



Brussels, 29.11.2018
C(2018) 8182 final

COMMISSION IMPLEMENTING DECISION

of 29.11.2018

amending Commission Implementing Decision C(2015)7130 of 14.10.2015 on the Annual Action Programme 2015 and Annual Action Programme 2016 part 1 in favour of Jordan to be financed from the general budget of the European Union

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union¹ ('the Financial Regulation'), and in particular Article 110 thereof,

Having regard to Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action², and in particular Article 2(3) thereof,

Whereas:

- (1) By its Decision C(2015) 7130 of 14.10.2015, the Commission adopted the Annual Action Programme 2015 and Annual Action Programme 2016 part 1 in favour of Jordan, which includes the actions "EU Support to the Private Sector Development in Jordan" (Annex 1) and "Renewable Energy and Energy Efficiency Programme in Jordan (REEE II)" (Annex 2).
- (2) In accordance with Article 4 of the above-mentioned Decision C(2015)7130, the authorising officer responsible has decided to increase the Union contribution by EUR 10 000 000.
- (3) The Union contribution should be increased again by EUR 10 000 000 as far as the action "EU Support to Private Sector Development in Jordan" is concerned, in order to support measures aiming at promoting a more innovation-friendly environment in Jordan, in close complementarity to the action "Innovation for enterprise growth and job creation" to be adopted under the Annual Action Programme 2018 (part 2) in favour of the Hashemite Kingdom of Jordan, which contains support measures to contribute to positioning private sector innovation as one of the main driver of inclusive economic development and to promoting systematic change and coherence in the enterprise and innovation ecosystem in Jordan.
- (4) The measure provided for in this Decision does not fall in the number of measures for which the prior opinion of the ENI Committee established under Article 15 of Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11

¹ Regulation (EU) 1046/2018 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and amending Regulation (EC) No 2012/2002, Regulations (EU) No 1296/2013, (EU) 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193.

² OJ L 77, 15.3.2014, p. 95.

March 2014 establishing a European Neighbourhood Instrument³ is required. The measure, once adopted, shall be communicated to the European Parliament and to the Member States through the ENI Committee within one month of its adoption.

HAS DECIDED AS FOLLOWS:

Sole Article

Commission Implementing Decision C(2015)7130 of 14.10.2015 on the Annual Action Programme 2015 and Annual Action Programme 2016 part 1 in favour of Jordan to be financed from the general budget of the European Union is modified as follows:

1) Article 2, first paragraph, is replaced by the following:

The maximum contribution of the European Union for the implementation of the measure referred to in Article 1 is set at EUR 155,000,000 and shall be financed as follows:

- for an amount of EUR 90,000,000 from budget line 21.030102 of the general budget of the Union for 2015;
- for an amount of EUR 45,000,000 from budget line 22.040102 of the general budget of the Union for 2016;
- for an amount of EUR 10,000,000 from budget line 22.040103 of the general budget of the Union for 2016;
- for an amount of EUR 10,000,000 from budget line 22.040102 of the general budget of the Union for 2018.

2) Article 2, third paragraph, is deleted.

3) Annex 1 is replaced by the Annex to this Decision.

Done at Brussels, 29.11.2018

For the Commission
Johannes HAHN
Member of the Commission

³ OJ L 77, 15.3.2014, p. 27.

EN



This action is funded by the European Union

ANNEX

Commission Implementing Decision amending Commission Implementing Decision C(2015)7130 of 14.10.2015 on the Annual Action Programme 2015 and Annual Action Programme 2016 part 1 in favour of Jordan to be financed from the general budget of the European Union

Action Document for the EU Support to the Private Sector Development in Jordan

<u>INFORMATION FOR POTENTIAL GRANT APPLICANTS</u>	
<u>WORK PROGRAMME FOR GRANTS</u>	
This document constitutes the multiannual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.	
1. Title/basic act/ CRIS number	EU Support to the Private Sector Development in Jordan financed under the European Neighbourhood Instrument CRIS: ENI/2015/038-127; ENI/2016/039-911; ENI/2018/041-531
2. Zone benefiting from the action/location	The Hashemite Kingdom of Jordan
3. Programming document	Single Support Framework for Jordan 2014-2017
4. Sector of concentration/ thematic area	Development of the private sector , Job Creation – Employment Trade Policy , Gender and Environmental Protection
5. Amounts concerned	Total estimated cost: EUR 65.7 million Total amount of EU budget contribution EUR 65 million, of which: - Budget Support for an amount of EUR 50.8 million - Complementary support for an amount of EUR 14.4 million Budget line: 21.030102; 22.040102 and 22.040103. This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 700,000
6. Aid modality(ies)	Budget Support and Project Modality

and implementation modality(ies)	Direct management: - Budget Support (sector reform contract) - Procurement (services) - Grants - Call for proposal			
7. DAC code(s)	32130 - SME development			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods & Challenges	NA			

SUMMARY

The EU Support to the Private Sector Development in Jordan programme will contribute to Government efforts to strengthen the economic competitiveness of the private sector. It will seek to promote the development of innovative sectors and markets that are relevant in a green and low-carbon economy, notably education services, green technologies and creative industries, whilst also upgrading the competitiveness and sustainability of more traditional sectors.

EU support is aligned with Government strategy. The Government's new national strategy, set out in the forthcoming "Jordan 2025" (also known as the "2025 Economic Blueprint" and "Vision 2025"), as well as existing small-to-medium sized enterprise and employment strategies, emphasises private sector development (PSD) as the key driver of increased competitiveness, employment, inclusive growth and for strengthening the tax base and increasing exports. However, private companies in Jordan face significant external growth constraints. These include enabling environment constraints such as price controls, hiring restrictions and arduous and non-transparent public inspection procedures, as well as incentive structures that are misaligned with policy objectives, e.g. innovation incentives. Internally, many Small and Medium Enterprises (SMEs) have weak technical and managerial skills, and lack access to finance to support growth.

The EU programme will focus on systemic changes as opposed to direct delivery of assistance to enterprises. In doing so it will take a twin track approach: on one side it will support the Government to improve the enabling environment and incentive reforms as set in the Jordan 2025; on the other side it will facilitate increased investment and competitiveness at the enterprise level through enterprise capacity building and through promoting quality investment – both domestic and international. Sustainability will be achieved by focusing on systemic change. Gender, youth and regional disparities in access to economic opportunity will be mainstreamed throughout the programme.

A combined implementation modality is proposed. This will involve budget support in the form of a Sector Reform Contract to facilitate implementation of those elements of Jordan 2025, which relate to the enabling environment, while using project modalities where direct support for capacity building in the private sector or a public agency is required to enhance investment and competition.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Jordan is currently facing difficult economic and social challenges. A series of external shocks, which include the international financial crisis and regional insecurity, have led to unsustainable balance of payments and fiscal deficits. Growth rates have declined markedly and unemployment rates are high. Jordan's official youth unemployment rate hovers around 30% (22% for males and 40% for females), while 85% of Jordanian women (in all age groups) are not participating in the labour force. The lack of economic opportunities for youth and regional inequalities within Jordan, are a major threat to social cohesion. Combined with the high influx of refugees the situation is even more challenging.

1.1.1 *Public Policy Assessment and EU Policy Framework*

Government policy places PSD at the core of its strategy to address current economic and social tensions. These policies and strategies are articulated in three key documents: (i) the national development strategy, Jordan 2025 (ii) the National Entrepreneurship and SME Growth Strategy, published in 2014, and (iii) the National Employment Strategy, also published in 2014. The policies, strategies and priority activities set out in these documents are credible and relevant, and have conditioned the approach to identification and formulation of the EU support programme.

Jordan 2025 is a vision for ten-year economic blueprint, which His Majesty King Abdullah II directed the Government to draw up in 2014. The Jordan 2025 identifies three major priorities: (i) addressing currently high levels of unemployment, particularly for women and youth, (ii) reducing poverty, which is concentrated in disadvantaged regions and (iii) increasing investment. Poverty and regional development for social and regional cohesion is a key theme of the Jordan 2025, and associated promotion of traditional and non-traditional business growth outside of Amman is identified as a priority, along with attracting inward investors located in the regions. It identifies a series of high value sectors such as ICT, business services, and medical tourism that have the potential to attract investment and create quality jobs and sets out broad public policy and investment priorities to support sectoral growth.

The SME and employment strategies are aligned with the Jordan 2025. The SME strategy emphasises the important role that micro and small companies in Jordan must play in creating new jobs and generating increased per capita incomes, particularly for women and youth. The employment strategy also focuses on employment generation for youth and women, and comprises four main elements: (i) on the demand side, enabling the private sector to move up the value chain to increase value added, to increase productivity and expand its ability to export products and services; (ii) on the supply side, to graduate a skilled and motivated labour force armed with employable skills and technical knowhow as demanded by the labour market; (iii) enhance the ability of the government to carry out strategic planning and policy implementation, monitoring and evaluation and labour market information systems and (iv) establish a level playing field in terms of social protection regardless of whether workers are in the public or private sectors.

Two **national innovation strategies** were in place for the period 2013-2017 under the Higher Council for Science and Technology (HCST). Despite both strategies having ended in 2017, hardly any of the policies included in them were implemented. The HCST does not intend to develop another innovation-specific strategy pending the establishment of a **National Centre for Innovation** (NCI), which is being set up under the umbrella of HCST with support from the European Bank for Reconstruction and Development (EBRD). The operation of the NCI is expected to address the problems of weak policy coordination and inefficient policy monitoring and evaluation. The HCST is currently in the process to review the sector strategy to take stock of what has been achieved and, based on the lessons learned, extend it until 2022.

While public policy statements with respect to PSD are sound, many stakeholders are sceptical of whether the Government will effectively implement these policies. The Government's track record on implementation of previous strategies is mixed, reflected in a worsening of Jordan's competitiveness rankings. Implementation has stalled because staffing levels within key institutions, such as the Implementation Unit in the Office of the Prime Minister (OPM), and Ministry of Public Sector Reform, are light given their critical roles, and because systems for implementation monitoring and management need more development. Weaknesses at the monitoring and evaluation level hinder effective tracking of implementation progress and stifle early action to either bring strategy implementation back on track or taking of remedial action where strategy implementation is not delivering intended outcomes. They limit the effectiveness of efforts to create and enforce accountability. In addition, Government institutions do not have a strong record in carrying out effective public private dialogue as a guide to informing reform priorities and design. Improved mechanisms for linking strategic priorities to the key constraints being voiced by the private sector will need to be created.

1.1.2 *Stakeholder analysis*

General observations

Both the private and public sectors are key stakeholders in this programme: the private sector, as the overall objective is to increase private sector employment and incomes, and the public sector, as government sets the regulatory environment and has a strong interest in a thriving private sector, which is able to generate employment, exports and growth, and pay taxes.

Overall, Jordan's private sector is defined by a small number of large firms, and a large number of very small ones, with relatively few medium-sized companies which could act as a conduit between the two extremes. Economic activity in Gross Domestic Product (GDP) terms is dominated by large firms: although enterprises employing fewer than 10 people make up more than 90% of all registered companies, they contribute only 47% of Gross National Product. Large firms are generally well connected with political decision-makers; for example, many former state companies which have been privatised still have large numbers of government officials amongst their leadership. Overtime these large companies have successfully lobbied to create an incentive framework (tax and other financial incentives, input price regimes etc.) that reflects their own interests, and which is not generally in line with the interests of emerging innovative small businesses that operate in non-traditional sectors.

Jordan's public sector has a number of overall characteristics relevant to its capacity to support PSD. First, geopolitical threats mean that government often has other priorities, such as security. Second, clear policy implementation has been hampered by the high turnover amongst ministers. Third, the systems and processes of government are cumbersome. Fourth, personal networks often determine influence within the public sector, and the decision-making process is not always transparent.

Final beneficiaries

SMEs will be a key beneficiary group. *SMEs'* contribution to economic growth is still inadequate in terms of productivity and capacity to access business opportunities. One reason lies in the lack of appropriate business skills: most *SMEs* do not have the capacity to produce business plans or financial documents that are needed by banks or equity investors.¹ However, it is important disaggregate *SMEs*, as they face different challenges. For example, in high growth, high value-added sectors, such as ICT, enterprise owners are generally ambitious and innovative, possess excellent technical skills, but often lack higher value-added business management skills. In more traditional sectors, for example services, light manufacturing and agriculture, companies are often formed out of necessity, thus lack more generic skills (see section 3.1.4 for more details). In general, *SMEs* have limited capacity to exports, and those which do, direct their product to the Gulf Cooperation Council markets (50 per cent of total exports).

Jobseekers and current employees are important beneficiaries. By working with *SMEs*, this programme aims to increase the number of jobs available. However, it will also be important to ensure that job seekers have the skills and attitudes necessary to be employable. It is recognised that a mismatch between the skills taught in schools and those necessary to succeed in the labour market has been an important impediment to job creation.

The issues faced by jobseekers generally are magnified for key marginalised groups. Unemployment is a particular problem for young people: according to World Bank figures, a third (34% in 2013) of Jordan's 15-24 year olds are unemployed, compared to around 12-14% in the general population. Women face particular disadvantages in the labour market (see section 3.3). Women are often educated as well as their male counterparts, yet feature much less prominently in the general workforce. Research

¹ USAID Jordan, *Competitiveness Programme RFP*, 11 December 2011, p 30.

suggests that this is because women are usually educated and seek work near to where their families live. This barrier can be ameliorated through promoting more even access to job opportunity across the country.

Entrepreneurs: It will also be important to improve the environment for those wishing to establish new companies. The Global Entrepreneurship Monitor results for Jordan show that the number of Jordanians perceiving entrepreneurship as a good career choice is the third lowest among Middle East and North Africa (MENA) countries. Jordan ranks fifth among MENA countries on the perception that successful entrepreneurs have high status and respect in the country.

Business service providers: Jordan has a generally strong business services sector with a large number of private companies providing management and technical training services.

Direct beneficiaries

Key stakeholder groups include:

- a. *Government departments:* There are a number of entities to consider as implementing partners:
 - (i) The Prime Minister's Delivery Unit has a remit to ensure that ministers across government deliver on commitments, including those under Jordan 2025. This level and breadth of access therefore makes this unit important as a partner for this programme. However, there is a need to address the capacity issues of a team, which is too small to deliver on its remit. Furthermore, there is a need to increase the incentives and levers available to the Unit to influence under-performing departments, which are currently weak.
 - (ii) The Jordanian Enterprise Development Corporation (JEDCO) was established with a clear mandate to develop Micro, Small and Medium Enterprises (MSMEs). It has a responsibility under the National Entrepreneurship and SME Growth Strategy. It is currently also responsible for the management of the Governorate Development Fund, an initiative launched by the King Abdullah II.
 - (iii) JEDCO has recently gone through a strategic review, which has proposed a re-organisation/re-orientation of the institution, soon to be discussed and endorsed by its Management Board. If these new orientations are able to provide efficient and effective measures and process to support MSMEs, JEDCO could regain trust from its clients and re-position itself as the institution for the development of private sector.
 - (iv) The Jordan Investment Commission (JIC) has a mandate to attract investment into Jordan. The institution has gained strength since its establishment and re-groups different governmental functions which before were the responsibility of other parts of the government, such as the free economic zone or export promotion. The organisational structure was streamlined and appropriately qualified staff was recruited.
 - (v) The Ministry of Higher Education is engaged in addressing the challenges of the education system in relation to producing work-ready people with a skills profile that matches private sector needs. A Technical & Vocational Education and Training (TVET) Council operates under the Ministry of

Labour but its mandate and level of activity is unclear. EU BS programme on skills development is supporting these areas.

- (vi) The Ministry of Public Sector Development has cross cutting responsibilities for improving the effectiveness of service delivery by the public sector. The Ministry develops and implements system and procedures for the public sector to ensure efficient use of available public resources. This is achieved through working with Ministries to improve their organisational structures, mechanisms for service delivery, and encouraging innovation. The Ministry also manages capacity building for public sector staff.
 - (vii) The Higher Council for Science and Technology (HCST) plays a main role in the formulation of scientific research policy. Although other public bodies are also involved in the decision-making processes on innovation policy, HCST controls the resources and has the lead ministerial mandate. Policy design and initiatives are difficult because of often limited coordination between the various public entities. The National Centre for Innovation (NCI) is currently being set up under HCST. It is expected to act as an umbrella organisation advising the Government of Jordan on further enhancing its innovation policies and programmes and to provide overall coordination of the innovation activities in the country.
- b. Business associations:* In Jordan there is a large number of business associations and business membership organisations (BMO), which could be highly effective as reform supporters. However, opinion in Jordan is mixed on their overall effectiveness. While BMOs argue that they represent their members' views to Government, they complain of having little impact as ministers do not take their positions into full consideration. For their part, SMEs view these organisations as effectively part of government. However, a number of these organisations are more effective and could provide a useful focus for area-specific value-chain work, for example the Amman Chamber of Commerce, the Jordan Chamber of Industry and the Information Communications Technology Association.
 - c. Universities:* The university sector can play a key role in promoting private sector development, and some of them are already taking steps in this direction, demonstrating sufficient capacity. For example, the German-Jordanian University (GJU) runs a very successful programme of internships with German companies, while the Princess Sumaya University for Technology (PSUT) is implementing a very interesting programme which establishes and implements a joint Master Programme of Enterprise System Engineering. The Jordan University of Science and Technology (JUST) in Irbid operates a technology incubator, and the Jordan University in Amman operates an incubator for the agro-industry sector. These institutions are generally well regarded.
 - d. Existing sector business support mechanisms:* Jordan boasts numerous current processes to help businesses to be established and to grow. For example, Oasis500 is an early stage and seed investment company which offers services such as entrepreneurship training, mentorship guidance, business incubation and additional follow-up investment and funding. Similarly, iPARK specialises in enabling and accelerating the growth of start-up companies through provision of incubation facilities, entrepreneurship programmes, and intellectual property services. The park currently incubates around 20 firms, and is co-located with the Higher Council for Science and Technology. Both Oasis500 and iPARK are highly regarded by private sector stakeholders.

During the identification and formulation phase of the proposed EU Private Sector Development programme, all the above mentioned stakeholders were extensively consulted with a two-fold goal: to take stock of their views on the feasibility of the programme and their interest in taking part in it; and to clarify their institutional and technical capacity to effectively participate in it. The results of these consultations have been imbedded in the design of the programme.

1.1.3 *Priority areas for support/problem analysis*

1.1.3.1 Institutional capacity of government and other institutions to implement strategy

A review of national strategies produced by the Government of Jordan, including the National Agenda 2015, identifies that while these strategies are sound, (i) they are often not implemented and (ii) do not have the intended impact. This view is endorsed by senior Government officials, private companies, financial intermediaries and business associations, and it is evidenced both by the worsening of Jordan's competitive position outlined below, and high levels of unemployment and regional disparity. These weaknesses in strategy implementation are a result of a number of factors, including: (i) political economy considerations, which support the continuation of the status quo, (ii) limitations in the capacity of oversight institutions such as the Strategy Implementation Unit in the OPM and the Ministry of Public Sector Reform, and (iii) limitations in the capacity of implementing line Ministries.

In order to address this problem, the capacity of the Implementation Unit in the OPM needs to be strengthened. Increased capacity is required to translate strategies into a series of priority actions and to assign specific responsibilities and accountability for implementation; new oversight systems need to be developed which facilitate monitoring and evaluation of both implementation and impact; and increased capacity is required to introduce innovation in implementation in line ministries.

By embedding increased capacity in central institutions with a clear commitment to implementing reform, such as the OPM, assigning clear accountability for implementation, enabling monitoring and evaluation systems, and introducing innovation in public services, many of the political economy problems encountered by other donor programmes can be addressed. Where other donors have worked on ad hoc elements of strategy with implementing line ministries there has been no alignment with national strategy, no central oversight, and therefore a lack of accountability and ownership among implementing partners.

1.1.3.2 Deteriorating enabling environment

Overall, the quality of the business enabling environment in Jordan has deteriorated significantly in recent years. This is clearly shown on international indices. The World Bank Doing Business ranking for Jordan has deteriorated from 96 out of 189 countries studied in 2012 to 117 in 2015. The Open Market Index, Enabling Trade Index, and A.T. Kearney Global Services Location Index show similar deterioration.

Business managers highlight onerous, non-transparent and time-consuming inspection procedures as a hindrance to the effective operation of their businesses. These include multiple inspections related to employment and environmental standards, and inspections targeted to technical issues in specific industries, such as pharmaceuticals and medical services. Managers reported that regulatory documentation is often unclear and open to wide interpretation, leading to regular and time-consuming disputes. Many firms and potential investors perceive the

implementation of business regulations as uncertain and unequal, deterring investment.

The web of taxes, tax and other financial concessions, investment incentives, differential tariffs and subsidies creates an overall incentive structure which is out of line with the PSD priorities set out in Jordan 2025. For example, restrictions on hiring skilled labour from overseas negatively impact on the competitiveness of the medical services and ICT sectors that are identified as key growth sectors in Jordan 2025. Tariff structures incentivise the importation of final goods rather than the importation of components and local assembly. Tax exemptions incentivise investments in the real estate sector, which has not consistently produced jobs for Jordanians. The World Bank has identified the need for rationalisation of the fiscal framework in line with national growth strategy, but little progress has been made in this regard to date.

1.1.3.3 Access to finance and business services

As noted, MSMEs employing less than ten workers represent over 90% of all registered companies and account for 47% of employment in the private sector. However, also due to the crowding out by Government borrowing, only 10% of commercial banks' portfolio is dedicated to SMEs, and less than 30% of micro and small enterprises have access to finance.² Stakeholder interviews reveal that both supply and demand side market failures constrain access to finance for MSMEs. On the supply side, there is no active credit bureau to facilitate credit checks, and banks lack the internal capacity in terms of staff skills, risk management systems, products and internal governance required to establish profitable SME lending businesses. On the demand side, the shortage of bankable projects and poor financial readiness of potential borrowers are major constraints. Some MSMEs refrain from applying for bank loans due to an aversion to interest-based borrowing.

1.1.3.4 Weak entrepreneurial culture

Leading entrepreneurs and venture financiers regard the weak entrepreneurial culture in Jordan as an impediment to SME development. The Global Entrepreneurship Monitor results for Jordan show that the number of Jordanians perceiving entrepreneurship as a good career choice is the third lowest among MENA countries. Jordan ranks fifth among MENA countries on the perception that successful entrepreneurs have high status and respect in the country. The fear of failure is also high in Jordan.³ Annex 1 gives an overview of Jordan's performance on entrepreneurial culture indices.

1.1.3.5 Lack of technical and management skills

The majority of Jordan's MSMEs operate in traditional sectors, such as retail, catering, hospitality, maintenance, primary processing and light manufacturing. Companies are often started out of necessity rather than through a sense of entrepreneurship, and their owners have limited ambition for growth. Levels of productivity and innovation are extremely low. This reflects the fact that the majority of enterprises in this category lack basic management skills such as business planning, financial management, and sales and marketing. They also lack the technical skills that are required for product development.

² European Investment Bank Country Strategy for Jordan, 2013.

³ As reported in the National Entrepreneurship and MSME Development Strategy Document.

The fact that many MSMEs are necessity-driven and lack growth ambition leads to consider that measures to increase productivity in this sector will have an impact on per capita incomes and help to reduce poverty. This is particularly the case as many are based in disadvantaged regions. However, such measures are unlikely to have a major impact on employment levels.

Companies in the high growth high value sectors such as ICT and medical services identify a different set of skills constraints. Companies in these sectors identify access to high level/specialised management and technical skills, along with access to growth finance, as critically binding. These companies are faced with specific management challenges that arise as a result of the complexity of the business models that operate in the sectors, problems that arise in managing rapid growth, branding and sales, and marketing in the regional and international markets which these sectors target.

1.1.3.6 Lack of innovation-friendly environment for enterprises

The innovation policy arena is crowded but poorly articulated, with a proliferation of relevant ministries and public entities that proves challenging to coordinate. This situation applies to both policy-making and policy delivery and has led to a fragmented innovation and enterprise support ecosystem which i) has no clear roadmap for innovation among enterprises or entrepreneurs; ii) is characterised by weak monitoring mechanisms and information systems; and iii) has achieved little in terms of measurable impacts.

The current legislative framework regulating the business environment includes little or no incentives to promote innovation in the industry. There is for instance, no overarching Innovation Law. There is little private sector investment in innovating activities, resulting in a declining product complexity.

Therefore, the new innovation policy, which is expected to be developed in the near future under the HCST and the NCI umbrella, should be supported through a collaborative effort of public-private sector dialogue.

In addition, the private sector should be encouraged to both invest in innovation, and collaborate with academic and research institutions on a demand basis to promote applied research and knowledge transfer, through a set of incentives ranging from hard support (tax breaks, grants, loan guarantee, equity capital) to soft support (Business System Design, intelligence, access to markets, measures to support demand driven innovation).

1.1.3.7 Challenges affecting women's entrepreneurship

The participation of women in entrepreneurial activity is extremely low in Jordan. This is influenced by both (i) issues around access to resources, and (ii) cultural traditions and societal attitudes about women's role in economic activity. Getting women into the workforce requires a special focus on the training and upgrading of women's vocational and entrepreneurial skills, in addition to facilitating their access to finance. However, even when in business, many women operate home-based enterprises in traditional sectors that have limited growth potential, and often operate on an informal basis. There is substantial evidence that women have smaller businesses than men. There are a number of reasons for this, one being that women are less likely to own property that they can use as collateral for bank loans to

finance their business operations; only 10.4% of women own real estate and only 2.7% of women are agricultural land-owners. As well, Jordanian women have less confidence in their ability to start a business, and a higher fear of failure than Jordanian men, and are less likely to have previous business and management experience, access to information and established business networks, and cultural support for starting and developing a business.

On the other hand, women-owned enterprises appear to be much more likely than male-owned enterprises to employ other women, making them an important vehicle for absorbing more women into the labour market. Women entrepreneurs employ 1.84 female employees for every male employee (about two-thirds of their employees are female), while male-owned enterprises have 3.11 males for every female employed (only about 27% of their employees are female).

1.2 Other areas of assessment

1.2.1 Fundamental values

Jordan has ratified the 6 major international conventions related to protection of human rights. However, Jordan has not ratified a number of optional protocols, inter alia the Optional Protocol to the Convention against Torture, the 1st and 2nd Optional Protocols of the International Covenant on Civil and Political Rights, the International Labour Organisation (ILO) convention No 87, No 169, No 189, and the conventions on refugees and stateless persons. Jordan expressed reservations on a few articles of the UN Convention on Elimination of All Forms of Discrimination against Women and on the Convention of the Right of the Child. Jordan is the only country in the region that has offered a standing invitation to all UN Special Rapporteurs. Yet, the Committee on the Right of the Child has underlined important weaknesses in terms of legislation, institutions and allocation of resources that prevent the state from implementing the Convention.

The death penalty has not been abolished but a de facto moratorium was in place for eight years until December 2014 when 11 people were executed. A further 2 executions took place in February 2015 and 15 inmates were executed in March 2017. Current regional conflicts, coupled with Jordan's porous border, make the nation an ideal refuge for displaced people and an attractive destination for traffickers to recruit low-skilled workers. Jordan has welcomed millions of refugees, despite never ratifying the Refugees Convention. However, the right to entry the country was refused to some refugees, including Palestinians and Iraqis living in Syria (including cases of refoulement).

Jordan has ratified the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), but has entered reservations to articles 9, paragraph 2 and 16. The 2011 revised Constitution did not include 'gender' as a ground of discrimination. There has been no follow-up to the recommendations of the UN Committee on the Elimination of Discrimination against Women, and most major issues on women's rights remain unresolved. Despite a good literacy rate, and a presence of female students in higher education equivalent to male, women's engagement in the local workforce stands at around 14%, one of the world's lowest. Following an improvement in 2016, Jordan has slipped back down the overall rankings of the Global Gender Gap report, from 134th in 2016 to 135th in 2017 out of 145 countries. This low position is mainly due to poor economic participation. So-called "honour" killings are still reported in Jordan. Sharia law is still enforced with

discriminative clauses against women notably on personal status law. Illegal administrative detention of women as “protection” from “honour killing” and/or domestic violence is still on-going. However, the recent progress on gender issue (abolition of article 308 and modification of other related articles, and the passing of the August 2017 law on violence against women) represent the latest signal of political resolve. Jordan seems genuinely committed to continuing reforming its legislation to address domestic violence, improve equal opportunities for women and taking measures to combat gender discrimination. Accompanying legislative reform with real changes to long-standing societal attitudes remains a long-term challenge.

The promotion of and the respect for human rights constitutes an essential element of the relations between the EU and Jordan. It is reflected through regular dialogue in multilateral and bilateral frameworks, as well as specific actions including in support of civil society, pluralistic media, gender equality and women's rights. In line with Jordan's continued reform process and despite regional turbulence, the EU and Jordan continue to work together with the aim of further strengthening human rights. Fully acknowledging Jordan's security concerns and objectives, most recently in the context of the EU-Jordan sub-committee on human rights (February 2018) the EU has confirmed that security and human rights objectives are mutually reinforcing

1.2.2 Macroeconomic policy

Macroeconomic conditions are highly challenging. Real GDP growth was 2% in 2017, well below projections in late 2017 (IMF had forecasted 2.3% in June 2017). Average inflation was 3.3% in 2017 and unemployment rose from 17.9% in the second quarter of 2017 to 18.3% in the first quarter of 2018, with youth and women unemployment at 42.8% and 24.6% respectively. The current account deficit (including grants) was 10.6% of GDP in 2017, wider than the 8.4% of GDP projected by the IMF, reflecting weaker exports and higher non-energy imports.

On the positive side, the Central Bank of Jordan (CBJ) gross reserves remained at adequate levels also thanks a successful USD 2 billion Eurobond issue during 2017. Despite a small shortfall at the beginning of 2018 (see below) the CBJ remains committed to keep gross usable reserves at about 7 months of projected imports by end-2018. Also with the opening of the Iraqi border in August 2017, exports have picked up considerably there are signs that improved economic conditions in the Gulf Cooperation Council (GCC) are beginning to reverse the decline in exports witnessed over the past two years.

Recent IMF projections see GDP growth at 2.3% in 2018, with average inflation at 4.5%, reflecting global commodity prices and the impact of other measures, such as the reduction of exemptions on the sales tax and the removal of bread subsidies. Public debt is now projected to reach around 84% of GDP by 2022, from 77 % of GDP estimated in June 2017. However, the recent announcement of USD 3.0 billion in financial support from some of the Gulf countries is expected to provide an important continuation to the recently completed 2011–17 grant arrangement with the GCC and may improve the forecasts.

Relations with the IMF. In August 2016 the Executive Board of the IMF approved a three-year extended arrangement under the Extended Fund Facility (EFF) for an

amount of about USD 723 million (or 150% of Jordan's quota) to support the country's economic and financial reform program. An amount equivalent to USD 72.3 million was disbursed upon the Board's approval, whereas the remaining amount will be disbursed following successful completion of review missions.

The program aims at a gradual and steady fiscal consolidation (of about 1.5 percent of GDP per year) to stabilise and reduce public debt, while supporting broad structural reforms to enhance the conditions for more inclusive growth. The first review of the programme was concluded in June 2017 – with some delays over the original calendar. The completion of the first review enabled the disbursement of about USD 71 million, bringing total disbursements under the program to about USD 141.9 million. The second review was expected to be concluded in September 2017 but to-date could not be completed (despite progress in meeting the programme's quantitative targets) because of slippages on structural and fiscal reforms.

Recent Government of Jordan performance in implementing EFF targets has been mixed. The authorities met the end-December 2017 fiscal criteria, but CBJ reserves were around USD 320 million short of the target (about 0.15 months of 2018 imports). Electricity tariffs have been raised five times since late 2017 in line with the new adjustment mechanism, helping to keep the electricity company NEPCO at operational balance. The authorities removed a broad range of exemptions on the general sales tax, which helped total revenues to rise by about 3% in the first five months of 2018 relative to the same period last year, but these remained below the EFF projections. They also removed bread subsidies and provided cash compensation to most of the population, and kept growth in spending tight. An income-tax reform in May 2018, consistent with EFF commitments was presented to the Parliament in May 2018. The reform, which is also part of the MFA 2 conditions, was expected to yield 1% of GDP in 2019 and was considered by the IMF as a critical step in anchoring Jordan's gradual fiscal consolidation and in placing public debt on a downward path in 2019. However, following street protests and the resignation of Prime Minister Mulki, the new Prime Minister Razzaz has withdrawn the law from parliament. Because of this, the IMF has not been able to date to conclude the second review, which would make available to Jordan around USD 70 million. It remains to be seen what will the position of the new government on this outstanding issue and if and when the second review of the EFF will presented to the Fund's Executive Board.

1.2.3 Public Financial Management (PFM)

Until 2017 Jordan continued to fulfil the public financial management reform eligibility criterion for budget support. The PFM Annual Monitoring Report covering the months November 2016-October 2017 confirmed progress in the implementation of PFM reforms. A number of technical / administrative reforms have taken place but crucial policy measures – including some tax reforms - had to be postponed. This is mostly due to the deterioration of the macro-economic situation and persisting conflicts in the region which have diverted Government of Jordan priorities to ensure the country's stability.

Important efforts have been made to contain the rising public debt – most notably through the updating of the debt management strategy and the upgrading of the Debt Management and Financial Analysis System (DMFAS). The Government Financial Information Management System (GFMIS) has been rolled out to all Ministries and

its scope extended to procurement. Progress has been made also in the preparation for the fiscal decentralisation process.

This said, a number of negative developments also took place and most notably the lack of progress on the revision of the Income Tax Law, which is part of the structural benchmarks of the IMF Extended Fund Facility (EFF) and the conditions of the second Macro-Financial Assistance programme. Moreover, there were delays in finalising a new comprehensive PFM Strategy which at present is still in draft.

1.2.4 Transparency and oversight of the budget

Jordan has slowly but steadily improved budget transparency and oversight compared to the past and the Open Budget Initiative (OBI) continues to place Jordan first among Arab countries and well above the world average in budget transparency.

The Open Budget Survey 2017 (the latest one available) Jordan scored 63/100 on budget transparency – which is considered as sufficient to enable the public to engage in budget discussions in an informed manner.

In the past year, there was satisfactory progress with regards to the public availability of accessible, timely, comprehensive and sound budgetary information. However, Jordan should provide more data on the macroeconomic forecasts and on the financial position of the government in the Executive's Budget Statement. It should also provide comparisons between original macroeconomic forecasts and actual outcomes and between planned nonfinancial outcomes and actual outcomes in the Year-End Report.

As for budget oversight Jordan scores a relatively low 41/100 due the limited oversight by the legislature during the budget cycle (planning and implementation) and the very weak oversight carried out by the Supreme Audit Institution (the Audit Bureau).

2 RISKS AND ASSUMPTIONS

Jordan is facing a number of external risks linked to the neighbouring conflicts and renewed tensions, notably over the Middle East Peace process and the question of Jerusalem (Jordan is the custodian of the Muslim and Christian holy sites). Those may have adverse consequences in terms of security, social development, public finances but also as regards the macroeconomic situation given the disruption of trade routes (Syria and Iraq). Policies to address those risks, may they be initiated by the government and/or supported by the donor community and IFIs are well designed and broadly on track. However, there are internal risks related to how those policies will be carried out and whether political resolve will be strong enough to question the entitlements of privileged groups such as the military and the tribes.

With regards to political risks, the overall average remains moderate. This should not overshadow the further erosion of the space for Human Rights and fundamental freedoms based on security concerns.

Macroeconomic risks remain moderate and Jordan is expected to continue with fiscal consolidation supported by the IMF funded Extended Fund Facility and the EU Macro- Financial Assistance II (EUR 200 million). Measures taken included

removing subsidies and reviewing the tax exemption framework. However, progress on conditionality items has been slower than foreseen, so that the second IMF review has not been completed and only the first tranche of the MFA II programme has been released. The bone of contention remains the reform of the Income Tax Law, key both to Jordan's financial independence from donors and social justice. The country's dependence on food, water and energy imports remains high (and so the trade deficit) but investment flows are picking up and external demand prospects on the positive side. Public indebtedness remains high but is deemed sustainable. Likewise, reserves have remained at comfortable levels and above six months of import.

On the Public Finance Management side risks are generally low or moderate. Key challenges remain in the areas of public procurement and audit systems. However adequate support is provided by international donors including the EU.

There is clear intent on the part of national authorities to address the overall level of corruption. Several important pieces of legislation were passed including the electoral law and the integrity law and many corruption cases have been investigated. However no prosecution so far has taken place yet.

Public policy management in Jordan is overall poorly performing. Policy design suffers from (i) weak adherence to a comprehensive reform plan (ii) a general public perception that past policies have failed – which implies a poor selection of policies (and /or weak implementation); (iii) the limited consultation in the policy design process. Policy implementation is further constrained by (i) blurred ministerial mandates and insufficient coordination among ministries; (ii) frequent changes in government and ministerial leadership (iii) discretion in implementation (iv) to some extent weak technical capacity.

However, the Jordan 2025 is seen as a mean to address most of the indicated challenges. The vision provides a long-term vision, which aims to provide long-term goals to be maintained before Ministers' agenda, and a strong implementation mechanism, handled by the Prime Minister's Office.

The risks closely related to the implementation of the proposed programme are hereby included.

Risks	Risk level (H/M/L)	Mitigating measures
<p>Constant changes in senior line ministry staffing will constrain progress in strategy implementation.</p> <p>Differing interests in Ministries result in slow pace of strategy implementation.</p>	High	<p>Clear mandate under Jordan 2025 for overseeing the implementation by OPM Delivery Unit to ensure continuity and accountability for implementation.</p> <p>Reinforcement of staffing of the OPM Delivery Unit by the Government.</p> <p>Embed Technical Assistance support for implementation in OPM.</p>
Assumptions		
It is assumed that, at the highest level, the Government is committed to implementing the Jordan 2025 strategy, which aims to be a document to provide direction beyond Ministers' political agenda		

Increased regional insecurity limits Jordan's potential to attract Foreign Direct Investment. Internal security in disadvantaged regions deteriorates.	Medium	Monitor regional security situation. Multi-component actions allows for resources to be reallocated to other components
Assumptions		
FDI into Jordan is driven by regional market access considerations giving Jordan an advantage as a regional hub (if situation in the region deteriorates and Jordan still remains stable). Other key Middle Eastern/Gulf markets remain accessible. Current programmes to increase employment opportunities in Jordan's disadvantaged regions will prevent insecurity.		
Private sector too risk averse to participate in linkage interventions	Low	Cost sharing based technical assistance (TA) intended to reduce risks, and risk shares can be adjusted
Assumptions		
Large companies are keen to establish linkages with small firms for procurement. Viable local suppliers actually reduce costs and risks		
Technical Assistance (TA) for skills development monopolised by connected firms.	Low	Establishment of competitive allocation mechanisms with clear eligibility and appraisal criteria for TA support. Establishment of Management Board comprising diverse stakeholders including respected private sector entrepreneurs and relevant Non Governmental Organisations
Assumptions		
By establishing clear and transparent allocation systems and appraisal criteria based on development goals, resources can be allocated to companies which have a wider development impact.		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

A review of the performance of donor programmes focused on PSD in Jordan, carried out for this programme, highlights a number of key lessons. These have been incorporated into the identification and formulation of the EU support programme.

3.1.1 *The need for a dual approach*

The analysis of other donor PSD programmes in Jordan has stressed the need of a dual approach to PSD, based on bottom up measures to support capacity building and access to services for companies, and top down reforms targeting the enabling environment for private enterprise.

This is based on the two observations. First, enterprises in Jordan are constrained by internal weaknesses such as technical and management skills, which undermine their

productivity and competitiveness. Second, while it is possible to address these constraints through bottom up capacity building programmes that do not involve government, enterprise competitiveness is also constrained by enabling environment issues that are beyond the control of individual enterprises. These include, for example, price controls, employment legislation, arduous inspection procedures, and segmented utility pricing. In order to establish a fully competitive private sector, both internal and external constraints must be addressed, requiring a dual approach.

This lesson has been specifically incorporated into the EU support programme, which includes both enabling environment components at highest possible level and components, which will support improvements in enterprise capacity. Further additionality is expected to be achieved as a result of the complementarity of these components. While working at the enterprise level, lessons will be learned about the binding enabling environment constraints, which can then be prioritised in the top down components working to identify and implement strategic priorities. Similarly, e.g. efforts to improve the internal capacity and systems of the Investment Commission cannot be fully effective without changes in those policies, laws and regulations that negatively impact on private investment decisions.

3.1.2 Incorporating and Addressing Political Economy Analysis

In practice, bottom up programme components have performed much better than top down components. Both International Finance Corporation (IFC/WB) and the UK's Department for International Development (DFID) programme reviews underlined the importance of political economy analysis and aligning targeted reforms with national strategy in order to be successful. This has been reflected in the design of the EU programme.

Based on the findings and recommendations, the top down intervention concepts developed in the scoping study for this programme incorporate:

- (i) the prioritisation of enabling environment reforms in line with the Jordan 2025;
- (ii) support for joining up the priorities of line Ministries and other institutions responsible for implementation with those of high level institutions responsible for overall implementation of the Jordan 2025;
- (iii) measures to facilitate effective monitoring of strategy implementation within high level government institutions invested in its success;
- (iv) support for the development of a results-oriented management system that facilitates early identification of underperformance and the development of measures to bring the strategy back on track; and
- (v) a clear assessment of those wider political economy factors which led to the problems in the enabling environment and which impact on the feasibility of reform.

3.1.3 Effective Sequencing of Programme Activities

Lessons from other programmes demonstrate the importance of effective sequencing of intervention activities in order to ensure that programme outcomes and impact are delivered. Careful attention has been paid to sequencing of the EU programme, and specifically the sequencing of capacity building and enabling environment reform.

3.1.4 *Differentiation*

The private sector in Jordan is highly differentiated, and different categories of private companies face different constraints. Differentiation exists in terms of: company size, i.e. between large, medium, small, and micro enterprises; sector, i.e. companies in the medical services sector face different constraints to those in Information and Communication Technologies (ICT); market focus, i.e. companies targeting the domestic market face different constraints to those targeting export markets; levels of innovation, i.e. companies working in the ICT sector are generally ambitious and innovative, and face very different constraints to those operating in traditional service sectors such as retail. Larger companies are often better linked into relevant networks of power and influence, and are therefore better placed than smaller ones to overcome challenges they face.

Lessons from other programmes have demonstrated the importance of clearly disaggregating the private sector and designing interventions specifically identifying and targeting the needs of different categories of companies. Recognising high levels of differentiation, the EU support programme is focused on those enterprise categories that have the most potential to promote inclusive growth in Jordan, and are designed to address the specific constraints faced by the companies in each category through systemic changes in the provision of appropriate services for each category of enterprise.

3.1.5 *Choice of partners and intermediaries*

The Evaluation of EU Support for PSD Carried out in Third Countries, published by the Commission in 2013, reviewed experience in implementing PSD programmes across 10 countries, including Jordan. It noted that a global approach of delivering aid for the private sector through the public sector entailed missed opportunities in selecting the best implementation partners - EU standard rules and procedures also lacked flexibility and agility to adjust to private sector players and dynamics. Past programme implementation in Jordan has shown these challenges and resulted in burdensome implementation modalities with fewer possibilities to target final beneficiaries. This lesson is reflected in the current programme, which identifies a series of alternative intermediary options to delivering the programme through government.

3.1.6 *Utilising EU Experience*

A further lesson drawn from the above evaluation also noted that the EU could do more to leverage specific European expertise in its private sector into its PSD programmes. This lesson is also reflected in the EUs Agenda for Change, and stressed in the Country Evaluation for Jordan, which argues that EU support to Middle Income countries like Jordan should focus on private investment, collaboration between research and innovation bodies and trade, rather than grant based aid.

3.2 Complementarity, synergy and donor coordination

A comprehensive review of other donor initiatives in the PSD arena shows that they are mainly focused on addressing access to finance constraints, the mismatch between the skills base of the workforce and labour market needs, generic enterprise capacity building and support for regional microenterprise development. There is limited absorptive capacity for any additional funding in these areas. Instead, the EU action should focus on binding constraints which are not addressed by other donors.

These include strategy implementation, high-level skills, FDI attraction and impact and market linkages. The planned action is therefore complementary to the programmes being implemented by other donors. Addressing these constraints should also achieve systemic improvements, which would facilitate sustainability.

The proposed programme is complementary to two other EU budget supports which aims at improving the VET system and skills base, and promote energy efficiency in Jordan. While the two BS programmes focus inter alia, on setting the correct regulatory framework for the two sectors, the PSD programme will aim to develop the enterprises which will operate and provide goods and services for education and cleaner technologies.

It is also strictly linked to the new EU Innovation programme (AAP2018), which focuses on pilot actions to promote innovation and entrepreneurial spirit, directly benefiting the private sector. Notably the programme seeks to:

- Enhance the **potential** of innovative Jordanian enterprises with high growth potential, to **scale** and contribute to the economic growth that will generate direct and indirect jobs;
- Increase **access** of Jordanian SMEs, entrepreneurs and innovators, in specific high-growth potential sectors and clusters, to innovation inputs (e.g. technology transfer, knowledge, learning) and financing;
- Promote and strengthen the **culture** of innovation and entrepreneurship in the Jordanian ecosystem.

3.3 Cross-cutting issues

Key cross-cutting issues include gender and environment. As noted (section 1.1.2.2), women face particular challenges in the labour market. Unemployment rates for women are three times higher than for men, according to IFAD. The participation of women in the labour force in the Kingdom is only 22%, versus 87% for men. Married women are considerably less likely to participate in the labour force. Young and educated women, ready to join the labour force, face high levels of unemployment. Gender-related bias in the economic structure of employment adversely affects women's economic participation. Jordan's labour market is highly segmented, and the limited opportunities that do exist for women are clustered in the civil service, and in particular within the health and education sectors. These sectors have not experienced a high job creation rate in past decades, and consequently women have benefitted little from economic growth. Barriers to economic participation start with women's training and education and are negatively impacted by low economic incentives. There remains a clear disconnect between the skills and education women acquire, and those demanded by employers, particularly in the private sector. Pre-school care is costly, domestic helpers are expensive, and public transportation does not exist, combined with a minimum wage of JOD 190 (USD 270 a month). Women often feel that it is more economically viable to stay at home.

Jordan's principal environmental problems are insufficient water resources, soil erosion caused by overgrazing of goats and sheep, and deforestation. Water pollution is an important issue in Jordan. Jordan has 0.7 cubic km of renewable water resources with 75% used for farming activity and 3% used for industrial purposes. This represents one of the lowest levels of per capita water availability in the world,

and although 100% of city dwellers and 84% of rural people have pure water, it is expected that the rate of population growth will place more demands on an already inadequate water supply. Current sources of pollution are sewage, herbicides, and pesticides. Jordan's cities produce an average of 1.2 million tons of solid waste per year. There is considerable scope for promoting increased private sector investment in renewable energy, water treatment and waste management.

All of the proposed interventions will include specific activities to address both gender and environmental concerns. There is significant scope in Jordan to promote investment in renewable energy, waste management and sustainable water supplies, and to develop specific financial and business support services targeted at women. In addition, environmental and gender considerations will be incorporated into both the eligibility and appraisal criteria for proposals from companies for technical assistance (TA) support.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the action is to increase incomes and employment, promote women and youth social economic inclusion, and facilitate economic development in disadvantaged regions.

The **specific objectives** are (i) to increase the productivity and competitiveness of MSMEs (ii) increased domestic and foreign investment and strengthened linkages between investment and the local economy.

The key outputs / **results** are (i) the effective implementation of government strategy and a positive enabling environment (ii) the development of training, education and business advisory service markets to address critical high-end skill gaps in sectors with significant PSD impact potential (iii) the adoption of improved technical and management practices by SMEs, and (iv) increased domestic and foreign investment.

4.2 Main activities

The activities are divided into two main components: (i) Component 1, which focuses on *the reform of the enabling business environment* and increasing the flow and impact of investment through a budget support programme and complementary TA, and (ii) Component 2, which focuses on *improving technical and management capacity* within SMEs using the project support modality.

The programme does not have the capacity to address all of the enabling environment and enterprise capacity constraints on private sector development in Jordan. Rather, each component addresses a subset of priority issues, identified on the basis of (i) the size of the opportunity i.e. the potential to bring about improvements in private sector productivity at scale, which will lead to increases in incomes and employment among the target beneficiaries, (ii) constraints identified by public and private sector stakeholders as priority binding constraints, and (iii) areas which avoid duplication with the efforts of other donors active in the private sector development space.

Component 1, "***Reform of the enabling business environment***", comprises two main activities:

Activity 1: Support for Strategy Alignment and Implementation	<p><i>This intervention is aimed at addressing previous difficulties encountered in strategy implementation.</i></p> <p><i>Support will be provided to the Delivery Unit in the OPM to operationalise Jordan 2025 into priority actions, to establish a monitoring and evaluation system, to assist line Ministries in developing implementation programmes and to take remedial action when these are not having the intended outcomes⁴.</i></p>
Activity 2: Improving the Effectiveness of FDI, including in disadvantaged regions	<p><i>This intervention is aimed at increasing FDI inflows and maximising their impact, in terms of enhanced competitiveness, job creation and economic growth. It will also reduce regional disparities through identifying regional investment opportunities, to develop and implement regional investment promotion strategies, and coordinating local education and training programmes with investor needs.</i></p>

Component 2, *"Improving technical and management capacity within SMEs"* comprises three main activities:

Activity 1: Value chain development	<p><i>Increasing pro poor participation in regional value chains in partnership with large companies. Emphasis on systemic change in service markets for sustainability of the intervention, driven by large company procurement needs. Focus on improving productivity, increased participation in higher value added activities, institutional developments to improve market access.</i></p>
Activity 2: Business linkages	<p><i>Core SMEs operating in traditional sectors for the domestic market operate at low productivity levels and have limited markets. The business linkages initiative will provide support for these SMEs to upgrade their operations in order to increase their access to procurement opportunities within large firms operating in Jordan. Support would be provided to local service providers to implement upgrading programmes.</i></p>
Activity 3: Technical	<p><i>A competitive and transparent mechanism through which companies in high value added sectors such as ICT and</i></p>

⁴ Jordan 2025 will be translated into three 3-years executive development programmes, the first one to cover 2016-2018, where MOPIC is entrusted to coordinating this efforts which is being prepared though the 17 working groups (that were previously established to prepare the Jordan 2025), and this is a task that MOPIC used to lead in preparing for previous Plan. Line ministries are responsible for implementing projects/activities that fall under their mandate and report on progress. Jordan 2025 identified 400 key measures across 17 sectors. To ensure that recommendations/measures are successfully implemented, the monitoring and evaluation will be the responsibility of the Delivery Unit (attached to HE PM Office), where they will be following on the Jordan 2025 and prepare periodic reports on progress that will become public.

Assistance Gateway for High level Management and Technical Skills	<i>medical services can access high-level management and technical skills. Companies will be encouraged to partner with service providers in order to develop sustainable solutions to skills constraints.</i>
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The two components are designed to be mutually reinforcing; during the course of working with private companies to increase competitiveness and productivity in Component 2, information and knowledge will be gathered regarding the binding constraints on SMEs in key sectors. This information will be communicated to the Prime Minister Delivery Unit (PMDU), and will influence the key priorities addressed within national strategy (Component 1). Initially this flow of information will be driven through the provision of coordinated technical assistance, although institutional mechanisms for collecting bottom up information to influence strategic priorities will be assessed and developed over the lifetime of the programme.

Component 1, *“Reform of the enabling environment”* will be implemented through budget support in the form of a Sector Reform Contract, which will provide financial resources for the implementation of those elements of Jordan 2025 pertaining to private sector development priorities. Budget support will be supplemented through complementary technical assistance to the PMDU and line ministries which will be necessary for detailed strategy implementation planning, staff training, the development of monitoring and evaluation systems, and to support the design and implementation of effective responses where the strategy is not delivering intended outcomes.

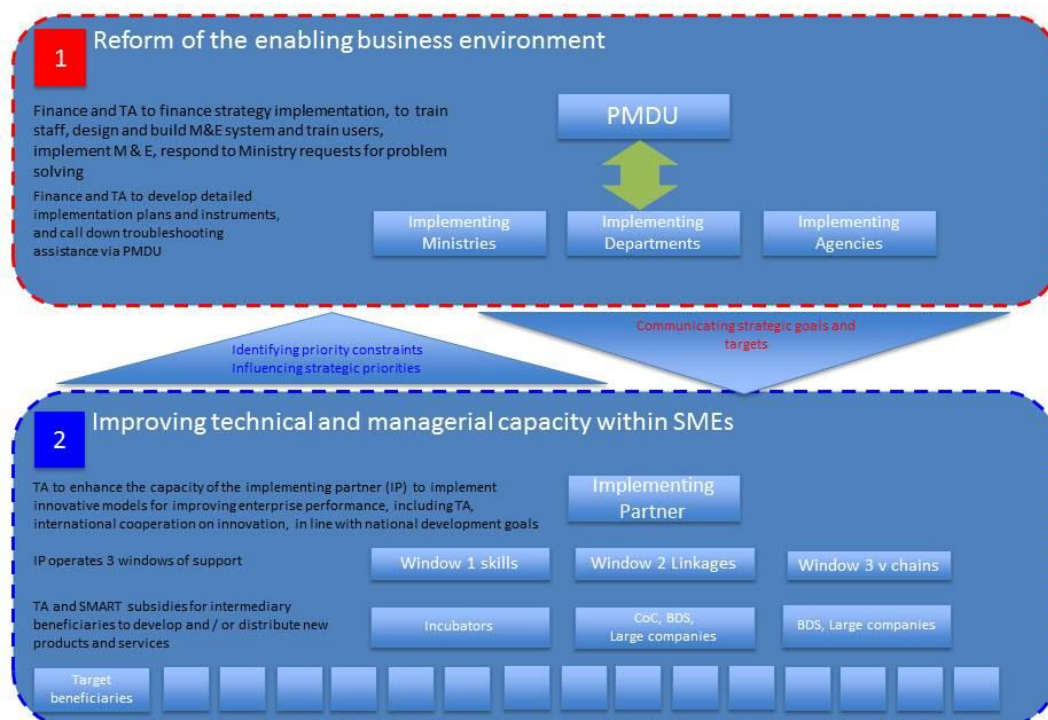
Component 2, *“Improving technical and management capacity within SMEs”* will utilise a project-based modality. The services of an implementing partner will be procured on a competitive basis to support the provision of technical assistance to target beneficiaries. The implementing partner will manage the operation of three support windows, each designed to address specific constraints among specific groups of target beneficiaries: (i) high level skills, in innovative and ambitious SMEs (ii) the upgrading needs of SMEs seeking to do business with larger companies, and (iii) technical, management and institutional weaknesses that limit the participation of target beneficiaries in key value chains.

Support will not be provided directly by the implementing partner, but through various intermediary organisations such as large companies, business development service providers, training and education institutions and incubators. More detail is provided on implementation arrangements in Section 4.2.2 below.

Initially the support windows will focus on pilot industries such as ICT, the green economy, renewable energy and agriculture, and will be scaled up based on the lessons learned during pilot implementation.

In the diagram below, component activities are replaced by implementing institutions.

EU Support to the Private Sector Development in Jordan:
Information flows between the two components



4.2.1 Budget support

Budget support in the form of a Sector Reform Contract has been selected as the implementation modality for component 1 - ***Reform of the enabling business environment***.

Therefore, the Sector Reform Contract will support part of the reforms included in the Vision 2025, which have been identified to be the most relevant and feasible in contributing to the achievement of the EU programme's goals: 'employment', 'trade and competitiveness', 'business climate' and 'small business'. Annual Targets will be designed to measure progress against the following initiatives:

1. Sector of Reform: Employment

- Support job creation across the Governorates;
- Support expansion of economic opportunities for Syrian refugees.

Outcome: Job Opportunities in the Governorates and increased number of Syrian refugees in the formal labour market.

2. Sector of Reform: Trade and Competitiveness

- Improving the quality of service provided to domestic and international companies in Jordan
- Define a stable, clear and transparent legal framework underpinning investment in Jordan

Outcome: Reduced cost of compliance for investors and improved investors perception of legal and regulatory predictability

3. Sector of Reform: Business environment
- Reducing the cost of doing business in Jordan
 - Strengthen the regulatory framework underpinning competitive local markets and high quality consumer protection safeguards
 - Promote an innovation-friendly environment for the private sector

Outcome: Reduce cost of doing business in Jordan and reduce cost of compliance for businesses

4. Sector of Reform: Small business
- Enhance the capabilities of entrepreneurs by strengthening leadership and managerial skills.

Outcome: Improved productivity of beneficiary MSMEs.

4.2.2 Complementary support

Budget support for the implementation of Jordan 2025 will be supported through a programme of complementary technical assistance.

4.2.2.1 TA for Component 1

The core institutions that will be responsible for implementing Jordan 2025 and that will eligible to receive TA, are set out in the diagram below. TA to the core institutions will make sure that the M&E system foreseen by the Jordan 2025 is operationalised and effectively functioning. TA will be attached to the Prime Minister Delivery Unit (PMDU), and will : (i) facilitate the completion of technical tasks including the formulation of Executive Development Programmes, specify, design and build monitoring and evaluation systems, formulate innovations in strategy implementation and respond to emerging implementation problems, and (ii) support the recruitment process and training of key staff in the PMDU through hands on and formal training programmes and (iii) to the implementing partner of component two, to ensure that there are strong links and information flows between the two components of the programme.

The following table indicates the roles and responsibilities for each type of institution:

Institution	Roles and responsibilities
Prime Ministers Delivery Unit	<ul style="list-style-type: none"> • Oversight and accountability • Operationalising Vision 2025 into Executive Plans • Managing the selection of priority projects • Implementation monitoring and evaluation • Flagging underperformance • Responding to requests for remedial support from implementing MDAs
Sectoral Ministries	<ul style="list-style-type: none"> • Implementation of Vision 2025 • Developing detailed implementation plans

	<ul style="list-style-type: none"> • Budget coordination and planning • Development and implementation of M&E plans • Reporting • Initial response to emerging implementation problems • Initiating requests for implementation assistance where required
Ministry of Public Sector Reform	<ul style="list-style-type: none"> • Dialogue with the private sector on service effectiveness and efficiency • Supporting performance improvements in public service delivery
Higher Councils, inspectorates and other agencies	<ul style="list-style-type: none"> • Facilitating connectedness between private sector needs and national policies and strategies e.g. education, science and technology • Monitoring implementation • Ensuring services respond to private sector needs • Addressing emerging problems in implementation • Initiating requests for implementation assistance where required
EU Implementing Partner	<ul style="list-style-type: none"> • Ensuring that there is a strong link between components one and two of the programme

4.2.2.2 Call for proposals for Component 2, project based approach

Beside the complementary support to the Budget Support programme, which has been describe above, the programme foresees the Component 2, "**Improving technical and management capacity within SMEs**", which will largely focuses on supporting improvements in enterprises' productivity through systemic change in service markets. This component will be delivered through project based approach for the following reasons:

- (i) Jordan has a limited track record of delivering on previous donors' PSD programmes. Shortcomings in governmental capacity would make it hard for Government to effectively deliver the kinds of micro level programmes that are required.
- (ii) Other priorities of the Government, such as security, may over time undermine a commitment to deliver capacity support to the private sector. Project support provides greater and more direct control over implementation.
- (iii) The programme should involve other actors likely to support private sector growth, such as educational institutions and Non-Governmental Organisations. A project-based approach would facilitate the participation of such actors.

The following principles and consideration on the expected results have conditioned the design of the project implementation arrangements for Component 2:

A local project implementation partner: Rather than establishing an external Project Management Unit, a local implementing partner with a mandate to facilitate development of the Jordanian private sector will be selected. In this way the

programme will help to establish sustainable local capacity to design, implement, monitor and evaluate innovative programmes to support long-term private sector development.

Facilitating systemic change: The constraints to private sector development that have been identified arise as a result of various market failures. These market failures are both demand and supply side based. On the demand side, for example, a lack of knowledge among fast growing companies regarding key skill requirements, or among small enterprises regarding the potential for upgrading their products and services to meet the needs of large companies. On the supply side for example, difficulties in finding an appropriately skilled labour or a business development services equipped and accredited to international standard which provide effective upgrading services for SMEs.

The programme will not address these constraints through the direct provision of technical services to beneficiaries, which is not sustainable in the long term. Instead it will address the fundamental market failures that result in these constraints and in this way it will facilitate systemic change and long-term sustainability. The implication of this approach is that the programme must focus on intermediaries such as business development service providers, incubators, larger companies and training institutions; creating awareness and stimulating demand among potential users and ensuring that suppliers make the appropriate services available on a commercially viable basis.

Competition for project resources: The allocation of technical support through the programme will be undertaken on a competitive basis to ensure (i) fairness and transparency (ii) that resources are allocated to where they will have the biggest impact vis-à-vis programme objectives, and (iii) value for money. Competition requires the establishment of appropriate eligibility and appraisal criteria for the allocation of all resources.

Multiple windows: The programme is designed to address specific constraints between highly disaggregated categories of enterprises and programme beneficiaries. For this reason, a multiple window approach to design is required, with each window targeting specific constraints and beneficiaries. Three windows were identified: 1) High level skill and technical capacity, 2) Value Chain; and 3) Linkages.

The local implementing partner will be responsible for the following activities:

- Managing each of the three windows of the project based component;
- Publicity and communications;
- Assessments of requests for support against key eligibility and appraisal criteria;
- Certifying and registering potential intermediaries;
- Making recommendations to the Management Board on release of technical assistance support.

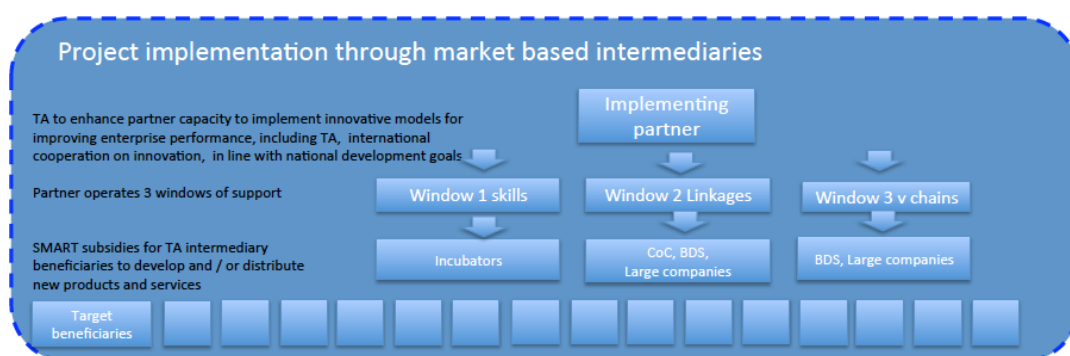
The project implementation partner will be selected on a competitive basis, according to specific eligibility and appraisal criteria. These include (i) entrepreneurial knowledge; (ii) a specific mandate; (iii) stakeholder support; (iv) internal capacity; and (v) administrative procedures that replicate private sector efficiency.

As mentioned by the new Commission communication on “A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries”⁵ adopted in 2014, EU’s support for private sector development will be guided by a set of clear principles⁶. In the case of direct grants to Financial Institutions or private businesses, or subsidised business development services the set of defined criteria will have to be applied.

Once the implementing partner has been identified, a Management Board will be established. This will comprise a representative of the European Union Delegation in Jordan and the Implementing Partner. Other members of the Management Board could include experienced private sector representatives, and this option will be considered at the programme inception. The purpose of the Management Board will be to consider and approve recommendations from the implementing partner regarding (i) the selection of intermediaries that will deliver programme support, and (ii) the disbursement of resources.

Delivering project resources through intermediaries

The diagram below shows how project support will be delivered through intermediaries.



Stage one: Raising awareness of the opportunity

The selected implementing partner will raise awareness of the programme through a substantial publicity and communication programme. The aim of the publicity campaign is to raise awareness among (i) potential final beneficiaries of each window, and (ii) potential intermediaries for the delivery of programme support through the three windows. Such campaigns will be conducted on a regular basis until the funds are exhausted.

Stage 2: Registering intermediaries

A call for applications from interested intermediaries will be launched using a formal application template clearly identifying the eligibility and appraisal criteria by which the intermediaries' applications will be assessed. Applications will be assessed by the implementing partner, who will make selection recommendations to the Management Board for their review and agreement. The implementing partner will then certify and register intermediaries following this competitive selection process. Registered intermediaries are thereby approved to participate in the programme.

⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0263&from=EN>.

⁶ See point 2.1 of the Communication “Principles for strengthening the role of the private sector in EU development”.

Stage 3: Training intermediaries

Training will be delivered to intermediaries, where necessary, in order to ensure that they are familiar with the intended processes and programme delivery tools. For example training will be provided to BDS providers registered to upgrade SMEs under the linkages window in order that they are able to implement standardised sound company checks and diagnostic assessments of potential beneficiaries.

Stage 4: The process by which support will be delivered

Potential final beneficiaries may be made aware of the existence of programme support in two ways, either (i) communications from intermediaries or (ii) the wider publicity programme initiated by the implementing partner.

Final beneficiaries will be required to apply for programme support to the implementing partner by completing an initial application form. The implementing partner will select and use a registered intermediary to carry out a **sound company (eligibility) check**. If the potential final beneficiary is eligible, they will be then provided with a list of registered intermediaries that they can choose from to carry out a **diagnostic study** of their needs. This is a fixed price study, and part of the costs of carrying out the study will be covered by the project and part by the beneficiary.

The final beneficiary will receive a copy of the diagnostic recommendations and the costs of implementation. If the final beneficiary decides to go ahead with implementation, then an application is made to the implementing partner, who will appraise the application according to standardised application procedures. The implementing partner will make recommendations for beneficiary support to the Management Board.

Piloting the implementation process and subsequent scale up

These processes will first be tested on a pilot basis in sectors which are aligned with both Jordan 2025 and EU strategy. At the start of an intervention, the processes, innovations and new practices will be piloted with a variety of partners. The aim is to understand what works well and what does not work in the local context, and to identify lead organisations willing to try something new. This phase typically involves a lot of hand-holding, mentoring, and experimentation. If the pilots deliver returns to the partner (either commercial or non-commercial), and meet Management Development Plan (MDP)'s objectives, the intervention moves to the next phase, consolidation.

At the **consolidation phase**, the focus is narrowed to those practices and partners that have proven effective. Having achieved some initial success at the pilot stage, the engagement will be deepened with the better performing partners and intermediaries and processes refined in order to build sustainability of the practice change. This means promoting institutionalisation and wider buy-in within the organisation, and ensuring that the partner has the necessary capacity to sustain the practice change. The practice change also needs to deliver a “net return” to the partner if it is to be sustained. Sometimes this may the tackling of underlying organisational or systemic constraints. The mid-term review could provide inputs for this refinement.

Having achieved sustainability and “proof of concept”, the next stage is to move into the **replication stage**. The programme will work to promote wider replication of the new innovation or practice change. The aim is to encourage the diffusion of the

practice change through the system. Some replication will happen organically; some replication will require more active promotion. This can involve promoting linkages and peer-learning between better partners and intermediaries to others, producing and disseminating case studies, working with “scale-agents” such as apex organisations, and actively supporting new organisations to adopt the practice change. The level of support at this phase is less intensive – the aim is to leverage the capacity and demonstration effect already built during the deepening phase.

Exit

Having achieved sustainable impact at scale, the programme will exit the intervention partnerships, but continue to monitor partners and copycats in order to fully capture intervention results and to assess the degree to which system actors are able to “stand alone”.

4.3 Intervention logic

The intervention logic has various elements as follows:

Dual approach: Interventions are designed to work at two levels (i) top down improvements in strategy implementation, including enabling environment reform, and (ii) bottom up capacity building to improve private sector technical and management skill. Both types of interventions are required to effectively increase private sector productivity and competitiveness. In addition, these two types of intervention are intended to be mutually reinforcing; it is expected that during the implementation of interventions that work with the private sector, priority constraints will be identified. These lessons can be taken up within those interventions working with government on strategy, and actions can be mainstreamed to address the priority constraints.

Systemic change: Bottom up interventions to improve technical and managerial skills in the private sector will not work directly with private companies. Rather, the programme will facilitate systemic changes in the service markets that provide training, education and advice in technical and managerial areas. This process has demand and supply side elements. On the demand side, the programme will seek to change the knowledge, attitudes and practices of enterprises, so that they are better informed about the skills they need to grow, and able to seek out training, education and advisory services which can provide them with those skills – that is, to create a more effective market demand for skill growth. On the supply side, the programme will work with service providers to build their capacity to provide services that are relevant to the market. Scaling up happens as service providers supported under the programme extend their businesses, and through the crowding in of additional service providers and service users.

Pilots: Where possible project activities will be implemented on a pilot basis to facilitate systemic change, with scaling up occurring as system actors replicate and copy profitable activities. Initially consideration is being given to piloting programmes related to businesses operating in the areas of agriculture, renewable energy, the green economy, innovation, and high-skill education services. Based on successful pilots, the programmes will then be extended to other sectors. Each window will be piloted by limiting eligibility to companies operating in these target sectors, and then rolled out to additional sectors based on lessons learned during the pilot.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this Decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

Budget support, in the form of a Sector Reform Contract, is the most appropriate modality to support the implementation of Component 1 "***Reform of the enabling business environment***", which relates to reform of the enabling environment for business. This would provide Government with the funds that are required to implement key elements of the strategy and to meet costs including legal drafting, increased staffing, training and the establishment of new systems.

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 50.8 million. This amount is based on a review of Government budgetary estimates for the components of Jordan 2025 that will be supported through budget support, validated against the costs of similar components implemented in other support programmes.

5.3.2 Criteria for disbursement of budget support

- a) The general conditions for disbursement of all tranches are as follows:
 - Satisfactory progress in the implementation of the Jordan 2025 and continued credibility and relevance thereof;
 - Implementation of a credible stability-oriented macroeconomic policy;
 - Satisfactory progress in the implementation of PFM reform programme;
 - Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.
- b) The specific conditions for disbursement that may be used for variable tranches are the following:

The Jordan 2025 is a comprehensive document, which aims to build “a safe and prosperous nation”. It therefore sets clear targets in a number of areas of development, including health, education and economic opportunity. Notwithstanding the contribution that a thriving private sector can make to other aspects of society, the specific conditions for disbursement of the variable tranches of the budget support under this programme are linked to the ambitions contained in Jordan 2025 related to the development of the private sector. The Ministry of Planning and International Cooperation (MOPIC), the PMDU and implementing

agencies identified for Jordan 2025 are in the process of developing a comprehensive Executive Development Programme 2016-18 to implement the blueprint. There is therefore neither need nor rationale for this programme seeking to support this wider process. Instead, it is sensible to focus on the implementation of those sections of Jordan 2025, which are most closely related to the aims of the EU's PSD programme. Thus, disbursement of budget support variable tranches will be aligned with the aims set out in the Jordan 2025 sections on 'employment', 'trade and competitiveness', 'business climate' and 'small business'. Specific outcomes will be defined on a yearly basis, to achieve the final outcomes by 2021, as already detailed in section 4.2.1 - *Budget Support*.

Factors, taken into account in the selection of these reform areas, include: their strategic fit with the EU's programmatic goals; their relevance and likely impact on Jordan's PSD environment and the likelihood that they are realistically implementable in the Jordanian context. The full reasoning for selecting the above areas is explained in Appendix 1 to this document. The detailed indicators will be developed (prior to the signature of the FA) with the Government in the last quarter of 2015 based on the Executive Development Plan 2016-2018 which is due to be finalised at the end of August 2015.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, Ministry of Planning and International Cooperation (MoPIC) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 *Budget support details*

Budget support is provided as direct untargeted budget support to the national Treasury. Indicatively, it is foreseen that one fixed and four variable tranches will be delivered. The crediting of the euro transfers disbursed into Jordanian dinar will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support

Complementary support will include a call for proposals to implement the component 2 "Improving technical and management capacity within SMEs" and a service tender for technical assistance to back the Budget Support under component 1 and to support the selected implementing partner of component 2.

5.4.1 Grants: call for proposals (direct management): Improve Technical and Management Capacity within SMEs (Component 2)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The grant will aim at supporting improvement in enterprises' productivity through system changes. It will address the fundamental market failures which constrain the development of the private sector in Jordan, by:

- on the supply side enhancing the capacity of intermediaries such as business development service providers, incubators, larger companies and training institutions to provide quality services (possibly at international standard) on a commercial basis to potential SMEs.
- on the demand side by creating awareness and stimulating demand among potential users (SMEs) for business services to improve their productivity and competitiveness. This will be obtained by enhancing technical and managerial capacity (Skill Window); or linking them to large enterprises (Linkage window) or including them in a value chain scheme (Value Chain Window).

In this way it will facilitate systemic change and long-term sustainability.

(b) Eligibility conditions

In order to be eligible for selection, potential implementing partners must meet the following condition

- Registered as a legal entity in Jordan;
- Have a specific mandate to support private sector growth and investment;
- Not involved in any activity that is prohibited by the European Union;
- Clear evidence of financial sustainability.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 6 million and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant is 36 months.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 90%. The rate may be higher if the auto-financing capacity of the targeted beneficiaries is weak.

If full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

1st trimester of 2016

5.4.2 Procurement (direct management), complementary Technical Assistance for Component 1 and Component 2

Under the programme, two procurement procedures will be launched, as indicated in the following table:

TA service tender

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
a. Reform of the enabling business environment	Services	1	1 st Q
b. Communication and visibility	Services	1	1 st Q

TA Needs Assessment

In the case of the TA to support the Reform of the enabling business environment, the needs have been estimated on a detailed review, which examined the capacity of each category of institution to carry out their roles and responsibilities for implementing Jordan 2025, efficiently and effectively. This review shows that there are considerable gaps in the capacity of all of the institutions that are responsible for implementing Jordan 2025. The major capacity constraints are:

- Staff technical and managerial skills, particularly related to implementation planning, intervention modalities, and the design of monitoring and evaluation systems;
- Management systems, particularly financial planning, human resource development, communications and partnership management;
- Technical systems, particularly the specification, development and implementation of computer based monitoring and evaluation systems.

Complementary technical assistance will therefore be provided to (i) facilitate the completion of technical tasks including the formulation of Executive Development Programmes, specify, design and build monitoring and evaluation systems, formulate innovations in strategy implementation and respond to emerging implementation problems, and (ii) support the recruitment process and training of key staff in the PMDU through hands on and formal training programmes and (iii) to the implementing partner of component two, to ensure that there are strong links and information flows between the two components of the programme.

Forms of technical assistance

Technical assistance will take two forms: (i) Long term permanent technical assistance based in the PMDU and with the implementing partner, with specialisations in monitoring and evaluation and inclusive growth strategy and private sector development facilitation (ii) a pool of draw down TA with sectoral, monitoring and evaluation, innovation, and training skills, that can be called upon to deal with specific issues as and when they arise. Call down technical assistance will be available to both the PMDU and implementing Ministry Departments and Agencies, as well as the implementing partner in component 2.

Quantitative assessment of needs

The following table sets out the technical assistance requirement, in person months, over the period 2016 to 2018. This is based on an assessment of long term support needs and a programme of indicative short-term specialist input requirements. The average short terms input is likely to be of one-month duration and at any one time

there will be 1.5 months of short term TA in country per month. This table is indicative and will be expanded in line with the extension of the Budget Support programme.

Type of TA	2016		2017		2018		Total person months
	No of persons	Total months	No of persons	Total months	No of persons	Total months	
Long term	3	36	3	36	3	36	108
Short term	18	18	18	18	18	18	54
Total		54		54		54	162

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

Type of modality	EU contribution (amount in EUR)
5.3 Budget support: Sector Reform Contract	50,800,000
5.4.1 Complementary TA	5,000,000
5.4.2 Call for proposal – Component 2	6,000,000
5.9 Evaluation and monitoring	800,000
5.10 Audit	200,000
5.11 Communication and visibility	1,000,000
Contingency	1,200,000
Total programme budget	65,000,000

5.7 Organisational set-up and responsibilities

The Ministry of Planning and International Cooperation (MoPIC) is the signatory of the Financing Agreement and the project supervisor, with overall responsibility for coordination with the EU and the various stakeholders involved. It is also responsible for facilitating the monitoring and appraisal missions to be conducted in the framework of this programme. The MoPIC may assign a staff/team to work on managing/monitoring/facilitating this programme.

A Programme Steering Committee (SC) will be formed and will meet at least three times a year to endorse strategic orientations, oversee programme execution, and facilitate implementation of the activities. The SC will be chaired by the Prime Minister Office Delivery Unit/MOPIC, with the MoPIC operating as a secretariat. It will include representatives from the Government institutions identified in section 4.2.2. and the EU Delegation as observer ; and its composition will reflect the variety of stakeholders in the programme. Private sector representatives and the implementing partner responsible for the implementation of the Component 2, "Improving Technical and Management Capacity within SMEs" of this programme will also take part according to the needs.

The SC will monitor the overall implementation of the project, review project progress, coordinate the different results areas and guide the actions to the successful achievement of the project objectives. It approves the reports and work plans. It will also help coordinate between all Jordanian institutions and groups likely to be involved in the project. The SC discussions will feed into the policy dialogue.

For the component 2, "**Improving technical and management capacity within SMEs**" a Management Board will be established. This will comprise a representative of the European Union Delegation in Jordan and the Implementing Partner. Other members of the Management Board could include experienced private sector representatives, watchdog institutions and this option will be considered at the programme inception. The purpose of the Management Board will be to consider and approve recommendations from the implementing partner regarding (i) the selection of intermediaries that will deliver programme support, and (ii) the disbursement of resources.

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner will use the established permanent internal, technical and financial monitoring system at the PMDU which is to elaborate regular progress reports (not less than annual) and final reports. Every report is meant to provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators. The reports are planned be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details.

The Ministry of Planning and International Cooperation (MoPIC) is entrusted with monitoring the implementation of the Budget Support Programme. Support has been provided during the formulation phase to develop a monitoring framework, including recommendations for process, output and outcome indicators as well as relevant baselines, which detailed definitions will be finalised before the signature of the

Financing Agreement. The approval of such a framework by the Programme Steering Committee is one of the indicators set for disbursing the first base tranche.

Reviews of the implementation of the BS shall take place indicatively on a 12-monthly basis, with the first one planned in 2016. A team of independent consultants recruited directly by the Commission (or recruited by the responsible agent contracted by the Commission for implementing such reviews) will perform monitoring and evaluations related to the disbursement of funds.

The Prime Minister delivery Unit Monitoring and Evaluation System will be instrumental to provide inputs to the process. The MoPIC will continue to be responsible for documenting policy dialogue taking place within the framework of the Programme Steering Committee and the related donor coordination meetings. The programme will be subject to the Commission's Results Oriented Monitoring (ROM).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants

5.9 Evaluation

Having regard to the importance and nature of the action, a mid-term and final evaluations may be carried out for this action or its components via independent consultants contracted by the Commission

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the design of the programmes and the effectiveness of the interaction of its two components as well as the impact on job creation. The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision).

Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, 1 contract for a maximum amount of EUR 200,000 for evaluation services (both for the mid-term and final evaluation) shall be concluded under a framework contract in the 1st quarter of 2017.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, based on a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

All contracts passed under the complementary support components will be subject to audits, according to the terms to be detailed in those contracts.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 0 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations⁷.

The current procurement modalities will be under the project modality as well as the sector budget support modalities, and/or, exceptionally, grants, if applicable, in accordance with the Instructions in the call for proposal.

The communication and visibility measures might be implemented by way of procurement (beyond the procurement foreseen in section 5.4) with an overall budget allocation EUR 800,000, while the type of contract will be decided during the implementation process (including use of framework contracts, if needed). The launching of the procedures might be the 1st quarter of 2016.

Communication and visibility activities will aim to increase public awareness and understanding of the policies suggested and of the EU-Jordan partnership. They will be closely integrated with the TA activities either through the same TA contract or through separate contract.

The reports foreseen in the present document will describe with accuracy the actions and measures taken in respect of information and visibility requirements. Such requirements will be scrupulously respected during events organised within the framework of the project or referring to it as well as for the preparation of all public or official documents produced in the context of the project or related to it. Buildings, displays, equipment, vehicles, promotion material, documentation or letterheads used for the implementation of or provided by the project will visibly bear the European symbol (blue flag with twelve yellow stars) and the name of the European Union in English and Arabic.

Any activity with information or visibility relevance will be prepared in close collaboration with the EU Delegation in Jordan.

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http://ec.europa.eu/europeaid/communication-and-visibility-manual-eu-external-actions_en.

APPENDIX 1 - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines 2015	Targets ⁸ Cumulative 2015 to 2017	Sources and means of verification	Assumptions
Overall objective: Impact	To increase incomes and employment, promote women and youth social economic inclusion, and facilitate economic development in disadvantaged regions.	Income in businesses supported by the programme, disaggregated by gender Employment in businesses supported by the programme, disaggregated by gender	Income and employment in target value chains and target SMEs in 2015 Baseline 0	1,000 direct long term jobs created 20 per cent increase in income of target beneficiaries	Company reporting, annual programme M&E plan Direct company survey at the start of the project	
Specific objective(s):	(i) to increase the productivity and competitiveness of MSMEs (ii) increased quantity of domestic and foreign investment and strengthened linkages between investment and the local economy.	Value of MSME sales, disaggregated by gender MSME profitability, disaggregated by gender Gross value added in enterprises supported by the programme disaggregated by gender Number of new enterprises created in target sectors	Current sales Current profitability Combined GVA in previous year accounting 0	35 per cent increase in sales 20 per cent increase in profitability EUR 100 million GVA 100 new enterprises created with project support	Company records, collected through enterprise surveys / questionnaires, sourced by programme M&E team on an annual basis MOPIC Data collected annually by programme M&E team	Regional insecurity does not significantly restrict enterprise expansion opportunities

⁸ Targets based on comparative experience with similar projects and studies of current versus achievable productivity, sales and profits in Jordanian SMEs.

		<p>Increased export sales in supported firms</p> <p>Enterprise Longevity (disaggregated for gender)</p> <p>Value of new foreign investment</p>	<p>0</p> <p>None</p> <p>None</p>	<p>20 per cent increase in exports in supported firms</p> <p>Closure rates in supported firms fall by 50% compared to non-supported firms</p> <p>EUR 100 million</p>	<p>Firm data collected through enterprise surveys / questionnaires, sourced by programme M&E team on an annual basis</p> <p>Data collected by M&E team Chamber of Commerce Registry Enterprise survey</p> <p>JIC data</p>	
Outputs	<p>the development of training, education and business advisory service markets to address critical high-end skill gaps in sectors with significant PSD impact potential (iii) the adoption of improved technical and management practices by MSMEs, and</p>	<p>Value chain participants aware of and using support functions effectively</p> <p>Firms adopting the recommendations made by service firms</p> <p>Market based support functions are available and sustainable</p>	<p>% firms currently using and range of services used</p> <p>None</p> <p>Current registered BDS providers & range of services</p>	<p>70 per cent of target beneficiaries using new support functions</p> <p>70 per cent of target beneficiaries adopting service firm recommendations</p> <p>25 market based service providers offering project</p>	<p>Firm and BDS provider data collected through enterprise surveys / questionnaires by programme M&E team</p> <p>Firm and BDS provider data collected through enterprise surveys / questionnaires by programme M&E team</p> <p>Programme records on certification and registration, service</p>	<p>Continued patronage does not act as a disincentive to change within firms</p>

		Investors procuring goods and services locally	Current local procurement levels	<p>services</p> <p>50% increase in formal partnering arrangements</p> <p>20% increase in domestically available goods and services, and procured locally</p>	<p>provider training</p> <p>Survey of new investors procurement content carried out annually by Programme M&E team</p>	Investors will change procurement policies regarding local goods and services
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APPENDIX 2 - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)⁹

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines 2015	Targets¹⁰ Cumulative total 2016 to 2020	Sources and means of verification
Overall objective: Impact	To increase incomes and employment, promote women and youth social economic inclusion, and facilitate economic development in disadvantaged regions.	Income in businesses supported by the programme	Income and employment in target value chains and target SMEs in 2015	1,000 direct long term jobs created	Company reporting, annual programme M&E plan
		Employment in businesses supported by the programme		20 per cent increase in income of target beneficiaries	
Specific objective(s): Outcome(s)	(i) to increase the productivity and competitiveness of MSMEs (ii) increased quantity of domestic and foreign investment and strengthened linkages between investment and the local economy.	Value of MSME sales	Current sales	35 per cent increase in sales	Company records, collected through enterprise surveys / questionnaires, sourced by programme M&E team on an annual basis MOPIC Data collected annually by programme M&E team
		MSME profitability	Current profitability	20 per cent increase in profitability	
		Gross value added in enterprises supported by the programme (including inward investment)	None required	EUR 100 million GVA	
		Number of new enterprises created in target sectors	None required	100 new enterprises created with project support	
		Increased export sales in supported firms	Current export sales	20 per cent increase in exports in supported firms	
		Enterprise Longevity	Current longevity of firms	Closure rates in supported firms fall by 50% compared to non-supported firms	

⁹ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

¹⁰ Targets based on comparative experience with similar projects and data on current levels of enterprise participation and productivity in Jordan.

		Value of new foreign investment	None	EUR 100 million	JIC records
Induced outputs	The effective implementation of government strategy and a positive enabling environment for business ¹¹	Provision of support to job creation across Governorates*	Current levels of support	As set out in the Executive Development Plans for Vision 2025	Published new laws, regulations and procedures World Bank Doing Business reports Year Executive Development Plan reports
		Facilitation of skilled migration into Jordan*	Current migration policies		
		Enhanced quality of services provided to domestic and international investors*	Current investor services		
		Enhanced investment promotion programmes*	Current promotion programmes		
		Clear and transparent investment laws*	Existing law		
		Improved regulatory framework for businesses*	Current Doing Business ranking		
		Enhanced innovation-friendly environment for the private sector *	Current regulatory framework		
		Strengthened regulatory framework underpinning competition and consumer protection *	Current regulatory framework		
Direct outputs	Increased staff capacity of PMDU to oversee implementation of Vision 2025 and address emerging issues Improved M&E systems in PMDU Increased capacity of Ministries to implement Vision 2025	PMDU responding effectively to performance shortfalls and instigating corrective action*	None	Corrective action taken to address 100% of shortfalls / needs for corrective action	PMDU records
		M&E system established and reports produced*	None	M&E system established as per consultants specification	Content of M&E reports, consultants reports
		Executive development plans implemented in line with detailed action plans*	None	Targets as set out in EDP action plans	Ministry reporting, new legislation, new regulation

¹¹ All indicators are drawn from the Government's own Vision 2025 National Development Strategy.

