

Interim evaluation – Jordan

>>> JOINT AFD - KfW EVALUATION

Sector: Water sector policy and administrative management / Water supply and sanitation - large systems (CRS code 14010 / 14020)

Project: Water Sector Policy Loans (WSPL),
AFD CJO 1039 and CJO 1069, FC BMZ-No. 2017 67 805

Partner agency: Ministry of Finance, Ministry of Planning and International Cooperation, Ministry of Water and Irrigation, Water Authority of Jordan



Interim evaluation report: 2019

in EUR million	Planned	Disbursed
AFD CJO 1039	150,00	150,00
AFD CJO 1069	150,00	150,00
AFD TC	0,20	0,20
FC 2017 67 805	150,00	150,00
FC accompanying measures	4,00	0,29

Summary: The first WSPL, which was funded exclusively by AFD, aimed to support the Government of Jordan (GoJ) in introducing reforms in the water sector in order to provide better management to balance water supply and demand, to put the sector's financial situation on a sounder footing, and to boost the performance of distribution companies. Building on the outcomes of this first WSPL, the GoJ asked AFD and German Financial Cooperation (FC) for budget support that would support the planned reforms and investments in the water sector in order to improve both the technical and financial performance of the sector. This second WSPL is jointly supported by AFD and the German FC through KfW. Both WSPLs were comprised of financial support to Jordan's national budget, policy dialogue on the water sector, and accompanying technical assistance.

Objectives: The objectives as set out in the policy matrix of the first WSPL were to improve the Water Authority of Jordan's operational ration (cost and revenue situation), to enhance infrastructure investment for water and wastewater services (volume of investments), and to achieve medium-term management of the financial balance of the water sector (debt management). The objectives, as formulated in the policy matrix of the second WSPL, were to improve the financial management of the water sector, to improve operational efficiency and cost recovery, and to improve national policies for the sustainable use of water and increase the level of implementation of these policies.

Target group: Sector policy loans do not have a specific target group; rather, they have indirect benefits for the entire population.

Overall rating: Satisfactory

Rationale: The water sector is of high social and strategic importance. Ownership by the GoJ of reform and financial needs served as the basis for the sector policy loans. Triggers, i.e. reform steps to be achieved for disbursement, and outputs have generally been assessed positively, but their respective levels of ambition varied. Some policy advances, e.g. debt management reform, are attributable to the WSPL. Sustainable achievements depend partly on the continuation of the WSPL.

Highlights:

(1) Following the co-financing of the WSPL, AFD and KfW also collaborated on a joint evaluation, thus contributing to move the two development banks towards closer cooperation.

(2) Over the period concerned, Jordan's economic situation deteriorated, worsening the financing difficulties of a sector that already suffered from structural deficit.

Main Report - Rating according to DAC criteria

Overall rating: Satisfactory

Sub-ratings:

Relevance	Good
Effectiveness	Satisfactory
Efficiency	Satisfactory
Sustainability	Satisfactory

(Impact is not rated separately due to this evaluation being an interim evaluation and due to the nature of sector policy loans, which implies that impacts cannot easily be attributed to the inputs provided.)

Reason for and Objectives of the Evaluation

In 2018, AFD and KfW agreed on a joint interim evaluation that was to be conducted in the first quarter of 2019 so that the German government, AFD and the Jordanian government would be able to substantiate future cooperation concerning policy-based loans in the water sector based on these evaluation results.

The objective of the evaluation is twofold. First, specific lessons are expected to be drawn in order to feed into the design of the next Water Sector Policy Loans (WSPL), which should be launched in 2019. Furthermore, AFD and KfW are expecting to draw lessons from this evaluation (and others) regarding policy-based loans as a financing instrument to support sector policy, and in particular to determine whether policy-based lending is an appropriate instrument to provide a platform for discussing sector policy issues, and to what extent policy-based loans can trigger or support change in sectoral policies, institutions, and governance in partner countries.

The evaluation assesses to what extent the inputs provided by AFD and KfW under the terms of the policy-based loans (in terms of funds, policy dialogue and technical cooperation) have impacted policy design and/or implementation regarding Jordan's water sector policy and the supported public institutions. The evaluation thus examines the financial contribution of AFD and KfW, as well as all technical cooperation activities and type, scope, and methods of the policy dialogue .

During the evaluation, specific attention was given to the interventions of other development partners in the water sector through projects or budget support (including GIZ, USAID, JICA, the World Bank and the French Treasury) in particular with regard to harmonisation and potential synergies.

The evaluation covers the period from 2015 onwards. It reviews the various components of the program's contributions and their implementation status (loans, policy dialogue, and technical assistance). Technical assistance (TA) is still ongoing. The first and second WSPL are completed. The second disbursement of the second WSPL took place on 13 December 2018 for AFD and 14 February 2019 for KfW. The cooperation of both development partners with Jordan is expected to be pursued.

From 12–18 January 2019, a delegation of KfW Development Bank's independent Financial Cooperation Evaluation Department (FC E) and the Evaluation and Learning Unit (EVA) of AFD (Agence Française de Développement) visited Amman for the interim evaluation of the Water Sector Policy Loans financed by AFD (loan numbers CJO1039 and CJO1069) and KfW (BMZ-No. 2017 67 805), which were agreed upon in 2015 and 2017 respectively.

The delegation expresses its sincere gratitude for the warm welcome extended by the Jordanian authorities and strong cooperation throughout the stay.

Relevance

Jordan is one of the countries with the lowest water availability on earth and it is facing sharply increasing water demand due to its internal demographic growth and the influx of Syrian refugees. This situation requires optimal use of scarce resources through continuous technical and commercial improvement of water distribution networks, improved efficiency of its use in agriculture and industry, and improved collection and recycling of waste water, as well as the identification of new resources through the utilization of deep aquifers and the development of desalination, all of which are essential components in a sustainable and affordable response to water scarcity.

There is a need for reform and better policy implementation in the water sector. Areas for improvement include: (1) financial issues, as the sector is highly indebted and faces a high operational deficit: debt management solutions are needed, there is limited sustainability due to limited funds earmarked for operations and maintenance (O&M), and there is high dependency on energy tariffs; (2) technical topics, such as sludge disposal, water losses, groundwater depletion, and salinization; (3) institutional strengthening aiming at an improvement (i) of expertise in the Ministry of Water and Irrigation (MWI) and the Water Authority of Jordan (WAJ), (ii) of WAJ oversight capacity over the water companies and (iii) related to the capacity-building needs in water companies, especially in Yarmouk Water Company (YWC).

The general concept of sector policy loans (SPLs) closely matches these challenges facing the water sector: SPLs can address financial needs, reform needs, and the need for strengthened institutions. The main rationale for SPLs to Jordan's water sector is to support Jordan's water strategy while at the same time loan resources are transferred directly to the Jordanian Treasury. As a result, the SPL financial funds are not reserved explicitly for the water sector, but are managed in accordance with Jordanian budgetary procedures. Therefore, the SPL aid modality is based on a high ownership of the Jordanian partners for the sector reforms in question. Additionally, as it is a loan-based aid modality, it offers an incentive for a responsible and sustainable use of funds.

The intervention logic (IL) of the two SPLs is not spelled out very explicitly in the policy matrix or in the project documents. For this evaluation, an IL was reconstructed as part of the evaluation (see Figure 1). It identifies the logical steps or stages that have to be gone through to lead from the inputs provided by AFD and KfW via the two SPLs (loans, technical assistance, policy dialogue) to the impacts at sector level, namely water security and the sustainable use of water (thereby achieving internal consistency). According to this IL, the four specific objectives of the water SPLs are: (i) to improve financial management of the water sector; (ii) to enhance technical and commercial performance of the Water Authority of Jordan (WAJ) and water companies; (iii) to implement the investments planned in the water sector; and (iv) to improve national policies and strategies regarding the water sector. The three types of inputs (policy dialogue, TA, transfer of funds) were designed to contribute to these expected results.

The SPLs and their policy matrixes are well aligned with the priorities and needs of the water sector, addressing financial issues as well as technical reform issues. They are aligned with water sector strategy and action plans as the two SPLs are anchored in the 2013 and 2016 MWI action plans to reduce water sector losses, which serve as structural benchmarks for the program supported by the International Monetary Fund (IMF) Extended Fund Facility as well. The two SPL are also compatible with the strategies and priorities of both AFD and the German Financial Cooperation (FC) in Jordan; both development partners have a large share of their Jordan portfolio with many ongoing investments and/or Technical Assistance (TA) projects in the water sector.

SPLs are a relevant instrument in the Jordanian context as they address structural problems—mainly the debt burden (see effectiveness for more details) and financial management issues in the water sector—that cannot be tackled with investment projects. Moreover, SPL funds feed into the budget and contribute to the financing of current expenses, which is presently a crucial issue in Jordan.

SPLs constitute an instrument that is well understood at the top management level within MWI, the Water Authority of Jordan (WAJ), and the Jordan's Ministry of Finance (MoF). They are also (greatly) appreciated by most managing officers in the water sector who are involved in international cooperation, as they welcome the opportunity to work with donors on matters other than capital investment projects—for instance on energy and water tariffs, operational ratios, and maintenance etc.—even if SPLs are not linked with direct disbursements to the water sector. SPLs are viewed by Jordanian partners as an instrument that is based on mutual trust and a strong partnership between donors and Jordanian representatives of

the government in general and the water sector in particular. As the SPLs are unable to fund the water sector directly, Jordan's macroeconomic situation and current Jordanian cash-flow crisis could have led to some critical voices of water sector representatives with regard to the relevance of the SPL instrument. However, even in these circumstances, the water sector overall appreciates the instrument.

Concerning the Policy Matrix:

The Jordanian government's ownership of the reform and policy steps included in the policy matrix is strong in some areas and weaker in others giving a mixed picture on ownership: a strong ownership can be observed in all WSPL aspects that are in line with the "2016 action plan" (which was drafted by MWI and WAJ and serves as MWI's roadmap), whereas other themes in the current WSPL appear to be more donor-driven, as in the case of sludge disposal.

That said, the design of the SPL was not very inclusive: each policy matrix was drafted with a limited number of key people from MWI and/or WAJ, while water companies were only partly involved in the discussion regarding the policy matrix and have little knowledge of the SPL.

The number of triggers in the policy matrix is reasonable and makes it a manageable tool.

There are different kinds of triggers: some triggers are preparatory steps to more structural change (e.g. trigger 3 of the first SPL—the report on WAJ's debt management paved the way for the debt management reform implemented during the second SPL), some are direct output indicators (trigger no. 5 of the second SPL—tenders for construction measures concerning renewable energy/energy efficiency), some are induced output indicators (triggers no. 1 and no. 2 of the second SPL on the implementation of the financial management reform), and some are outcome indicators (trigger no. 4 of the second SPL on the cost recovery ratio).

Triggers related to the financial management of the sector address the sector's structural constraints, which cannot be tackled by investment projects. Trigger no. 1 of the second SPL reflects the decision to reform the financial management of the water sector and consists of the transfer of the management of all WAJ's debt to the MoF. It was also designed to guarantee much needed investment for long term water supply in a context of high national debt, by securing a minimum level of annual investment for WAJ (JOD 300 million). As WAJ was no longer allowed to take out commercial loans, trigger no. 2 of the second SPL was designed to secure monthly cash transfers from MoF to WAJ (and also included an improved budget for maintenance)¹.

The evaluation considers the decision to centralise the debt to be the right one. Despite decentralisation being on vogue in the donor community, there was no viable alternative to this centralisation. Decentralising the debt, e.g. to water companies, would not have been feasible due to the limited capacity of the water companies. Water being a scarce resource, centralising key decision power is efficient to prevent uncoordinated action within the sector. Keeping the borrowing capacity with WAJ - with or without a one-time cancellation of debt, is not considered beneficial because from a financial point of view, the pooling of debt at the national level is beneficial for Jordan.

The triggers do not reflect the full objectives of the intervention logic, especially at induced output and outcome levels. Furthermore, objectives are not monitored although they are part of the SPL matrix. In particular, the policy matrix does not allow for a monitoring of, and a dialogue on, the outcomes of the reform supported through the SPL (e.g. the financial reform).

At the other end of the spectrum, some triggers are not critical for change and were introduced in order to spark discussion. For instance, trigger no. 10 only requires monitoring of effluent quality and the implementation of a standard procedure in case of non-compliance: it does not reflect a critical point for the improvement of effluent quality and was simply designed to include this area of improvement in ongoing policy discussions.

¹ Trigger no. 2: "Budgetary transfer to WAJ includes the coverage of operational deficit, an improved level of maintenance and small size capital investment".

Concerning Technical Assistance:

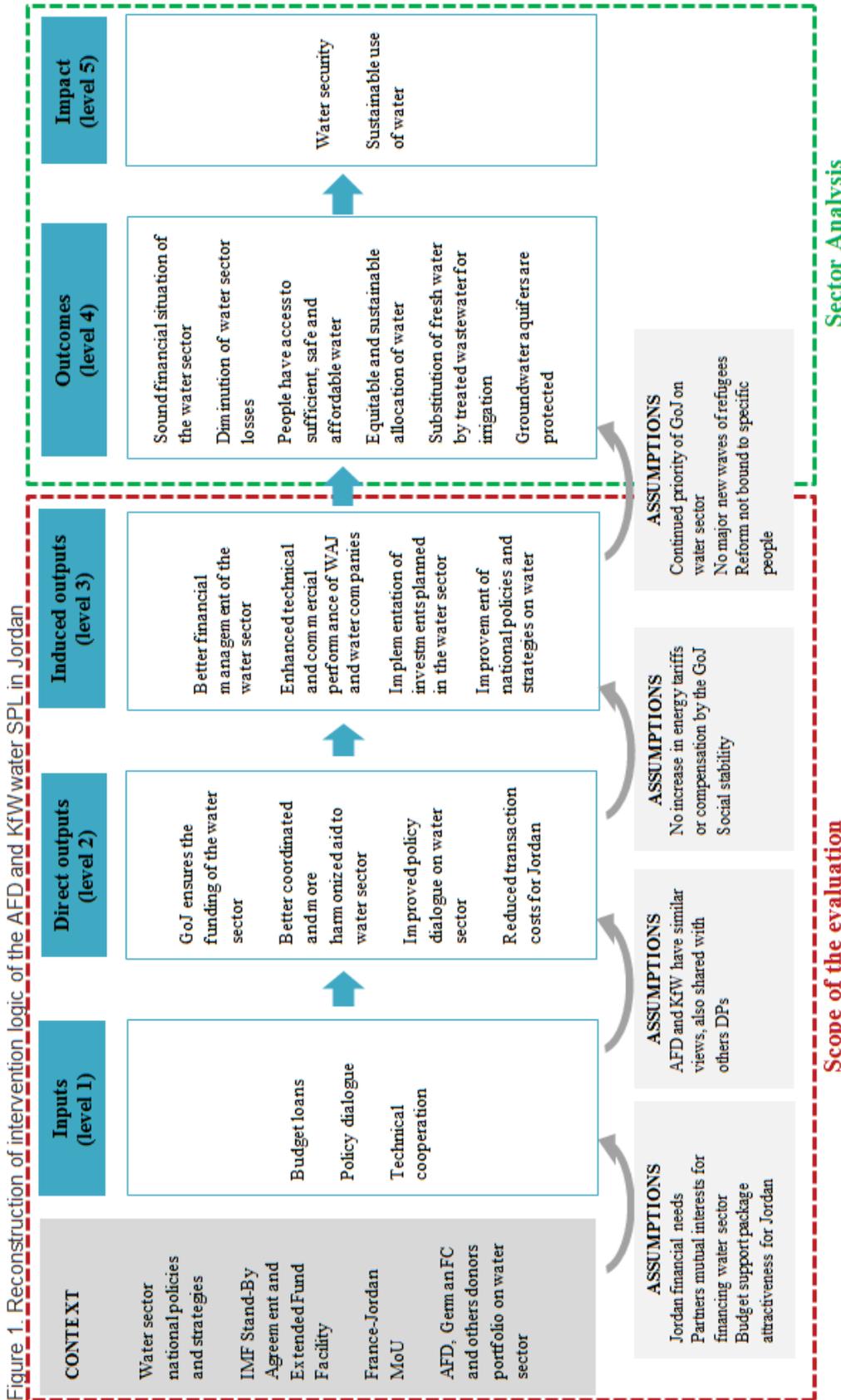
Two sets of technical assistance projects were specifically designed to support the achievement of the objectives of the SPLs: accompanying measures that were financed by German FC through KfW, and AFD-funded technical assistance.

The content of the accompanying measures of the German FC (EUR 4 million, 0.29 million of which have been disbursed at this stage) were defined after the approval of the SPL. They were contractually delayed, and then delayed further due to ongoing discussions about the use of the funds.

French technical assistance was exclusively focused on the financial situation of the water sector. The focus on this issue was pertinent as it was not covered by technical assistance provided by other donors. However, due to the small sums involved (less than EUR 250,000 for the two SPLs), the TA was materialized in a limited number of short missions. Moreover, the duration of the contract was too short: the TA could not be pursued beyond AFD's second disbursement in December 2018.

Overall, relevance is assessed as high. The main areas of potential improvements are considered to be (i) a more inclusive appraisal process, (ii) a monitoring of the outcomes of the reform supported through the SPL in the policy matrix or in a monitoring chart, and, more importantly, (iii) the proper synchronisation of technical cooperation activities with the loan, so that these activities cover the whole period from the loan appraisal until its completion.

Relevance rating: Good



Source: Evaluation team, based on project documentation. The first column presents the main features of the context that can explain AFD and KfW appraisal of the SPL. The second column lists the inputs of the SPL, which are the loans, the policy dialogue and TA. The third column looks at the potential direct outputs of using a budget support approach. The fourth column refers to the induced outputs of the SPL, but require another actor (in this case, the government) to produce them. The induced outputs are therefore not the result of the SPL alone, but rather the result of a variety of government actions which may be influenced by the SPL but also by other factors, including the outputs of other external assistance programs and/or other external factors. SPL induced outputs are the main outputs expected in the matrix and the project documents. The fifth column deals with outcomes. These outcomes are situated at "sector level" and are the results of the reactions/responses of the relevant stakeholders to the changes in public policy making and resource allocation decisions as identified in column 4, and of the influence of other external factors. These outcomes are thus the results at sector level of the entire set of policies, strategies and spending actions of the government as defined in column 4. In that respect, the outcomes should refer to all goals mentioned in the policy matrices of SPL (and sometimes implicit goals). The last column concerns impacts, which may be expected to materialize in the long term, provided the expected outcomes are produced and key assumptions as regards external factors and sector development processes materialize. The impact level has not been made explicit in the formulation documents of the SPL. We found that the main impact is likely to be a contribution to water security and sustainable use of water.

Effectiveness

1. Financial Effectiveness

The macroeconomic situation of Jordan has seen a downturn since 2010. Since 2018, the Government of Jordan (GoJ) has experienced cash flow problems. This situation put the financing of the water sector at risk: the transfers from MoF to WAJ were delayed, which caused WAJ to pay penalty interest to contractors.

Through its financial support, which was not earmarked and went directly to the national budget, the WSPL has helped the GoJ meet its financing needs and thus contributed to Jordan's macroeconomic stability. The budget loans, once disbursed, contributed to additional fiscal space and also played a role in financing the debt roll-over. The financial conditions of the concessional loans were favorable for Jordan. Given the general budget and macroeconomic situation of Jordan, this part of the WSPL was important. In the ICR (implementation completion and results report) of its 2015 and 2016 DPLs on Jordan's water and energy sectors, the World Bank states: "The funding released into the Government's budget (along with that from other development partners financing sector DPLs): (i) reduced the immediate need for MoF to demand repayment of advances of [...] JOD 0.3 billion to WAJ; ... and ... enabled an increase in the MoF advance to WAJ of JOD 150 million to cover initial increases in the electricity tariff (effectively a temporary subsidy to WAJ)".

However, not all the funds were released according to plan. The EUR 150 million of the first WSPL were disbursed on time (EUR 75 million in December 2015 and EUR 75 million in December 2016) but only EUR 225 million out of EUR 300 million have been disbursed as planned for the second WSPL (EUR 150 million in December 2017 and EUR 75 million in December 2018, instead of EUR 150 million, the remaining EUR 75 million being disbursed in February 2019). The reasons for this delay in disbursement are twofold: (i) one trigger was not fully met in time (further details below), and (ii) the willingness of GoJ to respect the threshold for total public debt agreed under the IMF program resulted in a careful debt management that may have contributed to the postponement of one of the disbursements that was initially planned to occur at the end of 2018. The predictability of the financial contribution of the WSPL is thus not yet fully living up to expectations.

2. Fulfilment of Triggers

Most of the triggers in the policy matrixes were achieved (see the matrixes in the appendix). The most critical triggers were fulfilled satisfactorily (with the exception of one, as explained below) but some triggers were fulfilled unsatisfactorily, that is to say that they were fulfilled but in a way that did not produce the expected effects.

Most critical triggers were related to the pillar on financial management reform and were fulfilled satisfactorily. These triggers included a cabinet decision on the centralization of WAJ's debt and the implementation of this reform including, for instance, (i) the transfer of funds from MoF to WAJ for operation and maintenance expenses (as WAJ could no longer take out commercial loans to cover its deficits) and (ii) an annual resource allocation from MoF to MWI/WAJ of JOD 300 million for capital investments. One trigger was not achieved in time: the monthly cash transfer from MoF to WAJ. In December 2018, only JOD 109 million out of a planned JOD 195 million were transferred from MoF to WAJ for the January–October period. KfW did not disburse the second instalment of its loan because the trigger was not fulfilled, while AFD, taking into account the macroeconomic difficulties of Jordan accepted a waiver on this trigger. The waiver permitting the second disbursement of AFD WSPL was conditional on the transfer by the MoF of all arrears and deferred instalments (JOD 85 million) before the end of 2018, thus permitting KfW's second disbursement.

The 2018 target regarding the operational cost-recovery trigger was set at a ratio of 90%. The recovery ratio for the year 2018 was 84% instead of the 90% target however. A sharp increase in electricity tariffs occurred in July 2018 (+47%), without prior consultation with the water sector. Without this increase, the operational ratio would have reached 90%. The 2016 action plan clearly stated that the target on cost recovery could not be achieved should the assumptions on electricity tariffs not be met (no more than JOD 0.10 per kWh in 2018). But electricity tariffs actually increased to JOD 0.14 per kWh. This trigger was then considered to have been achieved. This trigger also gave rise to questions concerning the validity and accuracy of the cost coverage figures, since the operational cost coverage calculation is based on estimates.

Whether the triggers are achieved or not should be put into perspective: a shift in thinking concerning sector policy is more important than actual numbers. This being said, some triggers were not fulfilled satisfactorily. The TA was sometimes used to fulfil a trigger with limited ownership and with limited know-how transfer. Some Jordanian stakeholders said that it was linked to "donors getting what they want" or "paperwork". This was the case for the trigger on "the delivery of a non-revenue water action plan ... approved by YWC's management board" for instance: the NRW action plan was produced by a French consulting company and financed by a French Ministry of Finance tied-aid project and it is unclear whether the YWC team was involved in the design of this action plan. At the time of the evaluation mission, the YWC did not have knowledge of and did not use this NRW action plan. The trigger was formally fulfilled but did not lead to the expected result.

3. Policy Dialogue

The sector dialogue of AFD and KfW with the GoJ did not start with the WSPL. Many of the topics have been on the agenda for a number of years. For instance, through the financing and support of the Disi project (a conveyance project to supply Amman with drinking water from the Disi aquifer, which is located 325 km to the south of Amman), AFD engaged in dialogue regarding the water allocation strategy at national scale, on non-revenue water in Amman, and on the financial situation of the sector (Disi is a BOT²). The German FC has been cooperating with the Jordanian water sector for the past sixty years. Many investment projects attempted to achieve not only operational, but also structural changes, and topics such as O&M budget or sludge removal have been on the agenda for many years. Even though the dialogue supported by the WSPL mostly took place on the same levels as with large investment projects, the content of the dialogue was different in the WSPL: it addressed the issues at national level and tackled problems that cannot be solved by investment projects, such as financial reform, changes in administrative practices, and so on. As stated by an official from Jordan's water sector, "One trigger can mean more than all the investment projects". Moreover, there are indications of AFD and KfW's improved access to the MoF thanks to the WSPL.

The WSPL initially worked well in enhancing the bargaining power of MWI vis-à-vis the MoF. It proved helpful in getting the Cabinet to adopt the debt reform and brought increased attention to the water sector. Since 2018, with the macroeconomic crisis and the GoJ's cash flow problems, the situation has taken a turn for the worse however and MWI has had difficulties ensuring that its monthly cash needs are covered by the MoF. The WSPL could not solve the problem but has acted as a buffer. It should also be mentioned that AFD's waiver on one of the triggers to be able to release on the last SPL disbursement was conditional on the MoF transferring the arrears and deferred instalments of cash flow to WAJ before the end of 2018. As a result of AFD's disbursement, 70% of the arrears and deferred instalments had been disbursed by the end of 2018, but the condition for the waiver was not fully respected since WAJ received the last transfer covering the budget deficit for 2018 only on February 14. KfW disbursed the remaining tranche shortly thereafter.

At some key moments, the policy dialogue supported by the WSPL was operating at a high governmental level. During the first WSPL and the planning period of the second WSPL, special ministerial attention was given to the WSPL. KfW-AFD's joint supervision missions (AFD alone for the first SPL) were organized on a regular basis and were treated as an opportunity for technical and strategic dialogue. The dialogue did not include many different hierarchical levels in the institutions involved; the SG (secretary general) level was commonly involved. Through debt restructuring, the MoF got more involved in water sector issues. Technical dialogue, which was more focused on administrative monitoring than on the implementation of the reforms, took place at the operational level on a regular basis.

4. Technical Assistance

The French TA carried out by Expertise France concerning the preparatory work on the debt management reform proved effective: it informed the strategic dialogue carried out by AFD in Amman and led to policy decisions by the Cabinet regarding the centralization of WAJ's debt.

² Build Operate Transfer is a public private partnership arrangement in which a private entity receives a concession by the public entity to finance, design, construct, and operate a facility during a given period. At the end of the period, the right to operate is transferred to the public entity.

TA on the second WSPL on the implementation of the debt management reform was organized in the form of a few short expert missions. This design did not allow enough time for the experts to engage in policy dialogue with the partners. TA has therefore not yet produced all the intended outcomes (e.g. quarterly meetings of WAJ and water companies on cash flow monitoring have not become automatic).

As a consequence of the delay in contracting, the German FC TA funds have not thus far contributed to the reform agenda supported by the WSPL. As of the end of May 2019, a mere EUR 0.29 million of a total of 4 million EUR have been disbursed. The main discussion on the use of the remaining funds concerns whether or not to continue with the PMU (program management unit) and if so, how. The PMU unit is highly valued by all stakeholders (including donors) but its integration into the WAJ hierarchy needs clarification and the financing of such an institution (in charge of investment projects) in a policy-based loan is unusual. The idea for the future is to incorporate the PMU into the structure of WAJ and give it a clearer role. There is ample TA in the water sector provided, for instance, by German TC through GIZ or USAID. Indirectly, the WSPL were connected to some of these TA projects in the sector, such as the German Bundesanstalt für Geologie und Rohstoffe (BGR) providing a well field management study which was integrated into a trigger. Despite of some positive examples as the one mentioned, coordination was suboptimal and there are indications of some overlapping of TA. Many TA projects in the water sector (notably GIZ) were not directly linked to the WSPL. There is scope for a more integrated TA concept between AFD and KfW for future WSPL phases.

5. Assessment of Progress Towards Achieving the WSPL Objectives

Overall, some policy advances are attributable to the WSPL and are likely to have a permanent positive effect (e.g. debt management reform). Some triggers, due to their lack of criticality (they were not critical for inducing change) or the way they were fulfilled (just formally, with few actual consequences in practice), have had limited effect on overall policy implementation. The effect of another set of triggers and areas of dialogue are still fragile and will depend on the continuation of the WSPL.

The assessment of progress towards achieving the objectives follows the intervention logic as reconstructed in Figure 1.

(1) Direct Outputs:

- Sector funding: GoJ ensures the funding of the water sector but this has not yet been fully achieved due to the delay in transfers from MoF to WAJ to cover the cash flow needs of the water sector. The WSPL was effective however, as the MoF has given more attention to the water sector. The WSPL influenced the sector budget allocation and contributed to preserving the investment capacities of the water sector, which is strongly needed in a medium/long term perspective in spite of short-term macroeconomic constraints.
- Better coordinated and more harmonized aid: KfW and AFD's co-financing and coordination with triggers of other donors' DPL (development policy loan) or cash transfer operations (mainly the World Bank, JICA and USAID) proved valuable. The WSPL sought synergies by linking several WSPL triggers to projects or TA financed by other donors (e.g. BGR, USAID, the French Ministry of Finance and so on). Despite these efforts, there were some cases of unproductive overlapping TA.
- Improved policy dialogue regarding the water sector: the WSPL has created a degree of momentum in strategic policy dialogue. The WSPL worked well in enhancing the leverage of the Ministry of Water and Irrigation (MWI) and WAJ on the Ministry of Finance (MoF). Through large investment projects AFD and KfW could reach the same level of dialogue but could not address the country-wide constraints of the water sector. The WSPL have provided them with better access to the MoF. There is room for improvement in the water sector discussions, as it seems that the donors' water group has not acted as a forum to discuss the implementation of the overall strategy.
- Reduced transaction costs for Jordan: it is unclear whether the WSPL has reduced transaction costs for Jordan, since on the one hand budget financing and co-financing have reduced transaction costs, but on the other hand the policy dialogue proved time-consuming.

(2) Induced Outputs:

- Better financial management of the water sector: the reform of debt management has been acknowledged by all the key players in the water sector. This reform has reduced the burden of the debt for water institutions. Debt pooling at the sovereign level enables Jordan to access cheaper refinancing (whereas WAJ was previously financing its needs with expensive commercial loans). Jordanian stakeholders show strong ownership of this reform even though the macroeconomic situation of Jordan has impeded the cash flow transfers from the MoF to WAJ, which could have created confusion regarding the relevance and effectiveness of the reform. The debt reform has also been welcomed by the International Monetary Fund (IMF) and other donors (the World Bank, USAID, the EU, etc.). The success of the debt management reform is closely linked to the WSPL.
- Enhanced technical and commercial performance of WAJ and water companies: at sector level, the cost-recovery ratio had not reached 90% in 2018 as initially planned. This is mainly due to a sudden and non-concerted increase in the electricity tariff. The problem of the financial losses of the water sector is closely interlinked with electricity costs. Despite clear signs of WAJ's endeavors to do better, the achievement of a cost-recovery ratio of 100% or more demands shared vision and coordinated planning between MWI/WAJ and NEPCO (national electric power company)/the Ministry of Energy, which was not fully the case during the WSPL (though there was a trigger on the development of renewable energy for water sector in coordination with NEPCO). At the water company level (trigger no. 8), the performance of Miyahuna (the water utility for the greater Amman region) was enhanced with the help of the USAID-funded FARA project that was linked to a WSPL trigger, whereas YWC's performance showed little progress.
- Implementation of the investments planned in the water sector: although the triggers were achieved, the additionality of WSPL is questionable here. The WSPL may have helped (i) to avoid delays in the implementation of projects and (ii) to maintain the attention of policy makers (MoF, MOPIC) to push forward investments in the water sector. As the WSPL did not include monitoring of the outcomes on this pillar, it is difficult to assess its effectiveness.
- Improvement of national policies and strategies on water: several strategies and plans were developed and adopted during the two WSPLs. The additionality of the WSPL on the production of these documents is not clear. In the second WSPL, there were triggers on the development of well field management plans and of a concept of sludge disposal for the six largest WWTPs. The former were drafted by BGR and the latter by USAID; ownership of these documents by Jordanian stakeholders is not yet ensured.

(3) Outcomes:

An analysis of the contribution of the policy loans to the developments at the sectoral outcome and impact level goes beyond the scope this evaluation due to the complexity of attributing the performance of the sector to the sectoral reforms. This evaluation report therefore limits its assessment to the level of induced outputs level (see intervention logic). Nevertheless, a sector analysis was conducted in order to have a clearer picture of developments in the water sector. The quantitative study³ analysed water provision and water security status for a large section of Jordan's population using water meter readings from Miyahuna and YWC between 2013 and 2017. The main conclusions are displayed in the sector analysis below.

To sum up, the effectiveness is satisfactory. The WSPL has led to major improvement in the debt management of the water sector. Other areas have not led to measurable effects yet but as it is an interim evaluation, it cannot be expected that all the effects have been achieved. Overall the process has been favorably assessed: the policy-loan has the potential to lead to further, future achievements concerning e.g. the technical and commercial performance of WAJ or the nexus between energy and water or agriculture and water. It is a complementary tool to investment projects as it can address structural problems that cannot be tackled with projects.

Effectiveness rating: Satisfactory

³ "Measuring household water security in Jordan after the Syrian refugee crisis", Johannes Schielein & Nicole Karnaus, KfW Development Bank's evaluation department.

Efficiency

Budget financing is generally considered to be an efficient aid modality, as partner systems are put to use and parallel budgeting structures are avoided, which can reduce transaction costs on the aid recipient's side. Similarly, co-financing is generally considered to be an efficient way of delivering aid through the pooling of funds and the harmonisation of conditionalities. From a financial point of view, sector policy loans also have the advantage that disbursements occur in predictable tranches of significant amounts, usually on an annual basis. These are promising prerequisites for an efficient roll-out of the Water Sector Policy Loans.

Looking at the Water Sector Policy Loans in Jordan, the main features for efficiency are present and loans are budgeted in Jordan's general budget. AFD and German FC harmonised their conditionalities by linking disbursements to a joint policy matrix. Both donors share a common perspective on the development of the water sector. Annual disbursements reduce transaction costs for Jordanian partner institutions, particularly the Ministry of Finance. The Water Sector Policy Loans address crucial issues in the water sector, thereby positively contributing to fund allocation in the water sector that is beneficial for the development of the water sector.

However, upon more detailed inspection of the Water Sector Policy Loans, their overall efficiency does not fully live up to the generally high expectations of this aid modality. From a financial point of view, the predictability of the flow of funds was impaired by the non-fulfilment of one trigger in phase two, leading to different decisions being made by the two donors, i.e. AFD waiving the trigger and disbursing and the German FC not disbursing. However, this criticism does not question the main logic of sector policy loans to link disbursements to progress in policy reform and implementation, but rather highlights possible trade-offs. Furthermore, the delay in the release of funds from the Ministry of Finance to the water sector due to liquidity constraints has impeded the performance of the water sector. From the perspective of efficiency, this proved a drawback to this aid modality that refrains from ear-marking the funds.

In Jordan's specific macroeconomic situation, the IMF's conditionalities put a threshold on the country's public debt. Respecting this threshold can interfere with the disbursement of Water Sector Policy Loans even when the triggers are fulfilled and even when the water sector is in need of financial support - another risk for the reliability of SPL fund flows.

The budget financing of the WSPL is strong from the efficiency perspective (in terms of the use of partner systems). Thanks to in-depth water sector knowledge on the donor side, policy dialogue supported by the WSPL really adds value to the policy debate on the water sector but is, unsurprisingly, time-consuming for partners and donors alike. Relevant staff must be present in Amman and staff changes should be avoided as much as possible to allow for continuous dialogue in a mutually trustful atmosphere.

Regarding the policy dialogue in Jordan, we see room for improvement in efficiency at the operational level. Increased clarity in the way triggers are defined, more precise information regarding how to fulfil triggers, and what to take as proof of fulfilment could simplify and streamline discussions. AFD and KfW tried to achieve efficiency gains by implicitly splitting up the set of triggers so that AFD would focus a little more on financial issues and KfW a little more on technical issues. This division of labour is understandable and generally appreciated; it should not, however, lead to a situation where triggers are considered to be less important because only one of two donors is engaged in the policy dialogue process.

While AFD and German FC joined forces for these sector policy loans, they are not the only donors actively supporting Jordan's water sector. Besides French and German support, the World Bank and USAID were also providing budget support linked to improvements in the water sector, the former in the form of loans and the latter in the form of grants. To enhance efficiency, joint programming of these funds would be beneficial. Wherever this is not possible due to political considerations, the general perspective of the sector and the specific formulation of triggers should be harmonized as much as possible. Having achieved such harmonization in Jordan's water sector is valuable for donor support to the water sector.

The TA component in the Water Sector Policy Loans is a weak point in terms of efficiency. Delays in contracting the German FC accompanying measures combined with the long discussions on the actual use of funds has thus far prevented this TA component from providing timely added value to the policy dialogue.

From an institutional perspective, it is to be noted that there were frequent changes in the Ministry of Water and Irrigation with no less than four changes at ministerial level within one year. This comes as a striking contrast to the previous time period, when a single Minister acted from the end of 2013 to the end of 2017.

All taken together, the general set-up of the support to the water sector is considered to be efficient. However, there are weaknesses at the operational level. Productive efficiency, i.e. the relation of outputs to inputs, is considered to be satisfactory. Given the nature of interim evaluations and policy loans, it is difficult to carry out assessments of the impact, which implies that the allocative efficiency can be assessed only to a very limited degree.

Efficiency rating: Satisfactory

Sustainability

The sustainability of the Water Sector Policy Loans has been considered from different angles: (1) sustainability in the sense of ensuring that policies and reforms initiated through the Water Sector Policy Loans last for a long time, (2) financial sustainability of the water sector as a whole, to which the Water Sector Policy Loans attempted to contribute, (3) the contribution of the Water Sector Policy Loans to the sustainability of water sector investment projects, (4) the sustainability of the "policy loan" aid modality in Jordan's water sector.

(1) The Water Sector Policy Loans pushed for different types of policies and reforms. The debt restructuring reform, for instance, has the required political buy-in and is reasonable from a financial point of view. The Water Sector Policy Loans should support the debt management reform implementation. Other issues included in the policy matrix face a higher risk in terms of sustainability. In cases when ownership is lower and reforms more donor-driven, as in the case of sludge disposal management, the dialogue process that was set in motion is undoubtedly at risk without continuous dialogue between Jordanian institutions and donors. Also, for financial issues such as operational cost coverage, the achievements made in previous years are at risk should policy dialogue on this subject not be pursued. Progress in sector performance also relies on the support and involvement of a small number of key decision-makers. There is a risk that personnel changes in crucial strategic positions fluctuates and could cause previous accomplishments to become unsustainable. In future sector policy phases, triggers should be further developed along a typical policy cycle, moving on from the identification of topics via strategy formulation to the implementation of reforms and their follow-up. Where triggers are closely linked to external consulting input, emphasis on know-how transfer must be reinforced.

(2) The financial sustainability of the water sector as a whole is at risk. The much-needed debt centralisation itself has had limited financial effect on the water sector. Furthermore, the financial effect of the Water Sector Policy Loans is indirect only. The financial contribution to the budget is of a rather short-term nature. It cannot, on its own, address structural challenges. Unless Jordan's budget liquidity situation improves and revenues in the water sector increase (e.g. through higher tariffs), the financing of the water sector will remain problematic. An increase in water customers and the volatile precipitation aggravate these risks. Further, the national debt threshold might make it more difficult to provide soft loan funding, whether concessional or not. On a positive note on the future perspectives, however, donor support to Jordan's water sector is likely to continue given the high social and strategic importance of this sector.

(3) The Water Sector Policy Loans in Jordan are special in that they are close to investment projects in the water sector. The Water Sector Policy Loans included triggers on operational cost coverage and the operations and maintenance budget. Together with the financial contribution to the general budget, this provides a more favorable sector environment for the sustainable operation of individual investment projects. It is, however, too early to confirm that the Water Sector Policy Loans have a detectable impact on the sustainability of investment projects. The delays in the release of funds from the Ministry of Finance to the water sector question the impact that the Water Sector Policy Loans might have. Continuing policy dialogue seems to be crucial to maintain the link between sector policy and investment projects.

(4) The aid modality of sector policy loans will persist only if there is sufficient demand on the Jordanian side and willingness on behalf of donors to continue to engage with this financing instrument. For the time being, it appears likely that Water Sector Policy Loans will continue to be used. From the perspective of this interim evaluation, continuation would be beneficial as it would sustain the policy dialogue started in the first phases. A number of first accomplishments brought about by the policy dialogue would be lost should donors not pursue sector policy loans.

At present, given the likelihood that the Water Sector Policy Loans will continue, but taking into account the risks in the water sector, we assess the sustainability of the WSPLs as satisfactory.

Sustainability rating: Satisfactory

Sector Analysis

The above mentioned study on water security shows that water security did not change considerably after the Syrian refugee crisis, at least from a distributional standpoint, which suggests that the Jordanian government successfully coped with the huge external strain that was put on the system through the additional customers. The study suggests that around 20 % of Jordanian customers face severe water insecurity in the hot and arid summer months when demand is generally higher than in the winter. Insecurities are spatially distributed following a core-periphery pattern: the largest proportion of at-risk customers are concentrated in the urban centers of Irbid and Amman while smaller towns are comparatively well supplied. The study also identifies smaller towns and rural hotspots of water insecurity with a very high degree of accuracy. The analysis were also able to detect pronounced local differences and identify areas where consumption levels were decreasing from baseline levels that were already low, thus requiring careful risk-monitoring in the future.

Recommendations

1. Conditional on favorable overall macroeconomic development and sound public financial management analysis, overall we **recommend the continued use of WSPLs**. Our evaluation acknowledges the high relevance of this aid modality and the high importance of the water sector for Jordan. Pursuing the WSPL is also justified as doing so will make it possible to sustain the achievements made during the first two stages of the WSP in terms of the induced outputs and outcomes that were achieved. There will be a continuing need for donor funds in the water sector in the years to come. This recommendation is consistent with the IMF's recent assessment, which asks donors to continue supporting Jordan's water sector. It is, however, equally recommended that investment projects be continued and both aid modalities be linked.
2. In order to have a clearer, shared view on the likely objectives and impacts of the WSPL, it is recommended that **the theory of change be made more explicit**. To this end, the policy matrix should be reviewed and further developed in terms of the objectives to be achieved and the ways to monitor these objectives, which is a separate undertaking from tying disbursements to triggers. The set of **triggers should be limited to a small set of crucial triggers**, each with a clear description how to fulfil the trigger, when exactly the trigger will be considered to be fulfilled, and how to provide clearly documented proof of this. It is further recommended that **the triggers be interconnected to national water sector strategies with high ownership**. It is suggested to ensure consistency with the new five-year matrix of the World Bank⁴.
3. In order to make the policy more efficient and effective, the organization of **more "round tables"** involving different partner institutions is recommended, with **fewer bilateral meetings** between donors and individual Jordanian institutions. This would allow the SPL to be used as a vehicle for improved communication and exchange within the water sector. In order to ensure a continued sense of ownership and to enhance coordination between all actors in the SPL, there is need for support not only at the Secretary General level, but also from secondary officials across institutions (MWI, WAJ, and water companies), as this would likely secure greater support of the agenda promoted by the WSPL.

⁴ The Government of Jordan is working with the World Bank and donors to devise a five-year reform matrix on growth and job creation. The matrix is to help the Jordan implement its reform agenda in line with its Economic Growth Plan (EGP) 2018-2022.

4. To enhance donor coordination, it is suggested that an **annual sector review** be considered, e.g. reviewing the implementation of the 2016 action plan, producing an updated version or key strategic documents, or even having a presentation of the results of the SPL with all stakeholders involved in the water sector. Furthermore, on the donor side, a **strong and stable personnel situation** in the representation of donors on the ground is needed at the operational level, with support of directors concerning strategic topics, in order to be able to engage in proper continuous policy dialogue.
5. It is recommended that **technical assistance in the WSPL be jointly discussed, designed and be better integrated**. On the German side, German TC should be linked more directly to the policy and reform topics addressed in the set of triggers, and German FC's support in terms of accompanying measures should be made available in a timely manner and with a shared concept. On the French side, TA could be implemented over a longer timeframe and with a budget that would allow for more missions to Jordan in order to engage in capacity building rather than provide expertise alone. Where donor or consulting work plays a crucial role in the fulfilment of triggers, emphasis should be placed on **know-how transfer to the Jordanian authorities**.
6. It is recommended that **the close link between the AFD and German FC policy loans and investment projects be maintained**. The different aid modalities can complement one another. However, triggers should not be tied so as to secure the sustainability of just the German FC and AFD investment projects in the water sector. Such **ring-fencing should be avoided**.
7. **Future phases of the WSPL should consider the following challenges:**
 - a. **The energy-water nexus:** connecting the water and the energy sector more closely would prove reasonable given that the water sector is dependent on the cost of energy. Coordination between WAJ and the National Electric Power Company (NEPCO) should be enhanced and a shared strategic vision constructed. SPLs can be a way of putting this subject on the agenda at the highest level of decision-making. Given that a new SPL is being prepared in the energy sector, it would be the right time now to create such connections.
 - b. **The agriculture-water nexus:** this connection has not been prominently addressed in the WSPLs so far and is an area for improvement; it would require the involvement of the Ministry of Agriculture.
 - c. More thorough analysis is recommended into whether **more incentives** could be created in the water sector to enhance performance, for instance between water companies and WAJ. This could become a priority in a future WSPL.
 - d. It is further recommended that YWC's **non-revenue water** be better taken into account in a future WSPL.
 - e. To further **improve the financial performance (revenue) of the sector**, possible potential room for improving revenue by cutting free quotas for farmers or increasing commercial water tariffs should be considered.
 - f. Further analysis on whether and how WSPL **disbursements** could be better **linked to the financial flows from MoF to the water sector** is recommended.
 - g. The evaluation team makes no recommendation regarding any change in WSPL disbursement patterns, but recommends **investigating whether fixed annual tranches are the best match given Jordan's context**, or whether biannual tranches or variable tranches could play a role, particularly taking into account the country's debt situation.

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).