

Governance & Financing for the Mediterranean Water Sector: Water Policy Dialogue in Jordan

First Consultation Workshop on the Governance of PPPs in the Water Sector of Jordan

**23 October 2013, 12h30 – 18h00
Kempinski Hotel, Amman, Jordan**

Workshop Summary

Objectives

The workshop, organised by GWP-Med and OECD in Amman on 23 October 2013, gathered the key government authorities and operators in the water and wastewater sector in Jordan. It was an opportunity for the project team to present the details of the national component of the *Governance and Financing of the Water Sector* project, which has been labelled by the Union for the Mediterranean and officially launched in Barcelona in May 2013. The discussions were based on a diagnostic scoping note, prepared by the OECD Secretariat and shared with the participants ahead of the workshop, which outlined the key challenges and bottlenecks to private sector participation in Jordan's water sector. Participants had the opportunity to express their views on the challenges to private sector participation (PSP) in the water sector, as outlined in the scoping note, and to provide feedback and advice on the implementation of the country work in Jordan as part of the project. The Secretary-General of the Ministry of Water and Irrigation, Eng. Basem Telfah, opened the event, which was then chaired by the focal point in Jordan, Eng. Ali Subah, Assistant Secretary General, Ministry of Water and Irrigation.

The following entities were represented at the workshop:

- ✓ Ministry of Water and Irrigation
- ✓ Water Authority of Jordan (WAJ)
- ✓ Programme Management Unit (PMU)
- ✓ Ministry of Planning and International Co-operation
- ✓ Ministry of Environment
- ✓ Jordan Investment Board
- ✓ Jordan Valley Authority
- ✓ Ministry of Agriculture
- ✓ Miyahuna

The Agenda and full list of participants are included in Annexes 1 and 2 respectively.

Summary of Discussion

Following a brief presentation of the project, the workshop was organised along 3 main sessions:

1. The regulatory framework for water and wastewater services (WWS)
2. Budgetary affordability and financial sustainability of the water sector
3. Stakeholder engagement

The authorities expressed support for basing the country component of the project on these 3 pillars and offered comments and suggestions for improving the scoping note that provides the backbone for the analytical work to come.

Jordan has already had significant experience with PSP in the water sector. Modalities have included micro PSP (outsourcing of specific business tasks); management contracts; and BOT, involving both local and foreign companies and small-scale and large-scale projects. While the authorities deemed PSP to have been relatively successful, the point on better understanding the various modalities available in the hands of the government and depending on the circumstances and objectives for future PSP engagements, was also highlighted. Moreover, it was acknowledged that tools and processes that could support the decision on PSP modalities need strengthening.

Participants agreed that PSP would continue to be an important part in the development of Jordan's water sector, particularly: a) to meet the upfront costs of investment in the water sector, as government cannot contribute significantly to public investments and b) to transfer technical knowledge. However, the absence of a PPP law or a specific legal framework for PSP was considered by some participants as one of the major bottlenecks to additional PSP in the sector. Also, high political turnover has made it challenging to sustain political will to push reforms of the legal and policy framework for PSP.

The restructuring of PMU to become the dedicated regulatory authority for water services has been underway. However, the legislative basis that would define the scope of activity, precise roles and powers of the regulator is not yet in place. The debates highlighted that generally speaking, the regulatory framework for water services shows strengths but also some weaknesses. For instance, tariff setting remains a highly political decision. In a social context characterised by user affordability constraints, the critical need to establish a sustainable financial basis for water services has been difficult to satisfy. Participants also mentioned the importance of clarifying the allocation of regulatory functions and setting up the appropriate related enforcement mechanisms. There is room to harmonise reporting procedures and data collection for operators to facilitate benchmarking on performance and quality of service provision. The question was also raised on the restructuring of the water sector that may be needed in line with an improved regulatory set-up – in particular the continued need for consolidating water service provision around well capacitated operators.

While capacity within the administration is strong, especially at technical level, there was acknowledgement that legal and financial expertise for executing deals needs to be strengthened. For instance, the As Samra project required external professionals to evaluate the contract because the relevant skills were lacking within the government. The creation of a PPP Unit within the Ministry of Finance offers an opportunity to develop PSP capacities although the point was made that PPPs call for a multiplicity of tasks that cannot necessarily be undertaken by a PPP Unit alone. There needs to be reflection on how the capacities for undertaking PPPs will be handled institutionally.

The water sector in Jordan has been under significant strain as a result of the Syrian refugee crisis, particularly in the Northern governorates. The cost of the refugees to the nation's economy is estimated to be US\$ 400 million a year, equivalent to the water sector's annual budget. Participants mentioned that while PSP is not expected to solve the refugee crisis, any analysis of the water sector needs to consider the impact of the refugee crisis on water availability, financial resources and sector planning. This is compounded by rising electricity costs, which represent a significant share of water costs. As a consequence, the financial sustainability of the water sector is under threat and WAJ faces heavy debts and the operators, particularly Miyahuna and Yarmouk, are barely able to cover their operational costs. Moreover, a significant budget deficit has obliged the government to accept a 36-month Stand-by Agreement from the IMF accompanied by tax and expenditure reforms. There is therefore little domestic fiscal space in the short to medium term to meet capital and operating needs in the water sector. The rationale for resorting to private sources of finance appears to be strong but should not hide the fact that PPPs raise significant challenges in terms of managing contingent liabilities.

There have been significant efforts to raise awareness among citizens on Jordan's water scarcity and other issues, for instance through the school curriculum which was developed by the Ministry of

Education. There is evidence that awareness about water scarcity is high among water users. The key challenge, however, is encouraging behavioural change. It is also important to incite local users to consider the national impact of inconvenient projects located in their communities so that particular projects are not derailed by local opposition. Some platforms for engaging users, namely the Highlands Water Forum and the water user associations, have been quite effective in engaging end-users, although they rather focus on water resources management and include essentially farmers. There is scope for expanding these platforms to include all categories of water consumers, particularly domestic users.

Next Steps

- Based on the discussions in the workshop, comments received on the scoping note and the collection of additional documentation, a report including a diagnostic analysis and recommendations will be prepared by January 2014.
- A stakeholders' consultation workshop is planned in the first quarter of 2014, convening a larger range of stakeholders, where the report will be discussed.

ANNEX 1: AGENDA

Wednesday, 23 October 2013, 12h30 – 18h00

12h30 – 13h30	Light lunch
13h30 – 14h00	<p>Welcome Remarks</p> <ul style="list-style-type: none">• Ministry of Water and Irrigation <p>Introduction to the project</p> <ul style="list-style-type: none">• Overview of the activities and outputs for the project on <i>Governance and Financing for the Mediterranean Water Sector</i>• Overview of the timeline, methodology and outputs for the Jordan national dialogue
14h00 – 15h00	<p>The regulatory and institutional arrangements to manage private sector participation in water in the public interest</p> <p>This session aims to discuss the current regulatory framework for private sector participation in the WWS and the potential gaps, overlaps and opportunities for improving it. It will in particular focus on the establishment of a dedicated regulatory body for water, including the governance arrangements and operational modalities likely to ensure that it is effective, efficient, transparent and impartial.</p>
15h00 – 16h00	<p>Financial sustainability and budget affordability of private sector participation in water</p> <p>This session aims to discuss the current institutional setting and tools in place in Jordan to ensure that private sector participation in water is efficient, financially sustainable and affordable over time for the budget. It will in particular consider: the governance arrangements and tools to enhance value for money from PPPs; the levers to strengthen financial sustainability of WWS in the long run; and the budget tools to promote an appropriate management of contingent liabilities associated with PPPs and other fiscal risks.</p>
16h00 – 16h30	Coffee break
16h30-17h30	<p>Stakeholders' engagement for successful private sector participation</p> <p>This session aims to discuss the role that end-users and other stakeholders currently play in WWS in Jordan, as well as the mechanisms that can be used by the government and the operators to facilitate their participation. It will consider the ways users' concerns are identified and addressed; as well as the activities and tools that can be used to raise awareness among users on water and wastewater services, including tariff regulation, PPP projects, policy making and so on.</p>
17h30 – 18h00	Conclusions and Recap of Next Steps

ANNEX 2: LIST OF PARTICIPANTS

		<i>Name</i>	<i>Position</i>	<i>Affiliation/Organisation</i>	<i>Email</i>
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