

Action Fiche for Jordan

1. IDENTIFICATION

Title/Number	<i>Reinforce and expand the modernisation of the services sector in Jordan</i> (ENPI/2011/23205)		
Total cost	EU Contribution : EUR 15 million Jordan Contribution: in kind evaluated in approximately EUR 1 million		
Aid method / Method of implementation	Project approach – partially decentralised management Technical Assistance for the use of the European Commission through framework contract – Direct Centralized Management		
DAC-code	32130 - SME development	Sector	SME development

2. RATIONALE

In response to the "Arab Spring" the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy adopted two Joint Communications "A partnership for democracy and shared prosperity with the southern Mediterranean"³ and "A new response to a changing Neighbourhood"⁴. These Joint Communications called for a qualitative step forward in the relations between the EU and its Southern neighbours that should be rooted unambiguously in a joint commitment to common values. More flexible and tailored answers that differentiate among each partner country should be offered in order for the partnership to develop with each neighbour on the basis of its needs, capacities and reform objectives.

Supporting sustainable inclusive growth and economic development with a particular emphasis on Small and Medium-sized Enterprises is one of the key objectives laid out in these Joint Communications.

The project "Reinforce and expand the modernisation of the services sector in Jordan" has been designed as an immediate response to the regional situation in line with the above commitments.

2.1. Sector context

The economy of Jordan is services oriented and accounts for almost 67% of GDP a figure similar to that in developed countries. The services sector employs more than 72% of the total workforce. About 76% of economic growth in Jordan during the period 1995-2008 is explained by the performance of services activities. The annual employment growth rate in Jordan during the period 2000-2007 has been around 3%. Two thirds of this employment growth has been generated by the services sector.

³ COM(2011)200 of 08.03.2011.

⁴ COM(2011)303 of 25.05.2011.

Therefore, the performance of the services sector is crucial for the overall performance of the Jordanian economy.

Micro, small and medium-sized enterprises (MSMEs) drive and constitute 97% of the economic activity in Jordan. They employ up to 60% of the workforce and they represent a developmental priority on Jordan's agenda. Jordan Enterprise Development Corporation (JEDCO) has been legally mandated by its Law No. 33/2008 to undertake this mission. Many would agree that the economic challenges witnessed today are the result of many internal reasons, mainly:

- (1) Development variations and distribution of wealth across Jordan.
- (2) Difficulty in accessing finance, the cost of funding and lack of competitive financing (particularly long-term), and associating liquidity in banks to financing growth and opportunities.
- (3) Lack of investment in and utilization of technology, in addition to a very shy (if present) encouragement of applied research for the purposes of competitiveness development.
- (4) Need for technical assistance and lack of support of innovation.
- (5) Limited productivity, and the rise in consumption behavior.

The development of the services sector is essential for the growth and transformation of the Jordanian economy towards a knowledge-based economy able to facilitate Jordan's competitiveness into 2020. Better services will open new markets and attract new investment. A modern services sector will help in overcoming current challenges and vulnerabilities of the Jordanian economy particularly those related to unemployment (12.8% in 2010), poverty (25%) and intrinsic budget deficit, as Jordan will prosper primarily because of the creation, development and export activities of the private sector.

Jordan is currently developing its Services Sector Development Masterplan (SDMP) as the implications of trade and investment liberalisation for its domestic services sector have begun to unfold highlighting the expansion of e-commerce opportunities, the increasing requirements of freedom of movement for natural persons, the necessity of growing business networks, facilitating commercial and physical establishment of businesses in targeted markets. The SDMP identified the main challenges to the Jordanian services sector as follows:

- (1) The services structure in Jordan is not knowledge-oriented.
- (2) Productivity growth in services is very limited.
- (3) Services are not well interrelated to manufacturing and any other type of economic activity.
- (4) The competitiveness of Jordanian services is low.
- (5) Quality is the major concern of the Jordanian services sector.

- (6) The regulatory environment is not conducive for the services growth, Start-up and MSMEs growth in particular.
- (7) Access to finance is a major constraint for the Jordanian services.
- (8) Aggressive entrepreneurship is required, and in particular for knowledge-intensive services, currently missing in Jordan.

The main competitive challenges to Jordanian services sector to include:

- Better utilization of competitive and comparative advantages, particularly those that will benefit from the preferential market access that Jordan's trade agreements allow.
- Diversity, creativity, innovation, cost and quality are key to compete both locally and in the global arena.
- Facilitation of finance, provision of technical assistance and business coaching and consulting to achieve strategic growth.

2.2. Lessons learnt

Implementation of the Jordan Services Modernization Programme (JSMP) ENPI/2007/019-213 was initiated in the last quarter 2008, with the main objective of enabling Jordan to benefit fully from opportunities created through liberalisation of trade in services under the World Trade Organization and the Istanbul Framework Protocol of July 2004.

Two monitoring missions were carried out during JSMP yielding positive results. JSMP design, potential sustainability and impact prospects were confirmed to be good and in line with the Government priority.

Participation of Jordanian MSMEs in the programme is very high 2,430 MSMEs and professionals association attended the information days, 991 applications received, 138 contracts signed to date.

An impact assessment has been performed for the "Quick Response Scheme", a pilot grant scheme that was designed to help JMSP testing all procedures related to a competitive award of grants and studying the needs of the services sector's MSME, and their ability to apply EU procedures. According to the assessment, all grantees reported direct positive impacts 6 months after the action in terms of improved financial performance, increase in exports, entering new markets and establishing business linkages with foreign companies abroad, introducing new services and generating new jobs. The scheme generates about 40% co-financing from the beneficiaries.

The Banking window initiative, aiming at raising MSMEs readiness to access to competitive financing, and optimising the use of financial resources, including collaterals has been recently included in the EuroMed - Database of Good Practice.

Jordan foresees the critical need to continue with reinforcing and expanding JSMP achievements with a dedicated second programme to "Reinforce and Expand the

modernisation of the services sector in Jordan". The proposed programme will put a special emphasis in developing private sector located in governorates other than Amman since the first phase of the programme showed that despite the number of info-days organised outside Amman, the participation of MSMEs and start ups in the Governorates is very difficult and to achieve economic growth in the Governorates is a key priority for the country sustainable development. In order to achieve this priority it will be necessary to reinforce JEDCO presence and activities in the Governorates and design specific action to support MSMEs and start-ups in the Governorates targeting both at increasing their participation in the grant schemes and to increase their access to finance.

2.3. Complementary actions

The crucial role played by MSMEs in sustainable development and growth has been recognised by the Government of Jordan, which is currently working on developing a comprehensive Jordanian Small and Medium-sized Enterprise Financing Program that will include a Loan Guarantee Facility, a grant fund and a technical assistance component. It is understood that the World Bank and the International Finance Corporation will work on the regulatory framework of MSMEs' access to credit and will provide direct technical assistance to the banks.

The current programme will complement with the above initiative and with the two EU-funded programmes managed by JEDCO and targeting at building its institutional capacity and at promoting and facilitating the development of private sector competitiveness (Jordan Services Modernization Programme, expected to end in September 2012, and the "Support to Enterprise and Export Development" project, expected to end in June 2013).

Synergies will be created with the United States Agency for International Development (USAID) programmes in support of the tourism sector (SIYAHA), the Sustainable Achievement of Business Expansion and Quality Programme (SABEQ) and the Business and Export Development Project (TATWEER)

Other ongoing and relevant projects are the assistance in export and entrepreneurship development through a cooperation agreement between the Centre for promoting of imports from development countries (CBI) Netherlands and JEDCO; the Enhancement of Arab capacity for trade (ENACT) project in collaboration with the International Trade Centre and funded by the Canadian International Development Agency and the National Fund for Enterprise Support (funded by the interest earnings of a Budget Support Grant from the Government of Japan).

The project "Support to Research and Technological Development and Innovation in Jordan" currently under design, and will provide additional support to the Jordanian private sector, focusing on supporting applied research based on national priorities, involving the private sector with defining research needs, and supporting strong innovative ideas from research through to commercial viability.

2.4. Donor coordination

Donor coordination will be ensured throughout the programme through a number of mechanisms. Cooperation between EU Member States in Jordan is effected through meetings chaired by the European Commission and the EU Presidency. Heads of

Mission meet monthly, with a special emphasis on taking forward the previously agreed 'EU road map for donor harmonisation and alignment' and the 'Matrix of EU Development Assistance'. Regular meetings of commercial counsellors ensure coordination on economic issues and related assistance matters.

In July 2007, the Ministry of Planning and International Cooperation established nine donor coordination working groups. In early 2011, following the approval of the new Executive Development Programme, the Ministry of Planning and International Cooperation increased the number of donor coordination working groups to eleven. The groups aim at providing a "structured and technical level dialogue with donors on Jordan's development needs and priorities". The working groups take place regularly and are attended by representatives from the Ministry of Planning and International Cooperation, the line ministries and the donors.

At the same time a Donor/Lender Consultation Group (DLCG) continues to ensure coordination between major donors in a number of thematic areas.

3. DESCRIPTION

3.1. Objectives

Through continued enhancement of the services sector in Jordan, assist the economy in becoming a more productive and globally connected, one that delivers new, value-adding and sustainable businesses, jobs, higher incomes and improved living standards for Jordanians.

The specific objectives of this programme can be summarized to include:

- (1) With particular attention on governorates other than Amman, support the growth, modernization and competitiveness of the Jordanian service industries start-ups and MSMEs by developing their capacities thus allowing for their increased participation in local, regional and international services markets.
- (2) Boosting the Jordanian services sector MSMEs achievements in enhancing their access to finance opportunities, efficiency and profitability, employment generation and distribution of economic benefits in Jordanian society,
- (3) Supporting innovation, creativity and increasing local value-added in Jordan's services sector

3.2. Expected results and main activities

To ensure "trickle down" sustainable development; the facilitation and encouragement of entrepreneurship (particularly that classified as creative, value-adding and innovative); and the creation of sustainable employment, it is proposed that **the project will mainly focus on the development of the services sector in governorates outside Amman**, and accordingly will take a thematic approach to delivering the results.

Key Areas have been defined as priority areas to create value and receive support. These are:

- (1) Support start-ups and innovative start-ups in the services sector,
- (2) Reinforce, upgrade, develop exports, enhance competitiveness and support internationalization of existing service sector enterprises (MSMEs),
- (3) Provision of technical support, business coaching and support services to start-ups and MSMEs,
- (4) Enhance capacity and outreach of JEDCO in the Governorates outside Amman.

Implementation of the planned support project will result in:

Result 1: Upgrade and facilitate the establishment and business growth of start-ups, innovative start-ups and service sector MSMEs, with particular focus on those outside Amman governorate.

Activities:

- Support start-ups and innovative start-ups through Grant Scheme(s).
- Support start-ups and MSMEs with business coaching, business, export development and internationalization services through the provision and implementation of direct technical assistance to provide entrepreneurship development, business planning and development, coaching support for creativity, innovation, partnership identification, market analysis and research, marketing and communication strategy, financial strategy and planning, management accounting, facilitating access to available financial tools to support start-ups, innovative start-ups, etc.

Result 2: Support Service sector MSMEs to upgrade, export development and internationalisation, with particular focus on those outside Amman governorate.

Activities:

- Support upgrading, export development and internationalization of MSMEs through Grant Scheme(s).
- Support start-ups and MSMEs with business coaching, business, export development and internationalization services through the provision and implementation of direct technical assistance to provide entrepreneurship development, business development, coaching support for creativity, innovation, partnership identification, technology upgrading, productivity enhancement, quality management and upgrading, and facilitating access to available financial tools, exporting and internationalising firms, etc. .
- Support the public-private sector dialogue with research, position and advocacy substance and ensure its dissemination.

Result 3: Increased access to finance to start-ups and MSMEs with particular focus on those outside Amman governorate.

Activities:

- Support start-ups and innovative start-ups through facilitating access to finance.
- Developing and expanding the banking window services at JEDCO.

Result 4: Improved JEDCO's outreach in governorates other than Amman.

Activities:

- Enhance JEDCO capacity to grow and expand outreach in governorates other than Amman.
- Undertake events (Launch, Final, Information days and others inclusive workshops, conferences, focus group meetings etc...) throughout Jordan.

Grants

A large proportion of the budget (about EUR 10,000,000) is envisaged for grants ranging from EUR 50,000 - EUR 100,000 to support the establishment, reinforcement and export development and internationalization activities of service sector start-ups, innovative startups and MSMEs across Jordan, with a particular focus given to those located in Governorates other than Amman.

The grant mechanism has been selected because it complements the other donors' initiatives in the sector (see section 2.3 above), is an immediate response to the difficulties for MSMEs, in particular start-ups, to access to finance and it is a capacity building exercise in view of Jordanian participation into EU programmes (Competition and Innovation Programme, or the Seventh Framework Programme for Research and Technological Development).

3.3. Risks and assumptions

Risks:

- Security concerns prevent full and proper implementation of the project.
- Lack of suitably qualified and experienced staff delay or prevent the implementation of the project.
- Cross-departmental and cross-institutional Project Management Teams are created as the need arises to support the implementation of the project and funds are made available to reward their efficiency in facilitating cooperation and other deliverables.

Assumptions:

- Jordan's commitment to enhanced competitiveness of services sectors is maintained, and political will exists to follow through with needed regulatory reforms to ensure a positive and conducive business environment.
- The commitment and willingness of the Jordanian business community to upgrade existing business, start new businesses, become innovative and creative, and exploit new business opportunities particularly in governorates other than Amman in the services sector.
- The Jordanian bodies responsible for private services sector development, particularly JEDCO, have the resources and mandate to pursue development of the services sectors across Jordan.
- Further opportunities can be identified for Jordanian service sector Startups (inclusive innovative startups) and MSMEs to exploit new export markets.
- The envisaged support measures can be designed so as to impact strongly on private services sector capacity to introduce new businesses, upgrade and develop new export markets.

3.4. Crosscutting Issues

The programme will have an indirect impact on:

- **Environmental sustainability**: It will be taken into account in prioritising direct support activities with services sector start-ups, microenterprises and MSMEs.
- **Gender equality**: The project will pay attention to service sector enterprises run by business women. Although gender sensitive, the project is not designed to exclusively support women in business. It will, however, prioritize income-generating opportunities for women.
- **Youth employment**: Youth unemployment is a dominant economic problem in Jordan, which is expected to become of even greater importance in the future. The project will prioritize young businessmen/women and business initiatives expanding youth employment opportunities in the services sector.

3.5. Stakeholders

The key partner in the project is JEDCO as it has the mandate for supporting the establishment and growth of MSMEs throughout their company lifecycle.

Participation of Jordanian service sectors enterprises (namely start-ups, innovative startups and MSMEs) is key to the success of the project.

Action will be coordinated with the Ministry of Industry and Trade, who is chairing JEDCO board, with the Jordan Investment Board and with the Jordan Industrial Estates Corporation, members of JEDCO board.

Other stakeholders who will be key to the successful implementation are the chambers of commerce and industries and other professional associations at a

national and governorate level, banks and financial institutions offering financial services to enterprises.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The method of implementation will be partial decentralized management through the signature of a financing agreement with the Hashemite Kingdom of Jordan in accordance with Articles 53c and 56 of the Financial Regulation, , with the exception of technical assistance, which will be contracted via Framework Contract, being the European Commission the contracting authority (direct centralized management). The European Commission will be the contracting authority for evaluation, monitoring and audit contracts as well.

The Ministry of Planning and International Cooperation will be the beneficiary and relevant representative for the Government of Jordan and will act as Contracting Authority for the project. The Ministry of Planning and International Cooperation will also be the programme supervisor.

JEDCO will be the Executing Agency and will carry out the management and implementation of the programme.

A Delegation Agreement will be signed between the Ministry of Planning and International Cooperation and JEDCO which must explicitly designate the two persons who will take on the duties of authorisation (imprest administrator) and payment (imprest accounting officer). In accordance with the powers delegated to them the imprest administrator and the imprest accounting officer shall draw up and implement consecutive programme estimates, award contracts and grants, commit expenditure and make the corresponding payments.

The Commission controls ex ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex-ante control for procurement contracts > EUR 50,000 and may apply ex-post for procurement contracts \leq EUR 50,000. The Commission controls ex ante the contracting procedures for all grant contracts.

The European Commission will be the contracting authority for technical assistance contracted via the Framework Contract as well as for evaluation, monitoring and audit contracts.

Payments are executed by the Commission except in cases where programme estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the imprest administrator and the imprest accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

Works	Supplies	Services	Grants
< EUR 300,000	< EUR 150,000	< EUR 200,000	≤ EUR 100,000

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

4.2. Procurement and grant award procedures /programme estimates

(1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation. Further extensions of this participation to other natural or legal persons by concerned the concerned authorising officer shall be subject to the conditions provided for in Article 21 (7) of the ENPI Regulation.

(2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

The maximum possible rate of co-financing for grants is 90%.

Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Union

Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

Specific rules on programme estimates:

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.3. Indicative budget and calendar

The total EU contribution to the programme is EUR 15,000,000 with the following indicative breakdown:

Indicative Budget

Activities	EU contribution (in EUR)	Government of Jordan contribution (in kind)	Total (in EUR)
Direct support to MSMEs (including technical assistance and grants)	11,600,000		11,600,000
<i>Support to Start-ups and innovative start-ups</i>	5,300,000		5,300,000
<i>Reinforcement & export developments</i>	6,300,000		6,300,000
Increase MSMEs access to finance (mainly technical assistance)	600,000		600,000
Enhance JEDCO outreach capacity in Governorates	600,000		600,000
Visibility, seminars, workshop	300,000		300,000
Operating costs	800,000	1,000,000	1,800,000
Audit & evaluations	300,000		300,000
Unforeseen and contingency**	800,000		800,000
TOTAL	15,000,000	1,000,000	16,000,000

The Government of Jordan will contribute to the programme with EUR 1,000,000 in kind contribution in the form of staff time, use of office space and equipment, transport and communication.

The operational duration foreseen is 48 months from the signature of the Financing Agreement.

4.4. Performance monitoring

The Programme will be supervised by a Programme Steering Committee (PSC) composed from the JEDCO board members. The Ministry of Planning and International Cooperation will be member of the Steering Committee and the EU Delegation will participate as observer.

At the start of the project a number of indicators should be agreed between the JEDCO and the Commission to gauge the progress and monitoring of the activities. The indicators will be approved by the Project Steering Committee.

The project will also benefit from the European Commission's system of results-oriented monitoring.

** The European Union's contribution to the "Contingencies" heading may be used only with prior agreement of the Commission.

4.5. Evaluation and audit

The programme will be subject to an annual external financial and system audit launched by the Commission.

A mid-term and final external evaluation for the whole programme will be contracted by the Commission with the aim to provide an independent and reliable assessment with conclusions, recommendations and lesson learned which should assist policymakers and managers in the implementation of the Programme and/or planning of future interventions.

4.6. Communication and visibility

Communication and visibility are considered a key component of the project. A comprehensive communication strategy will be developed in coordination with all the stakeholders. Activities to improve awareness are envisaged, including workshops, visibility materials and the media.

EU visibility guidelines are to be respected by the PIO and the respective grant beneficiaries. The EU Delegation in Amman will check the visibility component of the actions through field visits and will increase visibility when it is appropriate.

http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf.