



جمعية البنوك في الأردن

ASSOCIATION OF BANKS IN JORDAN

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ABJ's Booklets Series

Volume (9)

**A study on the
Role of Banks in Financing Water
Sector Projects
The Case of Jordan**



**Department of Studies
The Association of Banks in Jordan**

June 2018

Amman - Jordan

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design and print



Control

Design and Printing Services

Tel: 07 88 620 228

e-mail: control1est@gmail.com

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Foreword

Chairman of Board of Directors

The Association of Banks in Jordan (ABJ) has been working, ever since its establishment in 1978, on the advancement of banking through fostering the interests of its member banks and coordinating their work to better achieve their common interests. The ABJ also seeks to develop and modernize banking services and to boost the concepts and traditions of banking.

Therefore, and based on the substantial role it plays, and its keenness to provide precise and objective information, the ABJ decided to make brief studies to dissipate any confusion as regards specific aspects of banking, and to answer all inquiries and questions about issues of banking in Jordan. This is in addition to the conventional role of studies in raising awareness and education about banking.

We hope that such studies would achieve their desired goals in dispelling ambiguities and vagueness as they depend on data and information taken right from their original sources.

Hani AL-Qadi

Chairman of Board of Directors

Statement of the Director General

ABJ is pleased to present you with the fourth issue of the ninth volume of the ABJ's series of Booklets: «A study on the Role of Banks in Financing Water Sector Projects: The Case of Jordan».

ABJ's involvement in the SWIM-H2020 SM project activities allowed for a truly meaningful exchange of experiences and lessons learned with other countries. These exchanges were catalytic for ABJ to conduct this study on the role of Jordanian banks in financing water sector projects. ABJ is committed to continue the on-going dialogue that is critical in moving the water financing agenda forward, both in Jordan and in the wider region.

The booklet consists of seven parts. The first part is an introduction to the role of banks in financing water sector projects in Jordan. The second part presents the study objectives, while the third part reveals the study methodology; including the study tools and sample. The fourth part discusses the state of bank financing of water projects in Jordan from 2013 to 2017, in terms of the extent of banks' financing of water projects in Jordan, the main goals of financing, the number of projects that banks financed, the volume of financing granted to those projects, the main beneficiaries of financing, and the types of financing granted.

The fifth part deals with the key conditions that banks set to grant financing to projects in Jordan's water sector, while the sixth part investigates the key problems and challenges facing banks in financing water sector projects in Jordan.

The seventh part discusses the most important propositions, incentives and means that could improve and increase bank financing for water sector's projects in Jordan.

We hope that publishing this study would shed further light on the role of banks in financing water sector projects in Jordan. We do hope that the booklet would be of benefit to all stakeholders.

Dr. Adli Kandah
General Director

Executive Summary

- Water sector in Jordan faces numerous challenges relevant to the limited and under-developed water resources, and the increasing demand on water for all purposes.
- Confronting challenges of the water sector requires holistic management of water resources that includes improving the efficiency of financial management, upgrading infrastructure and launching new water initiatives and projects that meet water-related needs.
- This study aims to shed light on the situation and prospects of bank financing targeting projects in the Jordanian water sector.
- The study in hand adopted a methodology of comprehensive survey of all banks working in Jordan. A questionnaire comprising nine questions was sent to all banks working in Jordan; eighteen out of 25 banks filled the survey, which is 72% of total banks working in Jordan.
- The most essential findings of the study can be summarized as follows:
 - 82.4% of responding banks granted financing to projects in Jordanian water sector in the period from 2013 to 2017. The remaining 17.6% of banks said they did not grant credit to those projects because they lacked feasible and implementable financing opportunities.
 - Responding banks said financing extended to water projects in Jordan during the period of study had many objectives and purposes. On top of those purposes are financing sewage water treatment projects; rehabilitation, renovation, maintenance or expansion of water distribution networks; and, financing projects of water treatment, desalination or improving water quality.
 - The volume of financing extended to water projects amounted to approximately JD 768m in the period of study. The number of financed projects reached 781 projects, including credit granted to contractors, SMEs and big projects in the water sector.
 - Respondent banks said the most important beneficiaries of financing included the Jordanian government, Ministry of Water and Irrigation (MWI), Water Authority of Jordan (WAJ), water companies, the Millennium Challenge Corporation, companies (contractors) and the private sector.
 - 17 banks said they extended direct credit facilities, which include overdraft, the different types of loans and syndicated loans. 13 banks said they granted indirect credit facilities such as letters of guarantee.
 - Banks indicated a number of terms and conditions for financing granted to water sector's projects, such as:
 - The debt burden should not exceed 80%.
 - Other available supporting documents that banks may require, including the clear purpose of the loan, the feasibility study, the available strong source for settlement

and the good cash flows of the project.

- Some of the most important collaterals that banks might demand to finance projects in the water sector are the assignment of proceeds, the cash margin, property mortgage or the guarantee of Jordanian government. In some cases, banks impose precautionary conditions (covenants) on financing.
- Most financing is extended in Jordanian Dinar. The repayment term might reach 17 years for mega projects.
- 35% of respondent banks pointed to a number of issues and challenges facing financing projects in Jordan's water sector. The most important challenge is the high cost of due diligence measures and documenting processes of mega projects. Some of those projects take a long time to generate cash flows. The other challenges are the multiple stakeholders, including international donors, the high risks of contractors, the delayed payments to contractors affecting settlement of bank instalments.
- Respondent banks came up with a number of proposals, incentives and means that could improve and increase bank financing of water projects in Jordan. Some of those proposals are:
 - The Government of Jordan should either guarantee the bank facilities granted to projects in the water sector, or provide partial financing of those projects; using public private partnerships, granting tax incentives and benefits to banks; and, the government's commitment to settling contractors' dues on time.
 - The CBJ should be more flexible to lending loans in foreign currencies for water projects, and drafting specialized programs or agreements to support the water sector.
 - Donor and supporting agencies, especially international corporations, should provide technical financial support and guarantee programs to financing of projects in the water sector.
 - Project developers and contractors should increase the amount of their first down payment, and prepare a clear cut structure to implement the project so that it could be financed.

1. Introduction

Jordan is among the poorest countries in water at the world level. Water sector in Jordan faces a number of challenges relevant to the limited and under-developed water resources on the one hand and the increasing demand on water for all purposes on the other.

Water security and accessing water resources is a great challenge for countries facing difficult water situations. It is a valid ground for interaction with the international community as it improves chances of accessing the necessary technical and material assistance in this field.

Facing challenges of water resources requires a holistic management of water resources that includes improving the efficiency of financial management, upgrading infrastructures and launching new water projects and initiatives that would meet water needs. This needs long term plans that would guarantee the optimal distribution of water resources that caters to the basic needs and the special requirements of the domestic sector and the different economic sectors of industry, agriculture, tourism and services.

Providing the necessary funding for projects in the water sector is one of the main pillars of MWI strategy for 2018-2020. The strategy aims to fulfil two main goals as regards this component:

- Providing financing for priority capital projects in the water sector that helps to implement the executive plan with funders and donors; and,
- Drafting the investment plan and providing financing to priority capital projects that help achieve water security.

The present study seeks to shed light on the situation and prospects of bank financing that targets projects in Jordan's water sector.

2. Study Objectives

The goals of this study could be summarized as follows:

- Highlight the state of financing extended by banks operating in Jordan to projects in the water sector in terms of:
 - The extent of banks' participation in financing this kind of projects;
 - The volume of bank financing granted to water projects in Jordan;
 - The main objective of financing;
 - The number of water projects financed by the bank;
 - The most important beneficiaries of financing granted to the water sector; and,
 - The most important types of financing granted to the water sector.
- Identifying the most important bank requirements to grant financing for projects in the Jordanian water sector.

- Investigating the most important problems and challenges facing banks in financing projects of the water sector in Jordan.
- Proposing a number of suggestions, incentives and measures that would improve and increase bank financing of projects in the water sector.

3. Study Methodology

Study Tools

A short questionnaire was designed to include nine questions about the role of banks in Jordan in financing projects of the water sector during the period of 2013 to 2017.

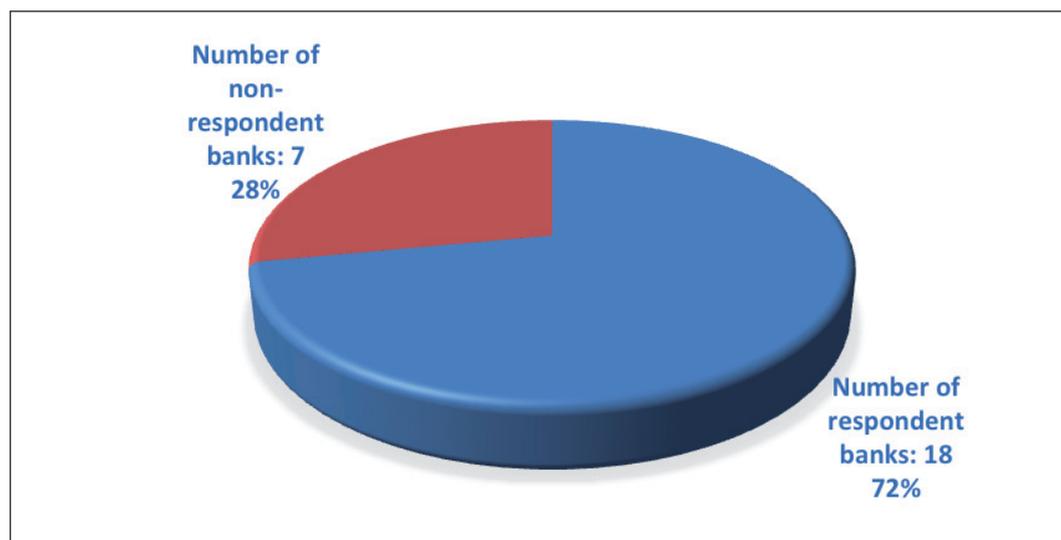
The questionnaire was distributed to all banks operating in Jordan on 1 March 2018.

Study Sample (Participating Banks)

The number of banks taking part in filling the questionnaire (respondent banks) reached 18 banks, out of 25 banks, or 72% of all banks operating in Jordan.

Figure (1)

The number of banks taking part in filling the questionnaire



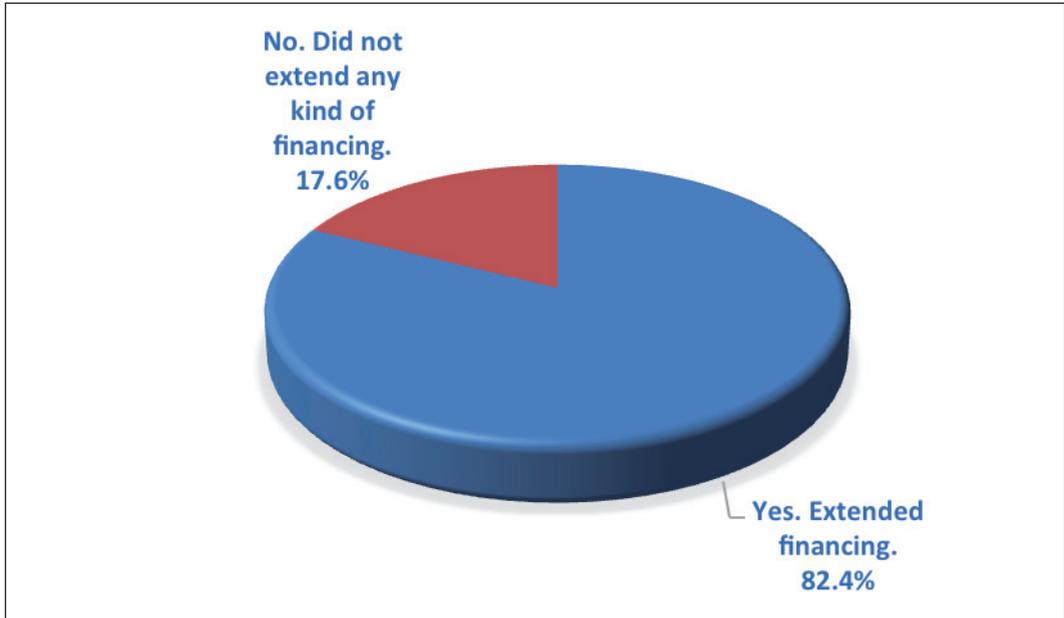
4. The State of Bank Financing of Water Projects in Jordan from 2013 to 2017

The Extent of Banks' Financing of water Projects in Jordan from 2013 to 2017

The questionnaire's findings indicated that 82.4% of banks taking part in the questionnaire extended some sort of financing to projects in the Jordanian water sector in the last five years. 17.6% of responding banks said they did not extend any financing to the water sector's projects in the said period. The reason was that they did not find feasible and implementable financing opportunities that are in line with their credit policies.

Figure (2)

The percentage of banks that financed water sector's projects in Jordan from 2013 to 2017



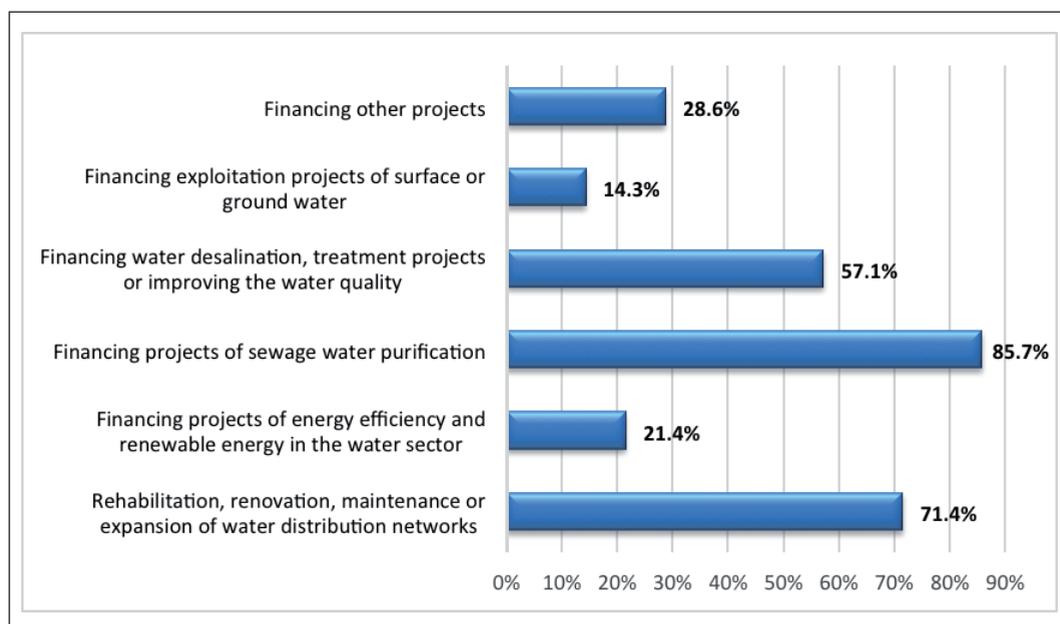
The main goal of having financing

Findings indicated that financing extended to projects in the Jordanian water sector in the period of study had many objectives and goals, inter alia:

- 1- Financing sewage treatment projects. This had a relative weight of 85.7%.
- 2- Rehabilitation, renovation, maintenance or expansion of water distribution networks. This had a relative weight of 57.1%.
- 3- Financing water desalination, treatment, or quality improvement. The relative weight reached 57.1%.
- 4- Financing other projects had a relative weight of 28.6%. Those included financing WAJ investments; procurement of required materials for the infrastructure of the water networks; financing purchases for the water networks; the long-term financing for WAJ/ MWI.
- 5- Financing energy efficiency projects and renewable energy projects in the water sector. This had a relative weight of 21.4%.
- 6- Financing projects for usage of surface water or ground water. The relative weight of those projects reached 14.3%.

Figure (3)

Purposes and goals of financing granted to water sector's projects in Jordan from 2013 to 2017

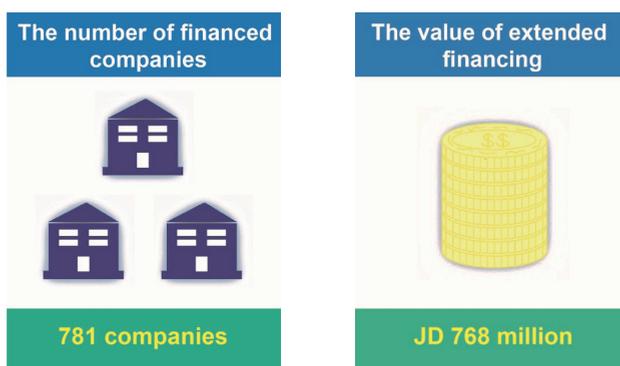


Number of projects that banks financed; the volume of financing granted to projects in the period of 2013-2017

The number of water sector's projects that banks financed in the period of study amounted to 781 projects. They are distributed as follows:

- 1- Financing granted to contractors in water projects.
- 2- Financing granted to SMEs in the water sector.
- 3- Financing of mega projects.

The volume of financing granted to those projects during the period of study approximately reached JD 768 million. This figure includes both the direct and indirect credit facilities given by responding banks. The said amount refers to facilities granted by banks responding to the questionnaire; it does not refer to the total facilities granted by all banks working in Jordan to the water sector, which might much exceed this figure.



Beneficiaries of financing

Findings indicated a number of agencies benefited of financing. These are:

- The Government of Jordan (GOJ) and the public sector.
- MWI
- WAJ
- Aqaba Development Corporation
- Aqaba Water Company
- Jordan Water Co
- Yarmouk Water Co
- Millennium Challenge Corporation Jordan
- Contracting companies that implement projects
- The private sector.

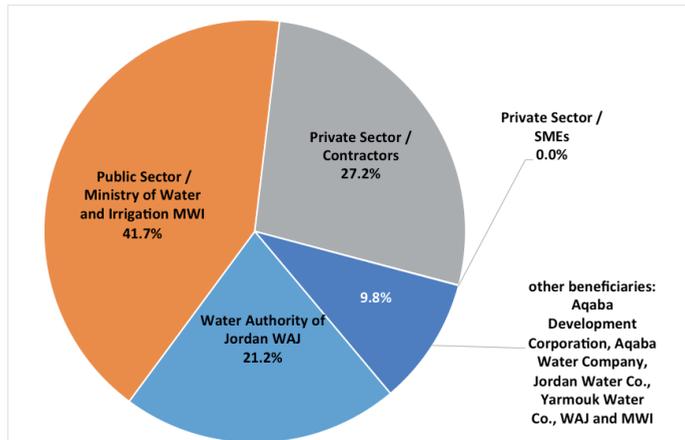
The following table shows the distribution of financing according to beneficiaries.

Table (1): Distribution of Financing According to Beneficiaries

Beneficiaries	Volume of Financing (JDs) (2013 - 2017)	Share (%)
Water Authority of Jordan WAJ	163.18	21.20%
Public Sector / Ministry of Water and Irrigation MWI	320.6	41.70%
Private Sector / Contractors	209	27.20%
Private Sector / SMEs	0.25	0.00%
Other beneficiaries : Aqaba Development Corporation, Aqaba Water Company, Jordan Water Co., Yarmouk Water Co., WAJ and MWI	74.933	9.80%
Total Financing	767.96	100.00%

Figure (4)

Distribution of Financing According to Beneficiaries



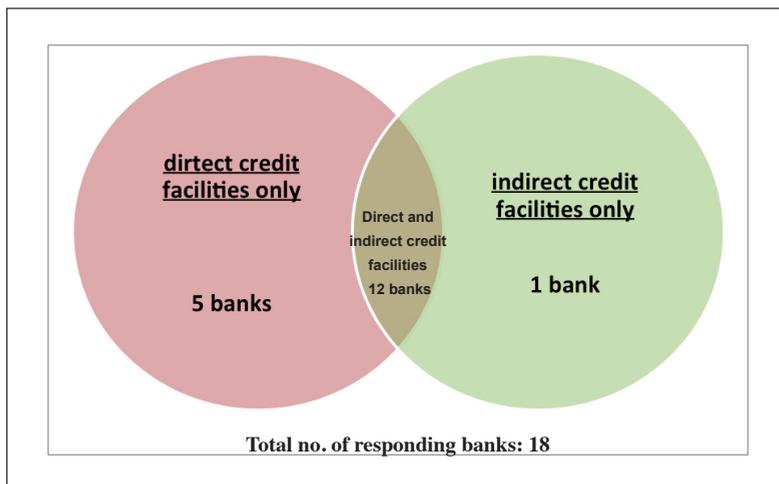
Types of Financing Granted

Responding banks said financing granted to projects in the water sector of Jordan during the period of study included direct and indirect credit facilities. 17 banks said they extended direct credit facilities, while 13 banks said they extended indirect facilities. In this regard, 5 banks granted direct credit facilities only and one bank granted indirect credit facilities. While the other banks (12 banks) granted both direct and indirect credit facilities.

The direct credit facilities mainly consisted of overdrafts, the different types of loans (such as long term loans, decreasing loans, Morabaha loans from Islamic banks), in addition to syndicated loans. The indirect facilities mainly consisted of guarantees and letters of guarantee.

Figure (5)

Types of financing granted by banks operating in Jordan to water sector’s projects



5. Key conditions for banks to grant financing to projects in Jordan's water sector in the period of 2013-2017

Terms and conditions to grant financing to projects in the water sector vary from one bank to another, depending on the nature and size of the project. Conditions and requirements can be summarized as follows:

- The debt burden: many banks set a maximum limit for the debt burden of the project, such as the percentage of debt should not exceed 80% of total assets.
- Period of settlement: This might be long, sometimes reaching 17 years for mega projects.
- Currency of financing: Most of financings is in Jordanian dinar. However, some beneficiary agencies might prefer American dollars for American IRS purposes.
- Some covenants might be imposed on parties getting financing. Covenants include keeping their shares in the project for the whole loan duration, or not to distribute profits during the loan duration, or any other conditions.
- Other supporting documents and conditions that banks demand include:
 - Project's feasibility study;
 - Having a strong source for settlement and good cash flows of the project;
 - Having a well-defined objective for financing;
 - Financial and technical analysis of the project;
 - The customer's capability to implement the tender;
 - Other technical reports might be requested. Those include environment and social impact assessment, reports for construction and operation, and quality assurance reports, in addition to financial reports (annual financial statements and estimated budgets).
 - The bank might ask its engineering department to conduct a project assessment before taking any decision thereon.
- The most important collaterals that banks might require include:
 - Assignment of proceeds or transferring tender's dues. These are the most important and the most demanded collaterals;
 - Property mortgage;
 - Property rights;
 - Government of Jordan's guarantees; and
 - Cash margin.

6. Key problems and challenges facing banks in financing projects of the water sector in Jordan

65% of responding banks indicated a lack of problems or challenges facing them in financing projects in the Jordanian water sector. On the other hand, 35% of them pointed to some challenges such as:

- Procedures of due diligence and documentation processes for mega projects are costly for banks.
- Imposing time limits and limits on the completion dates.
- Having many stakeholders, including international donors, as most projects in the water sector are funded by the government along with other foreign grants and international financial corporations such as the USAID, KFW, Japan and long term loans guaranteed by the GCC countries.
- The limited capacity of the local market to give loans, especially for huge projects such as the Red-Dead Sea carrier.
- Late settlement of contractors' dues which delays the repayment of bank installments, especially for government projects.
- The weak experience of some contractors to implement such projects.
- Infrastructure problems that might affect the ability to implement bids and lead to delayed procedures.
- Weak communication and cooperation between the government (ministries) and banks.
- Some projects take a long time to start generating cash flows, such as the waste water treatment projects.
- The high risk indicators of contractors in some cases.
- The correlation between risks of water sector's projects and risks of constructions sector in general.

7. The most important propositions, incentives and means that could improve and increase bank financing of projects in Jordan's water sector

Increasing the financing volume extended to the water sector in Jordan requires the concerted efforts of many parties, including the Jordanian government, the CBJ, MWI, WAJ and other beneficiary agencies, in addition to the donor agencies to the water sector, such as the international financial institutions.

The most important recommendations that the study came up with to increase the volume of financing to the water sector can be summarized as follows:

1- The Government of Jordan

- The GOJ should either guarantee bank facilities granted to projects of the water sector, or provide partial financing of those projects. This would help to increase the volume of financing, ease the terms and conditions of financing including the preferential interest rate, prolong the resettlement period, and decrease collaterals required by banks.
- The government's participation could be in the form of public-private partnerships (PPP).
- Providing sufficient government coverage to finance projects, especially the huge ones. This would encourage multilateral financial institutions to finance local projects.
- Ministries of Planning and International Cooperation, Water and Irrigation should provide long term plans and budgets that would highlight trends in the water sector and its future prospects.
- The government should give tax incentives and benefits to banks against financing granted to water projects.
- Facilitate procedures and review relevant government licenses, approvals and procedures.
- The GOJ's commitment to settle the contractors' dues on their due dates without delays as this would contribute to help contractors pay their installments on time.

2- The Central Bank of Jordan

The CBJ can encourage financing of the water sector by:

- Having greater flexibility in lending in both local and foreign currencies for water projects.
- Setting up specialized programs or agreements to support the water sector with low interest rates, just like the mid-term advances targeting other economic sectors.
- Special criteria should be introduced for Islamic banks that are in line with Sharia law.
- Promoting syndicated loans that are in line with Sharia law.

3- Donor and Supporting Agencies

Donor and supporting agencies, especially international institutions, could contribute to increase the chances of financing projects in the water sector through:

- Providing financial support by international financial institutions, such as the European Union and its different institutions, UN agencies and the USAID.
- Providing technical assistance and support to companies working in the water sector.
- Providing guarantee programs for financing granted to projects in the water sector.

4- Project Developers and Contractors

Developers and contractors could play a role in increasing the volume of financing granted to them by banks through:

- Increasing the volume of the down payment given by contractors to reduce the debt burden and decrease risks borne by banks.
- Providing a clear-cut structure to implement the project so that it could be financed.
- Project developers should have good reputation and capabilities in the case of public private partnerships.



Association of Banks in Jordan

Jordan – Amman - Wadi Saqra

Musa Ibn Nosair Street - Bldg No 62

P.O.Box: 926174 Amman 11190 Jordan

Tel: 5662258 – 5669328 – 5684361

Fax: 5687011 – 5684316

Email: info@abj.org.jo

Website: www.abj.org.jo