Country and Sector Background

1. Jordan’s water resources are very limited - among the most scarce resource of any country in the world. Due to high population growth particularly in urban areas, and limited water supply, shortages now extended throughout most of the year. Distribution systems suffer from serious losses as a result of poor design, the type and age of materials used accompanied by a corrosive environment, excessive pressures, inadequate maintenance and delayed rehabilitation investments. Service efficiency is low due to high unaccounted for water. Consequently, cost of water supply was not covered by tariffs. These inefficiencies and inappropriate institutional arrangements in the water sector have been or are being addressed through: a proposed four-year management contract with an internationally experienced water utility operator for the Greater Amman service area; investments in restructuring and rehabilitation of the Greater Amman distribution network (in progress or committed); and a tariff increase and restructuring (Oct 1997). However, augmentation of supply is also needed to meet growth in demand and to alleviate unsustainable over-abstraction from highland aquifers.

Project Objective

2. The objective of the project is to provide an adequate and reliable supply of bulk water to meet the needs of municipal and industrial (M&I) consumers in Greater Amman, implemented and managed by a private sector concessionaire, with costs recovered from consumers, and within the context of a strengthened national water resources management capability. This objective is fully in line with the Government of Jordan’s (GOJ) strategy (April 1997) for water supply and wastewater services.

Project Description
3. The proposed project would consist of development of two well fields; transmission facilities including pump stations and approximately 320 km. of pipeline; reservoirs; monitoring and control equipment; all constructed and operated under a Build, Operate and Transfer (BOT) contract with a 20-year concession to supply bulk water to Amman.

Project Cost and Financing Arrangements

4. The project cost is currently estimated at $730 million. The selected sponsor would be responsible for proposing the financing plan, including contingency financing on a limited recourse basis. Financing is expected from: private equity investors - around 25%; and the balance from commercial bank debt under World Bank's guarantee, export credits, international financial institutions, and Government support through official loans/grants.

Bank's Partial Risk Guarantee

5. The Bank is considering offering a partial risk guarantee for a portion of the debt, protecting the lenders against debt service default due to Government breach of its sovereign contractual commitments underpinning the project. The Bank would not cover commercial risks or non-commercial risks which could be covered by the commercial markets.

Project Implementation

6. The project would be implemented by the private sponsor(s) selected by GOJ through a competitive process. The selected private sponsor will establish a locally incorporated special purpose project company which will receive a concession from Government to implement the project, delivering water to a terminal reservoir(s) in Amman where it will be purchased under a water purchase agreement with the Water Authority of Jordan. The Request for Prequalification is under preparation and is expected to be issued in the first quarter of 1999.

Project Sustainability

7. This project would be the first BOT project involving private sector investment in water supply in Jordan and would meet the essential water supply needs of Amman, the capital city. The project sponsors will be chosen on the basis of their experience in building, operating and managing such projects as well as their financial strength. The project follows the introduction of a private sector operator to manage and operate the water and wastewater services in Amman that will ensure sound financial management and improve cost recovery. The aquifer from which water will be abstracted is non-renewable and hence, by definition, the supply is not sustainable. However, reserves of water considerably exceed those needed for the project and the transmission pipe, which has a life expectancy at least double the 20-year concession period, could continue to convey water from the aquifer, or from a desalination plant if one were to be built at Aqaba.

Lessons Learned from Previous Bank Involvement in the Country/Sector

8. The institutional autonomy and financial viability of WAJ deteriorated during recent years. The institutional, regulatory and ownership structures of the public water and wastewater utility in Jordan have not been conducive
to sound financial performance. Another key finding is that sustained reductions in UFW have not been achieved. Direct involvement of the private sector would help facilitate timely achievement of these objectives. A further lesson is the need for continuity of support for policy reform and institutional development.

Poverty Category

9. The project is not part of the core poverty alleviation program. However, it will benefit most of the low income households added to the WAJ system by providing them with access to reliable piped water supplies. Further, it will support the Government's program to improve and protect the environment and increase private sector participation in the management of water and wastewater services.

Environmental Aspects

10. The project has been placed in environmental screening Category "A" consistent with Operational Directive 4.01 (see attached Annex).

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Note: This is information on an evolving project. The contents of this document are subject to change. The components described may not necessarily be included in the final project.
Annex

ENVIRONMENTAL ASPECTS

The operation is category ‘A’. It includes further development of a major non-renewable and transboundary groundwater resource and a 320 km. pipeline to convey water to Amman. The project would contribute to improving the environment, primarily through enabling reduction in the unsustainable over-abstraction of renewable aquifers presently used to supply most urban water needs. Land acquisition is limited and would not require resettlement. No known archaeological or historical sites would be affected by construction activities but an archeological survey of the route will be carried out and provisions included in contract documents to provide for discovery of antiquities. The aquifer is a transboundary resource but does not fall within the scope of the UN Convention for Non-navigational Uses of International Watercourses or the Bank’s OP7.50. Government has nevertheless notified the authorities in Saudi Arabia of their intention to develop the project.

Augmented wastewater treatment facilities and expansion of wastewater collection facilities is to be carried out under a parallel project. Contract documents for construction works will include agreed provisions for mitigation of short-term impacts due to dust, noise and traffic disruption. The feasibility studies included an Environmental Impact Assessment. Further Environmental Assessment will be carried out during project preparation to ensure compliance with the requirements of the Bank’s Operational Directive 4.01 for Environmental Assessment.