

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 25 September 2024¹

JORDAN

MR3: West Irbid Wastewater Network Project

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

BIAP	Business Integrity Action Plan
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
EU	European Union
FY	Financial Year
GCFF	Global Concessional Finance Facility
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Green House Gas
GoJ	Government of Jordan
IFI	International Financial Institution
MADAD	EU Regional Trust Fund in response to the Syrian Crisis
MR3	Municipal Resilience Refugee Response Framework
MWI	Ministry of Water and Irrigation
MOPIC	Ministry of Planning and International Cooperation
PP&R	EBRD's Procurement Policies and Rules
SSF	Shareholders Special Fund
TC	Technical Co-operation
TI	Transition Impact
WAJ	Water Authority of Jordan
WWTP	Wastewater Treatment Plant
YMC	Yarmouk Water Company

PRESIDENT’S RECOMMENDATION

The attached report concerns a request for approval to increase the Bank’s EUR 25 million sovereign loan MR3: West Irbid Wastewater Network Project in favour of the Hashemite Kingdom of Jordan (the “**GoJ**”, the “**Borrower**”) and the Water Authority of Jordan (“**WAJ**”, the “**Beneficiary**”), by an additional amount of up to USD 30 million (EUR 27.4 million).

The original operation, which was approved by the Bank via Delegated Authority on 31 October 2017 and signed on 20 December 2017, consists of an EBRD sovereign loan of EUR 25 million to the GoJ to finance the provision of a wastewater network in 15 towns in West Irbid (the “**Project**”). The Project is co-financed by investment grants from the EU MADAD fund (EUR 19.6 million), the Shareholder Special Fund (EUR 5.9 million) and the Global Concessional Financing Facility (EUR 2.5 million).

The proposed loan increase will close a financing gap that has arisen as a result of global price increases, currency depreciation and population growth which has increased the proposed coverage area of the Project within the boundaries of the same 15 cities.

The operation complements the West Irbid Wastewater Treatment Plant project which was approved by the Board on 6 March 2024. Both projects collectively aim to establish an improved and sustainable wastewater system in the area of West Irbid, providing wastewater services to surrounding towns for the first time serving both the local community and refugees settled in the region.

It is proposed that the loan increase be met using the remaining headroom under the Municipal Resilience Refugee Response Framework (“MR3”), which was approved by the Board in 2016. Whilst the Framework’s approvals availability period ended in December 2021, its implementation period ends in December 2025 and as such Board approval is sought to use the Framework, noting that the funding is to be provided to ensure that the original project objectives of an already existing MR3 project are met on the same terms and conditions as the original loan.

The proposed loan increase is crucial to ensure the successful implementation of the Project and its related transition, *Resilient and Well-Governed*. The Project is fully consistent with the Green Economy Transition (“GET”) approach and will count 100 per cent towards the Bank’s GET Annual Business Investment.

I am satisfied that the operation is consistent with the Country Strategy for Jordan, MEI Sector Strategy, the Green Economy Transition Approach 2021-2025 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed change substantially on the terms of the attached report.

Odile Renaud-Basso

BOARD DECISION SHEET

Jordan – MR3: West Irbid Wastewater Network Project – DTM 48496 Framework: Regional – Municipal Resilience Refugee Response – DTM 48536	
Transaction / Board Decision	<p>Board approval² is sought for an increase of up to USD 30 million (EUR 27.4 million) of the EBRD sovereign loan under the existing MR3: West Irbid Wastewater Network Project signed on 20 December 2017 (the “Project”). The loan increase is needed to close a financing gap that has arisen due to global price increases, the depreciation of the EUR against the USD, and the population growth which increased the coverage area of the Project. The same terms and conditions as the existing loan will be applied to the loan increase.</p> <p>Board approval is also sought to allow this loan increase to utilise remaining headroom available under the Municipal Resilience Refugee Response Framework (“MR3 Framework”), signed in 2016. The MR3 Framework’s availability period for approvals ended on 31 December 2021, while its implementation period ends on 31 December 2025. The full headroom has not been utilised and this financing request relates to increased lending to the Project approved under the MR3 Framework in 2017, on the same terms and conditions, and it does not involve a new component.</p>
Client	<p>The Borrower is the Hashemite Kingdom of Jordan (“Borrower” or “GoJ”), whilst the Water Authority of Jordan (“WAJ”), a state-owned entity under the jurisdiction of the Ministry of Water (“MWI”), is the ultimate beneficiary of the financing.</p>
Main Elements of the Proposal	<p>There will be no changes to the Transition Impact as a result of the loan increase. The use of proceeds remains in line with the original approved operation and the proposed transaction will facilitate the successful implementation of the Project. The current TI rating stands at 60 in line with the MR3 Framework TI.</p> <p><i>Transition impact:</i> The primary transition impact of the Project is resilience of municipal infrastructure services by financing critical investments in host communities accompanied by target sector reform elements focusing on improving funding sustainability post investment, improving accountability through formalised performance indicators or service contracts and increasing private sector participation where feasible. The secondary transition impact is well-governed as the MR3 Framework supports enhancement of governance through introduction of higher standards of services quality as well as its monitoring.</p> <p><i>Additionality:</i> (i) Long-term loans are not available from commercial banks and (ii) EBRD provides quality and efficiency assurance by applying EBRD PP&R and ESAP, which will allow for best practice project implementation. <i>Sound banking:</i> the sovereign is the Borrower.</p>
Key Risks	<p><i>Credit risk:</i> Despite the impact of the ongoing challenging global situation on Jordan’s economy, sovereign capacity currently remains satisfactory (B+/stable by S&P and B1/stable by Moody’s). [REDACTED]</p>
Strategic Fit Summary	<p>The Project is in line with the MEI sector strategy of investing in essential municipal infrastructure and scaling up high GET-impact investments in water and wastewater as well as with the Country Strategy for Jordan, Green Economy Transition , and with the core themes of the EBRD 2021-25 Strategic Capital Framework in relation to the development of the efficient and sustainable municipal infrastructure.</p>

² The decision is requested in accordance with Material and Non-material Change (Projects), Approval and Reporting Procedures.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan increase of up to USD 30 million (EUR 27.4 million) to the Hashemite Kingdom of Jordan.</p> <p>The existing EBRD transaction signed in December 2017 involves EUR 25 million loan to finance the construction of a wastewater network in 15 towns in West Irbid, including the necessary pumping infrastructure and the connections to a wastewater treatment plant. The rapid population increase, due to an influx of Syrian refugees, has placed unprecedented strain on the wastewater systems in the area.</p> <p>The original loan was co-financed by a combination of investment grants to ensure that the operation will mitigate potential affordability concerns. The grants are provided by: the European Union Regional Trust Fund in response to the Syrian Crisis (“MADAD”), EUR 19.6 million; the Community Resilience sub-account of the Shareholder Special Fund (“SSF”), EUR 5.9 million; and the Global Concessional Finance Facility (“GCFF”), EUR 2.5 million. There are no new investment grants associated with the loan increase.</p>	
Existing Exposure	<p>The Bank has existing sovereign exposure to Jordan in the amount of [REDACTED] EUR 421 million in portfolio. It consists of six wastewater infrastructure projects with WAJ, one sovereign-guaranteed solid waste project with Greater Amman Municipality (“GAM”), and two sovereign-guaranteed energy projects with National Electric Power Company (“NEPCO”).</p>	
Maturity / Repayment	[REDACTED]	
Use of Proceeds	<p>The proceeds of the new loan will be used to finance increased costs of the original project i.e. the construction of the wastewater network and associated pumping infrastructure within 15 towns in West Irbid, allowing to close the financing gap that has arisen due to global price increases, the depreciation of the EUR against the USD, and the population growth which increased the coverage area of the Project within the boundaries of the same cities. The Project complements the West Irbid Wastewater Treatment Plant project which was approved by the Board on 6 March 2024. Both projects collectively aim to establish an improved and sustainable wastewater system in the area of West Irbid. Disbursements will be in line with the Bank’s Disbursement Handbook for Public Sector and made against contracts procured in line with the EBRD PP&R.</p>	
Investment Plan 3	[REDACTED]	
Financing Plan	[REDACTED]	
Key Parties Involved	<p>Borrower: Hashemite Kingdom of Jordan, represented by the Ministry of Planning and International Cooperation (“MOPIC”).</p> <p>Beneficiary: WAJ</p>	
Key Covenants	[REDACTED]	
Security / Guarantees	Sovereign loan	

³ Assuming an exchange rate as of 30 August 2024 (EUR/USD 1.10)

Other material agreements	An amendment to the Loan Agreement signed with the GoJ in December 2017 (represented by MOPIC), to extend the financing by up to USD 30 million and the related amendment to the Project Agreement.
Associated Donor Funded TC and co-investment grants/concessional finance	<p>There will be no new TCs associated with the proposed loan increase. All the below TCs have been approved with the original loan and have either been completed or are under implementation.</p> <p>Pre-signing TC 1: Feasibility Study including Environmental and Social Due Diligence. The total budget for this assignment, was EUR 320,000 with funding provided by the EBRD Shareholder Special Fund and EU SEMED Project Preparation fund (completed). TC 2: Design Support to assist WAJ to prepare the detailed designs and tender documents. This TC was combined with TC3 with a total budget of EUR 2,800,000 with funding provided by the SSF. The design elements of this TC are complete.</p> <p>Post-signing TC 3: Supervision Engineer and Implementation, Environmental, Social, Health and Safety Support to assist WAJ in project supervision, health and safety and ESAP implementation. This TC was combined with TC2 with a total budget of EUR 2,800,000 with funding provided by the SSF (ongoing). TC 4: Stakeholder Participation and Outreach Programme, including responsible water use and gender components targeting the local and Syrian population. This TC has a total budget of USD 400,000 and is funded by SSF (ongoing). TC 5: Stakeholder Participation Management, focussed on supporting the objectives of the community engagement plan, providing oversight of community awareness and engagement sessions to ensure inclusive approach for the targeted communities, and enable channels for feedback through the design and the implementation throughout the project period. The total budget for this assignment is EUR 75,000 with funding provided by the SSF (ongoing).</p> <p><u>Reimbursement/Cost sharing:</u> The above assignments are non-reimbursable transactional TCs, which are required to evaluate the investment and assist WAJ in Project implementation. MWI will be responsible for paying all VAT and other indirect taxes that are applied to client-contracted TC assignments as a parallel cost sharing contribution to the project (VAT is levied at 16 per cent in Jordan). Non-TC There will be no new capex grants associated with the proposed loan increase. The Project is co-financed by the following existing capex grants which are signed and effective: - USD 2.5 million grant from the GCFF; - EUR 19.6 million grant from the EU MADAD fund; - EUR 5.9 million from the Community Resilience Sub Account of the SSF.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The provision of new wastewater infrastructure is a key priority for the GoJ as one of the poorest countries worldwide in terms of water resources. Available renewable freshwater stands at 61 m³/capita/year (in 2021), far below the 500-1000 m³/capita/year range deemed “chronically water scarce” where the lack of water begins to hamper economic development, human health and well-being.

The increasing population and the climatic conditions of the country have combined to create severe water shortages, increasing the need to utilise all possible non-conventional sources, including the reuse of treated wastewater. The increase of the population in the northern municipalities, as well as the influx of 1.3 million Syrians living outside of refugee camps, has placed unprecedented stress on existing infrastructure assets and municipal services.

Wastewater reuse is a priority for the MWI, given the increasing wastewater flows, primarily due to the influx of Syrian refugees, and the scarcity of fresh water. There are currently 33 wastewater treatment plants in Jordan that discharge 137 million m³ of effluent each year, of which currently 91 per cent are discharged into wadis (rivers). The agricultural industry uses approximately 52 per cent of the water resources in Jordan, where ideally ground water would be reserved for drinking purposes, therefore there is a need to convert the wastewater discharge into usable water.

In sanitation, the key challenges are household access to sewer systems or other sanitation facilities and the resulting health risks. Wastewater collection and treatment services were provided to approximately 66 per cent of the population (2022), while the remaining population uses septic tanks and cesspits, primarily in rural and dispersed settlements.

Municipalities are burdened with the increasing cost of hosting such a large population of refugees and the available budget for municipal infrastructure improvements, other than for minimal emergency repairs, is limited. Despite the fact that tariff increases are politically and socially sensitive, especially given the high percentage of low-income population, the project is linked to progress under the Financial Sustainability Roadmap (“FSR”), a joint effort by the donors and international financial institutions (“IFIs”) community in Jordan led by the World Bank and USAID which aims to help the water sector to reduce losses and achieve cost recovery by 2030. This progress is covenanted in the Financing Agreements with requirements that there be an increase in water and wastewater tariffs of 4.6% per year from 2024 until 2029 (inclusive) and further increase in wastewater connections in the Project catchment area from 63% in 2023 to 68% in 2028. The Project will also increase the quantity and quality of infrastructure assets and municipal services. In order to allow the delivery of safe and reliable municipal services, crucial investments need to be financed from a blend of loan, investment grant and technical assistance to lower the overall financial burden on stressed budgets and address existing affordability constraints.

The Project involves increasing the access to wastewater services in 15 towns in West Irbid, where the existing infrastructure is insufficient to cope with the influx of refugees and where the quality and dependability of municipal services are vital for economic development, environmental sustainability and health and safety. The existing wastewater disposal system in Irbid consists of cesspits or septic tanks that generally serve each property and are usually located in the garden, backyard or under the house itself. Once filled, the cesspits are emptied by sewage tankers in a burdensome and often

hazardous process. The refugee influx has created an increased usage of septic tanks or pits, and there is a concern that many are inadequately constructed and regularly leak and overflow, increasing the risk of wastewater seepages or infiltration from septic tanks to underground water basins, as well as a clear risk to human health. The project involves the construction of first-time wastewater network services to approximately 132,000 inhabitants, of which 19 per cent are Syrian refugees, in 15 towns to the west of Irbid. The consequent population growth has placed an unprecedented strain on the existing wastewater infrastructure, particularly in the towns lying in the West of Irbid, which suffer from inefficient wastewater collection infrastructure. Given the refugee impact, the original project was approved under the Municipal Resilience Refugee Response Framework.

As such the Project remains a key priority for the GoJ, and the provision of the loan increase requested by the GoJ will ensure the successful completion of the project meeting both the original scope and objectives of the Project.

The Project is in line with the MEI sector strategy of investing in essential municipal infrastructure and scaling up high GET impact investments in water and wastewater as well as the Country Strategy for Jordan, Green Economy Transition and core themes of the EBRD 2021-25 Strategic Capital Framework in relation with developing efficient and sustainable municipal infrastructure.

Recent Developments and Procurement

[REDACTED]. The procurement strategy for the project involves six packages, five for the wastewater networks, and one package for the pumping stations. [REDACTED]. The loan increase will close the funding gap, needed ahead of the award of the remaining packages, to ensure these packages have sufficient funding in time to be fully constructed.

[REDACTED]. Project completion (subject to the provision of the loan increase) is estimated at the first quarter of 2027.

Project cost estimates, as per standard practice, were originally based on a feasibility study completed in October 2017, hence Board approval was sought and obtained under delegated authority in December 2017 for a Project with a total financing package of EUR 53 million. However, [REDACTED], the original cost estimates required revision. [REDACTED].

Therefore, the GoJ has approached EBRD to request a loan increase of up to USD 30 million to address the funding gap and safeguard Project implementation.

The Project is also linked to another project West Irbid Wastewater Treatment Plant , that was approved by the Board on 6 March 2024. The pipelines will be connected to the new WWTP which will treat the wastewater conveyed by the networks.

1.2 TRANSITION IMPACT

This Project is approved under the framework of Municipal Resilience Refugee Response (MR3). The framework is designed to support the *resilience* of municipal infrastructure services by financing critical investments in host communities accompanied by targeted sector reform elements focusing on improving funding sustainably post investment, improving accountability through formalised performance indicators or service contracts and increasing private sector participation where feasible. Transition impact is primarily based on enhanced resilience through asset expansion or rehabilitation and specific cost reduction / revenue increase measures to contribute to the financial sustainability of

operations. Additionally, the framework supports the *well governed* quality through the introduction of higher standards of service quality monitoring.

The Project will focus on infrastructure expansion in the wastewater sector. The Project will enable the Jordanian authorities to provide approximately 132,000 inhabitants of West Irbid (including c. 19 per cent Syrian refugees) access to the wastewater network, contributing to the national target of 80 per cent coverage by 2030, and an increase to 68 per cent in Irbid governate by 2028. The Project will also improve the financial sustainability of the sector by setting targets for water and wastewater tariffs increases.

The Project will support Economic Inclusion, aiming to expand the economic opportunities for Syrian refugees and local Jordanians in the construction / maintenance sectors in compliance with international best practice standards on labour conditions. Systemic impact will stem from piloting and introducing these inclusive procurement practices in the Jordanian context over the course of the Project and in dialogue with relevant authorities and other stakeholders.

Impact of the requested Change on Transition Impact / Risk to Transition Impact

The requested change, which involves an increase in financing only, has a neutral effect on the Project's transition impact potential and transition risk. The Original Project has a TI score of 60 with Good Transition Potential and a High Transition Risk. The proposed loan increase requested herein is expected to take the PTI of the Framework and will continue to be monitored at the Framework level, as it is not expected to contribute to any further enhancements to the existing TI benchmarks already in place.

Primary quality: Resilient		
Obj. No.	FW Monitoring Indicator	Details
1.1	EUR 375 million of EBRD and EUR 460 million of total infrastructure investment implemented in asset expansion or rehabilitation / upgrading of existing local infrastructure in the water and wastewater, solid waste, district heating and cooling and urban transport sectors	<p>EUR 25 million loan was signed on 20 December 2017 for the upgrade and construction of a wastewater network.</p> <p>The loan increase of up to USD 30 million is expected to be signed in 2024.</p>
1.2	Sustainable funding ratio of utility service revenues (user charges and municipal or state subsidies) divided by cost of service (operating and maintenance costs) to exceed 1 (one) across all municipal infrastructure services financed by the Bank. Monitored in the year of commissioning and at least the following two years. (Timing: 2018-2021).	<p>Under the original project signed in December 2017, a covenanted increase by 15 per cent of the wastewater tariff by the end of 2020 was introduced to cover the majority of the operation and maintenance expenses of the Project and tariffs are expected to cover all O/M expenses by 2028. However, since December 2017, the first tariff increase was introduced in December 2023 by an aggregate amount of 4.6%. The Project will covenant an annual water and wastewater tariff increase of 4.6% from 2024 to 2029 inclusive.</p>

1.3	Aggregate additional infrastructure capacity is adequate for providing services in the refugee affected areas as established at each sub-project level	The Project is providing new network connections for approximately 132,000 people of which ca. 19 per cent Syrian refugees, expected to be completed in the first quarter of 2027.
1.4	Optimisation of the tariff/tipping fee/ ticket formulas (including proper indexation) to increase cost-recovery of the services.	Under the original project signed in December 2017, tariffs for wastewater connection fees would be increased for residential and non-residential customers by 15 per cent by end 2025. However, since December 2017, the first tariff increase was introduced in December 2023 by an aggregate amount of 4.6%. The Project will covenant a yearly water and wastewater tariff increase of 4.6% from 2024 to 2029 inclusive.
Secondary quality: Well governed		
2.1	Introduction of private sector to infrastructure asset operations or outsourcing of support services for one in five municipal infrastructure projects financed by the Bank.	At present there are no KPIs contractually between Yarmouk Water Company and WAJ, however, formalisation will be pursued following the comprehensive ongoing technical assistance being provided to the company by other donors to improve their operational capacity at full completion of the Project expected in 2027.

Delivery Risks

Tariff risk: there is a risk that WAJ does not impose the target tariff increase. The Financing Agreements for the Project will include a covenant on WAJ to implement said increases.

Implementation risk: there is a risk of construction delays and further cost overruns. However, to mitigate this risk, the Bank mobilised funding for experienced consultants to support WAJ with the project implementation and assessment of the latest cost estimates to ensure timely implementation and that the loan increase requested will mitigate the funding gap that the project is currently experiencing.

1.3 ADDITIONALITY

Long-term financing required for capital infrastructure investment is primarily provided by IFIs in Jordan as local authorities lack budget resources and access to commercial bank financing. Additionality is also represented by the Bank's in-depth industry knowledge and the ability to evaluate and assess the risks related to the sector and to ensure sound project preparation and implementation.

Additionality dimension	Verification and/or counterfactual result	timing
Terms	Long-term financing in the maturities required to match asset life is unavailable from commercial banks.	During preparation
EBRD attributes	The Project will benefit from Bank's knowledge and experience of the wastewater sector in Jordan, and the ability to assess the associated risks. Additionally,	During preparation and implementation

	the Project is envisaged to benefit from significant EBRD mobilised grant funds addressing affordability concerns and environmental externalities to support Jordan's resilience to the refugee crisis.	
Conditionalities	EBRD conditionalities go far beyond what commercial funding sources would require. The Project is envisaged to promote operational efficiency, procurement, environment and social safeguarding.	During implementation

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Borrowers creditworthiness	Low / Medium	Jordan maintains a stable sovereign rating of B+ (S&P), Ba3 (Moody's), and BB- (Fitch Ratings), reflecting effective macroeconomic management, fiscal reforms, and robust financing from sources such as the banking sector, public pension fund, and international support, despite recent regional instability and related challenges. The country benefits from strong external financial support, particularly from the US, and exhibits disciplined fiscal response compared to regional peers; evidenced by the USD 845.1 million grant agreement with USAID in December 2023. A new four-year IMF programme (USD 1.2 billion Extended Fund Facility) was board-approved in January 2024 and is expected to continue supporting macroeconomic stability and add more push to structural reforms. Growth is expected to remain stable at 2.5 per cent in 2024, with inflation reaching 2.0 per cent.
Implementation risk	Medium / Medium	Procurement is done under the Bank's Procurement Policies and Rules and WAJ is supported by experienced Project Implementation and Supervision consultants overseeing all construction activities during implementation including through the Bank-mobilised technical cooperation assignments. This project is part of a wider engagement with WAJ (six projects signed until May 2024) and the Bank has already observed improvements in WAJ's ability to use the Bank's PP&R. In addition, ECEPP will be used. The continuation of the Implementation and Supervision consultants in their role until project completion will support WAJ in reducing further delays and as a consequence minimize the risk of further cost overruns.

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Good financial and operational performance - On-time project implementation 	<ul style="list-style-type: none"> - Profitability and cash flows in line with projections - Efficient procurement process - On time delivery of the investments 	<ul style="list-style-type: none"> - During implementation - As per each underlying sub-project's

The Project was signed before 1 July 2019[REDACTED]. The Framework has been and will be monitored only at Framework level.

Ob j. No.	FW Monitoring Indicator	Details (FW)	Baselin e (FW)	Target (FW)	Due date (FW)
Primary quality: Resilient					
1.1	EUR 375 million of EBRD and EUR 460 million of total infrastructure investment implemented in asset expansion or rehabilitation / upgrading of existing local infrastructure in the water and wastewater, solid waste, district heating and cooling and urban transport sectors	<p>EUR 25 million loan was signed on 20th December 2017 for the upgrade and construction of a wastewater network.</p> <p>Loan increase of up to USD 30 million will be signed in 2024.</p>	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Sustainable funding ratio of utility service revenues (user charges and municipal or state subsidies) divided by cost of service (operating and maintenance costs) to exceed 1 (one) across all municipal infrastructure services financed by the Bank. Monitored in the year of commissioning and	A covenanted increase by 4.6 per cent per year of the water and wastewater tariff from 2024 to 2029 (inclusive) is expected to cover the majority of the operation and maintenance expenses of the Project and tariffs are expected to cover all O/M expenses at the water sector level by 2030.	[REDACTED]	[REDACTED]	[REDACTED]

	at least the following two years. (Timing: 2018-2021).				
1.3	Aggregate additional infrastructure capacity is adequate for providing services in the refugee affected areas as established at each sub-project level	The Project is providing new network connections for approximately 132,000 people of which ca. 19 per cent Syrian refugees, expected to be completed in the first quarter of 2027.	[REDA CTED]	[REDA CTED]	[REDA CTED]
1.4	Optimisation of the tariff/tipping fee/ ticket formulas (including proper indexation) to increase cost-recovery of the services.	Tariffs for water and wastewater [quantities] will be increased 4.6% per year from 2024 till 2029 (inclusive).	[REDA CTED]	[REDA CTED]	[REDA CTED]
Secondary quality: well – governed					
2.1	Introduction of private sector to infrastructure asset operations or outsourcing of support services for one in five municipal infrastructure projects financed by the Bank.	At present there are no KPIs contractually between Yarmouk Water Company and WAJ, however, formalisation will be pursued following the comprehensive ongoing technical assistance being provided to the company by other donors to improve their operational capacity at full completion of the Project expected in 2027.	[REDA CTED]	[REDA CTED]	[REDA CTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

The Borrower is the Hashemite Kingdom of Jordan. The amendment to the Loan Agreement will be signed by MOPIC on behalf of the Borrower. WAJ, the Bank's implementation counterpart for the purposes of the Project, will benefit from the proceeds of the loan.

3.2 BENEFICIARY

The Ministry of Water and Irrigation was established in 1992, in response to the need for an integrated approach to national water management. MWI is the official body responsible for the formulation of national water strategies and policies, the monitoring of the water sector, planning and management, and procurement of financial resources. Its role also includes the provision of centralised water-related data, standardisation and consolidation of data. MWI are responsible for all investments in the water sector and have therefore overseen the implementation of numerous donor and IFI funded projects.

The Water Authority of Jordan is a state-owned corporation under the jurisdiction of MWI. WAJ has direct responsibility for the planning, construction, operation and maintenance of water and wastewater services in Jordan and is therefore involved at the management and technical level for investments in the water sector.

4. MARKET CONTEXT

WAJ provides water directly and indirectly through its subsidiary utility companies: Myahuna Water Company operating mainly in the Governorate of Amman, Aqaba Water Company operating in the south of Jordan and Yarmouk Water Company providing services in the north of Jordan. There is no independent regulatory authority and tariffs are set by the Cabinet of Ministers upon proposals from MWI.

Tariff increases remain politically and socially sensitive, particularly with the high percentage of low-income population in Jordan. However, in September 2023 the Council of Ministers approved an average increase of 4.6 per cent in the water and sanitation tariffs for 2023-2029. This increase is effective from December 2023 and is implemented as a progressive rate tariff scheme. Commencing with September 2023, the billing mechanism and frequency of the water and sanitation bills changed from quarterly to monthly billing.

There is a strong cooperation between the donor agencies/IFIs and the EBRD in relation to supporting the water/wastewater in Jordan and tackling the long standing issues, including water scarcity, non-revenue water, and policy reform. Historically, WAJ's investment programmes have been financed through a combination of mainly concessional loans, domestic bonds and grants. The major external providers of grants and loans for Jordan's water and wastewater sector are Kreditanstalt für Wiederaufbau (KfW), European Investment Bank (EIB), Agence Française de Développement (AFD), United States Agency for International Development (USAID), the Kuwait Fund for Arab Economic Development, the Saudi Fund for Development, the Abu Dhabi Fund, and the Arab Fund for Economic and Social Development. Other donors and financial institutions active in the sector include Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the United Nations (UN), the World Bank Group (WBG), and the Islamic Development Bank (IsDB). In 2018, KfW and AFD co-financed a policy support loan to the sector, which was provided on the condition that WAJ's debt was consolidated at the Ministry of Finance.

EBRD and a number of other donors have ongoing programmes with WAJ to support their capacity to respond to the Syrian refugee crisis, manage investments and involve the private sector where possible. More specifically, EBRD has mobilised a number of technical assistance initiatives to assist WAJ to build their capacity to manage private sector participation in the water sector. EBRD is working closely with WAJ and other stakeholders to ensure the complementarity of initiatives that support WAJ and the water sector's resilience.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 FRAMEWORK EXPIRY

The initial debt financing for the Project was made available under the MR3 Framework . The MR3 Framework’s signing period ended on 31 December 2021; its implementation period ends on 31 December 2025. The loan increase is necessary to close the funding gap due to higher than expected project costs. Board approval is sought to use the MR3 Frameworks’ remaining headroom to sign this loan increase.

6.2 ENVIRONMENT

Categorised B (ESP, 2014). Project’s categorisation and the applicable E&S policy (2014) remain as categorised and assessed in 2017. The Project is expected to result in environmental and social (“E&S”) benefits through the provision of first time wastewater network connections in West Irbid. Although the construction of the Project may be associated with E&S impacts, independent E&S due diligence showed that these impacts are site specific, limited and can be readily addressed. This has been confirmed through monitoring of project implementation. An Environmental and Social Action Plan (“ESAP”) was agreed with WAJ to ensure that the Project is constructed and operated in line with the EBRD’s E&S requirements. ESAP progress is satisfactory.

A post-signing, project implementation support TC, which includes E&S, is progressing as expected with satisfactory implementation of the ESAP. This has included the development of an ESIA for local permitting and which included EBRD’s E&S requirements. The Project is now fully permitted, and construction works are in progress. A stakeholder participation and outreach programme TC is also in progress.

E&S due diligence was conducted by an independent consultant as part of a feasibility study and included a review of current wastewater practises, an assessment of potential Project E&S impacts, a gender assessment and a review of E&S provisions and management capacities within the WAJ and its subsidiary, YMC. The ESIA conducted further considered potential E&S impacts and defined mitigation and management measures. Project tender documents included the outcomes of such assessments to appropriately manage E&S risks and impacts associated with the Project. These measures are currently being implemented.

Current wastewater management practices include the use of cess pits and septic tanks. The Project is replacing such infrastructure with a sewage network including household connections. The feasibility study, and designs, sought to avoid and reduce E&S impacts through routing the main sewage lines away from developed areas and instead following existing wadis to avoid land acquisition issues and maximise the use of gravity over the need for pump stations. Land required for the Project is largely state land but WAJ developed a livelihood restoration plan to ensure that land is acquired in line with

the Bank's requirements and to avoid and reduce any potential adverse livelihood impacts. Land acquisition is primarily related to pump stations. While some biodiversity is present in the wadis the sewage lines have been routed to avoid impacts to biodiversity. Further, the sewage line corridors are being and will be reinstated. Pump stations are being established away from developed areas to avoid nuisance related impacts. Local sewage lines are being installed within the villages and have the potential to cause disruption and nuisance impacts. This activity is, however, of a temporary nature and managed with appropriate mitigation measures.

The ESAP requires the development of E&S management plans for the Project with associated procedures to apply during construction to contractors, including contractor oversight, and during operation. These plans are in place and are addressing impacts such as noise and vibration, dust control, site reinstatement, worker and community health and safety and emergency response. The Project will connect the villages to the new WWTP (BDS24-31) that will be developed in accordance with EU standards to accommodate future projected flows up to 2040. This replaces the original proposal of connecting to an existing WWTP.

The Project will remove the need for cesspits and septic tanks avoiding odour and health issues and potential soil and groundwater impacts. Moving to a sewage network system will further reduce greenhouse gases ("GHG"), through the elimination of the need for tankers and the elimination of cess pits. Further GHG reduction will also be achieved through a move from anaerobic breakdown to aerobic treatment of wastewater. The elimination of tankers and cesspits/septic tanks may result in livelihood impacts to those providing such services. Avoiding and reducing these impacts is included in the Project livelihood restoration plan.

The Project requires a substantial workforce during construction, which exceeds local worker availability. The Project has developed a labour and employment plan including procedures and commitments, and the necessary resources, focussing on such areas as equal opportunities, capacity building, working conditions and labour practices, worker accommodation and health and safety in line with the EBRD's requirements. A grievance mechanism has also been developed.

In order to meet the Bank's requirements for stakeholder engagement and information disclosure, the due diligence included the development of a Stakeholder Engagement Plan which is being implemented. A Non-Technical Summary of the Project was disclosed.

6.3 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on WAJ, MWI, senior management and other affiliated parties. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Project Implementation
ANNEX 2	EIRR Calculations
ANNEX 3	Green Assessment
ANNEX 4	Implementation Progress of Municipal Resilience Refugee Response Framework

ANNEX 1 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

Project risk assessment:

[REDACTED]

The Beneficiary has previous experience in the implementation of international donor-financed projects, and has relatively reasonable experience in implementing EBRD financed projects including East Zarqa wastewater project, Ain Ghazal Wastewater Conveyor, West Irbid Wastewater Network, and Al Ghabawi Septic Tank Facility Project. However, WAJ still needs to enhance their staff capacity and work on knowledge transfer from the projects' consultants. To facilitate the implementation process, WAJ is supported by EBRD's sector and procurement teams as well as an experienced procurement consultant who assists with tendering procedures. In line with FIDIC contract terms, a construction supervision engineer is also employed by WAJ. [REDACTED].

Project implementation arrangements:

The Project Implementation Unit ("PIU") at WAJ is responsible for overall project preparation and implementation, including procurement of works and services and monitoring of contracts performance and supervision. The PIU is staffed by experienced professional staff allocated for the day-to-day work and are supported by the consultants. The PIU is supported by a PIU Consultant and Supervision Engineer, alongside an Environmental & Social and Health & Safety Implementation Support consultant. The Bank will continue to closely monitor the work of the PIU and its consultants given the large number of projects under implementation.

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. Goods, works and services, financed from the Bank's loan and grants, are and will be procured using open tendering procedure in accordance with Section 3 of the Procurement Policies and Rules dated May 2022 (the "PP&R") for the Public Sector and will use the Bank's Standard Procurement Documents. Tenders for works and services to be launched in 2024 will be undertaken on an advance procurement basis. Loan and grant financed contracts are subject to prior review by the Bank. [REDACTED].

ANNEX 2 – EIRR CALCULATIONS

[REDACTED].

ANNEX 3 – GREEN ASSESSMENTS

Introduction

The Project was originally approved in 2017 when there was no Green Assessment. This assessment was newly conducted for the loan increase, on top of the existing loan amount of EUR 25 million in order to close a financing gap due to a higher than anticipated bid price on the back of the global increase in prices. The Project does not lead to any material change in project scope and reported GET impact under the initial facility remains the same. The Project is assessed as **aligned** with the goals of the Paris Agreement. The Project's **GET** share is **100 per cent**.

GET attribution

GET benefits in the original submission are due to climate mitigation benefits associated with a significant reduction in GHG attributed to a reduction in methane emissions associated with treatment of the wastewater and a reduction in vehicle emissions. The Project is also expected to contribute to climate resilience by increasing the wastewater collected, capture and treated as opposed to being disposed in cesspits and leaching into a none productive shallow aquitard. Given that all GET outcomes have been reported in the original submission, the Project does not claim any additional GET outcome. The Project's GET share is 100 per cent.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

The Project is considered aligned with the Paris Agreement's mitigation goals according to Joint MDB Assessment Framework for Paris Alignment for direct investment operations the project is included in the MDB "aligned" list (for "Water Supply and Wastewater"). The Project is assessed to be **aligned** with the mitigation goals of Paris Agreement (BB1).

Alignment with the adaptation goals of Paris Agreement

BB2 screening of the project has identified 'extreme heat events', 'increased water stress' and 'drought' as potentially material climate risks for the Project location. These risks have been reviewed by CSD and ESD and the E&S due diligence conducted previously was consulted. This concluded the following:

- The pipelines for network extension will be fully buried reducing exposure to high temperatures. Pumping stations will be placed above ground and designed for high heat stress reducing the risk of potential 'extreme heat events'.
- Water scarcity in Jordan is exacerbated by climate change leading to lower precipitation levels and temperature increases which increase surface water evaporation and subsequently over abstraction of water and the Government is investing in projects to increase water supply (e.g. desalination plants). The Project alleviates water stress as it will redirect wastewater which is currently disposed to cess pits to a WWTP and then to an irrigation reservoir. Thus, it will promote water re-use, in particular for agricultural purposes as well as adding to the flow of the surface water such as in river Jordan. Potential climate hazards of 'increased water stress' and 'drought' are unlikely to affect the network as the Project is designed to cover existing and future volumes of water.

The Project is, therefore, assessed to be **aligned** with the adaptation goals of Paris Agreement (BB2). The project is unlikely to undermine climate resilience of the system in which it operates. Sovereign Transactions are not currently in scope for Physical Climate Risk assessment.

Green Finance Project Monitoring Plan

The green finance project monitoring plan is aligned with the TI benchmarks with the addition of GHG reductions achieved by the project. The Bank will monitor indicators including number of people connected to the WW network, wastewater collected and directed for treatment (in m3) and GHG reductions via the ESAP.

**ANNEX 4 - IMPLEMENTATION PROGRESS OF MUNICIPAL
RESILIENCE REFUGEE RESPONSE FRAMEWORK (“MR3 Framework”)**

[REDACTED]