

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

August, 2016
Report No.: AB7862

Operation Name	Second Programmatic Energy and Water Sector Reforms DPL
Region	MIDDLE EAST AND NORTH AFRICA
Country	Jordan
Sector	General energy sector (65%); General water, sanitation and flood protection sector (35%)
Operation ID	P160236
Lending Instrument	Development Policy Financing
Borrower(s)	Ministry of Finance
Implementing Agency	
Date PID Prepared	June 27, 2016
Estimated Date of Appraisal	September 22, 2016
Estimated Date of Board Approval	December 1, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation

I. Key development Issues and Rationale for Bank Involvement

1. The proposed operation of US\$ 250 million - the second in a programmatic series of two Development Policy Operations - aims to support fiscal and policy reform programs undertaken by the Government of Jordan (the Government) in the energy and water sectors. This operation will ensure the continued implementation of the energy and water sector reforms planned under the programmatic DPL to help Jordan achieve sustainability and financial viability over the medium-term. The operation is fully aligned with Jordan's 2025 Vision which calls for achieving self-reliance and financial stability by enhancing financial sustainability and productivity across various economic. The operation's policy program also supports key objectives of the Bank FY2017-2022 Country Partnership Framework (CPF), currently under preparation, for Jordan. The CPF focuses on improving the management of the water and energy sectors, which remain strategic to promote improved service delivery, economic growth, fiscal discipline and private sector development, contributing to the World Bank Group twin goals of reducing poverty and promoting shared prosperity.

2. Jordan's **economy slowed down in 2015, mainly due to the effects of security spillovers, requiring the Government to embark on a new program of fiscal consolidation and economic growth.** Jordan grappled with addressing a number of exogenous shocks after the global financial crisis, notably the interruption of gas supply from Egypt and the massive influx of Syrian refugees that resulted in an average annual growth rate of 2.7 percent. Despite a steady pick-up of economic growth since 2010 (supported by a Standby Arrangement from the IMF) to 3.1 percent in 2014 and better performance by NEPCO in 2015, some regional spillover risks manifested in 2015 dragging down growth to 2.4 percent in 2015, and further widening Jordan's output gap. As a result, public debt increased to 93.4 percent of GDP by the end of 2015. Consequently, the Government requested the use of an IMF's Extended Fund

Facility¹ (EFF) for the 2016-2019 period. Given the slow economic growth, the fiscal and external imbalances, it is critical for Jordan to continue implementing policy and structural reforms to sustain Government's efforts to address fiscal pressures caused by the energy and water sectors. Therefore, improving the financial viability of both sectors and capitalizing short- and medium-term efficiency gains would reduce the sectors' fiscal burden on Jordan's public resources while sustaining economic growth.

II. Proposed Objective(s)

3. The objective of the proposed operation is to improve the financial viability of and increase efficiency gains in the energy and water sectors.

III. Preliminary Description

4. The proposed operation is built on the two original pillars of the programmatic DPL focusing on: (i) improving the financial viability of the electricity and water sectors; and (ii) increasing efficiency gains in the energy and water sectors aimed to reduce the fiscal burden these sectors pose, while ensuring medium-to-long-term cost savings. The first pillar will, therefore, support the Government's plan to sustain cost recovery in the electricity sector through approving policies to enhance the electricity tariff regulations with robust pass through mechanisms to avoid the experience of fuel price shocks during 2011-2014. Policies under the first pillar will also support Government's efforts to restore NEPCO's creditworthiness through the implementation of a multi-year debt management plan to deal with the accumulated debt of JD 5.2 billion. Moreover, the first pillar will ensure sustained implementation of the Government program in the water sector to increase collection efficiencies, tariff increases and other revenue enhancing measures to improve the financial performance of the water sector. The second pillar will support policies to sustain Jordan's successful experience achieved since 2015 in fuel and power generation diversification through implementing a medium-term fuel supply strategy. This strategy aims at maintaining a targeted share of gas supply in power generation and instituting new regulations for increasing transparency in renewable energy development as well as strengthening NEPCO's institutional capacity for integrating into the power grid the significant share of renewable energy under development. The operation's second pillar will also help optimize the use of water resources in an extreme water scarce environment, while scaling up energy efficiency in the water sector as an important measure to reduce the cost of water in country.

5. The Government has made substantial progress in implementing the DPL supported reform program. Of the proposed 11 program triggers, currently eight are already met, are:

- ***Improving the financial viability of the electricity and water sectors***
 - The Energy and Minerals Regulatory Commission (EMRC) approves new tariff regulations to sustain cost recovery while taking into consideration consumer's affordability
 - The Cabinet of Ministers approves and implements a multi-year Debt Management Plan for NEPCO

¹ This EFF follows the successful completion in August 2015 of the International Monetary Fund's (IMF's) Stand-by-Arrangement (SBA) which supported a fiscal consolidation program that helped stabilizing and improving confidence in Jordan's macroeconomic framework during 2012-2015.

- The Minister of Water and Irrigation approves the measures to increase sector revenues to enhance cost recovery² in accordance with the “Structural Benchmark - Action Plan to Reduce Water Sector Losses” dated August 2013.
- ***Increasing efficiency gains in the energy and water sectors***
 - NEPCO develops and implements fuel supply strategy to scale up share of gas supply for power generation
 - The Ministry of Energy and Mineral Resources issues required regulations for implementation of Direct Proposal-by-laws and establishes a Public Data Room for Renewable Energy Development to improve transparency
 - NEPCO implements in its Control and Dispatch Center operating procedures for integrating renewable power resources into the transmission grid according to the Control and Dispatch Center Operations Manual
 - At least two of JREEF’s Financing Windows are operating with Window Managers in place, and JREEF annual reports are issued
 - A multi-year Network Loss Reduction Program agreed upon between EMRC, and the distribution companies are finalized with yearly loss reduction targets and is under implementation
 - The Ministry of Water and Irrigation has a dedicated budget line provision sufficient to implement its planned energy efficiency activities as laid out in the energy efficiency and renewable energy policy for the water sector.
 - The Minister of Water and Irrigation approves a Water Substitution Policy
 - The Ministry of Water and Irrigation has a dedicated budget line provision sufficient to implement its planned actions to optimize its water resources as laid out in the surface water utilization and water substitution policies for the water sector

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

6. While the latest official figures show that 14.4 percent of the Jordanian population lives in poverty, the bulk of the bottom 40 percent is exposed to the risk of transient and seasonal poverty (with about 33 percent of the population in Jordan experiencing poverty during at least one quarter of the year). The proposed policies may have an adverse impact on the poor and vulnerable. The actions under Pillar 1 will increase the tariffs for energy and water services, which will raise the cost of the service for consumers. The efficiency gains under Pillar 2 are likely to have a positive effect as they result in cost savings, and hence reduce the size of any required tariff increases. Also, tariff structures in the two sectors include the use of cross-subsidies that minimizes the impact on consumers which use less energy and water. During DPL preparation, a PSIA will be undertaken to assess the potential adverse impacts of the

² Operation and Maintenance Cost recovery in this case means operational and maintenance cost recovery as measured by MoWI covering WAJ and Water Companies.

proposed reforms and, where necessary, potential mitigation measures for the poor and vulnerable. The Government was able to mitigate the effect of the 2012 elimination of fuel subsidies by introducing the Fuel Compensation Cash Transfer Program that provided cash transfers to households during a period of high oil prices. The Government could use a similar compensation mechanism to mitigate adverse impacts of energy and water tariff adjustments stemming from the policy actions to be taken under the second DPL. Finally, the Government is also putting in place a National Unified Registry which, when fully implemented, will improve the efficiency of delivering cash transfers to mitigate any impact of future electricity and water tariff reforms, among other objectives.

Environmental Impacts

7. The implementation of the policy actions supported by the proposed DPL is not likely to have a significant impact on the environment, forests, and natural resources. Many of the prior actions will benefit the environment. The tariff reform process supported under Pillar I is likely to help curb the demand for water and energy resulting in less environmental degradation, including a reduction in the overexploitation rates of ground water. The efficiency gains program under Pillar II promoting energy efficiency, the growth of renewable energy, and more extensive use of gas in power generation (as opposed to heavy fuels and diesel) will reduce carbon emissions. The optimization of surface water use may also result in a more sustainable use of scarce water resources, and adoption of the water substitution and re-use policy will increase the use of treated wastewater. In parallel with this policy, current treated wastewater specifications and standards are currently being amended and are expected to match WHO provisions for environmental and health safety standards of reuse in the areas where there are current gaps.

8. In Jordan, environmental policies and regulation are in place. Project development should comply with the country’s environmental and social impact assessment requirements. Over the last fifteen years, the Government has made significant strides in mainstreaming environmental sustainability in projects, starting first with the environmental protection Law no.1 of 2003 and then the Environmental Impact Assessment (EIA) regulations of 2005. The EIA Regulations No. 37 approved in 2005 clearly defined the process and requirements for the EIAs and created screening, review and oversight structures for implementation; under the overall supervision of the EIA Directorate in the Ministry of Environment.

V. Tentative financing

Source:	(\$m.)
Borrower	0.00
International Bank for Reconstruction and Development	250.00
Borrower/Recipient	
Others	
Total	250.00

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