buy-back operations and debt swaps, securisation of internal debt),
- fiscal reforms (introduction of a fully fledged VAT system and income tax reform in 2001),
- improved budget management to bring the chronic budget deficit down to sustainable levels,
- structural reforms (privatisation, public and financial sector as well as public pension fund reform).

Jordan pursues a straight forward trade liberalisation policy including extensive modernisation of the related legislative framework and was the first Mashrak country to sign an Association Agreement with the European Union in November 1997. Jordan's full commitment to trade liberalisation is confirmed by (1) its accession to WTO, which became effective in April 2000, (2) the conclusion of FTAs with (2.1) the USA with pilot clauses on environmental and labour standards (signed in October 2000, ratified in September 2001), (2.2) EFTA (signed in June 2001, supposed to enter into force beginning of 2002), and (2.3) several regional partners, and (3) its participation in the "Agadir process" with Egypt, Morocco and Tunisia, the first response of EU's Mediterranean partners to establish free trade between themselves (creation of a "Mediterranean Arab Free Trade Area") with a view to advancing the establishment of a Euro-Mediterranean free trade area. (4) Moreover, apart from Westbank/ Gaza, Jordan has - with an average tariff of 16 % - by far the lowest tariffs compared to the other Mediterranean partners, especially those equally advanced in the Association process ¹.

King Abdullah II, since his accession to the throne, has encouraged broad public-private partnerships to design strategies and define medium- and long-term action plans to meet Jordan's social, economic and political challenges. In that spirit he created a permanent Economic Consultative Council, composed of high level representatives of the public and

¹ For 1999-2000: Tunisia 35.9%, Morocco 34 %, Egypt 30.2 %, only Westbank/ Gaza compares more favourable with an average tariff of 8.8 %, IMF Trade Policy Information database.

private sector mandated to formulate reform strategies, and various Royal Commissions to bring forward specific reforms. Thus, since 1999, several policy documents were established, among which are :

- “Jordan Vision 2020”, a comprehensive document defining strategies and benchmarks for dynamic leadership of the country, enhanced public-private partnerships, improved international competitiveness of Jordan’s economy, enhanced trade liberalisation, modernisation of the business environment, improved infrastructure (telecommunications, transport, water, environment), development of skilled human resources.
- The “REACH initiative” defining the bottlenecks and challenges to advancing the development of a world-class information technology (IT) industry in Jordan;
- Related to this is the “e-government initiative”, for which a task force was created, chaired by the Minister for Post and Telecommunications. The initiative relates to IT development inside government, communications within the government, communications between government, business society and citizens. It has become part of the more comprehensive public sector reform.

A matrix for public sector reform defining priority areas has been agreed. This includes: e-government; civil service and judicial reform; and creation of more efficient civil service institutions. It defines overall objectives (transparency, effectiveness, efficiency, equity in access to services etc.), time-tables and institutional responsibilities. The Minister of Administrative Development is charged with overall implementation. Since 2000, the Royal Commission for the Development of the Judiciary has guided reform in this domain.

With the parliamentary elections of 1989 Jordan returned to the democratic process. Like his father, King Abdullah and his Government are committed to promote democracy and the respect of human rights. In 2000 His Majesty created the Royal Commission for Human Rights under the Prime Ministry. A draft law proposes to replace this Commission by an independent National Centre for Human Rights. The Centre is to act as an ombudsman’s office and make (albeit non-binding) recommendations to the Government.

While the Government reacted to the increase of poverty since the late 1980’s through the creation of a variety of instruments to assist the poor, only in 2001 has it embarked on the preparation of a comprehensive strategy for poverty alleviation. Assisted mainly by USAID, this strategy should be finalised by 2002.

All these initiatives have become part of a comprehensive five year socio-economic development plan, called for by King Abdullah and presented by the Government, outlined in November 2001. Its overall objective is to accelerate the social and economic transformation in Jordan and make results of reforms perceptible for the population through improved living standards. The plan calls for increased public and private funding in education/vocational training, health, rural development, youth and social productivity initiatives. It includes accelerated fiscal reform (pension, tax) and privatisation and implementation of development/ investment plans (e.g. Aqaba Special Economic Zone, Disi water conveyance, natural gas pipeline from Egypt,etc.).Success of the socio-economic plan also rests on updated and new legislation, broad administrative and judicial reform.

4. COUNTRY ANALYSIS

4.1. Introduction

With a population of around 5 million, Jordan is a small country in the Mediterranean region. Annual population growth between 1996 – 2000 was 3.1 %, and is on a slightly declining trend. GDP per capita stood at US\$ 1680 in 2000, which compares favourable to the regional average of around 1.500 US\$. Economic growth amounted to 5.3 % during the period 1990 – 1999, which is relatively favourable compared to the trend witnessed in the eighties and the performance of lower-middle income countries (growth rate of 3,1 %). However, economic growth declined considerably in the 2nd half of the nineties and achieved an average of only 1,8% during 1996 – 2000.

4.2. Progress in the association process

Jordan ratified the EU-Jordan AA in 1999. The Agreement is expected to enter into force during the first semester of 2002, once the ratification procedures in EU Member states have been completed. Jordan's overall record over the past years in modernising its legislative and regulatory framework to comply with WTO requirements and prepare for Free Trade with EU and others, while not complete, has been impressive.

Challenges ahead concern (1) the harmonisation between different new laws and existing legislation, (2) law enforcement and (3) complementary legislative action to comply with requirements of the EU-Jordan AA; this relates among others to the accession to multilateral agreements on intellectual property rights and patents and the adoption of a competition law, for which several drafts had been prepared since 1996, before the Parliament finally refused the law in April 2001. Given the long, unsuccessful efforts of competition policy in Jordan, the 5-year transitional period of Art. 53 - 55 AA to comply with European standards will require sustained efforts at convincing the business community and public of the utility and benefits of this reform. (4) Successful trade liberalisation calls for improved services of the administration concerned, especially customs, bodies charged with phyto-sanitary and sanitary controls and with technical standards and conformity assessments to accelerate import and export procedures. (5) Moreover, Jordan together with other Mediterranean partners must intensify endeavours to implement free trade among themselves. (6) Jordan's economy has to adapt to the new legal framework, e.g. implications of new Intellectual and Industrial Property Laws (IPRs), notably in the pharmaceutical and chemical sectors.

The AA provides for the creation of EU-Jordan working groups to facilitate the implementation of the AA (e.g. on free movement of industrial and agricultural products) and to prepare future negotiations between EU and Jordan. In this context the parties will examine a gradual increase of free trade in agricultural products (Art. 17, in 2002), review the list of Jordanian reservations to national treatment in all sectors regarding the right of establishment (Art. 30.2 a & Annex 6, in 2003), further tariff dismantling on industrial products (Art. 11.5, in 2006), increased openness in trade in services (Art. 40, before 2007), complete liberalisation of capital movements (Art. 49), gradual liberalisation of public procurement (Art. 58) and conclusion of agreements on mutual recognition in the field of conformity assessment (Art. 57).

4.3. Political dimension

Jordan is a small country with a relatively open economy in one of the world's most turbulent regions, wedged between the Israeli-Palestinian conflict to the West, Iraq to the

East, and to the North, Syria, with which relationships have improved only recently. As such Jordan is exceedingly sensitive to events in the wider region, which often pose direct threats to the country's stability and economic development. Hardly any field of activity can be considered in isolation from these geopolitical realities.

Jordan's democratisation process, while not perfect, is regarded as one of the more advanced in the region. In the aftermath of the 1967 war with Israel and the occupation of Westbank and Gaza, parliamentary elections had been suspended between 1967 and 1989, but have been held since then for four-year terms. Problems today remain with the level of participation: female representation in parliament is negligible; the Islamic Action Front boycotted the 1997 parliamentary election, and it is not clear whether they will take part in the next elections. Parliament consists of the elected Lower House and the Senate, whose members are designated by the King. Political parties are weak, and the urban population, which includes most Jordanians of Palestinian origin, is underrepresented, due to a constituency framework that favours rural areas where traditional tribal leaders tend to prevail. Moreover, there are a number of quotas designed to favour certain minorities, such as Christians and Circassians. In an attempt to redress some of these shortcomings, King Abdullah in July 2001 endorsed the Temporary Elections Law that includes the following changes: introduction of magnetic voting cards, increase of Lower House seats from 80 to 104, increase of number of districts from 21 to 45 to guarantee a more equal representation, creation of a higher committee of elections headed by the Minister of Interior and a judge from the Court of Cassation, and cancellation of the Circassian seat in Amman. However, the much debated proposals for allocating a quota for women and the introduction of a two-vote system (one for the representative of the constituency, one for the political party instead of the current one-person-one-vote system) were shelved. By Royal decree of 24 July 2001 general elections, due in November 2001, were postponed (presumably to 2002). The official explanation for the delay is that the implementation of new electoral process procedures, such as issuing new electoral identity cards and registration of voters, need time.

While Jordan has ratified almost all UN human rights treaties², the death penalty is in force (some 20 executions per year) and gender disparities are still high. Legislation and regulation need to be modernised and efficiently enforced to strengthen the development of human rights, democracy and a pluralistic society, e.g. press and publications law, laws governing operations of NGO's and the Penal Code. King Abdullah supported the Government's latest initiative to abandon the Penal Code article regarding "honour killings"³. The refusal of the initiative by the Parliament in January 2000 provoked demonstrations in the streets, which were attended by some members of the Royal Family. This indicates the commitment of the Royal Family to enhanced human rights. Its members hold the patronage of several local human rights NGOs, and the Royal Commission is patronised by Queen Rania. On August 28, 2001 a temporary law limiting the right of assembly entered into force, stating that parties requesting an assembly/march should obtain written approval of the provincial governor at least 24 hours before the event is to take place; any meeting/march contrary to the law will be deemed illegal and violators will be subject to prison term and/or paying a fine. Moreover, as a reaction to the

² Apart from the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, adopted by UN General Assembly in 1990 and due to enter into force when 20 States have accepted it. Moreover, Jordan did not sign a number of Optional Protocols which would allow an easier monitoring of obligations deriving from the Conventions.

³ The Penal code currently provides exemption from or reduction in penalty for men killing or injuring their wives or other female relatives on the grounds of dis-honourable behaviour, especially adultery.

attacks of September 11, 2001 in the USA, a temporary law of October 8, 2001 amends the Penal Code to introduce tougher measures against terrorism and the press⁴.

Challenges to enhance democracy and human rights in Jordan concern the strengthening of democratisation, good governance and the rule of law. They will require (1) changes of legislation and regulation, (2) broad awareness-raising and further promotion of civil society and (3) capacity strengthening of state, judicial and civil institutions and agencies concerned. The most sensitive areas are gender, protection of the rights of the child, free media, freedom of association and assembly, political candidate and voter education and electoral support.

Frequent Government reshuffles – the average life span of Governments in Jordan since its independence is less than one year – have in the past constituted a severe constraint to sustained political and economic reforms. There is some evidence that this may be changing, with a number of key Ministers now unchanged in their post for years rather than months. However, given the past record, it will be some time before it is clear that real continuity of Government is to stay. This implies that the Royal Court has always been playing an important stabilising role in the management of the country.

The external political environment is volatile and complex: maintaining good relations with Iraq, the country's major trading partner and sole supplier of oil (on preferential terms equal to effective savings of 5% of GDP) will be a critical factor, but Jordan must balance this against its UN commitments and its equally critical alliances with the West. At the same time the lack of any perceived dividend from the 1994 Israel peace treaty combined with high popular sympathy for the current intifada creates internal tensions that are often difficult to contain and help to boost the influence of more extremist tendencies within the society. This also complicates Jordan's relations with the wider Arab world. That said, the authorities have shown considerable sensitivity in managing these tensions, and Jordan represents a consistent force for peace and modernisation in the region. However the country remains vulnerable to destabilisation and will continue to depend for some time on its partners for political and economic sustenance.

4.4. Social Situation

Jordan's social situation has been deteriorating, per capita income growth has been negative or almost stagnant for several years. Children (age 0-14: 42%) and young adults (age 15 – 29: 31 %) make up the large majority of the population. Only seven other countries in the world have a younger population than Jordan⁵. Since the end of the British mandate in 1946 the country changed from a largely rural to a highly urbanised society (80 %) with implications for social and family life that have been much ignored in the past. In particular young people react sensitively, show signs of social stress and alienation and are subject to "value disorientation" due to contradictory local and global cultural values; the incidence of children at risk situations with phenomena like high school dropouts, child labour, crime, family violence, organised street commerce by children, consumption of cheap drugs etc. is increasing. Despite notable achievements in

⁴ Amendments stipulate the closure of publications carrying false/libellous information that can undermine national unity or the country's reputation. Publications carrying articles that incite "crimes, strikes, illegal public assemblies or the undermining of public order" will be subject to fines and/ or prison sentences of up to three years.

⁵ Jordan Human Development Report 2000 (Ministry of Planning, UNDP), p. 31 with reference to Population Reference Bureau, Washington D.C., global data for 1996).

human development (life expectancy: 70,1 years, adult literacy: 87,2 percent ⁶, country wide health services), Jordan ranks 88 of 162 countries in the human development index ⁷. Critical gender disparities continue: Jordan's Gender Empowerment Measure value, an indicator that attempts to measure opportunities for women in terms of their earned income and participation in the professional workforce and in parliament, ranks 97 out of 102 countries ⁸. Unemployment is high and stands overall at about 15 % ⁹ and affects especially young people: 60 % of all unemployed people are below the age of 25. Unemployment of young women is 82 %. According to the Jordan Human Development Report 2000 the causes of unemployment of young people include (1) common reluctance among educated Jordanians to take manual labour jobs, (2) recurrent economic slow-down since the 1980s, (3) skills of graduates do not meet needs of the economic sector, (4) poor in-job-training and continuous education. The employment market is characterised by high mobility of the labour force and two opposite migratory trends: whereas an estimated 190 000 foreign workers are in the country mainly employed in unskilled services (98 % of female migrants are domestic workers), estimates of skilled or professional Jordanians working abroad, especially in the Gulf countries, range from 180 000 to more than 300 000¹⁰.

Around one third of Jordan's population are UNWRA-registered Palestinian refugees, who came to Jordan after 1948, after the 1967 Israeli occupation of the West Bank, Gaza and Jerusalem and after the Gulf war in 1991. 300,000 of them live in camps. The great majority of 1948 and 1967 refugees have Jordanian nationality. Compared to the other countries of the region Jordan does not only host by far the largest share of Palestinian refugees but has taken far-reaching measures to integrate refugees into the Jordanian society.

Common estimates put the share of Jordanian total population of Palestinian origin at more than 50%, most of them living in urban areas. They play a major role in the economy. Inter-marriage and business partnerships between the communities are commonplace. Around one third of Ministers have been of Palestinian origin in recent Governments. However, Jordanians of East Bank and Southern Governorates origin continue to dominate the political system and the security apparatus.

Moreover, Jordan hosts an estimated 170,000 Iraqi refugees or migrants, many of whom are transient and often earn their living in the informal economy.

While the health and educational systems are well developed in terms of quantity and access throughout the country, challenges relate to quality and cost efficiency. These include:

- health sector: quality of services, financial viability of the public health system, wide-spread decentralised management of public healthcare to reduce budgetary expenses; sound regulatory policies are required to ensure the development of a reliable public and private health insurance system, expansion of private sector healthcare. High quality health care under the existing medical system has contributed to Jordan's role as a well-reputed service provider for specialised surgery and medical treatment in the Mediterranean and the Middle East;

⁶ Jordan Human Development Report 2000 p. 7.

⁷ UNDP Human Development Report 2001.

⁸ Jordan Human Development Report 2000 p. 3.

⁹ While an independent Jordanian university survey using a different methodology put the unemployment rate at over 25 %.

¹⁰ There are no reliable figures available on Jordanian work force abroad.

- educational system: (1) primary education: introduction of modern pedagogical teaching methods, teacher training to allow credible implementation of e-government initiative (computerisation of all schools) and English as a foreign language from an early age; develop alternative education and training approaches for increasing numbers of school drop outs; (2) secondary education/ vocational training/ university education: create greater linkages between the skills demanded by the economic sectors and education/training; adapt curricula, increase career guidance counselling for students, integrate in-job-training and continuing education; overcome behavioural and attitudinal reasons for unemployment of young graduates (raise level of acceptance to do “cheap” manual jobs filled by foreign labour force).

For a long time poverty has been perceived as a phenomenon linked to refugees and rural population. However, an estimated 20% of the population lives below the poverty line and this may be rising ¹¹. Jordan has developed a number of segmented instruments to deal with the most urgent needs of the poor and employment creation through the National Aid Fund (NAF), the Development and Employment Fund (DEF), the Social Productivity Programme (SPP), the recent Governorates Development Programme, etc.. Some efforts have been taken to improve the targeting of these instruments. However, their coordination and overall efficiency requires improvement. In addition, a comprehensive, long-term approach to alleviate poverty and to ensure complementarity and synergies between existing instruments has yet to be established.

4.5. Economic situation

Jordan has few natural resources (mainly potash, phosphate), only about 5 % arable land and an endemic drought situation, which has worsened over the past decade. Its industrial base is narrow. The country has still the most service dominated economy of all Mediterranean partners, with services accounting for around 70 % of GDP, and a large government sector. Since the 90s however the share of public sector absorption (consumption and expenditure) decreased from 33 % to 25% of GDP. Given the vulnerable situation of Jordan in the region, military expenditure is high (9 % of GDP). Tourism receipts have been growing over the past years, and account for over 10% of GDP, but fluctuate closely with peace conditions in the region ¹². Remittances from Jordanians working abroad are as high as 20 % of GDP, and are the single largest net contributor to the balance of payments.

The far-reaching stabilisation efforts and policy reforms to address the economic crisis and change the development model to more private sector-led, export-oriented growth since the beginning of the 90s have shown mixed results: inflation has been curbed (around 1% in 2000), through the anchoring of the nominal exchange rate to the US\$ and high interest rates; foreign reserves are equal to over 9 months equivalent of imports; economic growth of 3.9% in 2000 and the 1st quarter 2001 - and estimated 4,1 % in the 2nd quarter 2001- has exceeded the population growth rate for the first time in five years. However, the budget deficit remains high with an average of over 7 % (before grants) over 1995 – 2000, but much lower than before the debt crisis of 1989 (20 %) and on a declining trend in 1998-2000. Jordan remains highly dependent on donor contributions

¹¹ According to the UNDP study (2000) using another method, 28% of the Jordanian population live below the poverty line.

¹² Whereas Western tourist arrivals had already decreased following the outburst of the new intifada in September 2000, tourist reservations broke down further 80 % or more in the aftermath of the 11 September 2001 terrorist attacks in the USA.

that usually cover over half of the deficit. Jordan's budget difficulties stem from both its fairly narrow domestic revenue base as well as rigidities on the expenditure side: Current expenditures account for 86% of total expenditures and are spent on salaries (37%), defence (31%), interest payments (17%) and pensions (16%). A series of reforms are under way to enhance budget revenues (introduction of VAT, income tax reform in 2001) and reduce current expenditure (debt buy back operations, concept to reduce expenditure on public pension fund due for end of 2001).

Investment promotion and regulation: Foreign investment has picked up in recent years, but this has been concentrated in recently privatised industries. Most of this has come from EU Member States, notably France (Telecoms and Cement) and Spain (Duty Free Shops). Overall, investment remains insufficient and still focussed in non-productive sectors (e.g. construction) and has not sufficiently contributed to rise productivity. The continuing challenge consists in transforming the country from a public sector dominated to a private sector led economy, through attracting both foreign and Jordanian investment in productive industry and services. Traditionally local private investment was concentrated in the real estate and construction sectors. Despite broad legislative measures (investment promotion law, bilateral agreements to protect and promote foreign investments) and the creation of several special zones, overall private investment in manufacturing, trade and transport did not pick up as expected. In the past the adverse neighbourhood effects have even spurred capital flight that averaged 3,7 % of GDP in 1975 – 1998.

Since 1998 Jordan has created six Qualified Industrial Zones (QIZ) from where firms can export goods to the USA duty free if 35 % of the product content comes from the QIZ, Israel and/or the West Bank/ Gaza (with a minimum 8% of Israeli content). This has led to increased exports to the USA, albeit from a very low base.

With strong technical support of USAID the Government of Jordan established in 2001 the Aqaba Special Economic Zone Administration (ASEZA). The area encompasses 380 km² and aims to provide "first world" infrastructure, goods imports free of customs duties, VAT reduction from 13 to 7 %, 5 % income tax, and thus to attract investment of JD 6 billion (€ 9,2 billion) by 2020, in tourism (50 %), services (30 %), light industry (7 %) and heavy industry (13 %) through strengthening of regulatory and management capacity of the newly created ASEZA-administration.

The main challenges for successful investment promotion concern the enforcement of investment promotion law and overcoming administrative bottlenecks. Moreover, support services (telecoms, transport) must become more competitive by international standards.

Financial sector: The financial sector compares relatively well with the rest of the region (especially the stock market). The new banking law of 1999 provides for prudential regulation and strengthens the supervisory role of the Central Bank vis-à-vis the banking sector, but more needs to be done. This concerns also the diversification of financing instruments (venture capital companies, non-bank financing through leasing, factoring, and regulation of the insurance sector). The bottlenecks of the financial sector are: (1) While the savings rate is high, bank lending policies and practices are exceedingly risk averse and do avoid productive investment. Poor auditing of Jordanian companies contributes to investment adverse behaviour of banks. (2) Despite a large number of banks the banking sector is concentrated, with the three largest banks accounting for over 60% of total deposits and effectively operating as a sort of oligopoly, this due to the lack of competitiveness and of introduction of new services and products within the banking system,. (3) There is almost no money market; (4) banks are sceptical about developing an

inter-bank market and (5) the inter-bank payment system needs to be upgraded to match the needs of a growing modern banking system¹³.

The added value and development potential for Jordan's banking system due to the involvement of Jordanian banks in West Bank/ Gaza is considered important: These banks keep more than 70% of the Palestinian banking system assets (e.g. US\$ 3.243 billion by end of 2000) and around 70% of total customer deposits (US\$ 2.419 billion by end of 2000). Jordanian Banks granted 50% (US\$ 677 million) of the credit facilities portfolio within the territories controlled by the Palestinian Authority¹⁴.

Privatisation: Privatisation is well advanced with a Ministerial Privatisation Council that takes strategic decisions and the Executive Privatisation Commission in charge of implementation. The Government adopted a prudent approach to privatisation by implementing successful operations (e.g. cement industry, telecoms), which led to creation of new employment, better services and thus a positive perception of privatisation. While the implementation of the first privatisation package is well advanced (35 of 40 companies privatised), the process will enter the hard core, difficult operations with stronger labour implications and/or heavy debts of the companies concerned: in 2001 the Government decided to launch the privatisation of the Jordan Phosphate Mines Company (JPMC) and Arab Phosphate Company (APC); further privatisation concern postal services, Aqaba Port, electricity generating sector, tourism facilities and water utilities. Despite the decision in principle to preserve employees' rights for a two year transitional period following privatisation, no long-term strategy has been developed to cope with retrenchment.

Trade: Jordan suffers from a structural trade deficit with imports almost twice as high as exports. The trade deficit is partially covered by a surplus in services, mainly remittances and tourism.

Exports are characterised by a weak diversification in destination and products:

(1) Between 1995-98 the 10 most important export destinations accounted for more than two-thirds of all exports (Iraq 12,2 %, Saudi Arabia 10,3 %, India 10,2 %, EU 7,2 %, UAE 5,3 %, Syria 3 %, Lebanon 2,6 %, Indonesia 2,4%, others 11,8%). The EU share in Jordan's exports is very low (€ 179 million) and has been relatively stable in the past four years (+ 3 % from 1997 to 2000). Exports of mineral products have been divided by 7 over the past four years. Exports to the USA are now rising above the 1% average of 1995/98 due to the above mentioned QIZ's. Most exports go to neighbouring Arab countries, reinforcing Jordan's overall vulnerability to adverse regional developments and slow regional growth.

(2) Exports concentrate on a few products, most of which have poor international market prospects and thus reduce Jordan's export competitiveness: mineral products 25 %, chemicals 50 %, oils 12 %. 15 major export items represent two-thirds of export value. Contrary to most other MEDA countries neither agricultural products nor textiles are principal components of Jordan's exports. The high value of the JD contributes to

¹³ Jordan complies with criteria of OECD Financial Action Task Force (FATF) on fight against money laundering (see list of non-cooperative countries or Territories of FATF/ GAFI review of 22 June 2001: Increasing the Worldwide Effectiveness of Anti-Money Laundering Measures). Moreover, EU-Jordan cooperation in the field of money laundering is foreseen in Art. 78 of the AA.

¹⁴ In 1995, the Central Bank of Jordan signed a "Memorandum of Understanding" with the Palestinian Monetary Authority to determine that, if Palestinian depositors ask for immediate conversion of Jordanian dinar deposits into US\$ or any other convertible currency, such deposits would be converted gradually to avoid disturbance of the foreign currency reserves of Jordan.

Jordan's weak export competitiveness. Exports to EU are concentrated on transportation equipment, instruments, machinery and textile.

Imports are also concentrated in terms of origin: The 6 first partners account for more than 60% of total imports: Around a third originate in EU, Iraq 11%, USA 10 %, Japan 4,6 %, Turkey and Saudi Arabia 3,5 %. Like many developing countries, Jordan has a much more diversified import structure compared to its exports: Apart from oil (constant at around 10 % with Iraq as exclusive provider) no other import item exceeds 3%. Because of the difference between export destinations and import origins Jordan achieves a regional trade surplus, but has a strong trade deficit with developed countries (especially EU, USA, Japan). Imports from EU rose by 35% over the last four years. The main sectors concerned are machinery, instrument, chemical products and prepared foodstuff.

While intra-regional trade with Mediterranean and other regional partners (Gulf countries) seem modest at first glance, Jordan shows a particularly strong trade integration into the Arab world. It is evident that EU and USA contribute to a high share in external trade of Jordan given their respective weight in the world economy. By eliminating the effect of size of trade partners, data on regional trade reveal the existence of privileged relationships and intense regional trade of Jordan with Mediterranean partners beyond the weak economic weight of Jordan and its trade partners in the world economy. This concerns especially trade relations with Syria, Tunisia, Egypt and with the Gulf countries.

While the legislative and regulatory framework for trade liberalisation has been profoundly modernised, the improvement of Jordan's performance in external trade requires notably (1) institutional strengthening for effective enforcement, (2) timely clearance of imports and exports, (3) a more dynamic private sector able to diversify and adapt production to compete on the world market, (4) improved support services (local and regional transport, warehousing, telecoms, etc.)

In order to open the services sectors to foreign competition Jordan has made substantial commitments vis-à-vis GATS for 11 of 12 sectors placing the country on the level of OECD countries and far beyond developing countries (which in average make commitments for 5 of 12 sectors).

4.6. Environment and natural resources

Scarce water resources constitute one of the most critical natural constraints on Jordan's economic growth. There is a striking imbalance between the lack of weight of agriculture in the Jordanian economy (its share in GDP was at 3,8% in 2000) and the proportion of precious water resources used for irrigation (almost 70%). On current trends, and assuming that no major new supplies come on-stream and that no significant change in water management and policy occurs, Jordan is headed for an absolute water shortage, projected by 2025 to be at 90 m³ per capita per year. Many of the major issues, especially more optimal distribution of water resources, can only be resolved in the framework of regional cooperation. However, with the region mired in conflict and additional water resources resulting from the Peace Treaty with Israel or the unfolding rapprochement with Syria not sufficient to meet long term demand on the one hand, and with prospects for major internal resources uncertain on the other hand, Jordanian authorities have begun to realise the need for a more rational internal water policy. While the water strategy adopted in 1997 stresses the need for improved resource management, with particular emphasis placed on the sustainability of present and future uses, reforms in the water sector need to be deepened and accelerated.

Other environmental concerns are the following: (1) land quality: in addition to the very limited area covered by forests, the soil is deteriorating due to salination and incorrect use of fertilisers and pesticides (in the Jordan Valley in particular); (2) growing urbanisation, due to combined effects of the high natural increase of population and recurrent flows of refugees and returnees; (3) ground water and surface water pollution; (4) the Dead Sea level is diminishing rapidly due to lack of fresh water inflows in recent years and a high level of evaporation; (5) marine and coral deterioration along a 27 km coastline of the Gulf of Aqaba, which has to serve as an international port, a tourist resort and a marine reserve; (6) air pollution in limited areas like Amman and Zarqa and (7) more efficient use of non-renewable energy, including oil and gas, and increased use of renewable energies (esp. wind and solar energy).

For the majority of these problems solutions have to be found in a regional context, while for some others (use of pesticides and fertilisers, surface water pollution, desertification, etc.), solutions must be developed at the national level.

4.7. Sustainability of current policies

Jordan has shown a consistent commitment to enhancing comprehensive economic reforms over the past years, a process reinforced by the strong leadership of King Abdullah. Ideally, economic growth should exceed 6 % to improve per capita incomes and to cope with a rapidly growing population, but this is far above recent performance (see above). Sustainability and level of growth remain a concern. Consolidation of the macro-economic framework against the degradation of the political environment and gloomy growth perspectives of the region will be essential, but difficult. 2002 will be a crucial year, as the 3 year grace period of the latest Paris Club debt rescheduling will expire and repayment obligations will be an additional pressure on the budget. Debt service ratio will be rising from broadly \$ 800 million during 1998 – 2001 to well over \$ 900 million from 2002 onwards.

The success of trade liberalisation reforms mainly depends on efficient implementation of the EU-Jordan AA and commitments stemming from the WTO accession and other trade agreements. In a long-term perspective fast tariff reductions on inputs used by the export oriented private sector as well as a transparent and attractive investment environment may provide a more promising framework for improved export competitiveness than duty exemptions in QIZ and other Special Economic Zones. In that perspective the promotion of Free Zones presents rather a transitory mechanism to attract foreign investment rapidly.

Contrary to the economic area, no comprehensive policy framework yet exists to cope with social problems (increasing rural and urban poverty, high population growth, unemployment especially of women and young people), as well as related fiscal problems (public pension fund); and a broad public sector reform has just started.

The recently outlined five year socio-economic development plan, addresses the most important shortcomings for Jordan's successful social and economic transition. In some sectors it is, however, more focussed on investment than on underpinning reforms and comprehensive policy approaches; this concerns especially social action, where more work is necessary towards a fully comprehensive social development strategy (at the institutional as much as instruments' level). Implementation of the development plan will yield a financing gap of around JD 250 million, which Jordan wishes to cover through extra-budgetary funding by using additional privatisation proceeds (in agreement with IMF), additional debt relief (Paris Club rescheduling, debt forgiveness) and increased donor support. It will be crucial to maintain fiscal discipline while implementing the ambitious development plan.

4.8. Medium term challenges

In the light of the above, the most significant medium term challenges concern the creation of employment for a rapidly growing, young population including an expected increase (doubling) in the rate of economically active women from a current low 9% compared with about 30% rate of men. Increased investment (domestic and foreign) in productive sectors will be the key for economic growth. Alleviation of poverty and of impoverishment of the middle-class (the “near-poor”) is the most important social challenge. To meet these challenges broad reform measures are necessary that will only impact positively if Jordan broadens the institutional capacity to implement these reforms. A comprehensive set of policies are called for to meet these challenges:

- Macro-economic framework: (1) Ensure credible debt management with a view to avoiding repeated debt rescheduling; (2) reduce the budget deficit before grants and thus raise the level of financial self-sufficiency; (3) within a broad reform of the public expenditure structure special action is required to reform the public pension fund (4); contain military expenditure; (5) examine options for a broader based exchange rate regime.
- Tax policy: Contrary to the general perception in the country and despite the introduction of the VAT in 2000 the level of taxation in Jordan remains relatively low compared to EU and other Mediterranean countries. In order to alleviate the fiscal impact of trade liberalisation it will be imperative to (i) modernise the tax and tax collection system, (ii) diminish tax evasion and inequalities in taxation of different groups, (iii) broaden tax base (e.g. implementation of new income tax law, reduction of exemptions), (iv) expand scope and effectiveness of indirect taxation, especially VAT, (v) and ensure the concurrence of actions relating to reduction of customs tariffs and introduction of new taxes to avoid inflation. This also requires broad awareness rising measures to change mentalities and to publicise the need for an operational, comprehensive tax system.
- Regulatory reforms and privatisation: (1) Continue privatisation despite the complexity generated by outstanding operations in terms of size of companies (e.g. mining sector), debts involved and social impact, notably retrenchment; (2) pursue the regulatory reform process and review options for optimising regulatory practise including (i) proper definition of objectives and powers of the regulators, (ii) their independence, financial self-sufficiency and accountability and (iii) sufficient transparency of regulatory processes.
- Economic reforms: (1) Strengthen institutions in charge of implementation of EU-Jordan Association Agreement and other free trade agreements; (2) improve the competitiveness of the private sector to meet increasing competition following gradual trade liberalisation/ globalisation; (3) improve the supervisory role of the Central Bank and regulation of the banking system to enlarge competition among banks and promote private investment.
- Social reforms and human resources development: Develop and implement a comprehensive, long-term poverty alleviation and social development strategy to (1) reduce the incidence of poverty, (2) pay special attention to creating employment opportunities for young people and women, (3) adapt (displaced) workforce of existing public and private industries to face the challenges of modernisation by creation of

- entrepreneurial skills and training with a view to re-insert the work force into the economic process; (4) ensure long-term viability of social security system.
- **Reform of the public sector and judicial system:** (1) reduce budgetary expenditure for the public sector, (2) improve quality of public services; (3) accelerate the implementation of the e-government initiative to modernise procedures and expedite service delivery; (4) ensure independence of the judiciary; (5) adapt the judicial system to challenges resulting from new economic legislation and regulation through development of specialised skills (notably trade law), organisational changes and training; (6) improve output of courts (quantity/time and quality) by increasing number of judges and their financial situation, introduction of modern procedures and equipment.
 - **Water scarcity:** Comprehensive reforms are necessary to face the resource challenge (conflicting interests of water consumers (population, industry, agriculture), improved efficiency of water use in agriculture, exploitation of additional water resources, improved potable water quality, avoiding salination through over-extraction of ground water, increased re-use of wastewater for irrigation), raise cost recovery through a more rational tariff policy, reduced technical and administrative losses of water; and efficient institutional reform (increased private participation, restructuring of Water Authority of Jordan and Jordan Valley Authority, creation of a regulatory authority).

5. OVERVIEW CO-OPERATION PROGRAMME

While the level of support by Arab partners decreased in the 1990s Jordan remains heavily dependent on external assistance. Grant funds continue to cover over half of the annual budget deficit and amount to 3 – 5 % of GDP.

5.1. Past and ongoing EC-cooperation

Between 1978 and 1995 EC-Jordan cooperation was based on 4 Financial Protocols that complement the Cooperation Agreement of 1977 and the structural adjustment envelope of the Renovated Mediterranean Policy (overall allocation € 300 million for all Mediterranean partners). Under these terms Jordan received a total allocation of € 414 million, of which € 216 million were grants¹⁵ from the EC-budget and € 198 million EIB own resources loans, which have been fully used and implemented. Main intervention sectors were water infrastructure, higher education and social development. Since 1992 cooperation has concentrated on structural adjustment operations (77% of available grant funds), which were closely coordinated with the Bretton Woods Institutions and audited by the Court of Auditors.

Under MEDA (1996 – 2000) Jordan received, due to its advanced position in the association process and commitment to broad trade liberalisation and related economic reforms as well as its absorption capacity, € 269 million, the second highest grant allocation among the Mediterranean partners on a per capita basis. EIB own resources loans added up to € 283 million for the same period¹⁶. The implementation of the

¹⁵ Including € 11 million “special loans” under the 1st and 2nd Financial Protocols.

¹⁶ € 183 million concern loans for the potash and phosphate mining industry; other EIB operations: € 30 million for Aqaba port; € 30 million global loan VI to the Industrial Development Bank; € 40 million for the rehabilitation of water supply network of Greater Amman, for which EC paid interest subsidies of € 8.2 million. This operation has been closely coordinated with other donors and linked to the EC-funded TA-programme (Management Unit for Amman Water Rehabilitation Programme).

MEDA-programme is well advanced with completion of the major operations and a disbursement rate of over 70%. The programme focus was support for (1) economic reforms through budgetary aid with conditionality especially related to the future EU-Jordan Free Trade Area (67 %), (2) economic transition (27 %, support for SME-development and more comprehensive support for industrial modernisation ¹⁷) and (3) enhanced socio-economic equilibrium (water sector) and cultural cooperation (cultural heritage and tourism development (6.3 %).

Despite this overall positive picture EC-Jordan cooperation suffered from a number of constraints:

- Adjustment support ¹⁸: Repeated operations have been necessary with a view to sustain Jordan's macro-economic framework, which, however, remains vulnerable especially due to Jordan's high exposure to regional developments. Close cooperation and monitoring with the IMF and regular policy dialogue with the Government of Jordan ensured that the operations could nevertheless be implemented in a timely and successful way. EC support was increasingly linked to accelerating fiscal and structural reforms essential to prepare Jordan for the challenges of future free trade with the EU. The latest facility (€ 100 million, implemented in 2000) impacted positively especially in that it supported Jordan to introduce a broad VAT system; during design and implementation of the programme EC could build on parallel UK-financed technical assistance working with the Government of Jordan on the VAT reform. The new MEDA regulation takes full account of the recommendations of the evaluation.
- Timely implementation of technical assistance programmes has been hampered by time consuming procedures for project preparation, approval and tenders ¹⁹. In some cases mixed quality of experts and the need for their replacement contributes to further limitation of the impact of cooperation.
- The evaluation of EIB managed interest subsidy environmental projects and risk capital operations for Mediterranean countries rated the potential impact high for environmental projects and satisfactory for risk capital operations, where a more innovative approach might have had a greater impact on the economy. Overall, evaluation findings show that relevance, effectiveness, impact and sustainability could be increased. Synergy of operations between Commission and EIB must be improved through closer strategic dialogue and coordination of medium-term cooperation programmes and EIB-lending policy ²⁰.

Under the annual MEDA programme for 2001 EC will support regulatory reforms and privatisation focussing on infrastructures (€ 20 million).

¹⁷ The SME support programme (Business Service Team) was evaluated before the Industrial Modernisation Programme started.

¹⁸ The 1996 structural adjustment facility (€ 100 million) was evaluated in 1999 (F. Gruet, P. Plane: Evaluation des facilités d'ajustement structurel dans les pays au sud de la Méditerranée); the 2nd adjustment facility (€ 80 million) has been audited by the Court of Auditors in 2000 (audit report with Commission comments not yet published).

¹⁹ Jordan was covered by three evaluations covering the Mediterranean: Evaluation of aspects of EU development aid to the Med-Region; evaluation of the MEDA-regulation – process of policy formulation and decision making; evaluation of the MEDA global allocation. Recommendations relating to the strategic planning process (strategy papers, indicative programmes), the need for facilitated decision making process (MEDA-regulation) and implementation procedures (deconcentration) are subject of the reform of external services of the Commission and currently implemented.

²⁰ The Evaluation of Financial Assistance for the Mediterranean Countries Managed by the EIB on Behalf of the EC covered projects in Jordan, conclusions note a somewhat passive role of EIB in targeting sectors and beneficiaries. Most recommendations have been put into practice by the new MEDA-regulation.

During the past five years Jordan received additional support from other specific cooperation instruments:

The objective of EC financial contribution to UNRWA is the improvement of conditions of life of Palestinian refugees; about 30 % of EC support is attributed to refugees in Jordan. Between 1996 – 2000 complementary rehabilitation projects were financed in favour of camp dwellers (around € 5 million). The interventions take account of UNRWA's actions in the targeted camps to ensure complementarity and are coordinated with the Jordanian Department of Palestinian Affairs. They focus on improvement of medical services, social improvement (creation of community infrastructure in favour of children, youth and women), training of camp dwellers to assist their entry into the Jordanian labour market and micro-finance for small business promotion. ECHO's humanitarian assistance equally targets the needs of Palestinian refugees in Jordan and is coordinated locally with UNRWA support and EC-funded rehabilitation projects by the regional ECHO office situated in the Commission's Amman Delegation.

Following the severe drought in 1998 Jordan received an exceptional food security support (€ 2 million), which is under implementation. EC finances a complementary rehabilitation project in favour of drought affected communities in Jordan, which is also currently under implementation.

Jordan has also been an active recipient of support for the promotion of human rights and democracy. Since 1996 EC has financed 11 bilateral operations (total € 3 million) and several regional operations, in which Jordan participated, to strengthen democratisation, human rights and the rule of law. These have focussed on the rights of women, youth and children, including two operations to promote participation of women in parliamentary elections. The target groups have been chosen due to prevailing strong gender disparities and the weak position of children and youth in society. Moreover, Jordanian NGOs participated in several national and regional activities to promote a culture of peace and freedom of media.

EC-co-financed NGOs projects in Jordan (€ 1.3 million since 1996) complement the above in that they also concentrate on capacity building of NGOs, promotion of women (creation of income generating activities) and protection of youth. They thus contribute to promotion of pluralism in Jordan.

5.2. Cooperation of EU Member states and other donors

Between 1996 – 2000 EU (EC and Member states) have allocated financial assistance of over € 1.5 billion to Jordan and have, as a whole, been Jordan's largest donor. The US has been the single most important bilateral donor, although unlike the Euro-Mediterranean partnership, the US eschews long-term commitments.

EU-Member states:

Germany: Germany's involvement in cooperation with Jordan goes back several decades and amounts to roughly € 1 billion. Moreover, Germany granted debt swaps for € 146 million. Annual allocations are expected to continue at a level of around € 32 million. As in the past interventions will focus on the water sector. A broad country cooperation evaluation is underway, and a water sector strategy paper defines the framework for future cooperation. Main current technical cooperation projects outside the water sector concern: promotion of land registration, improved budgetary management, promotion of a National System of Metrology, Standardisation, Testing and Quality Management,

United Kingdom (UK): For the past five years, annual allocations have been around € 7 million and will continue at the same level. Current interventions relate to support for (1) economic reforms closely aligned to IMF and World Bank programmes (e.g. TA for introduction of VAT law), (2) regulatory reforms, (3) capacity development of Ministry of Social Affairs, (4) training of judges to enhance efficient enforcement of new economic legislation, (5) NGOs and (6) UNRWA services. Future focus areas will be: enhancing planning and operational capacity to reduce poverty and social exclusion, support for economic reforms, deepening existing partnerships with active multilateral donors.

Italy has had an active cooperation with Jordan since 1965 in various sectors. In recent years an increasing part of assistance was used to support structural reforms by co-financing with the Bretton Woods institutions. Between 1990-1999 Italy's overall allocations have been US\$ 23 million in grants and US\$ 36 million in soft loans. The cooperation programme 2000 – 2002 - € 5.2 million in grants, € 83 million in soft loans - includes support for economic reforms and SMEs, wastewater treatment in refugee camps and Naur, solid waste treatment in Amman, interventions in the health sector and for civil defence. In 2000, Italy also granted a bilateral ODA debt swap of € 85 million.

France: Since 1994 annual commitments were around € 23,5 million for financial cooperation in different sectors and debt swaps, additional € 0,9 – 1,8 million were granted for food aid. In 2001 € 1.3 million were allocated for cultural, scientific and technical cooperation.

Spain: Since 1994, Spanish annual allocation in form of grants amounted to € 1.5 million in various fields of cooperation with special emphasis on NGO's. Main activities include preservation of cultural heritage, agriculture, agro-industries and health sector. Moreover, in 1999 Spain (1) agreed two debt swap agreements on development and private investment for 10 and 12 million US\$ respectively and (2) granted a financial programme amounting to 55 million US\$.

Other EU-countries: Sweden funds around € 1,4 million yearly, mostly for studies in different sectors. Denmark allocated soft loans of € 51 million in 1999, the Netherlands and Greece have scholarship programmes, Belgium cooperates in the field of archaeology. Many Member States make substantial contributions in cash and food aid to UNRWA which benefit operations in Jordan.

Other donors:

IMF: After continuous programmes since 1989, IMF agreed a new loan of \$ 220 million (€ 239 million) in 1999 over three years under the Extended Fund Facility with associated structural reform benchmarks.

World Bank: While without local representation in Jordan, the Bank assists Jordan in economic analysis and various sector reviews to identify bottlenecks and challenges for reforms. Since 1996 World Bank disbursed 3 Economic Reform and Development Loans (total \$ 320 million = € 348 million). Within the priorities of the current Country Assistance Strategy, World Bank will support the public sector reform programme by 3 annual loans of \$ 120 million (€ 130 million) each between 2001 - 2003. Other active operations concern the health, water, higher education, the housing sector and other investment programmes.

UN is represented in Jordan with eleven of its organisations with country or regional functions, of which UNDP is the most important. Since 2000, UNDP has begun to play an effective role in donor coordination. Together with DFID and Ministry of Planning UNDP prepared the Jordan Human Development Report 2000 (youth). Poverty alleviation and empowerment of women, promotion of good governance and public administration,

integration of communications technology into development and protection of the environment are the areas of the UNDP cooperation programme with Jordan (total: around € 5.7 million in 2000).

USAID: USAID funds rose from annual allocations of \$ 7.2 million 1996 (€ 7,8 million) to \$ 200 million (€ 217.5 million) in 1999 and 2000. For 2001 the allocation is fixed at \$ 150 million (€ 163 million). The future level will depend on the renewal of the political commitment of the new US administration to continue strong support to Jordan as a moderator in the Middle East Peace Process. The focus is on reproductive and primary health, water resources management and economic opportunities. In that framework USAID strongly supported Jordan's preparation for accession to WTO and the establishment of the Aqaba SEZ and has invested significantly in micro-finance and water development.

Japan: mainly through soft loans, has strong activities in infrastructure (e.g. water, energy, transport), economic reforms (co-financing with World Bank) and private sector development (a 3-year Industrial Development Programme and the SME Development Fund have been concluded in 2001) and support for NGOs.

Canada: focuses on environmental protection and human resources development (€ 3–5 million per year).

EFTA countries, notably Norway and Switzerland, have stepped up cooperation following the signing of the EFTA – Jordan Free Trade Agreement in 2001.

Arab Funds: Figures are difficult to verify, but according to the UN Jordan received \$ 217 million (95 % loans) – close to a third of all ODA to Jordan – from these sources in 2000, mainly for investment projects.

5.3. Coordination with other donors

Following an initiative launched by the Commission Delegation and Member States Embassies in 1999, donor coordination has been improved with the creation, in 2000, of the informal Donor and Lenders Consultation Group (DLCG), for which UNDP provides the secretariat and EU (Commission and EU-Presidency) provided the first six-month rotating presidency until end of first semester 2001. The lead is now with USAID. This coordination mechanism complements the Aid Coordination Unit of the Ministry of Planning, which despite previous UN support, has not been able to assume its task fully in the past. DLCG has quickly achieved substantial credibility by associating systematically high level representatives of the Jordanian Government. World Bank is committed to participate in the meetings with staff on mission or by seconding staff from an office in the region. UNDP, USAID and EC are working together to support the Aid Coordination Unit to enable it to better play its role vis-à-vis donors. Moreover, the Commission benefits from extensive contacts with individual donors for ad-hoc coordination. The already well established Water Working group of donors continues.

The EU has established an internal Development Cooperation Group (EUDCG), which meets regularly at the Delegation in Amman, to improve common strategies, coherence, information exchange and visibility of EU and Member State programmes. Over the past years Commission staff and experts systematically ensured briefings of EU-Member states at all stages of the project cycle.

These arrangements are fully in line with the Council conclusions and MEDA guidelines on aid coordination issued in 2001.

6. EC RESPONSE STRATEGY 2002 – 2006

6.1. Principles and general objectives for co-operation

EC-cooperation with Jordan intends in parallel to

- assist Jordan in facing social, economic and institutional challenges and to accompany the necessary transition process to modernise the country and
- consolidate and enhance the Euro-Mediterranean Partnership, defined by the Barcelona Declaration of 1995 and further developed by the Euro-Mediterranean Ministerial Meetings since then.

The main objective of cooperation with Jordan in the medium-term is to ensure a successful implementation of the EU-Jordan AA as part of Jordan's overall modernisation process and to minimise any negative impact of economic reform measures through support for social reforms (poverty alleviation) and human resources development (employment creation). This is linked to Jordan's continuing commitment to the Euro-Mediterranean Partnership and the pursuit of substantial reforms in those sectors, for which Community funds would be made available. Jordan has strong ties with many Mediterranean countries and is an active partner in almost all regional cooperation programmes that have evolved under the Barcelona process; coordination of bilateral and regional cooperation is crucial, and future interventions in Jordan shall take due account of the results of regional programmes. Experience Hence the promotion of cross-border cooperation (especially related to trade and infrastructures) with those regional partners will be an important element of future cooperation. Jordan has been involving economic and social partners and NGOs in the definition of reform strategies to create a broad consensus on reforms within the population, and EC will equally build on the input of various actors in cooperation programmes.

Given the persistence of strong gender disparities all EC-funded programmes will as far as possible target the special needs of women (1) to enhance their role in economic life and (2) to benefit from appropriate social support.

In accordance with Commission communication on conflict prevention (April 2001) Commission will seek to incorporate specific conflict prevention/ resolution measures into its cooperation programmes. This is all the more important as Jordan is wretched in a region troubled by conflicts all around and may become subject to destabilising tensions, especially in the aftermath of the terrorist events of the 11 September 2001 in the USA.

This strategy will be implemented in compliance with the general policy objectives as anchored in the Barcelona Process and taking into account the general and specific guidelines contained in the Joint Council and Commission Declaration on Development Cooperation (November 2000), and the Communications on Conflict Prevention (April 2001), on Human Rights (May 2001), on Mainstreaming Gender Issues (June 2001), and on the Strategy for the integration of environmental considerations into development policy (May 2001).

In order to mainstream efforts at all levels in a more effective way, the response strategy in this CSP should be coherent with the National Strategy for Sustainable Development prepared by Jordan in other international contexts, such as the UN Commission for Sustainable Development and the Mediterranean Action Plan. Particular attention will be paid to opportunities for mainstreaming environmental benefits in all cooperation sectors and activities proposed in the NIP 2002-2004. Environmental Impact Assessments (EIA)

should be provided prior to the funding of any large infrastructure project or ecologically sensitive areas.

6.2. Priorities and specific objectives for co-operation

MEDA cooperation with Jordan will focus on the following priority sectors:

- Trade enhancement and institution building,
- Stable macro-economic framework and economic reforms,
- Social reforms and human resources development,
- Development of infrastructures including regional cooperation.
- Strengthening of pluralism, civil society and the rule of law.

Trade enhancement, institution building and regional integration: The key objective of the EC-strategy for Jordan is to support the successful implementation of the EU-Jordan AA and to promote enhanced regional trade between Mediterranean partners with a view to creating a broad Euro-Mediterranean free trade zone by 2010. In the past, EC has supported reforms related to trade liberalisation through performance criteria of its latest two adjustment facilities and financed direct support to small and medium enterprises (€ 7 million) to adapt to the opportunities and challenges of future free trade with EU. The implementation of a more comprehensive € 40 million programme for industrial modernisation, known as EJADA, the Euro-Jordanian action for the development of enterprise has started in 2001. Experience from its four components (non-financial services to SMEs and support institutions, financial support schemes to SMEs, vocational training and human resources development, industrial policy development and strengthening of related institutions) may yield further EC support programmes in the respective fields to improve the competitiveness of the private sector. As the AA also entails a comprehensive upgrading of legislation/ regulation and creation and/or strengthening of institutions, it is a core interest of EC to accelerate and sustain this process. This includes implementation of single market measures, at country and regional level. In this context, EC will also assist Jordan to prepare for particular challenges resulting from the so-called “Agadir process” and other regional trade cooperation initiatives with Mediterranean partners.

A stable macro-economic framework and broad economic reforms are a prerequisite to ensure Jordan’s long-term development perspectives in the region. Several measures are necessary to reduce the severe budget deficit (i.a. enhanced fiscal reforms to yield larger revenues and compensate for losses linked to trade liberalisation, reform of the public pension fund). Expansion of privatisation and private participation in infrastructures is required to reduce the burden on the national budget of debt of loss making public enterprises, and generally to shift the role of Government from management to regulation of major commercial sectors. The development of a more dynamic private sector is hampered by the dis-functioning of the financial sector. Under MEDA EC budget support has been linked to fiscal reforms and progress in privatisation. In 2001, EC prepared a support programme for regulatory reforms and privatisation (TA, training, international exchanges) focussed on infrastructure sectors. As a function of the pace and scope of further regulatory reforms and the progress in privatisation, EC is ready to extend the support as a function of advancement of the privatisation process. Support for financial sector modernisation will concentrate on strengthening the supervisory role of the central bank vis-à-vis (1) the banking sector to create an open, competitive, private sector oriented banking system, (2) the security market and (3) insurance companies.

Social reforms and human resources development: Jordan has embarked on a review of existing poverty alleviation instruments in order to design a much needed comprehensive,

long-term policy framework. EC has been supporting the Development and Employment Fund, one of the several instruments focusing on poverty alleviation, in the field of creation of micro-enterprises and staff training and, taking this experience into account ²¹, is willing to assist in the design and implementation of a broad-based poverty alleviation and employment creation strategy. This may, among others, comprise initiatives to prevent and reduce drug use. Commission also intends to build on results of the vocational training and human resources development component of the EJADA programme and is committed to follow-up and broaden support in this field, if appropriate, in the medium-term ²². There is also a strong case for promoting the development of tertiary education through international co-operation between the EU and Jordanian higher education systems. It is therefore planned to support this by extending access to the TEMPUS III programme to non-candidate Mediterranean partners.

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Complementary to the support for regulation and privatisation ²³, which comprises some assistance to deal with social impact of privatisation, EC can share with Jordan broad European experience in strategies/ instruments to re-insert displaced work-force into the economic process in the context of industrial modernisation and/ or privatisation. During the past decades, EU has developed and implemented various mechanisms to re-integrate displaced work-force into the economic process following restructuring and privatisation of industries and modernisation of entire regions (for example mining sector, ship building industry, port services, transport and postal services etc.). Given the scope of the challenge to reform the social security system, especially the public pension fund, EC-action will be linked to the support of other (bilateral and multilateral) donors.

Development of infrastructures and regional cooperation: Given the magnitude of financing required to realise domestic or regional infrastructures MEDA grant funds will be used primarily to facilitate the mobilisation of loans of official or private lending institutions, especially through financing of preparatory studies and Technical Assistance. With the severe water scarcity in Jordan the support for the development of domestic infrastructure will concentrate on the water sector. In order to create synergies with existing EC-funded programmes the focus will be on (1) enhanced private participation in the water sector and (2) improved use and management of border water resources, which constitute an important share of Jordan's scarce overall water resources. EC has financed a number of feasibility studies related to border-water within Peace Process projects and will support the follow-up of these and similar initiatives to emphasise the regional dimension and conflict prevention potential of sound cooperation in the water sector. Under MEDA EC has supported the rehabilitation of the Greater Amman water system in close cooperation with several other donors, including EIB. Currently EC finances – together with Germany - the programme management unit, which is in charge of supervising the private company contracted by the Government of Jordan to manage the Amman water network. Moreover, EC is ready to extend the support for regulatory reforms and privatisation to include water as a focal sector with a view to (1) extend regulation to cover all types of water use and discharge of waste water, (2) enhance cost efficiency through private participation, (3) diminish the budgetary burden by decreasing subsidies for the Water Authority of Jordan (WAJ) and Jordan Valley Authority (JVA).

²¹ Funds of Financial Protocols; project under implementation, evaluation planned for 2002.

²² Implementation of EJADA has started in 2001 and is expected to yield results that Commission can take on board for the next review of the Country Strategy and National Indicative Programme.

²³ Annual Financing Plan 2001.

Generally EC support will contribute to alleviating the imbalances caused by allocation of around two thirds of the resource for irrigation and the weak contribution of agriculture to GDP (3,8% in 2000) against competing needs of the population and industry. Such and similar support will depend on positive results of the current programmes. Although many donors are active in the water sector in Jordan, use of EC funds is justified where they contribute to accelerate and broaden the long-term policy reform or to enhance regional cooperation. In order to achieve substantial impact close cooperation with other donors is a pre-requisite. EC will support the development of regional Mediterranean infrastructure networks (especially energy and transport) essentially through its regional cooperation strategy. However these programmes may well require complementary bilateral operations in order to enable Jordan to make best use of regional networks.

Strengthening of pluralism, civil society and the rule of law will continue to be a priority for cooperation building on experience of past operations through MEDA-Democracy and the European Initiative for Democracy and Human Rights (EIDHR). Since the merging of human rights instruments EIDHR focuses on priority countries only, of which Jordan is none. MEDA-funded cooperation shall concentrate on strengthening of women rights, protection of right of the child, promotion of freedom of media, association and assembly, strengthening of civil society and other fields of cooperation relevant to the rule of law, namely the fight against drugs and organised crime, and the management of migration and refugees.

6.3. Coherence with other EU policies.

The proposed EC co-operation focus in Jordan promotes overall EU trade policy (trade liberalisation, creation of a Euro-Mediterranean free trade area) and the development policies adopted by the Commission and EU Member states. These place priorities on poverty reduction, integration of developing countries into the global economy in a sustainable way, liberalisation of economies, good governance and human rights. The potential for extension of trade relations between EU and Jordan will be facilitated by the AA. Support for the implementation of the Agreement will cover Industrial and Intellectual Property rights (problems with their respect concern esp. pharmaceutical products) and positively impact on the application of WTO rules in Jordan.

Jordan will continue to benefit from support through all available complementary instruments of cooperation such as

- Regional projects of the European Initiative for Democracy and Human Rights (with a focus on abolition of the death penalty, the fight against torture and racism/ minorities, where it is envisage to operate at the level of global and regional advocacy. Additional support shall be mobilised to (1) strengthen the political and economic role of women, (2) protect the rights of the child, (3) promote freedom of media, association and assembly, (4) strengthen civil society);
- rehabilitation with a focus on improvement of living conditions of refugees and expansion of the national campaign to destroy anti-personnel land-mines,
- environment with a focus on renewable energies,
- demography to reduce the high population growth,
- non-governmental organisations to strengthen the civil society.

This strategy is expected to contribute to conflict prevention in the region in that it promotes regional integration with other Mediterranean partners (esp. trade, infrastructures, border water resources) and sound economic and social policies including institutional strengthening. If destabilising crisis situations arise, i.e. in the aftermath of

the terrorist acts of 11 September 2001 in the USA, such new developments would justify, apart from the usual instruments of financial cooperation, the use of the Rapid Reaction Mechanism.

6.4. Complementarity with activities of Member States and other donors.

Apart from EIB and other bilateral and multilateral donors, of the Member states Germany, Italy, France and Spain provide substantial development aid to Jordan's water sector. Coordination with a view to establishing synergy effects between the interventions of donors will be ensured by the DLCCG, the local donor water working group and regular discussions of the recently created EUDCG working group organised by the Commission Delegation in Amman. As in the past EC will build on the experience and results of support for economic reforms, especially from UK and Germany (fiscal reforms, improved budget management, technical assistance for trade related issues). Coordination in EIDHR civil society programmes will also be a focus, as currently practised with the UK, Netherlands and other MS on electoral support.

Close cooperation will be essential with USAID and the Bretton Woods Institutions in the field of economic and regulatory reforms, trade enhancement and single market measures to ensure consistency of donor support with the wider objective of EU-Jordan cooperation to integrate Jordan into the future Euro-Mediterranean free trade area. As World Bank support 2001 – 2003 concentrates on a broad public sector reform EC will limit its own interventions in this field to those segments of administration and the judiciary involved in the implementation of the EU-Jordan Association Agreement. In the social sectors, EC will seek close cooperation with those donors most involved in the design and implementation of the yet to be established poverty alleviation policy framework (notably USAID and UNDP). EC will not enter those social sector reforms, for which other donors have a comparative advantage due to their comprehensive support in the past (e.g. health).

Since EU is Jordan's only partner with a long-term cooperation strategy for Jordan in the framework of the Euro-Mediterranean partnership and free trade area, EC has a key interest in ensuring that interventions of other donors take account of the need for Jordan to adapt towards the "acquis" of the EU to be able to benefit best from the opportunities of the political, economic and social dimension of the partnership.

6.5. Risks

The implementation of the proposed strategies and interventions are subject to some risks, which are essentially linked to the political and economic regional developments:

The continuation and expansion of the Israeli-Palestinian conflict which could lead to further inflows of Palestinian refugees and disturbance of the fragile equilibrium between communities within Jordan and boost support for extremist views. This would have adverse effects on (1) Jordan's internal stability, (2) foreign direct and domestic private investment in productive sectors and could (3) possibly lead to a slow down of the broad modernisation process, and (4) impact negatively on macro-economic stability.

A further deterioration in the international community's relations with Iraq, which could undermine Jordan's trade with that country (annual trade protocol, esp. on oil imports that, until now, comprise an important grant element, impact of an eventual switch to "smart sanctions") and more generally worsen investors confidence.

A slow-down of the economic development in the Gulf countries following changes in the oil price may result in similar negative economic effects, because the Gulf is Jordan's first

destination of exports and migrant workers (reduction of exports and workers' remittances).

Any retaliatory action following the terrorist acts of 11 September 2001 in the USA concerning neighbouring countries might impact negatively on Jordan, be it in terms of rising support for extremist views in the population and internal stability or in terms of economic development.

Economic reforms must be accompanied by the efficient implementation of a comprehensive social development framework to avoid social unrest resulting from increasing poverty and high unemployment rates especially of young people.

The long term credibility of the Government of Jordan will depend on sufficient implementation capacity so that reforms can fully generate their projected benefits.

The Al-Aqsa Intifada, threats of reprisal to US-led attacks against Afghanistan and the possible widening of the war against terrorism to countries closer to Jordan, all are hampering Jordan's effort to become an attractive investment location for foreign and local investors. Foreign investors' perception in particular has been affected since the terror attacks of 11 September 2001, causing the freezing or cancellation of operations at a time when increased inflow of capital is needed for Jordan's industrial and economic development. Due to the expected slow down in key sectors such as tourism, airlines and shipping, to the lack of capital inflow along with slackening demand in key markets such as the USA, Asia and Arab countries and to falling oil prices, which will hit employment of Jordanian migrant workers and the remittances this generates, Jordan will struggle to maintain current growth rates, to benefit from the economic reforms already launched and to implement social reforms yet to come.

The Country Strategy builds on the country's risk situation with a view to support Jordan in diminishing its exposure to such risk factors. It thus foresees targeted support for those sectors that are most exposed to the indicated risks (esp. trade enhancement and institution building, macro-economic stability and economic reforms, social development) or that can contribute to improve regional links (development of (regional) infrastructures), while preserving and enhancing the respect of human rights, civil society and the rule of law. The described priorities reinforce Jordan's efforts to reduce its vulnerability to enduring regional crisis situation. The Country Strategy shall contribute to make Jordan - in the long-run - crisis-resistant despite numerous risk factors, which remain largely beyond its control.

7. CO-OPERATION PROGRAMME 2002/2004 (NATIONAL INDICATIVE PROGRAMME 2002/2004).

7.1. Introduction

The sector priorities derive from the response strategy developed in chapter 6 taking account of the guidelines for the Euro-Mediterranean Partnership as defined in the conclusions of the recent Euro-Mediterranean Foreign and Trade Ministerial Meetings. EC-financed interventions, aiming at sustainable development, will focus on

Priority 1: Trade enhancement and institution building comprising two operations:

- Support for the implementation of the EU-Jordan Association Agreement (AA) and regional free trade arrangements with Mediterranean partners;
- Support for regional development in the Aqaba Special Economic Zone (ASEZ).

Priority 2: Support for a stable macro-economic framework and economic reforms:

- An economic reform facility to contribute to sound public finances, tax reform and accelerate the modernisation of the financial sector.

Priority 3: Social reforms and human resources development including

- Support for the re-integration of displaced work-force into the economic life of privatised and restructured public and private enterprises;
- support for the creation and implementation of a comprehensive poverty alleviation strategy;
- Participation in the TEMPUS III programme.

Priority 4: Development of infrastructures including regional cooperation through

- support for enhanced private participation in the water sector;
- improved use and management of border water resources;
- creation of Mediterranean regional infrastructure networks.

Priority 5: Strengthening of pluralism, civil society and the rule of law

- Contribute to the promotion of human rights, democracy and the respect of the rule of law.

7.2. Content of the indicative programme.

Given the rapid progress of economic, social and public sector reform in Jordan, a key concern is to overcome past cooperation constraints and mobilise flexibly and timely short and medium-term expertise to accompany reform measures (design and implementation) within the defined priority areas of EC-support. This will require a continuous dialogue between EC and the Government of Jordan to identify those fields of interventions that require immediate support. Such ad-hoc support shall be linked to the longer-term EC-funded programmes described hereafter with a view to realising prior actions and/or bridging measures in terms of expertise, training, awareness raising activities, international exchanges, etc.. This mechanism will (1) be used before or in parallel with the preparation period required to launch long-term operations, (2) develop broad opinion-maker and public support and awareness of reforms; (3) improve the capacity of the Government of Jordan to bring about the rapid implementation of reforms, (4) eliminate potential bottlenecks/ risks associated with long-term programmes by updating findings of appraisal studies and bridge the time-lapse between appraisal and arrival of long-term expertise under the defined programmes and thus contribute to accelerate broad implementation of the long-term support programmes ²⁴.

Priority 1: Trade enhancement and institution building

1. Background and justification of the priority:

Jordan has been following a consistent strategy of trade liberalisation over the past years, and became a WTO member in 2000, signed free trade agreements with USA (October 2000), EFTA (June 2001) and other trade agreements with regional partners. The EU-

²⁴ This approach is consistent with the recommendations of the recent Evaluation of the global allocation MEDA 1995 – 2000, which suggest to use the global allocation not only for project preparation (framework contract), to improve the speed of decision making or residuary actions, but also small innovative actions.

Jordan Association Agreement (AA) was signed in 1997 and is expected to enter into force by beginning of 2002. In May 2001, Jordan, together with Morocco, Tunisia and Egypt decided to create a regional free-trade area ("Agadir" process).

Along with strict trade commitments, the AA entails a comprehensive upgrading of legislation and regulatory framework and the creation and/or strengthening of institutions involved in the implementation of the AA. It is a core interest of EU and Jordan to accelerate/sustain this process. Moreover, the conclusions of the Marseilles (11/2000) and Euro-Med Trade Ministerial meetings (05/2001) emphasised the importance of enhanced regional cooperation between Mediterranean partners to complement the EU-Mediterranean bilateral relations. This is particularly important for a small country like Jordan surrounded by powerful neighbours and with important economic and natural constraints.

The challenging character of the AA also results from the need to substitute losses in customs duties following the tariff dismantling on products originating in the EU by creating new budget revenue sources against the background of a chronically high budget deficit. In 1999, customs duties contributed to approximately 17% of budget revenues and to more than 30% of fiscal income (imports from EU amounted to around 10% of tax revenues). Support for tax reform, modernisation of tax collection and the tax authorities will be particularly important in the light of Jordan's trade liberalisation towards EU and other partners on bilateral (i.e. USA, Mediterranean/ Middle East countries), regional (GAFTA, Agadir process) and multilateral level (WTO).

The newly created ASEZ Authority faces important challenges with regard to the development of the region and needs comprehensive upgrading of its capacities, i.a.: (1) in the context of trade liberalisation, as it replaces other national authorities for special economic zone's territory, (2) in terms consistent policy of tourism and industrial development while protecting a fragile environment and (3) in terms of benefiting from the potential of cross-border cooperation with the neighbouring countries nearby: The ASEZ development will imply, in the medium-term, a downscaling of activities of the old port (near the tourist resort) and an upgrading of the container and industrial ports outside the city centre near the Saudi Arabian border in order to merge the space on the coastline for enlarged tourism infrastructure. As a function of the medium- and long-term development of the political situation in the Middle East the Aqaba region has an interesting potential for cross-border cooperation and infrastructure investments, i.a. common use of the upgraded and reconstructed Aqaba international airport by Jordan, Israel and Egypt, concentration of commercial port activities in Aqaba implying privatisation of the Aqaba port and downscaling of Eilat port; construction of liaising cross-border roads (for truck traffic) between Taba, Eilat and the Aqaba port; common use of industrial assets in the enlarged Aqaba region.

2. Specific objectives

EC support shall contribute to boosting free trade, economic growth and pave the way for enhanced regional trade cooperation with a view to:

- Improving the capacity of Government of Jordan (GoJ) to comply with obligations of the EU-Jordan AA, WTO obligations and regional trade cooperation agreements concluded with Mediterranean partners;
- Facilitating (1) the approximation of the legislative and regulatory framework to international best practice, where there is no EU acquis and (2) its implementation;
- Enhancing efficiency in terms of quality and costs of those parts of administration involved in the implementation of the AA (national authorities; ASEZ Authority);

- Enhancing the economic development of the South of Jordan, the poorest part the country;
- Developing sub-regional cooperation.

In response to these objectives EC will finance the following interventions:

- Support for the implementation of the EU-Jordan Association Agreement and regional free trade arrangements with Mediterranean partners;
- Support for regional development in the Aqaba Special Economic Zone (ASEZA).

3. Expected results and indicators

Generally:

- Legislation and regulatory framework foreseen by or related to AA and WTO adopted and applied.
- Administrative bodies/ institutions to implement and monitor this legislation/ regulation created and operational;
- Administration and judiciary trained and equipped to implement new legislation/ regulation.

Specifically per programme:

- Support for the implementation of the EU-Jordan Association Agreement and regional free trade arrangements with Mediterranean partners:
 - *Free trade:*
 - *Tariff dismantling* implemented as foreseen in the AA; anti-fraud legislation in place and properly applied; public informed on opportunities/ challenges following tariff changes for economic activities of domestic productive sector and foreign investors;
 - *Customs/ controls related to rules of origin:* Simplification of controls and of customs procedures are an explicit objective of the AA (Art. 76). Legislative and regulatory actions directly or indirectly related to customs will be required with respect to the Customs Law, implementation of customs value, regulation of arbitration, control of rules of origin. Regulatory actions concern procedures and customs organisation; moreover, the performance of the customs authorities must be improved: i.e. customs clearance, control of the products under customs, ex-post control, verification of origin. *Indicators:* customs authorities strengthened and performance improved to ensure correct application of customs rules and origin control; right of appeal for economic operators; country-wide application of the ASYCUDA system;.
 - *Standards/ technical regulation/ conformity assessment:* upgrade/introduce regulation based on international best practice; separation between regulatory, standardisation and certification functions; establishment of a functioning accreditation system a functioning certification/ testing/ inspection system a functioning legal metrology office, a functioning market surveillance system. *Indicators:* e.g. membership of international standard organisations; number of standards translated and adopted; mutual recognition agreements; international cooperation arrangements in metrology; infringement/ court cases for non-compliance (sub-standard products); number of administration and legal staff trained.

- *Sanitary and phytosanitary rules (SPS)*: national competent authorities, with appropriate powers, to ensure proper implementation of SPS legislation; adequate budget including emergency fund for disease control; adequate laboratory structures including equipment and diagnostic arrangements; appropriate structures and inspection arrangements at the point of origin and at the external borders; computerised system linking veterinary authorities inside the country and an external movement control system and animal disease notification system; right of appeal and dispute resolution by experts. *Indicators*: numbers and frequency of official inspections and border checks; number of registered animals and health certificates issues; number of accredited laboratories.
- *Improvement of legislative and regulatory framework*
will result in the approximation to the EU “acquis” or, where such “acquis” is missing, to international best practice in the following areas:
 - *right of establishment and services* (agreements on investment protection, prevention of double taxation; economic integration agreement as defined in Art. V GATS.);
 - *competition law*: creation of a competition law adapted to EU standards, taking account of Art. 53-55 AA, establishment of a competition authority with necessary power to enforce rules on restrictive agreements, abuse of dominant position and merger control; authority and judiciary s staffed with trained administrators, judges and lawyers to ensure law enforcement; *indicators*: number of infringement cases; number/level of fines; number of deterrent actions proposed;
 - establishment and enforcement of *company law*; establishment of a register for undertakings and a national Gazette for publication of certain company information; designation of an administrative or judicial authority to ensure control of the incorporation of companies; *indicators*: means of access to register; costs of access; number of companies registered; registration process time; penalties if annual accounts are not registered;
 - *introduction and enforcement of consumer protection law*: specific public or private sector authority established, staffed and equipped to fulfil supervisory role, judiciary trained to ensure law enforcement;
 - *Intellectual, industrial and commercial property rights (IPRs)*: Accession to the multilateral conventions indicated in AA and transposition into national law; establishment/ strengthening and appropriate staffing of a national authority to which can be presented applications for one or different kinds of IPR-protection; courts staffed with trained judges and prosecutors familiar with IPR legislation; police and customs authorities trained in the field of IPR; *indicators*: number of staff in IPR office, number of staff trained in IPRs legislation and enforcement; existence of specialist courts; number of patent and trademark applications; average time span between application and registration of patents; numbers of patents/ trademark registrations in force; number of seizures performed at the border/in the country; infringement cases presented; level of fines and jail sentences;
 - *Public procurement*: establishment/ strengthening of a public procurement body that ensures proper application of rules, gives advice on public purchasing and provides information and training on public procurement; existence of (quasi-)judicial monitoring bodies; *indicators*: number of tender notices published; clear definition of entities awarding contracts; administrative and legal staff trained in public procurement law; number of appeals in court;

- *Accounting/ Auditing*: establishment/ strengthening and appropriate staffing of a private or public authority body responsible for issuing accounting standards further to the basic law; follow-up mechanism for correct application of accounting standards to submit complaints for non-respect of accounting law/ regulations/ standards; accreditation authority; public register for statutory auditors; professional bodies for auditors representing the interest of their profession; *indicators*: number of checks of financial statements by supervisory authorities; numbers of certified auditors.
- *Institutional strengthening in areas related to the AA*:
 - *Improved capacity and efficiency of tax authorities* in terms of tax collection and control, enhanced dispute settlements system²⁵;
 - *Improvement of analytical capacity of Department of Statistics* to improve understanding of the economic situation of the country with a view to improving data collection, analysis and dissemination capacities, methodological harmonisation with EU, based - where possible - on results of the regional MEDSTAT programme;
 - *Enhancement of impact assessment capacities of GoJ* to evaluate/ quantify magnitude of impact of the AA, to anticipate potential risks and more generally to assist in the elaboration of sound economic policy; establishment of an econometric model designed to specifically address Jordan's economy;
 - *Regional cooperation and integration*: provision of assistance for negotiation/ implementation of future regional or bilateral agreements with Med partners; enhancement of institutional harmonisation between Med partners and recognition of qualifications.
- Support for regional development in the Aqaba Special Economic Zone (ASEZ)
 - ASEZ prepared – in terms of design and administrative capacity – to practice cross-border cooperation with Israel and Egypt; possible re-launch of cross-border cooperation and realisation of sub-regional activities of common interest;
 - Long-term environmental and tourism strategy, legislation, regulatory framework and action plan for ASEZ established and implementation conditions prepared;
 - ASEZ Authority strengthened and equipped to comply with tasks deriving from AA and WTO obligations.

4. Short description of the programmes

- Support for the implementation of the AA requires a comprehensive technical assistance programme, training in areas of related to the implementation of the AA, international exchanges, including possibly cooperation with European institutes, and equipment covering the first five years of implementation of the AA.

Counterpart organisations: Ministries of Industry and Trade, Planning and Finance.
Beneficiaries: Ministries and administrative institutions involved in implementing the AA; judiciary (including lawyers); private sector; general public. Other donors: USAID-financed broad-based AMIR programme phases I and II covers preparation

²⁵ As this component is also closely linked to broader tax and fiscal reforms, support could alternatively be covered by the Support for a stable macro-economic framework and economic reforms, see priority 2, par. 2 (objectives), 3 (expected results in performance indicators) and 4 (programme description).

and/or implementation of legislation/ regulation, to which Jordan has to conform following accession to WTO. World Bank public sector reform facility focuses on broad administrative reforms without specifically targeting trade related issues; Germany delivers technical assistance in the fields of SPS (Ministry of Agriculture) and customs reform. Specific conditions will reflect the findings of EC's continuous policy dialogue as foreseen in the framework of the implementation of the AA and thus be based on a flexible design.

Indicative budget: € 20 million.

- Support for regional development of the Aqaba Special Economic Zone (ASEZA) will consist of a comprehensive technical assistance programme, training, international exchanges and equipment.

For the promotion of cross-border cooperation the support programme shall build on the results of the EC-financed regional Peace Process project TEAMS (Taba – Eilat – Aqaba Macro). The assistance can include feasibility studies for the future creation of common cross-border infrastructure and cooperation (e.g. common environmental action plans, improved telecommunications and postal cross-border services, etc.).

In the field of environment the support shall include assistance for design and/ or implementation of specific environmental legislation/ regulation (1) to ensure environmentally sound tourism development, (2) to prevent increased pollution from industrial estates and the polluting parts of the ports, (3) to take into account of negative cross-border impacts and (4) to protect those areas of the Gulf of Aqaba reserved for tourism development (possibly based on the experience gained under the EC support for South Sinai/ Egypt, where appropriate).

As ASEZ Authority will act independently from central Government entities, the programme shall include components to ensure that its practice is coherent with the requirements of the implementation of the free trade related components of the AA, e.g. efficiency of customs at the entry points of ASEZ, capacity enhancement with regard to standards/ technical regulation/ conformity assessment, control of phyto-sanitary and sanitary rules for imports/ exports. This is of particular importance to encounter complaints of Member states exporters that have been facing difficulties when entering the Jordanian market via Aqaba, esp. because of limited capacities of laboratories.

Counterpart organisation and beneficiary: Aqaba Special Economic Zone Administration. Other donors: USAID has funded preparation, design, legislation/regulation and institutional establishment of ASEZA and will reserve considerable funds of AMIR programme phase 2 to ASEZA. Special conditions: Ensure coherence and consistence of activities with other donor programmes; close coordination with and adaptation of programme components to requirements of the AA and to similar activities of the main support programme for the implementation of the AA. This requires that the ASEZ programme design comprises a permanent monitoring and coordination mechanism. Activities of the programmes shall ensure coherence and complementarity with the regional programme “Instruments and mechanisms of the Euro-Mediterranean Market”, which is currently implemented.

Indicative budget: € 10 million.

5. Total indicative budget for priority 1: € 30 million.

Priority 2: Support for stable macro-economic framework and economic reforms

1. Background and justification of the priority:

Support will concentrate on fiscal and reforms and financial sector modernisation, which are core issues of the economic chapter of the Euro-Mediterranean partnership. The following elements are particularly important for Jordan: need for continued budget consolidation by further reduction of foreign and domestic debt ratio, reduction of expenditures (public pension fund), compensation for the decline in import duties following trade liberalisation through (1) modernisation of the tax and tax collection system, (2) diminishing of tax evasion and inequalities in taxation of different groups of potential taxpayers, (3) broadening of the tax base (e.g. efficient implementation of the new income tax, reduction of exemptions) and expanding of the scope and effectiveness of indirect taxation, esp. VAT, further (5) through concurrence of measures concerning the reduction of customs duties and introduction of new taxes (to avoid inflation). These measures need to be complemented by comprehensive awareness rising activities to explain the need for an operational, broad-based tax system in order to change mentalities and achieve a positive perception of the tax system in the large public. Moreover, EC assistance can facilitate diversification of services for private investors through a modern, competitive, rational and productive investment-oriented financial sector, which depends on legislative and regulatory reforms.

2. Specific objectives

- Restructuring of public expenditure through reform of the public pension fund;
- Increased revenues through full implementation of the VAT and income tax laws;
- Improved services to the private sector through increased efficiency of the financial sector.

3. Expected results and performance indicators:

- Fiscal reforms: compensation for decline in income duties due to free trade: VAT system completed, scope of application enlarged; increased level of VAT and income tax revenues; income tax law properly implemented; tax exemptions minimised; fiscal administration upgraded and tax collection system modernised; increased understanding in the population for the requirement of comprehensive tax system, enhanced dispute settlements system.
- Improved management of public expenditures: Beneficiaries of the public pension fund integrated into the Social Security Corporation that preserves its long-term viability;
- Financial sector reforms: Role of Central Bank as market supervisor strengthened, banking system rationalised; increased competition between banks; improved financial services to private investors; Industrial Development Bank restructured or alternative institutional arrangements fixed; supervision of security market and insurance companies reinforced; regulatory framework established and supervision operational for other financial instruments (e.g. leasing); conditions for the entry of international banks into the Jordanian market improved.

4. Short description of the programmes

The support shall be in the form of an adjustment facility with a technical assistance and study component. Extensive international expertise will be a prerequisite for the achievement of tangible results in tax reforms. Tax reforms are closely related to broader fiscal reforms as well as to a successful implementation of the AA. EC assistance could thus be integrated either into the economic reform facility or into the support programme for the implementation of the AA ²⁶. Efficiency in terms of timing, means and sustainability shall determine the choice between the different approaches. Operational counterpart: Ministry of Finance; Central Bank. Beneficiary: Ministry of Finance. Other donors: The results of the ongoing IMF cooperation with Jordan under the 3-year lending programme (until 2002) will be of utmost importance to define performance criteria for EC support to enhance fiscal and financial sector reforms. Due to the complexity of the public pension fund reform and the magnitude of the financial challenge, EC will support this component alongside other donors. Specific conditions: Positive and timely implementation of IMF-supported fiscal reforms; containment of foreign and domestic public debt to GDP ratios.

5. Total indicative budget for priority 2: € 60 million.

Priority 3: Social reforms and human resources development:

1. Background and justification of the priority:

Alleviation of the social impact of fiscal and economic reforms has become a priority of GoJ. The recently launched development of a comprehensive poverty alleviation framework in 2001 will result in the design of a strategy by 2002. As the promotion of socio-economic equilibrium is a core objective of MEDA, EC has a strategic interest in participating in the process of design and implementation alongside other involved donors, especially USAID, which has designated long-term technical assistance to assist GoJ in reviewing poverty alleviation instruments. Until recently, EC pursued a selective approach by supporting individual poverty alleviation instruments, such as the Social Productivity Programme (via the structural adjustment operations) or the Development and Employment Fund (micro-enterprise development and staff training) ²⁷. EC shall build on the experience gained under these and other support programmes (channelled through NGOs) and contribute to the process of establishing a broad, long-term strategy to improve life-conditions of the poor and the near-poor (impoverished middle-class). As a function of the scope and operational results of the strategy design process, EC is ready to mobilise assistance to implement a broad poverty alleviation framework.

Moreover, EC will complement its support for regulatory reforms and privatisation²⁸ by focussing on the needs of displaced work-force in the context of industrial restructuring and privatisation of industries or entire regions. While the economic modernisation and privatisation process as such has been progressing reasonably well, GoJ is now confronted with tackling the more difficult restructuring and privatisation operations. These entail the need to create mechanisms to cope with related social issues, for instance in order to (1) adapt capabilities of redundant workers to allow their re-insertion into the economic process, (2) promote the creation of new enterprises and (3) create alternative employment

²⁶ See priority 1, expected results and indicators, Support programme for the implementation of the AA.

²⁷ Funds of Financial Protocols; project under implementation, evaluation planned for 2002.

²⁸ Annual Financing Plan MEDA 2001: Support for regulatory reforms and privatisation, € 20 million.

opportunities. As EU has successfully gone through long-term restructuring challenges by applying various instruments (e.g. reversion centres), EC is willing to build on this broad experience and to assist Jordan in complying with similar challenges resulting from industrial restructuring and privatisation.

In recognition of the important role of higher education in developing human resources and occupation skills and of exchange in promoting understanding between cultures, there is a need for closer EU-Jordan co-operation in the field of higher education.

2. Specific objectives

- Re-integration of displaced work-force into the economic process in the context of industrial modernisation, restructuring and privatisation of enterprises.
- Ensure social protection of the vulnerable (persons living below the poverty line and the near-poor).
- Reform and development of the higher education system.

3. Expected results and performance indicators

- Support for the establishment and implementation of a comprehensive social development/ poverty alleviation strategy: a comprehensive, long-term framework for poverty alleviation established; availability of well-targeted support instruments to address different needs of the poor and near-poor; number of people covered by poverty alleviation mechanisms; agencies involved in the design and implementation of the poverty alleviation strategy properly staffed and equipped.
- Support for the re-integration of displaced work-force into the economic life of privatised and restructured public and private enterprises: comprehensive reversion centres/ retraining schemes or alternative mechanisms created and operational in the areas most affected by unemployment following privatisation/ restructuring; long-term financial and administrative viability of reversion centres/ support mechanisms ensured; number of people benefiting from services of reversion centres/ other support mechanisms, who found a new employment/ economic activity.
- Support for the reform of higher education: development and reshaping the curricula in priority areas; reform and development of higher education structures and establishments and their management; the development of training leading to qualifications needed in the context of economic reform (improvement in the links between industry and the educational system).

4. Short description of the programmes

- Support for the re-integration of displaced work-force into the economic life of privatised and restructured public and private enterprises: The support may take the form of technical assistance, training, international exchanges (extensive EU experience with reversion of old industrial areas, such as steel, coal mines. In addition, possibly creation of a fund to be co-financed by GoJ and other donors aimed at assisting enterprises and staff subject to restructuring/ privatisation, and consequent retrenchment. Such a fund might be financed through a sector adjustment facility, subject to the broader policy framework.

Operational counterparts: Office of the Prime Minister; Executive Privatisation Commission, Ministry of Finance. Beneficiary: employees laid off; enterprises under restructuring/ privatisation and investors. Other donors: no information yet available. Specific conditions: substantial financial contribution of GoJ and benefiting enterprises

in the cost of creation and running of reconversion centres, retraining schemes and assistance fund.

Indicative budget: € 17,5 million.

- Design and implementation of the poverty alleviation and social development strategy: Expertise and international exchanges in the design phase; technical assistance, training equipment in the implementation phase; possibly a contribution to a social fund. As a function of the evolving policy framework, an alternative approach could consist of a sector adjustment facility.

Operational counterpart: Ministries of Social Development, Planning and Finance. Beneficiary: Agencies in charge of the implementation of the poverty alleviation strategy. Other donors: USAID provide the long-term assistance for the development of the poverty alleviation strategy and may also finance part of the implementation of the strategy. UNDP is involved in the design work. Specific conditions: Poverty alleviation strategy is comprehensive and takes on board experience with existing instruments and of civil society, including NGOs. Synergy of poverty alleviation framework with other social reforms ensured (e.g. education and training, health etc.)

Indicative budget: € 17,5 million.

- Participation in the Tempus III programme involving Joint European Projects (joint education and training actions, measures for the reform and development of higher education, the promotion of co-operation between universities, industry and institutions, the development of mobility for teachers, administrative staff of universities and students); structural or complementary measures, individual grants to teachers, researchers, trainers, university administrators, senior ministerial officials, education planners and other experts for visits to promote the quality, development and restructuring of higher education and training.

Operational counterparts: various, as a function of the type of projects.

Indicative cost: for Jordan's participation in the Tempus III programme would be in the range of €1.5million per year starting in 2003.

5. Total indicative budget for priority 3: € 38 million.

Priority 4: Development of infrastructures including regional cooperation:

1. Background and justification of the priority:

The support for development of infrastructures shall concentrate on the regional dimension of infrastructures and on the water sector. Both aspects reflect the political priorities expressed in the conclusions of the Euro-Mediterranean Conference of Marseilles. These encourage support for legal and regulatory reforms, improvement of public finances and emphasise the regional dimension of cooperation in the water sector. More generally will the promotion of links between national infrastructures in Mediterranean partner countries and with Trans European Networks be of particular importance to approximate the Euro-Mediterranean zone.

Moreover is the efficient and environmentally sound management of scarce water resources and supply of the population with potable water against conflicting needs of industry and agriculture a key concern of the Government of Jordan. Future EC assistance shall build on other EC operations in the water sector and possibly ensure their follow-up

or extension with a view to advance private participation in the water sector. Without being exclusive, such links comprise the following:

- TA support within the Management Unit of Greater Amman Water Rehabilitation Programme: (1) As the involvement of private contractors to run the Amman water network is a pilot approach for Jordan, similar support could be envisaged for the upgrading and improvement of the water sector in other regions of Jordan. (2) If the tasks of the existing Management Unit are expanded to bring more private participation in water infrastructure, EC could envisage support for these broader tasks (e.g. with a view to create a regulatory authority);
- The support for regulatory support and privatisation (programme decided in 2001) does not focus on the water sector, because regulatory reforms were not considered sufficiently advanced to justify a specific support. This may change and justify that the 2001 programme be extension or followed-up for the water sector.
- In the framework of a series of EC-financed regional Peace Process studies, a number of possible projects to enhance environmentally sound, economic use of border water resources were identified. Some of these initiatives or other innovative cross-border water cooperation projects could be realised.

2. Specific objectives

- Enhanced cost efficiency and more optimal use of water through private participation in the water sector;
- Improved management of water resources against conflicting interests of water users;
- Infrastructures for improved use of border water in place and operated efficiently;
- Jordan prepared to fully benefit from regional Mediterranean infrastructure networks (e.g. energy, transport, telecommunications, etc.).

3. Expected results and performance indicators

- Number of private operators and management schemes operational in the water sector;
- Number of concessions for free use of water for low value agriculture terminated;
- Scope of tariff amendments and complementary measures to increase cost efficiency;

4. Short description of the programmes

- Enhanced private participation in water infrastructure: Given the size of challenges and of possible operations, EC will intervene in cooperation with other donors. This implies that the type and scope of EC-funding will depend on the sharing of tasks between donors. Any support shall preferably be linked (extension, follow-up) to past or current EC projects.

Operational counterpart and beneficiary: Ministry of Water and Irrigation (including WAJ, JVA). Other donors: to be identified. Specific conditions: Positive results (mid-term evaluations) of the two MEDA programmes related to private management in the water sector and to regulatory reforms and privatisation of infrastructures.

Indicative budget: € 5 million.

- Improved use and management of border water resources: EC would fund expertise for design, feasibility and environmental impact studies and supervision, works/ equipment and training for those administrative bodies in Jordan and possibly of neighbouring countries concerned to ensure efficient monitoring and management of new infrastructures.

Operational counterpart: Ministry of Water and Irrigation. Beneficiary: agencies and authorities in charge of designing or implementing cross-border water projects. Other donors: to be identified. Specific conditions: Take account of findings of relevant EC-funded Peace Process studies on Storage systems.

Indicative budget: € 5 million.

- Support for the creation of regional Mediterranean infrastructure networks will concentrate on specific needs of Jordan to prepare the country to best profit from opportunities of regional Mediterranean networks, complementary to EC funding for Euro-Mediterranean regional programmes or similar initiatives evolving from the region; this with a view to create links with the Trans-European Transport Network, South-South energy interconnections, harmonised telecommunications policies and regulation, etc.. Such initiatives may require technical expertise, studies, training including international exchanges. Counterpart organisation and beneficiaries: Line ministries concerned. Special conditions: None.

Indicative budget: € 2 million.

5. Total indicative budget for priority 4: € 12 million

Priority 5: Strengthening of pluralism civil society and the rule of law

1. Background and justification

Jordan has, until now, benefited from support of the MEDA-Democracy programme²⁹ and European Initiative for Democracy and Human Rights (EIDHR) and implemented successfully a number of bilateral and regional NGO initiatives. Many of these have regional links and prepare for regional human rights initiatives. Like some other Mediterranean countries Jordan has not been identified as a priority country under the EIDHR and can thus, à priori, benefit from this instrument only for few regional operations. In order to continue support for an active, but fragile civil society, MEDA funding shall be made available, while focussing on key areas. Under this priority pilot experience shall be gained that may form the basis for a broader support programming under the next programming period.

2. Specific objectives

- strengthen of women rights , especially the political, social and economic role of women,
- protect the rights of the child,
- promote freedom of media, association and assembly,
- strengthen civil society.

3. Expected results and performance indicators:

- improved mechanisms available and operational to protect women rights (e.g. law enforcement, availability of social structures, etc.);
- number of women representatives in local and national parliaments; number of women entrepreneurs and women representatives in professional associations/ chambers;
- existence of operational mechanisms to care and educate children at risk situations;

²⁹ Now covered by the European Initiative for Democracy and Human Rights (EIDHR).

- more effective involvement of civil society in promoting social development;

4. Short description of the programme:

Decentralised, flexible grant funding for NGO activities and TA/ training support for authorities, where appropriate. Procedures of small size funding could be inspired by the micro project facility of the EIDHR.

5. Total indicative budget for priority 5: € 2 million.

7.3. Budget and phasing of the programme

The indicative budget for the period 2002 – 2004 amounts to € 142 million. This indicative allocation will cover the commitment of the following programmes:

<u>Amounts in € million</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Support for the implementation of the Association Agreement	<u>20</u>		
Regional development Aqaba:	<u>10</u>		
Economic reform facility ³⁰	<u>60</u>		
Preparatory studies related to the design of the poverty alleviation strategy and re-insertion of displaced workforce into the economic process: MEDA global allocation			
Strengthening of pluralism and human rights ³⁰ .	<u>2</u>		
Support for the implementation of a comprehensive social development/ poverty alleviation strategy		<u>17.5</u>	
Support for enhanced private participation in water infrastructure		<u>5</u>	
Preparatory studies related to the design of mechanisms of re-insertion of displaced workforce into economic process: MEDA global allocation			
Participation in TEMPUS III ³¹		<u>1.5</u>	<u>1.5</u>
Support for the re-insertion of displaced work-force into the economic process			<u>17.5</u>
Improved management of border water resources: The definite timing for the realisation of this operation will depend on the maturity of political decision-making of the countries concerned.			5
Support for the creation of regional Mediterranean infrastructure networks: The timing for the realisation of studies related to regional infrastructure networks depend on the maturity of political decision making of the countries involved: € 2 million.		1	1

³⁰ Full programme preparation is foreseen for 2002. Funds may need to be committed partly in 2002 and 2003 due to budgetary constraints.

³¹ As a function of interest of Jordan to participate in the TEMPUS programme. Funds not used for TEMPUS activities shall be used to increase the amount for other planned social and human resources development programmes.

Background economic and social data

1. General

	Unit	Year / Period	
Population	mIn	2000	5.0
Average annual population growth	%	1996-2000	3.1
Average labour force growth	%	1990-1999	3.6
Female economic activity as percentage of male rate	%	1999	25.8
Unemployment rate	%	1999	Up to 20%

2. Living standards

	Unit	Year / Period		
GDP	BIn US\$	2000	8.2	
GDP per capita	US\$	2000	1,680	
MEDA beneficiaries population-weighted GDP per capita	US\$	2000	1,512	
Real GDP growth	%/ y	1996-2000	1.8	
Real GDP growth	%/ y	1990-1999	5.3	
Real GDP growth of lower middle-income countries	%/ y	1990-1999	3.1	
Human development index rank among 162 countries	Rank	2001	88	
			Male	Female
Life expectancy at birth	Number of years	1999	69	72
Expected schooling	Number of years	1998	--	--
Adult illiteracy	% of population age 15+	1999	6	17

3. Macro-economic trends

	Unit	1990	2000
GDP structure			
Share agriculture	%	7	3.8
Share industry	%	27	25.8
Share services	%	66	70.4
Domestic savings / GDP	%	5	3
Of which : central government	%	-4	-2.7
Domestic investment / GDP	%	24	22
Of which : central government	%	5.8	5
Exports of goods and services	%	57	44
Imports of goods and services	%	76	63
External resource balance / GDP	%	-29	-19
PM: External resource balance / GDP lower middle income developing countries	%	-1	3
Inflation (average annual increase in consumer price index)	%	1996 – 2000	
		2.8	

4. Balance of payments

		1990	2000
Merchandise exports	MIn US\$	1,064	1,782
of which : to EU	%		9.3
of which : manufactured exports	%	51	56
Merchandise imports	MIn US\$	2,600	4,485
of which : from EU	%		33
Net current transfers (incl. remittances)	MIn US\$	1,046	2,004
Current account balance	MIn US\$	9	390
Share foreign direct investment in domestic investment	%	3	15
External debt	MIn US\$	7,500	8,950
External debt/GDP	%	185	110
Public External debt service : interest plus principal / exports goods and non-factor services	%	20	21

5. Government finance

		1990	2000
Current revenues / GDP	%	26	26
International trade taxes / current revenue	%		17
International trade taxes / imports of goods	%		10
Current expenditure / GDP	%	30	29
of which: social expenditure/GDP	%	11	12.6
of which: interest payments/GDP	%	--	4.5
Capital expenditures / GDP	%	5.5	4.8
Overall budget balance / GDP	%	-3.5	-3.3
PM: overall budget balance Middle East and North Africa region	%	-7.5	-4.8

Sources:

- UNDP Human Development Report 2001
- Jordan Human Development Report 2000 Youth & Education (UNDP, Ministry of Planning)
- Central Bank of Jordan, Annual Report 2000
- EUROSTAT
- World Bank, World Development Indicators

EU programmes by intervention sector ³²

Budget line, date signature and date expiration CdF	Title programme incl. Description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
I. Sector:	Legislative and regulatory framework: convergence and transparency			
B7-4100	Support for regulatory reforms and privatisation	€ 20 million	Under preparation : Annual financing plan 2001	Preparation jointly with World Bank in the framework of the cooperation on private participation in Mediterranean infrastructures ; coordination with DFID on findings from UK-funded TA in regulation of infrastructure sectors.
II. Sector:	External trade sector			
				Industrial Modernisation Programme and Business Service Team include(d) export development components for the productive sector
III. Sector:	Public sector: modernisation: public finance; tax system; state enterprises reform/privatisation; local government reform			
B7-4100 Fin. Agreement signed 04.04.2000	Structural adjustment operations 1996 and 1999 : performance criteria related to tax reform, privatisation, modernisation of economic legislation	€ 100 million € 80 million	Completed : implemented 1996/97 and 2000	Preparation and implementation in close cooperation with IMF; for VAT reform: coordination with UK that funded TA for preparation of VAT
B7- 4051	Structural adjustment support facilities 1993-1995	total € 100 million	Completed 1994/95	Preparation and implementation in close cooperation with IMF and World Bank

³² Given the large number of small operations in Jordan the table includes all major operations (more than € 1 million) since 1992 and smaller activities, if relevant for the country strategy and / or the indicative programme.

Budget line, date signature and date expiration CdF	Title programme incl. Description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
IV. Sector:	Private sector development/investment (SME's, competition, economic cooperation)			
B7-4100	Business Service Team : Direct services to SMEs and SME support organisations	€ 7 million	Completed : implemented 1997 – 2001	
B7-4100 Fin. Agreement signed 04.04.2000	Industrial Modernisation Programme (EJADA = Euro-Jordanian Action for the Development of Enterprise)	€ 40 million	Ongoing; duration of 4.5 years until 2004	Programme preparation in consultation with JAICA + USAID (US-Jordanian Business Partnership); Programme management unit arrived in 1/2001; inception phase; component manager needs to be replaced.
B7-4100 (1997)	Risk capital (EIB) to support private sector investments	€ 10 million	Under implementation	
B7-4100 (2000)	Risk capital (EIB) to support private sector investments	€ 15 million	Under implementation	
V. Sector:	Financial sector			
	None			
VI. Sector:	Physical Infrastructure			
B7-4100 04.04.2000; 04.04.2006	Preservation and promotion of cultural heritage and tourism development	€ 3,9 million	Under implementation	Cooperation with B that realised archaeological diggings on one of the sites to be preserved (Lehun).
VII. Sector:	Social development : education, health, social policy/social safety net; community development			
B 7-4050/51 29/09/1992, 2 nd addendum signed 11/2000; 30/06/2005	Social Development Project (support for Development and Employment Fund)	€ 4,67 million	Ongoing; 2/1995 – 30/06/2004	Project relaunched in 2000.
Demography, contract signed in 2000	Capacity strengthening of the Institute for Child Health and Development to serve as a Women's	€ 0,8 million	Under implementation	Implemented by NGO.

Budget line, date signature and date expiration CdF	Title programme incl. Description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
	Health Counselling Centre			
B7-4110 contract signed in 03/2001	Improvement of life conditions in refugee camps (Rehabilitation)	€ 1,9 million	Under implementation since 07/ 2001	Implemented by NGO. Builds upon experience of rehab. Programme for refugees in Talbiyeh and Madaba camps ; activities extended to cover all camps
B7-4110 contract signed 03/2000	Rehabilitation of Drought Affected Communities	€ 1,6 million	Under implementation	Implemented by NGO. Coordination with EC-funded Food security project
B7-6410 contract signed 15.06.1999	Improvement of life conditions in the refugee camps of Talbiyeh and Madaba (Rehabilitation)	€ 1,4 million	Completed in 05/2001	Implemented by NGO. Activities coordinated with UNRWA ; follow-up by new rehab. project covering all refugee camps
Food Aid (1998)	Food Security project	€ 2 million	Ongoing	Implementation period extended twice
NGO (contract signed in 2000)	Mentoring for marginalised Urban children in Jordan	€ 0,35 million	Under implementation	Implemented by NGO.
B7-6410 (contract signed in 1998)	Programme of Medical Aid for Palestinian Refugees (Rehabilitation)	€ 1,97 million	Final stage of implementation	Implemented by NGO. Activities coordinated with UNWRA.
VIII. Sector:	Human resources development (training, capacity building)			
B 7-4051 07/12/1995; 30/06/2002	Improving Teacher education	€ 3,9 million	Final stage of implementation; financing agreement: 31/03/1996 – 30/06/2002	
B7-4051 (1991)	Education Improvement project	€ 1,5 million	Completed 1999	
B7-4051 (1991)	Cooperation in Science and Technology	€ 3,5 million	Completed 2000	
IX. Sector :	Human rights /civil society/ gender issues and equality			

Budget line, date signature and date expiration CdF	Title programme incl. Description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
B7-7050	Youth camp in Amman	0,03	Ongoing	
B7-7050	Promotion of women's equal access in 1997 parliamentary elections	0,11		
B7-7050	Empowerment of Jordanian Women in Leadership and decision making	0,19	Ongoing	
B7-7050	Counselling Centre for Women's Rights	0,12	Ongoing	
B 7-7050	Towards democratic thinking	0,23	Ongoing	
B 7-7050	Towards a non-violent Environment for Jordanian children	0,13	Ongoing	
B 7-7050	Promotion of Civil Rights and Protection of Vulnerable groups	0,34	Ongoing	
B 7-7050	Establishment of a centre for the promotion of women's rights	0,25	Ongoing	
EIDHR (2001)	Women in Parliament	€ 0,8 million	Contract to be signed soon.	Coordinated with UK; implementation period 2001/2002.
X. Sector:	Environment; water			
B7-4100 04.4.2000; 04.04.2004	Management Unit for the Greater Amman Water Rehabilitation Project	€ 5 million	Under implementation	Design and implementation in coordination with D who co-fund the Management Unit.
B7-4100 Fin. Contract signed: 1998	Interest subsidies for EIB loan for Amman Water Rehabilitation Project	€ 8,2 million	Under implementation	Coordination with EIB, World Bank, Italy and USAID who co-fund the infrastructures
B 7- 4050/4051 28/11/1994; addendum n° 2 signed 11/2000;	Water Sector Intervention Project	€ 13 million	Under implementation	Works on two of three sites completed.

Budget line, date signature and date expiration CdF	Title programme incl. Description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
31/12/2006				
B7-4051 (1992 – 1996)	Interest subsidies for different EIB loans for environmental projects	€ 13,6 million	Completed	
B7-4051 Fin. Agreement : signed 1993	Ground water investigation	€ 3,3 million	Completed before 1998	
XI.	Rural development			
B7-4051 29/09/1992 31/12/2001	Improvement of Agricultural Productivity in Arid and Semi Arid Zones of Jordan	€ 2.4 million	To be completed end of 2002	
XII. Sector:	Regional integration			
				Jordan participated in several Peace Process related regional cooperation programmes.

Donor Matrix by intervention sector

Donor	Title programme incl description areas of intervention	Amount	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
I. Sector:	Legislative and regulatory framework: convergence and transparency			
				Performance criteria of adjustment support (IMF World Bank, EU. USAID) target the modernisation of the legislative and regulatory framework. USAID funded expertise to modernise the trade related legislative framework to prepare Jordan's WTO accession).
II. Sector:	External trade sector			
USAID	AMIR Access to Microfinance & Improved Implementation of Policy Reform phase I		1999 – 2001	Due to its flexible structure the programme contributed essentially to prepare Jordan for the WTO accession in 2000 and to launch the Aqaba Special Economic Zone in 2001.
USAID	AMIR phase II	Around US\$38 million	Under preparation, implementation as from 2002	AMIR II is supposed to focus on ASEZA for the policy reform component
D	Modernisation of the Jordanian Customs Administration (05/1995 – 12/2001) – technical cooperation	€ 3 million		
III. Sector:	Public sector: modernisation: public finance; tax system; state enterprises reform/privatisation; local government reform			
IMF	Extended Fund Facility (1999)	\$ 220 million	Implementation on track, programme runs until 4/2002	
World Bank	Economic Reform and Development Loans I – III (3 single-tranche adjustment operations)	3 x \$ 120 million	Completed	

World Bank	Public sector reform Loan I (2001)	\$ 120 million	Under implementation	
UK	TA to support the establishment of an effective regulation regime in the transport sector (road, rail, air and sea)	£ 1.5 million (1999-2001)	Under implementation	
UK	TA to support public sector reforms	£ 2 million	Under preparation	
D	Debt for development swaps (1992 – 2001)	€ 148,6 million		
D	Introduction of Performance Based Budgeting	€ 1.5 million	01/2001 – 12/2003	
F	Debt for development/ debt for investment swaps (1995 – 2001)	€ 89 million (grant element) € 52 million)		
I	ODA debt swap (2000)	€ 85 million		
I	Support to the Jordanian balance of payments (in the framework of the WB ERDL III)	€ 10.3 million	Ongoing	
USAID	Cash transfer operations 1997 - 2000	\$ 250 million		
Japan	Balance of payment support	\$ 10 – 20 million		
IV. Sector:	Private sector development/investment (SME's, competition, economic cooperation)			
USAID	JUSP- Jordanian – US Business Partnership			
UK	Support trough TA and training for economic reforms (policy development: e.g. introduction VAT, regulatory reforms and restructuring of Telecoms Dep.)	£ 3,8 million (1999 – 2001)	Concluded	Close cooperation with IMF, World Bank, EC
UK	TA to support the establishment of an effective regulator and stock exchange in Jordan	£ 3.6 million (1998-2001)	Under implementation	
UK	TA to implement the second stage of sales tax in Jordan on the date set by the Government	£ 2.15 million (1998-2001)	Under implementation	
UK	TA to support the regulatory reforms and restructuring of the Telecoms department (Phase 2)	£ 4 million (1997-1998)	Completed	

F	Concessional financing of projects related to commercial interests of French companies			
I	Integrated support to the Jordanian SMEs	€ 10.3 million	Under implementation	
V. Sector:	Financial sector			
VI. Sector:	Physical Infrastructure			
World Bank	Tourism Development Project (1997)	\$ 32 million	Under implementation	
Japan	Tourism development projects	\$ 63 million	Under implementation	
VII. Sector:	Social development : education, health, social policy/social safety net; community development			
World Bank	Higher Education Development Project (2000)	\$ 34,7 million	Under implementation	
World Bank	Health Sector Reform Project (1999)	\$ 35 million	Under implementation	
World Bank	Training & Employment Support Project (1998)	\$ 5 million	Under implementation	
World Bank	Community Infrastructure Project (1997)	\$ 30 million	Under implementation	
USAID	Improved Access to and Quality of Reproductive and primary Health Care		Ongoing	
USAID	Private Sector Family Planning Initiative		Ongoing	
USAID	Increased Availability of Reproductive and Primary Health Care Services in the Public Sector and Improved Knowledge of Contraceptives		Ongoing	
USAID	Increased Rationalisation of Health Financing Systems		Ongoing	

D	Basic Schools Construction Programme – financial	€ 7,7 million	2001- ongoing	
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	cooperation			
D	Social Productivity Programme – technical cooperation	€ 1.5 million	(1/1999 – 12/2002)	
D	Community Infrastructure Programme – financial cooperation	€ 12.5 million	1999 ongoing	
F	Food aid	€ 09 – 1,8 million/an		
I	Supply of Equipment and technical assistance to the Laboratories of the Ministry of Health	€ 8.8 million	Under preparation	
I	Supply of Equipment to the Laboratories of the Royal Medical Services	€ 2.6 million	Under implementation	
I	Establishment of a Rehabilitation Centre at the University of Jordan	€ 3 million	Under implementation	
I	Food aid (wheat)	€ 0.5 million	Concluded	
I	Food aid (rice)	€ 1 million	Under implementation	
UK	Support for the poor through Improvement of capacity of Ministry of social affairs and NGOs	£ 1,5 million (1999-2001)		
UK	TA to Ministry of Education	£ 1,4 million (1999– 2001)		
UK	Support for Palestinian refugees in Jordan (UNRWA)			Amount not indicated in latest CSP; support is separate from overall UK support to UNRWA
UK	TA to develop the ability of ZENID to contribute to social development policy and practice through training, research and information dissemination	£ 2.125 million (PHASE 2 : 2000-2003)	PHASE 1 completed in 1999. PHASE 2 under implementation	
UK	TA to support the Ministry of Social Development to play a strategic role in developing policy, and coordinating and monitoring the quality of social development services, to improve the quality of life of the poor, and vulnerable people in care and protection	£ 2.95 million (PHASE 2 : 2000-2003)	PHASE 1 completed in 1999. PHASE 2 under implementation	

UK	TA to contribute to establishment of new system of assessment which support and develop the educational reform (at the Ministry of Education)	£2.06 million (1994-2001)	Under implementation	
UK	TA to build the capacity of the Ministry of Education and provide more efficient and effective teaching at school level	£ 1.5 million (1998-2002)	Under implementation	
UK	UNRWA Management and school development education project	£ 2.5 million (2000-2002)	Under implementation	
UK	Direct fund to local NGOs and Associations to implement small scale developmental projects	£ 0.2 million (per year)	Implement 18-20 small projects a year	
VIII. Sector:	Human resources development (training, capacity building)			
D	Land Management/ Promotion of cadastration – technical cooperation	€ 2.5 million	03/1996 – 12/2001	
D	Promotion of the National Information System – technical cooperation	€ 6.3 million	09/1993 – 06/2001	
D	Promotion of a National System for Metrology, Standardisation, Testing and Quality Management (06/1991 – 12/2001) – technical cooperation	€ 3.8 million	Ongoing	
D	Petra Stone Conservation – technical cooperation	€ 3.73 million	12/1993 – 12/2001	
I	Assistance to the Salt Handicraft Centre	€ 1.6 million	Ongoing	
I	Establishment of a Centre for Garment Design and Training Services	€ 1 million		
IX. Sector :	Human rights /civil society/ gender issues and equality			
UK	TA to build the capacity of the public and voluntary institutions to develop and implement and integrated strategy to prevent domestic violence, child and sexual abuse	£ 2 million (1999-2002)	Under implementation	
D	Promotion of Gender Equality through Organisa-tional Development – technical cooperation	DEM 3 million	(1/200 – 12/2003)	

X. Sector:	Environment; water			
World Bank	Amman Water Rehabilitation project	\$ 55 million	Ongoing	
EIB	Amman Water Rehabilitation project	€ 40 million	Ongoing	
UK	Thematic Mapping of the Aqaba Region	£ 0.11 million (1997-1998)	Completed	
D	Wastewater Conveyor Amman – Al Samra – financial cooperation	€ 45.8 million	Ongoing since 1995	
D	Wastewater Greater Irbid I – financial cooperation	€ 45.7 million	Ongoing since 1994	
D	Wastewater Greater Irbid II – financial cooperation	€ 43.5 million	Ongoing since 2001	
D	Water Supply Amman II – financial cooperation	€ 43.5 million	Ongoing since 1998	
D	Water Supply Wadi Mousa – financial cooperation	€ 4.35 million	Ongoing since 1998	
D	Water Pipeline Deir Alla Dabouq – financial cooperation	€ 22.5 million	Ongoing since 1999	
D	Industrial Pollution Control Programme – financial cooperation	€ 2.55 million	Ongoing since 1996	
D	Jordan Valley Irrigation Project – financial cooperation	€ 34.7 million	Ongoing since 1984	
D	Industrial Pollution Control Programme – financial cooperation	€ 2.55 million	Under preparation	
D	Water loss reduction Irbid/ Jerash – financial cooperation	€ 15.7 million	Under preparation	
D	Operations Management Support to the Water Authority of Jordan – technical cooperation	€ 8.7 million	(4/1994 – 3/2002)	
D	Management Contract Northern Governorates	€ 6.1 million	Under preparation	
D	Rehabilitation Waste Water Treatment Karaf and Kufranjah	€ 7.7 million	Under preparation	
D	Water Sector Planning Support at the Ministry of Water and Irrigation– technical cooperation	€ 8.7 million	(6/1993 – 12/2002)	

D	Use of Brackish Water in the Jordan River Valley – technical cooperation	€ 3.1 million	(1/1997 – 6/2001)	
D	Assistance to the Implementation and Adaptation of the National Environmental Action Plan– technical cooperation	€ 3.1 million	(1/1997 – 6/2001)	
D	Promotion of Energy Efficiency in Jordan– technical cooperation	€ 1 million	(8/1996 – 12/2001)	
I	Rehabilitation of the Greater Amman Water Network	€ 18.6 million	Ongoing	
I	Wastewater Treatment Plants for Jeeash, Sukneh and Talbieh camps	€ 23.8 million	Under implementation	
I	Naur Wastewater System	€ 16.5 million	Under preparation	
I	Treatment of Greater Amman's Solid Waste	€ 8 million	Under preparation	
I	Strengthening of the Civil Defence	€ 4.8 million	Under implementation	
USAID	Wadi Musa water and wastewater treatment project	\$ 27 million	Ongoing	
USAID	Amman water infrastructure rehabilitation	\$ 71 million	Ongoing	
USAID	Rehabilitation of wells and springs	\$ 21 million	Ongoing	
USAID	Expansion of the Aqaba wastewater treatment plant	\$ 30 million	Ongoing	
USAID	Construction of a wastewater treatment plant at Mafraq	\$ 10 million	Ongoing	
USAID	Wastewater treatment plant at As-Samra	\$ 75 million	Ongoing	
XI. Sector:	Rural development			
UK	TA to improve the contribution of animal husbandry to livelihoods of people in the Badia by adoption of sustainable flock management methods	£ 1.15 million (1997-2001)	Under implementation	
D	Agricultural Sector Adjustment Loan - financial cooperation	€ 15.3 million	(1996 -) ongoing	Release of second tranche subject to substantial increase of irrigation tariffs
D	Impact observation and Assessment of the Structural Adj.	€ 2 million	01/1996 – 10/2001	

	Operation in Agriculture			
D	Improvement of Watershed Management (6/1994 – 12/2003)	€ 4.45 million		
D	Advisory Assistance to Ministry of Agriculture	€ 4.5 million	10/1990 – 12/2001	
D	Integrated Pest Management – technical coop.	€ 4 million	(01/1995 – 12/2001)	
D	Improvement of Irrigation Management – technical cooperation	€ 1.28 million	Under preparation	
I	Rural Development Programme in Irbid Governorate	€ 1 million	Ongoing	
I	Rural Development and gender extension in Kerak Governorate	€ 0.5 million	Ongoing	
XII. Sector:	Regional integration			
UK	Training and provision of two Mark 3 machines for landmine clearing	£ 0.7 million (1999)	Concluded	

