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EXECUTIVE BOARD MEETING

EBS/21/56
Correction 2

July 21, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Jordan—Second Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Augmentation of Access, and Modification of Performance Criteria**

Board Action: The attached corrections to EBS/21/56 (6/17/21) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 15 and 64

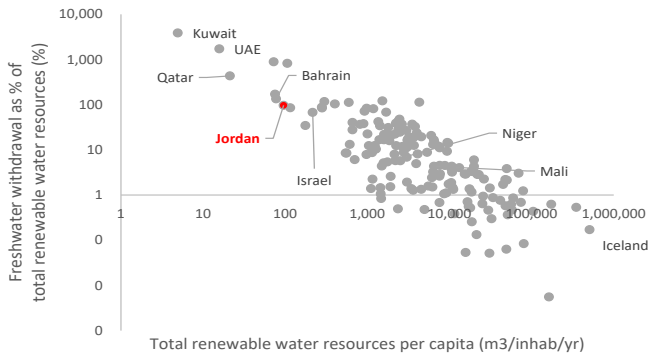
Questions:

Mr. Abbas, MCD (ext. 34547)
Ms. Bouza, MCD (ext. 34178)
Ms. Guscina, MCD (ext. 34836)

technical support, including from the Fund ~~and World Bank~~—to refine subsidy eligibility criteria and improve the calibration of the discount system with a view to further enhancing the progressivity of the system, both at the onset of implementation and in the outer years. Rollout of the reform—for both households and businesses—is expected to start no later than end-March 2022 (*proposed SB*). Securing donor assistance to support refugees potentially affected by the reform and allocating adequate resources to process subsidy applications and appeals would be important for ensuring full protection of vulnerable groups post-implementation.

21. The COVID-19 shock has exacerbated challenges in the water sector, underscoring the importance of stock-taking and reforms (MEFP ¶28).

- Losses in the water sector have mounted in the wake of the pandemic: in 2020, WAJ and water distribution companies' budget deficits rose to 1 and 0.4 percent of GDP, respectively, on account of more frequent deliveries, while bill collection rates declined. Since the first review, WAJ repaid part of its arrears to PPPs with donor assistance, but continued to accumulate new arrears (JD 23 million over 2020); distribution companies also incurred new electricity arrears. Thus, the end-December IT on the stock of water sector arrears was not met.



Source: Aquastat (FAO)

- Higher demand during lockdowns, and an unusually dry 2021, have further fueled concerns about water scarcity, which had already aggravated in recent years due to faster-than-expected population growth (notably, due to the large influx of refugees) and climate change.[10] The authorities are considering large-scale projects to secure a sustainable water supply; and are committed to routing these through the new PPP framework, to ensure best value for money.[11]

The authorities are preparing a Financial Sustainability Roadmap for the water sector, to be completed by end-September 2021, with assistance from development partners. The roadmap will provide a comprehensive analysis of the challenges the sector faces and propose concrete reforms to durably improve the sector's financial position.

[10] Jordan has one of the lowest levels of per capita renewable water resources in the world (at 96 m^3 per year), well below the internationally recognized water scarcity level (500 m^3 per year), and currently retrieves 96 percent of its renewable water sources, one of the highest rates in the world. Water losses and water theft in Jordan are also well above the average for the region. Lower rainfall and higher temperatures in recent years have aggravated water scarcity challenges.

[11] While water sector deficits of 1–1.5 percent of GDP in the coming years are already factored into the baseline of the IMF's public debt sustainability analysis, the costs of new projects aimed at boosting water supply are not factored in.

exclusion of better-off households from subsidies from the first year of the reform: e.g., households with multiple meters or large self-generating capacity, ex-pats residing abroad, and non-Jordanian households with capacity to pay. All Jordanian households will need to apply for the subsidized regime on an online platform or in-person. The data collected as part of the application process will help inform subsidy eligibility criteria and the calibration of the nominal discounts to further enhance the progressivity of the system, both at the onset of implementation and in the outer years. The authorities will leverage the support of ~~IMF and World Bank~~ technical assistance, including from the Fund, in this effort.

5. **The reform to household tariffs will be progressive from the first year of implementation; progressivity will improve in later years as the reform is further refined.** The new streamlined consumption-based subsidized tariff regime, and the introduction of discounts for low consumption households, helps generate small gains for lower income households at the expense of higher income ones. Secondly, exclusion criteria will help make the reform more progressive, by removing subsidies from households in a progressive manner with some households allocated to a fully unsubsidized regime and others excluded from nominal discounts—in order to generate savings. This is expected to affect households predominantly in the upper quartile of the income distribution in the first year of the reform, reducing their subsidies by as much as 200 JD per year on average.

6. **An effective and credible appeals mechanism will be set up to minimize exclusion errors and protect the vulnerable.** The mechanism will help determine whether households were wrongly excluded from the subsidized scheme, and therefore, should regain eligibility. The appeals system will also facilitate assessing the accuracy of the various exclusion criteria during the first year of the reform, in order to support the refinement of these criteria in the second and third years. Exclusion errors identified via the appeals system may reduce the number of households allocated to the unsubsidized regime, and result in lower savings than expected; hence, the appeals system will be fully funded over the years of the reform plan through buffers incorporated in costing estimates to ensure adequate savings are generated from the household leg of the reform.