Final Report

TAPS
Technical Support for Procurement, Project Management, and Private Sector Participation

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Technical Support for Procurement, Project Management, and Private Sector Participation

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Final Report

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About this Report

This report is about the creation of the First Water Company in Jordan, a business model developed to manage efficiently the country's scarce water resources.

The report talks about the interaction of two leaders in reform in Jordan, the Ministry of Water and Irrigation and ASEZA, and how they, overcoming difficulties in approach and intricate legislation, agreed to set an example of modern utility management in the Middle East.

The theory debate on privatization versus government ownership is discussed here to conclude that what is important is that private incentive and remuneration are properly linked to performance and that real autonomy of management gives place to development of commercial practice with private sector knowledge applied to the day to day work.

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Project Overview

Jordan is one of the poorest countries in water resources in the World. According to the Water Poverty Index, (WPI) Jordan is the poorest in the Middle East region since its water resources only cover 15.5% of the country's food needs. Water-poor countries are considered when per capita potential reaches less than 1,000 cu. m. In 2000, the per capita water resource potential in Jordan was 234 cubic meters[1].

Despite continuous efforts to improve, the water sector shows low efficiency indicators with unaccounted for water of around 50% at a municipal level with 65% of total water resources allocated to the agricultural sector.

The dynamic growth experienced during the last few years is placing Jordan at the limit of its renewable and economically feasible development of water resources. Expectations are grin with an anticipated drop to the year 2025 up to 91 cubic meters per capita, a decline equivalent to 43% compared to present levels[2].

Serious steps have been taken to address the critical situation. In 1992, the Ministry of Water and Irrigation was created partly to provide a more integrated response to the water scarcity. In 1995-1996, the first Water Strategy was formulated to manage water resources and the Ministry of Water and Irrigation started an ambitious program to develop a multi pronged approach with 2.4 billion dollars to be invested in the present decade. The Ministry has become one of the most active sectors in Government to modernize its operations, attract investments and streamline its procedures. The recent appointment of the Minister of Water and Irrigation as Minister of Agriculture also recognizes the leadership role of the sector to tackle drastically the inefficiencies of water provision in the country.

Foreign donors have partnered with the government contributing 20% of resources to finance different projects from technical assistance up to direct investment building infrastructure. Besides increased government contributions, the sector can only develop at the required pace with private sector investment and self financed expansions.

One of the highest priorities established by the Ministry was the attraction of private sector investment through BOT and BOOT and the creation of business units that would develop capacity to finance it's own operations,

[1] The Hashemite Kingdom of Jordan, Ministry of Water and Irrigation, *Water Sector Planning and Associated Investment Program 2002-2011.* February 2002, Amman, Jordan.
[2] Ibid.

outsource certain of its activities and be able to attract private investment in the future.

With the creation of Aqaba Water Company from the WAJ-Aqaba decentralized agency, the Ministry has taken the first step to establish independent business units that will implement efficient management practices and will help establish self financed water districts with higher potential to attract private sector funds.

AWC represents the first model of a corporate unit in the water utility services in Jordan that will serve as an example for future utilities in other regions as the Northern and Middle Governorates, taking a crucial step towards more transparent, more accountable and more up to date management practices.

Traditional Options to Reform Reconsidered

Various options to reform and to the introduction of private sector participation were considered by the Ministry of Water with the assistance of the TAPS project.

The management contract as an option already in use in Amman, is a service contract provided by an operator of the utility who is responsible to manage all water distribution operations assuming the commercial risk. The particular case of Amman, has performance indicators that allow the operator share some of the benefits. The management contract option was the point of depart for reform in Jordan´s water sector and the option mostly considered to operate the water and wastewater systems of the Wadi Mousa municipality and the Northern Governorates where bidding processes were organized and executed. In both cases, the bids were cancelled due to excessive fees compared to revenues in the case of Wadi Mousa and due to lack of competition having a single bidder in the second case.

Other traditional options for private sector participation (PSP) in the operation, maintenance, rehabilitation, expansion and financing of the water and wastewater systems of the city of Aqaba were also closely reviewed.

BOT contracts (build operate transfer) or BOOT, (build own operate transfer) were considered to expand the water supply of Aqaba city through desalination plants. Under this modality, the operator would finance and construct the facility which would then be transferred to the public utility at the end of the contract period. During the years of the contract, the utility would pay for the water delivered covering the operation and maintenance costs and providing a return on the investment.

Another option considered as an improved version of the management contract was the Concession Contract by which the private operator has full responsibility for the management of water and wastewater services, including not only operation and maintenance but also capital investments. Any assets built during the process, would remain at the end of the contract in the hands of the government. The arrangement with the operator/investors is the same as the BOOT where the concession period allows the recovery of operation and maintenance costs plus the investment.

Finally, two additional ways to promote private sector participation were discussed including the Strategic Partnership where operators are selected to become co-owners and sometimes operators of the utility. In some cases the equity contribution is used to expand the utility and invest in the development of services. Another way to involve private participants is the option of Share Issuance/Sale where certain part of the ownership is transferred to private investors through the stock exchange or direct placement while the original owner continues controlling the company operation.

A review of all the options gave light to the fact that all of the options would require a complete separation of the utility as a first step towards transformation to any of the alternatives. All options would be kept achievable if as a first step a separation along the lines of a Corporatization would be executed. The separation of functions and responsibilities from the central administration would improve financial and service performance, which would make AWC a more viable company for any option of private sector participation.

A more transparent accountancy system, clearer separation of roles and responsibilities and a modern corporate organization would allow the selection of the PSP option in a more efficient way bringing to the table considerations that would be more beneficial to the company.

The Private Incentive: a Powerful Force to Change

In all options considered, the greatest challenge was how to introduce improvements in the company through better management and better worker’s performance. Given the traditional government structure where compensations were limited and there was no program of incentives, the reform option had to address the critical issue of incentives to promote change and efficiency.

From Civil Service Law to Labor Law

The Jordanian Civil Service Law regulates labor relations for government employees. The law provides ten types of contract agreements mainly to distinguish workers hired under the Pension system before 1985, workers that were hired after 1985 under the Social Security System and temporal workers.

There are four categories to determine the basic salary according to level of education. Each category has three to nine levels according to years of service. Therefore level of education and years of service are the only two elements that define the salary at the entry level as well as along the employee's career.

The basic salary levels were kept fixed over the years and therefore became very low compared to the rest of the labor market. In order to overcome this and keep some competitiveness in front of the private sector, a series of allowances were introduced under the names of "Basic Increase", "Personal Increase", "Additional Increase". The increases are issued by decrees and are given across the board or to a particular category of employees, but indistinctively of the particular employee.

The implementation of this compensation system has distorted the remuneration scales and has altered the pay composition. For example in WAJ Aqaba the basic salary was only 56% of the total pay while the allowances or so called "increases" may added as much as 200 percent of the basic salary.

This increasingly distorting way of remuneration has completely erased the direct connection between compensation and performance at the individual level. Also as this is generally applied to all governmental institutions, it lacks the proper adjustments that will be needed in certain specific activities that could be greatly influenced by alternative and more flexible payment options.

The New Structure and Remuneration

AWC new employment structure is characterized by its simplicity. All workers are under Labor Law regulations, there are permanent and temporal workers but the Management Committee (Board of Directors) can appoint any other temporary worker, consultant, expert, etc.

There are 5 employment levels each one with one or more classes with a total of 9 levels of basic salaries: i) leadership with one class, ii) supervisory and specialized with two classes 2, iii) technical and clerical with four classes, iv) professional and vocational with one class and v) labor with one class.

The remuneration has a basic salary which is 80% to the total pay. There is a system of annual increases up to 6% which is mainly related to performance but also to cost of living increase, cash awards up to a level equivalent to a monthly minimum wage, and a system of allowances to compensate work conditions and distance location.

A system of evaluation conducted every year classifies employees according to qualifications from “weak” to “excellent” resulting in promotions, demotions and even firings if lower evaluations persist beyond two years.

The Performance Compensation and Evaluation

The old remuneration system for WAJ Aqaba did not link performance with remuneration neither had the flexibility to reward good employees with salary increases, bonuses or promotions in a reasonable way. For a water company that is so dependant on the efficiency of its labor force, the lack of an adequate employment policy is the basic reason of its failure.

AWC new remuneration and compensation system includes proper ways of evaluation and monitoring as well as a system of promotions. This is a basic component of the reform process that will allow the company improve its efficiency significantly as well as it will promote the professional development of its personnel.

The individual dimension that is now being introduced in the relationship between AWC management and each employee is the private incentive that will drive the company’s human resource efficiency to its highest level. This policy accompanied with a proper personnel evaluation policy and a training program, will surely become the center of the reform process from a government to a commercial utility.

TAPS: A Flexible Approach to Search for the Ideal Set Up

TAPS (Technical Support for Procurement and Project Management and Private Sector Participation) started work assisting the Ministry looking for ways to improve procurement process at all levels. Soon after its start it was clear that its mandate had to be shifted to other areas and concentrated on exploring ways to improve the efficiency of water and wastewater management through private sector participation.

The undergoing process of Management Contract for the Wadi Mousa water and wastewater facility was the first assignment delegated to TAPS project.

The expensive fees demanded for the management of the utility lead to a decision from the Ministry to cancel the bidding process and reorganize the Wadi Mousa unit giving more independence from WAJ and a close monitoring by USAID.

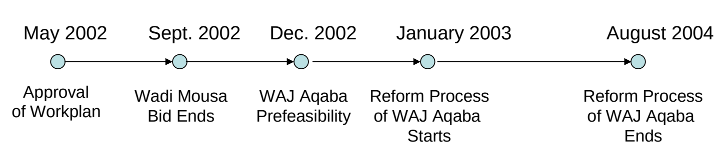
The TAPS project was then tasked to undertake the reform process for the Aqaba city water utility.

The WAJ Aqaba utility started a decentralization process since 1998 where a KFW German funded program known as OMS (Organization and Management System) improved the Customer Service introducing technologies such as GIS and Coboss systems that allowed the company to keep track of its 16,000 customers and increase its revenues. The program took initial steps to separate the company accounts preparing a detailed list of assets and liabilities and establishing a first balance sheet. This information was later updated by TAPS to establish AWC.

By the time of completion of the OMS program in early 2001, MWI/WAJ and USAID agreed to explore alternative options of reform for WAJ Aqaba with the objectives to provide full independence, improve efficiency, adopt commercial practices and be able to attract private investment for future capital investment.

TAPS project participated in discussing alternative ways to develop the WAJ Aqaba utility. Besides the traditional private sector participation options of concession and management contracts, it was discussed the option of corporatization with majority owned by the government with full independence and governed as any other private sector company.

TAPS Milestones



TAPS proposed a workplan in May 2002 that included the execution of activities to finalize the Management Contract for Wadi Mousa and a two option program to deal with the Aqaba utility as a concession or as a public company.

After completing the Wadi Mousa bidding process for a Management Contract in September 2002, TAPS continued work preparing a pre-feasibility study that included an implementation program to transform WAJ Aqaba into an independent business unit with full systems modeled to commercial practices.

The study presented in December 2002 initially to the Ministry of Water and Irrigation and later to ASEZA, started the process of reform of the company that concluded 18 months later.

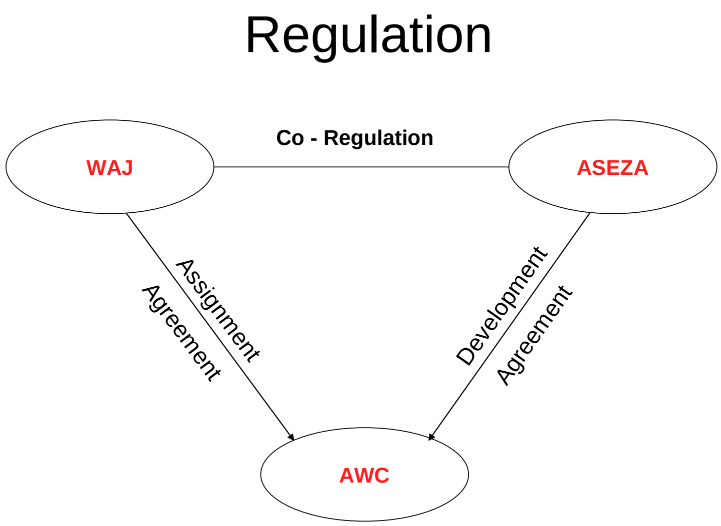
AWC: A Very Concrete Result that Stands Out as a Model

Aqaba Water Company started its operations in August 1, 2004. The company has a new structure modeled as a private sector utility, its bylaws introduced the most developed corporate governance principles. The newly implemented finance and accounting system based on oracle e-business will allow managers to keep track of the daily operations of the company with very accurate estimations and a transparent way to handle the finances.

Internal procedures in the human resource, customer service, operations, maintenance and purchasing will allow AWC operate in a very organized way following principles of organization of a modern commercially oriented company.

Regulation: A Unique Transitional Approach

The company will be regulated by a transitional structure that later will be substituted by a national regulatory agency. The initial regulatory arrangement consists of a shared responsibility between WAJ and ASEZA where WAJ will regulate the supply side through the Assignment Agreement and ASEZA will regulate the consumer side through the Development Agreement. The terms of regulation detailed by contracts signed by the company with the agencies, will allow ASEZA regulate within the ASEZ including water resources decisions while WAJ will regulate outside ASEZ within the Aqaba Governorate.



The conflict of interest that exists at the outset of the company when shareholders are also regulators will gradually disappear when ASEZA transfers its shares to the Aqaba Development Corporation and when WAJ will transfer its regulatory roles to the new national regulator.

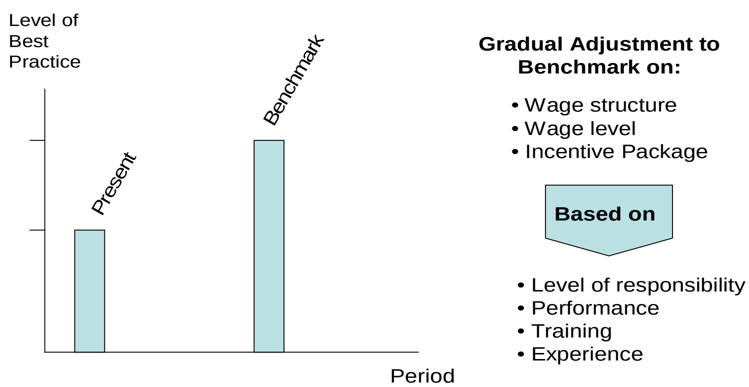
Remuneration and Incentive: At the Core of AWC's

AWC started its operations with a transparent framework with clear operational responsibilities. The new finance and accounting system will follow International Accounting Standards and the operations will have periodic internal and external auditors. The new system will allow AWC determine precise costs so subsidized activities will clearly be identified. An annual report with open circulation will inform the public about the company finances and operations.

The key component of AWC reform has to see with the employees. With the new system, workers will have a new staffing plan that will project them from where they are to a benchmark clearly identified in a broadly discussed and agreed document. The process will consist of a gradual adjustment of wage structures, wage levels and incentive packages based on level of responsibilities, performance, training and experience. The new model will allow the company to attract the best available personnel in the labor market and compensate adequately. Also workers will have clear signals to guide its professional career.

Remuneration and Incentive

(Adjustment to Benchmark)



Discipline: Flexible but Following Rules

Although the company will have enough flexibility to guide its development, a number of legal, financial and operational guidelines will introduce discipline in its management.

Existing laws plus the regulatory framework set by the agreements signed between the parties, together with the company bylaws, will be the legal framework that the company will have to follow.

On the financial side, the International Accounting Standards the budget and the audit functions will assure the financial discipline.

Finally the operational work will have the Business Plan as the principal guidance tool that will define the kind of progress of the company and the measure of its success.

Competition: Possible Even for a Natural Monopoly

The company although being a natural monopoly will develop in a competitive environment, part of it due to external factors as the National Water Policy that will possibly make compete AWC will similar water utilities to be set in the kingdom, or as an auto-imposed competitive setting by comparing AWC to appropriate benchmarks. This will be achieved by referential standards introduced in business plans to evaluate the company and compare itself against similar companies.

Accountability: At Each and Every Level

AWC has developed regulations at each and every level to make all employees and members of the company accountable to its level of responsibility as individuals as well as a group of individuals. At the top and outside the company responsibilities is the regulatory framework defined in the Assignment and Development agreements, inside the company the bylaws defines the Management Committee functions (Board of Directors), the Customer Service responsibilities, the Finance and Accounting processes, the Standard Operations functions, the Purchasing and Procurement procedures and the Human Resources regulations.

At the employee echelon, the job descriptions define the responsibilities of each employee and the reporting requirements. AWC has modernized its organizational structure redefining roles and responsibilities according to best practices in the sector. The transition process for employees to learn about their new responsibilities will certainly take time but will improve significantly its performance. The continuous process of evaluation and training will allow employees at every level, learn and perform better their specific responsibilities at each post.

Private Participation and Ownership

The traditional debate on whether private owned enterprises perform better than government owned will continue especially when related to natural monopolies in strategic sectors of developing countries.

Some authors studying empirical evidence have suggested that those natural monopolies that have great deal of autonomy and are subject to regulation, produce the same results for the private and government owned enterprises[3].

In the real world, companies respond to many other facts than ownership. In natural monopoly sectors like water distribution and wastewater collection where indivisibility of networks is not economically feasible, there are factors that play significant importance in the company's performance. Amongst the external factors, the regulatory environment, the existence of contracts with performance indicators, the role and participation of stakeholders, the community expectations and the degree of strategic importance for the local or national community are some of the factors that define the company performance.

Among the internal factors at the company's level, there are many causes that differentiate companies, for example, the quality of corporate governance structures, the participation of stakeholders in the company's control and ownership, the degree of autonomy from government regulations and political interference, the effective separation between management and control, the existence of competitive forces inside the company, the availability of financial information, the existence of independent auditors, etc.

Nevertheless, there is one strong factor that no matter what type of ownership the company has, plays a key and decisive role, that is the private benefit that workers and managers can obtain as a reward to meet or exceed targets or performance measures. Self-interest behavior may play a fundamental role in the process of maximizing the benefits of the company and the general welfare of the community if the right framework is set in terms of reasonable company profitability levels, right price structure and adequate systems of company performance rewards.

[3] Shapiro, Carl, Robert D. Willig, "Economic Rationale for Privatization and Developing Countries". In Suleiman, ed. *The Political Economy of Public-Sector Reform and Privatization*. Boulder: Westview Press, 1990.

The case of Aqaba Water Company presented in this report tries to prove the point that private benefit participation can become a more important element that ownership during a critical stage of transition of a government owned company to a mixed owned company.

The underlying objective during the first stage of transformation of WAJ Aqaba into AWC was to improve efficiency and benefit the community while keeping government ownership. The first stage might be followed through other stages where private participation through ownership can be contemplated.

From Government to Private

During the 30s and 40s in world wars, depression and unemployment times, the state presence in reconstruction and industrial growth dominated productive and public service activities in the industrialized world, setting the example for the developing world.

Starting the 60s and for a period of 20 years, the academia started to criticize government presence in the economy. Economists as Friedrich von Hayek and Milton Friedman gained worldwide influence from their universities in Austria and Chicago criticizing government intervention. Both of them gain great respect economists with Nobel prizes in 1974 and 1976 respectively.

With the election of Margaret Tatcher in 1979 amid an economic crisis and high indebtedness in government owned companies, the new wave of "privatization" started. During the first five years of her government, most major industries were privatized including strategic sectors as telecommunications, water, gas and petroleum.

During the next 20 years, the trend to transfer government ownership to private hands extended from all over the developing world being some Latin American countries one of the earliest to replicate the policies that were later followed by African, Asian and Middle Eastern countries.

Empirical evidence shows unquestionably that the results of this transformation are positive in terms of improvements of services and products, increases of profitability and efficiency. The downside of these reforms is also important concentrating the income in smaller groups, rising tariffs and prices in less competitive environments and directing improvements mostly in well-to-do groups of consumers or users.

However, private participation in most of the cases of public utilities does not necessarily come together with transfer of ownership. The high value of assets, the risks of undertaking future investments and the political opposition to transfer strategic assets to the private sector, required alternative types of transactions such as the management contracts, the concessions and the lease or affermage contracts where assets ownership is not permanently transferred.

The Main Objectives Behind Reform

At the beginning of the 80s government intervention in the economy in Europe was under heavy criticism. The 1970s oil crisis, growing unemployment and high deficits of government did not have many other alternatives than to reform transferring to the private sector operators.

The need to reform in England was so severe that it was generally supported by the civil servants, workers and the general public. Companies run high deficits, employees were laid off, quality of service was significantly reduced and investment prospects were significantly reduced.

The situation in the developing world was generally the same with additional complications of companies plagued with political intervention and rampant corruption.

The privatization reform allowed the establishment of viable companies that could attract private sector investment and talent to establish technical and financial targets, eliminate subsidies, raise capital for investment, eliminate government intervention and bureaucratic procedures and increase the efficiency, quality, availability of products and services.

Dominant Role of Government in Water Services

Before 1980, governments controlled all water services in developing as well as developed world. Starting in 1984, transactions with private companies to operate water related services became an alternative to attract investments and improve efficiency. The trend continued during the 1990s in developed and in developing countries attracting significant amounts of investment. From US$ 297 millions of private investment in the 1980s to 25 billions in the 1990s, contracting with the private sector became increasingly familiar although in a smaller scale compared to other infrastructure sectors as electricity and telecommunications.

Water is still seen in most countries as a social rather than economic commodity and prices as well as private sector participation is limited. Water is essential and its availability has to be ensured for all. Water is not only vital for human consumption but also for agriculture and livestock production. The tradeoff between human vs. plant or animal in limited water resource areas can be a significant source of conflict and therefore represents a significant limitation to allow private operation.

Management of water resources not only implies district, city or region boundaries. The interdependence between regions of water sources, health and environmental impacts make the water a politically sensitive issue between communities and its management should normally tend to be highly regulated with the government presence.

The special nature of water as a natural monopoly, limits its capacity to introduce effective competition in critical areas as distribution and collection. Regulation or government monitoring is essential when the service is under the hands of private providers.

Water utilities are intensive in capital with most of its assets buried and difficult to value. Private participation with investors looking to obtain return on equity limits significantly transactions with full ownership and open scope of operation.

Furthermore, decentralization trends are transferring water service responsibilities to municipal or provincial governments restricting even more the private sector participation in the provision of water services due to lack of technical as well as economic resources to design schemes for contracting with the private sector.

Private Companies: Few but all Over the World

In many places in the world, where governments could not provide water services to the population, private operators under the form of cooperatives or group of investors became the suppliers of water. Major private investment in the water took place in European countries with France and the United Kingdom as the leaders forming water private companies. Germany and the United States followed buying companies and developing their own capacity as water operators.

During the last two decades, French water companies leaded by Vivendi Water -presently know as Veolia Water that comprises US Filter and General des Eaux-, Ondeo/Suez and SAUR/Bouygues are the principal providers of water and wastewater services in the world serving in more than 300 operations around the globe or over 70% of water services under private management in the world[4].

[4] Company's web site: http://www.industries.veoliawater.com/

Since 2000, the German firm RWE has emerged as the main contender to the French dominant companies buying Thames Water, the largest water company in the UK and American Water Works Co. that has a significant share of the US market of private companies.

Bechtel partnered with the Italian water and electricity company Edison and bought the United Kingdom joint venture of International Water Co. and United Utilities to expand its operations in water businesses around the world.

Other companies include mainly UK based companies as Severn Trent, Anglian Water and Kelda Group that are specialized in the water business and eventually get contracted out by the big multinationals.

The gradual trend in the water industry is to merge and become global corporations with multiple operations all over the world.

Various Ways to Have the Private Participating

After 1990 when first examples of reform introducing private participation in water sector seemed successful, increasing number of countries decided to act to reform their water services. Various alternatives were available but generally countries took conservative steps awarding gradual intervention of private investors and operators.

Most countries opted for concessions with temporary transfer of ownership but full operational and investment responsibilities. Under this option, companies carried out most of the commercial and investment risk but also took full control of operations being able to maximize efficiency.

Countries that saw water management efficiency as a priority decided to opt for management contracts intended to improve the performance of loss-making public utilities leaving the governments primarily responsible for new investments.

Greenfield projects were options followed by few countries that awarded BOT or BOOT developments for the provision of water or wastewater facilities. The scheme that requires complex agreements and relative low risk for investments was mostly followed by countries with higher degree of development.

Divesture contracts are the least favored option by governments. The transfer of ownership and the associated complexity of asset valuation makes difficult for governments to sale government property. This is not the case for other infrastructure sectors as electricity and telecommunications making this one of the reasons as to why the water sector is fundamentally different.

Corporatization Revisited: Modern Environment to Try Again

Despite of all successes and improvements in the process of bringing private operators to manage water services, countries still look for alternative ways to improve the efficiency of water utilities and solve the problems of getting financial access.

In the same way as the period prior to privatization in the 80s, at the beginning of the 2000, after reviewing the track record for the past ten years in water privatization, some governments have decided to give public companies an opportunity to reform. During the 60s and 70s, many government agencies were transformed in para-statal agencies with direct connection to government bodies. The experience generally failed and its failure reinforced a more aggressive policy towards drastic reforms.

In 2004, after almost a quarter of a century of reform and technical as well as financial improvements in all fronts, some governments are revisiting the paradox of public vs. private trying to focus more on the content of methods and procedures to improve water services and become more attractive to private investments.

Progress achieved in specific areas during the past 25 years of private sector development such as:

1. Regulatory mechanisms and institutional modernization,
2. Corporate governance practices, and
3. Technological advances in communication and information systems,

put together a totally different scenario to the one existent prior 1980s and give a new environment for the creation of Public Companies with majority ownership from the government.

Principles of effective separation and autonomy of government systems and budgets, clear separation of roles between management and control positions, transparency and accuracy of information, introduction of best practices in management and operations, all this new scenario allows for another try to opt for corporatization as a viable way to reform.

Jordan's Private Sector Participation Program

Since the beginning of the 90s, Jordan started an ambitious economic reform and structural adjustment program geared towards the transformation of the country into a market-oriented economy attractive to foreign investment with strong productive sectors to maintain a self finance and sustainable growth.

The number of accomplishments during the past decade is significant; few nations in the developing world have achieved so much in so little time especially in the Middle East region.

Sixteen laws were enacted aimed at promoting private sector participation in the economy; the economy has been gradually liberalized with the elimination of subsidies and price controls, introduction of competitive forces at the regional and international levels and integrating it with the world economy. The monetary policy was also liberalized and a new fiscal policy was adopted together with the reform of the financial market, the establishment of the Jordan Securities Commission and the establishment of the Jordan Depository Center together with the automation of the Amman Financial Market.

The adoption of these policies resulted in greater trade opportunities to Jordan through signing a bilateral investment agreement with the USA, concluding an association agreement with the EU in 1997, implementing the Greater Arab Free Trade Area and in October 2000, the signing of the free trade area with the United States.

Jordan's Steps towards Private Sector Participation

The privatization program in Jordan formally started in 2000 with the enactment of the privatization law and the creation of the Executive Privatization Commission (EPC) reporting to a Privatization Council chaired by the Prime Minister. Previous laws in the telecommunications sector 1995 and electricity sector in 1999 allowed reform in the sectors. Other laws as the Investment Promotion Law (1995), the Income Taxation Law (1995), the Companies Law (1997) and the Stock Exchange Law (1997) gave the ground to start a solid advance attracting private investors and operators through the privatization program.

After 2000 the privatization process required additional laws such as the Royal Jordanian Law (2000), the Civil Aviation Authority Law (2000), the Royal Jordanian Air Academy Law (2001) and the Postal Services Law (2002), allowing foreign parties to participate in privatization process with equal treatment with local investors with the right to acquire up to 100% of a company's shares

Main privatizations include so far:

- Jordan Cement Factories (JCFC) which 33% was sold to Lafarge in 1998 with $102 million of proceeds and 1% sold at subsidized price to employees. In February 2002 the government sold $41.3 million in shares to the Social Security Corporation.

- Public Transport Corporation (PTC), with 10-year concessions to operate 4 route packages in Greater Amman Area, a contract signed with 3 local operators in November 1998.

- Jordan Telecommunications Company (JTC), sold 40% on January 2000, to France Telecom/ Arab bank Consortium for $508 Million with a fee-based management contract. An additional 8% was sold in February 2000, to the Social Security Corporation for $102m and 1% to the JTC employees' Provident Fund. In October 2002, an IPO was completed with the sale of 10.5% of JTC total shares with total proceeds of $86.2 million.

- Jordan Investment Corporation Portfolio (JIC), divested government's shares in 49 companies for $151 million.

- Duty-Free Shops sold in August 2000 to Aldeasa specialized Spanish company for $60.1 million.

- Aircraft Catering Center sold 80% of the shares to Alpha British company for $20 million, Royal Jordanian retained 20% of the shares.

- Arab Potash Company (APC), sold 26% of shares to the Canadian company PCS for approximately $ 173 million, the government remains owner of 26% of shares.

Simultaneously to the development of privatization transactions, the government of Jordan has started developing regulatory agencies for the sectors of electricity, transport and telecommunications.

The Water Private Sector Reform: with Different Legislation

The water sector in Jordan has followed a different path to reform. The Water Authority of Jordan (WAJ) is governed by the Law No. 18 of 1988 with its amendments in 2001 that includes article 28, allowing the Council of

Ministers, upon recommendation of the Minister of Water and Irrigation, "assign any of its duties or projects or the execution of any stage or part thereof to any other body from the public or private sector, or to a public shareholders company, or to a limited-liability company owned totally by the Authority or in which the Authority has contributed to the capital."

The law is very specific on determining the type of transfer to a third party following the terms: "...such assignment may include the transfer of the management of these projects or the lease thereof, or the transfer of ownership to any of these bodies, in accordance with the conditions and for the durations to be set in the contracts..."

WAJ's legal framework allows it to proceed with the execution and implementation of privatization processes or transfer of rights and ownership to any body without the necessary intermediation or participation of the Executive Privatization Commission (EPC).

Under the mandate of such law and regulations, WAJ privatized the water services for the Greater Amman Area signing a performance-based management contract in April 1999 with Suez Lyonnaise des Eaux/ Arabtech Jardaneh. The joint venture started operations in August 1999 financed by a World Bank loan.

The second transaction carried out by the Ministry was the 25 year BOT project to build the Assamra Water Treatment Plant to provide services to the Greater Amman Area including Amman and Zarqa governorates. The American-French consortium Ondeo/Degremont Morganti signed a contract on July 2002 with the Ministry of water to construct the plant. USAID provided $75 million of the total estimated cost of $154 million as a grant to the Ministry of Water and Irrigation and the remaining $79 million balance will be provided by the winning consortium Arab Bank and the Jordanian Kuwaiti Bank. The plant will start operations by 2005.

The Right Policy for the Poorest Water Owner

Besides traditional private sector participation options, the Ministry of Water and Irrigation is embarked in a broader, more flexible approach trying to introduce efficient systems into the water management operation.

The following policies are being implemented by the Ministry:

- Financial and Accounting Systems. Since 2003, the Finance and Accounting Project (FAS) financed by USAID is implementing a system introducing an accrual based accounting method for all WAJ. The program is based on Oracle E-business Suite software and includes a Wide Area Network that is centralized in WAJ Amman. The new system will allow a real time tracking of revenues and expenses in standardized system of accounts bringing fully transparent systems of accounts. The successful implementation of modules such as the general ledger, purchasing, accounts payable, fixed assets, accounts receivable, inventory, and human resources will not only make comparable all data in the kingdom but will also introduce standard systems in key activities as human resources payments and purchasing with great repercussions in management.

- Cost Recovery Methods. As part of the efforts to improve water demand management, the Ministry has started focusing on pricing of water as a tool to deal with water scarcity and growing costs of water sources development. A preliminary step has been taken to establish cost recovery options to later decide the introduction of different pricing methods such as inverted block tariffs, seasonal tariffs or individualized budget tiered tariffs. The pricing policy applied in 1997 for urban consumption and the one applied in 2002 for irrigation groundwater have resulted in reduction of consumption of water when initially applied but they need to be constantly reviewed to maximize the water use efficiency and assure the delivery of water resources.

- Water Conservation Measures. The Water Ministry through the Water Efficiency and Public Information for Action Program (WEPIA) financed by USAID is also tackling the water management efficiency since 1999. Through social marketing techniques, the program promotes the use of water saving devices (WSDs) in buildings of large water consumers and participate in the development of policies and regulations to ensure that future construction conforms to international water conservation standards.

- Master Planning. Since 1993 the Ministry has undertaken a careful work to plan for the management of water resources. Initially with the Canadian support the Ministry prepared the Structural Adjustment and Policy Support Program that later was followed by other programs supported by USAID and the German cooperation to establish long term assessments of water demand and supply. After years of abrupt increases in water demand consumption due to high immigration and the dynamic growth of the economy, the Ministry decided to follow as close as possible the future demands and supply of water. Product of such decision was the Master Plan prepared in 1997, the Water Sector Planning and Associated Investment Program between 2002 – 2011 and the new Master Plan to be completed by August 2004. The follow up allows the Ministry and the international cooperating community, identify the status of water and wastewater projects, its degree of implementation and expected results on supply and demand of water.

- Water Reuse. As part of critical policies to save fresh water and ground water resources, the Ministry has placed a lot importance in developing the capacity to generate treated waste water for uses in agriculture, industry and development of green areas. Important projects in the Jordan Valley, Aqaba, Wadi Mousa and the Greater Amman Area have incorporated sophisticated waste water treatment plants to provide high quality reuse water that not only substitute clean water sources but also enhance the revenue stream of WAJ.

- Monitoring and Regulatory Programs. As a result of the implementation of Greater Amman Management Contract, the Ministry of Water in cooperation with the European Union established the Program Management Unit (PMU) to monitor the performance based contract and coordinate the implementation of the investment program undertaken by the Ministry with the support of different funding agencies. The PMU will expand its activities undertaking roles of monitoring in other areas of the country to evaluate performance of water management. The new public companies that will start with Aqaba Water Company will have regulatory provisions that will most likely be monitored by the PMU becoming a closer step to regulatory

- Creation of Public Companies. After Aqaba Water Company, the Ministry of Water is evaluating the possibility to create a second public company for the Northern Governorates specially now after having canceled the Management Contract due to lack of at least two bidders. The public company option will be also contemplated for the next stage after the management contract in Amman after 2006. The public company or the full separation of business units from WAJ allows having a more transparent record of the degree of self sustainability of water utilities and a clearer track record of its real level of efficiency. A future scenario of various public companies competing to get more efficient results will be a likely scenario for the future in Jordan with important gains in water management.

Decentralization Process and Corporatization

The Ministry of Water was created in 1992. Until such period, the Water Authority of Jordan and the Jordan Valley Authority were the two government arms to manage water resources in the country.

The Ministry became the sector leader but WAJ kept its significant role as operator of the water sector. As of 2002, the Ministry had 173 employees while WAJ had 7,616 employees. Although in 1999, WAJ awarded the management of distribution of water in the Greater Amman area to a private contractor, the main tasks of investment, wastewater operations, laboratories and monitoring were kept in WAJ hands.

WAJ continued with its independent status but since 1997 started to further decentralize operations of utilities. The first one was in Aqaba where WAJ-Aqaba started in 1998 the Operation and Maintenance System Program (OMS) with the support of the German Cooperation. The program established a separate inventory from WAJ, set up a separate customer service system, helped to separate accounts and even developed a balance sheet. The program ended in 2001 but the decentralized utility was ready and prepared to continue its divestiture process that later was carried out with the creation of AWC.

The second undertaking is presently executed again with the German Cooperation for the Northern Governorates after the cancellation of the Management Contract originally scheduled to be completed in 2004. The separation process will start similarly as the first stage of OMS project in WAJ-Aqaba and will continue improving company revenues and investment programs before contemplating the creation of a fully independent water utility owned by the government as with AWC.

In the future, the same process will probably take place for the Greater Amman area water utility but with a more complex set up separating business units for the water, wastewater and other activities that could be divested with independent operational capacity.

Modern Corporatization as a Way to Promote Private Sector Participation

With the creation of Aqaba Water Company the Ministry of Water and Irrigation has taken a crucial step to start a new process of reform that can be extended to other areas of the country.

Besides the positive aspects of having the company effectively separated with its own budgetary decisions and procedures as any other private company, corporatization opens the door to introduce more easily various alternatives to private sector participation.

Any strategy of PSP from divestiture, concession of company areas, management contracts or simply outsourcing can be executed without the bureaucratic procedures traditionally related to government bodies.

In the case of AWC, various areas are contemplated to be developed by outsourcing since the beginning such as engineering consultancy, software and computing services, legal services. Other areas such as billing and collection, public information, will be further evaluated and in the future major steps towards private sector participation will be studied such as management contract for the new waste water operation, BOT for desalination and offering of shares to the private and pension funds.

The advantage of proceeding with private sector participation once the company has been corporatized can be summarized as follows:

- Clearer situation of company accounts that provide a more transparent scenario for any transaction,
- More expeditious process to contract with the private sector,
- More flexible approach to select tenders avoiding least cost bids problems,
- Clearer legal status to enforce contracts and deal with judiciary processes, and
- More competitive environment and better opportunities to get a better deal.

Corporatizing through Persuasion and Participation

AWC corporatization process has been unique since its inception. The project took place in the Aqaba Governorate that includes the Aqaba Special Economic Zone (ASEZ) located in the City of the same name.

ASEZ is the one of the high priority programs to modernize the country. The decision to establish it in the southern part of Jordan does not only obey to develop an important geopolitical area but also to set modern standards of management and government organization to inspire the rest of the country under reform.

The Zone was established in 2000 by a special law. It has a complete financial and administrative independence from the rest of the country. Its main objective is to develop the geographical area under its controls attracting investments and creating an economic environment to stimulate industry, trade, tourism and services.

The ASEZ Law supersedes any other legislation and grants the Aqaba Special Economic Zone Authority (ASEZA) full responsibility to develop all public services inside the Zone. ASEZA has also the power to contract with qualified parties to develop or manage any of the services.

The setup of ASEZ for the corporatization of AWC became the distinguishing factor compared to other similar processes. The fact of having a Ministry of Water running a utility in the ASEZ under the control of the ASEZ law represented a challenge to bring two government parties with different objectives and mandates but with equally important legal backing, to develop a joint program of reform meeting both party's agendas and missions. The process had to be concerted and negotiated between the two bodies and a joint partnership established to lay down the foundations of the company.

The Context of ASEZA

Aqaba being the only port access to Jordan has always been a key area to develop. Previous governments created the Aqaba Region Authority and the Free Zones Corporation.

By the end of the 1990s Aqaba gained additional predominance and the government decided to take a step further to develop the zone creating a special legislation with a full autonomy and control over the local authorities.

Predecessor organizations including the Municipality of Aqaba were transferred to the newly created Authority and a new program was established to revamp the zone, develop its infrastructure, attract new investment and become a symbol of modernization and change to the rest of the country.

The establishment of ASEZ counted with the support of USAID that implemented the ATASP project to help the Zone set up the initial institutional structure, develop the Master Plan and start the process of investment promotion.

Mandate

Legal Framework

The Aqaba Special Economic Zone is established through "Law No. (32) for the Year 2000" with the main objective to enhance the economic capability of the Kingdom by attracting investments. All legislation in force in the Kingdom applies to the Zone but the Law No. 32 supersedes any other law in case of contradiction.

The law creates the "Aqaba Special Economic Zone Authority" (ASEZA) with a specific juridical personality and financial as well as administrative autonomy to sign contracts, coordinate aid from donor agencies and represent the zone in any legal proceedings.

ASEZA's mandate can be summarized as follows:

- Develop and qualify the Zone to attract investments in industry, trade, tourism and services.
- Increase job opportunities for Jordanians,
- Enhance the role of the private sector in participating in the development of the Zone,
- Encourage competition and prevent monopoly in the various economic activities within the Zone.
- Plan, design and execute projects for the development of the Zone in various fields, directly or through other parties.
- Protect the environment in the Zone.

ASEZA also regulates and monitors economic activities to verify their compliance Law 32 including the public health and safety affairs pertinent to such activities.

Through Article (17), ASEZA has the authority to contract with "financially and technically qualified entities" to develop or administer the Zone. The same article empowers ASEZA to develop public utility services through qualified parties provided that relevant government bodies participate in the negotiations to select the qualified entities.

Master Plan

Two years after its creation, ASEZA approved the Strategic Plan for the period 2002-2004. In this Plan, ASEZ vision was defined as "…world class Red Sea business hub and leisure destination…" with five main goals to achieve:

1. Creation of a World Class Investment Environment attracting $ 720 million in private sector investment with the creation of 4,800 jobs.

2. Promotion of Efficient Use of Resources optimizing the use of existing land and other resources

3. Promote sustainable development emphasizing on environmental protection

4. Benefiting and upgrading the local community through job creation, education and training and social infrastructure

5. Making ASEZA a model of good governance improving the transparency and accountability and putting the standard operating procedures and quality assurance system.

The implementation of the Plan followed activities in various areas amongst which the most important were the development of legal and regulatory measures, the improvement of revenues and reform of customs control, and the organizational development including an improvement of the financial management.

The main targets set out in the Plan included expected investment until the year 2005 for US$ 560 million for the tourism sector, an equal amount for the manufacturing sectors, US$ 291 for the infrastructure sector and US$ 41 million for the services sector.

The Conflicting Regulation

ASEZ Law

Aqaba as a high priority area with its own law are unique in its form for the Kingdom, enabling an unprecedented autonomy for the Aqaba Region from the rest of the government. Although Article 6 in the Law states that "…All legislation in force in Kingdom shall apply to the Zone", in the same article the second sentence states that: “The provisions of this Law shall supersede in case of contradiction with the provisions of such legislation.”

Furthermore, Article 17(a)(2) of the ASEZ Law, states that: “Notwithstanding what is stated in other legislation, the Authority shall be responsible for developing the Aqaba Port, Airport and of the public utility services inside the Zone. The Board shall be entitled, upon the approval of the Council of Ministers, to contract with financially and technically qualified entities…”

WAJ Law

On the other hand, the Water Authority Law No. 18 of 1988, and its amendments govern the regulation of the water sector in Jordan. Under WAJ Law lies the main objective to ensure that a harmonized water policy is followed under one body that would oversee a wide range of tasks and responsibilities. Given the critical water situation in Jordan, WAJ is vested with full authority and power to govern and execute programs related to water supply and distribution under the mandate of the Ministry of Water and Irrigation (MWI).

WAJ law stipulates in Article 5 that MWI is responsible for water and sewage in Jordan and all projects connected to these utilities, as well as setting water policies, under the review of the Cabinet of Ministers. In Article 6 WAJ has a clear definition of its role being the main responsible to:

1. Ensure proper allocation and use of water resources;

2. Develop the water resources and expand its capacity and quality;

3. Design, establish and operate water projects;

4. Set up of water and wastewater quality standards and certify the engineers and technicians working in the field;

5. Organize the proper usage of water and consumption

The predominance of WAJ and the Ministry of Water over any other public or private entity on water management issues is clearly stated in Article 23 by which all rights and privileges of any other department or body shall be transferred to the Authority stressing the fact that the Authority has full competence over Jordan's governorates. Moreover, Article 25 states that all water resources within the borders of Jordan are owned by the Government, whether such sources are on or below the earth's surface, territorial waters, rivers, and may not be transferred or used without the sanction of the WAJ Law. Article 27 states that no private or public body may undertake any work related to water and sewage if it comes within the competence of the Authority, unless the Minister of Water and Irrigation agreed in writing to allow such acts.

The Water Authority Law, as demonstrated in the provisions above, is intended to make certain that a harmonized approach to water matters are conducted under one umbrella, which takes into account economic, social and environmental considerations.

The Need to Coordinate

ASEZ Law was enacted two years later than the WAJ Law. Anticipating conflicts of regulations in force, the ASEZ Law by its article 6 clearly states that the provisions of such law supersede any other legislation in Jordan.

Nevertheless the same Law requires Aqaba Zone to coordinate and involve the relevant authorities in the process of development of infrastructure and public utilities. The Water Authority is considered the relevant body when it comes to water development in Jordan.

The Aqaba Zone has the authority to develop the water utility sector in the Zone, but at the same time, the wide range of responsibilities of WAJ are by no means negated by giving such powers of development to the Zone. The Water Authority's powers extend well beyond development plans, and the Aqaba Zone is required by law to coordinate and directly involve the Water Authority in the developmental process.

Both Parties Willingness to Reform

Initial discussions between the parties on the creation of a water company in the city of Aqaba identified the points of conflict in their respective regulations. As representatives from the ASEZA and the WAJ, each party wanted to follow their respective laws and execute them in their full extent. The question of predominance of law was the central one: which law will take precedence over the other and which would be the basis to establish a regulatory framework that will allow the creation of the Aqaba Water Company?

To face the dilemma both parties agreed to start a negotiation process that will include a point of depart agreement and a follow up process that will translate the basic agreement into a workable scenario. The agreement would provide the company with the legal background that will frame its operation and will establish the regulatory environment to operate in the best possible manner to fulfill all the objectives the parties intended to give to the company.

The Process of Establishment of Aqaba Water Company

Once a political agreement was reached to have both parties to work together to reform the water sector in Aqaba, a process of consensus started under the guidance of USAID and TAPS who cooperated with government representatives developing a unified position to execute a plan to reform the water sector in Aqaba. Various steps were taken that are briefly summarized below.

First Step: Creation of the Aqaba Coordinating Committee (ACC)

On November 2002, both parties representing WAJ and ASEZA met under the auspices of USAID to discuss how to start the process of implementation of the water sector reform in the Aqaba Special Economic Zone.

The first meeting established a Committee with representatives of both parties that will advance a common ground to facilitate the process of reform and will review and decide on many issues that will be presented for consideration by the technical team of TAPS.

The Committee initially included the following members:

1. As representative from ASEZA with Mr. Mohammad Balqar, Deputy Chief Commissioner and Commissioner for Land & Infrastructure;

2. As representative from ASEZA, Mr. Imad Fakhoury, Commissioner for Investment & Development Affairs;

3. As representative from MWI/WAJ, Eng. Kamal Zu'bi, WAJ Assistan Secretary General for Administrative affairs;

4. As representative from MWI/WAJ, Mr. Raed Abu Soud, Director of Program MManagement Unit (PMU) at MWI.

5. As resprentative of USAID, Eng. Roy Ventura, Senior Engineering Advisor, Water & Environment Office;

6. As representative of the technical team from ASEZA, Mr. Gary Fullerton from Bechtel;

7. As representative of the technical team from ASEZA, Mr. Andy O'Neill (Nexant) from Bechtel;

8. As representative of the technical team from ASEZA, Mr. Richard Miller, Land and Infrastructure Development Specialist from the TSG/ATASP project;

9. As representative of the technical team from MWI/WAJ, Mr. Jose Valdez, Technical Advisor for the TAPS project,;

10. As representative of the technical team from MWI/WAJ, Mr. Adi Najar, Project Engineer.for the TAPS project,;

The ACC was conceived as a "sounding board and clearing house" in the developmental process of the Aqaba region water facilities. The aim was to define a space where participants will freely express their ideas on a non-combatant basis to work to develop a collective vision for the good of the country as well as for the whole region[5].

TAPS' role was defined as coordinator and responsible for a sequential list of tasks starting with the research of operational status in Aqaba, development of required processes to achieve public company status, and assistance in implanting the necessary steps as approved by the Committee to have the company up and running. In performing the said duties, TAPS would be freely interacting amongst all Committee members.

USAID as the funding entity would be acting as a facilitator to help ideas merge. It would also be providing opportunities to explore the benefits and potential of developing the public company leading eventually to private sector participation.

Second Step: Prefeasibility Study

As part of the work entrusted to TAPS by the Ministry of Water and Irrigation of Jordan under the USAID contract was the introduction of PSP in WAJ/AQABA. The work in this area involved initially the preparation of a Prefeasibility Study of the projected Aqaba Water Company as a stand alone utility separated from WAJ that will operate on a market basis to undertake all responsibilities of water and wastewater operations in the city of Aqaba and neighboring populations.

During the assignment, TAPS/Chemonics involved a number of specialists to study four areas of work including:

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[5] Aqaba Coordinating Coordinating Committee Meeting Notes, ASEZA, Aqaba November 12, 2002.

1. *Technical/Engineering:*
    a. Estimation of long term projections for water demand and the generation of wastewater;
    b. Estimation of capital and operations costs to reflect actual and real costs of the water utility as an independent unit;

2. *Financial/Economic:*
    a. Aqaba's financial performance with full costs of administration, management and operations that are currently borne by other agencies.
    b. Financial statements and projections (under differing assumptions) covering a 25 year period.
    c. Financial model which will determine a range of rate of return scenarios based on a multivariate analysis.

3. *Legal/Regulation:*
    a. Review of the Jordanian legal environment and proposed legal and organizational structure.
    b. Guidelines for company bylaws and internal operating policies and procedures.
    c. Review of existing regulatory roles and on modifications in current reorganization

4. *Institutional:*
    a. Review and evaluation of present WAJ/Aqaba management systems, organizational structures and staffing.
    b. Analysis on how the transformation of WAJ Aqaba into the AWC will affect administrative matters.
    c. Implementation plan that will assure a smooth conversion.

The Prefeasibility Study was prepared in three and a half months and was discussed in the Aqaba Coordinating Committee on December 17th 2002.

Participants of the Committee presented their comments and a final version including comments was presented on January 2003.

Third Step: Memorandum of Understanding (MOU)

On January 2003, together with the submission of the Final Version of the Prefeasibility Study, ACC members also received an outline of the Memorandum of Understanding (MOU) between ASEZA and WAJ.

The process of review and discussion of the MOU started immediately and was the main issue discussed during the following ACC meetings until March 2003 where TAPS long term advisor had to be evacuated. During the evacuation period, the dialogue and review of the MOU continued through conference calls and video conferences.

The final MOU was signed on June 12th 2003, little more than five months since TAPS proposed the first draft to both parties.

The MOU between the Ministry of Water and Irrigation, the Water Authority of Jordan and the Aqaba Special Economic Zone Authority (ASEZA) sets the fundamental provisions to develop the water sector in Aqaba in the following terms:

1. *Main Objectives* can be summarized in three:

   a. Establish Aqaba Water Company (AWC), to provide water and wastewater services in the Zone and the Aqaba Governorate.

   b. AWC will operate as a financially viable, self-sustaining entity that will be run under commercial principles and promote private sector participation.

   c. AWC will help maintain the competitive advantage of the ASEZ through cost-competitive pricing, efficient, high quality of water and waste water services, including expedient access to new users.

2. *Applicability:*
   AWC would be in charge of the development and management of the existing and future water supply and distribution, and wastewater collection and treatment affairs only in the Zone, as well as present and future development rights. The future development rights will be determined based on what is to be agreed upon in the Development Rights Agreement.

3. *Legal Basis*: The conflicting regulation was one of the most difficult sections to agree and was written in such as format that accommodated both parties interests:

   a. From the side of ASEZA, the following text captured the interpretation of the law and was given the initial part of the paragraph; "ASEZA has the authority under Article 17 of the ASEZ Law to develop and contract for the operation of utility services in the ASEZ, in cooperation with the relevant authority and subject to Council of Ministers' approval. Consequently, ASEZA agrees to enter into a contract with WAJ as the "technically and financially qualified party" to manage and develop the water utility services in the Zone as specified under Article 17(a)(2) of the ASEZ Law…"

b. From the side of WAJ the following text was drafted; "..the contract will specify that WAJ, in accordance with Article 28 of the Water Law, shall form a limited liability company, namely AWC, and will transfer all assets that belong to WAJ Aqaba to that company and will assign its functions and duties. Such contract shall be subject to ratification by the Council of Ministers."

c. Furthermore, both parties agreed in the following text; "The exclusive authority to own, develop and manage water-related services outside the Zone is vested in WAJ. Notwithstanding this, pursuant to Article 11 of the ASEZ Law and Article 3 of the enacted Regulation for the Powers of the Aqaba Special Economic Zone Authority in the Aqaba Region, ASEZA has a general obligation to promote the overall development of the Aqaba Region."

4. *Formation and Ownership:*

a. Form: limited liability company

b. Shares: 85% for WAJ and 15% for ASEZA.

c. Board of Directors: 4 members from MWI/WAJ including the Chairman, 2 members from ASEZA, and 1 member from the Ministry of Finance.

5. *Assets and Rights:*

a. Both parties agree in transferring their assets and rights related to water operations.

b. MWI/WAJ will provide working capital in the amount of JD 0.5 million.

c. ASEZA will grant the rights of first refusal to develop and operate seawater desalination facilities within the Aqaba Governorate, subject to the Development Rights Agreement.

6. *Regulation:*

a. Performance standards for quality, quantity and timeliness will be prescribed in the Assignment Agreement between WAJ and AWC, the Development Rights Agreement between ASEZA and WAJ and the technical requirements necessary for the Operation Permit.

b. Tariff Rates. A tariff regulatory approach will be developed, for adoption as the method that the Council of Ministers uses to set tariff rates for AWC.

c. Bulk Water fee set at 250 Fils/cubic meter.

Fourth Step: Company Registration

After extensive discussions between the parties, three documents were finally agreed and signed on January 28th 2004, two required by Jordanian law: articles and memorandum of association, and an additional document called Company Formation Agreement, incorporating certain clauses of a traditional shareholders agreement.

A brief description of said documents is presented below:

1. *Articles of Association:*

This is a brief document that includes ten pages of basic description of the company including the name of the company, its main objectives and powers, information about its headquarters, capital and subscription, as well as liability of shareholders, its duration and the definition of key dates of implementation process such as date of commencement and date of operations.

2. *Memorandum of Association:*

This is a detailed document with 82 articles in almost 40 pages. The content is similar to a company bylaw document that in the case of Jordan is required to be approved by the Companies Comptroller, although not necessarily in this level of detail. The main issues included in the document are as follows:

a. Policies on Shares, including alterations to share capital, pre-emptive rights to new or repurchased shares, register of members, pre-emptive rights to transfer and disposal of shares by shareholders and instruments for transfer of shares.

b. General Assembly procedures including form for annual and extraordinary meeting, location, quorum and agenda of meetings, chair, adjournment procedures and resolutions.

c. Voting procedures including eligible voters, type of shareholders (registered, joint shareholders, corporate custodians), prohibitions to voting, proxies, voting options, etc.

d. Members of the Management Committee (Board of Directors), number and qualifications, election, appointment, tenure, removal, disqualification, compensation.

e. Powers and duties of management committee, proceedings, meetings, of the management committee, quorum of meetings, chairs, voting at management committee meetings, minutes of meetings.

f. Dividends, form, source, distribution, voluntary reserves.

g. Record keeping requirements, annual financial statements, reporting requirements, appointment of auditor, policy of notices.

h. Policies on liquidation, distribution of assets and proceeds.

i. Extraordinary resolutions on increase or decrease in the Share Capital, on management salaries or fees on change of main objectives of company, on delegation of any power vested in the Management Committee, on extraordinary commitments to assume liabilities, on any borrowing in excess of any Extraordinary Resolution, on any change of the Company auditors,

3. <u>Company Formation Agreement:</u>

This is a brief document of 9 articles and 10 pages that was included as part of the registration documents by ASEZA's request. The document has the objective to reinforce the application of ASEZA's law No. 23 and clarify the term under which this law is applied. The agreement has the following clauses:

a. Definition of dates and conditions precedent for the Signature Date, the Effective Date and the Drop Dead Date in case the company is not formed.

b. Applicable Laws and Agreements where it is clarified the interpretation of the ASEZ Law and the WAJ law and the terms of the MOU initially agreed.

c. A detailed description of the principles behind the creation of Aqaba Water Company specifying the legal right from ASEZA, WAJ's legal right, the Aqaba Governorate role and the mandate that the company will receive from both of them.

d. The agreement also includes by ASEZA's request the transfer of rights to a future corporation that will be formed by ASEZA.

e. Other issues included in the agreement are the policy of share allocation between partners in the same terms as mentioned in the formation agreements, the way how the amendments are executed, and the rights of management of water resources inside the zone (in the hands of ASEZA) and outside the zone (by WAJ).

Fifth Step: Preparation for Implementation

During the entire process of negotiation since the approval of the prefeasibility study, TAPS team continued working on preparatory documents that were discussed permanently with WAJ staff and in some cases the documents were presented to both parties during the negotiation process.

As an illustrative list of tasks that the TAPS team carried out during the process, we can distinguish two types of activities:

1. *Internal Company Matters*

Included technical issues that were discussed with WAJ central as well as with WAJ Aqaba executives. Amongst the most important ones were the following:

a. Organizational Reform: the work carried out covered areas of organizational reform including the assessment and improvement of management structures, performance evaluation on efficiency, design of a plan for adjustments, evaluation of training needs, performance evaluation of staffing and organizational structures. Specific outputs included estimation of individual remuneration levels, job descriptions, wage level and structure and estimation of benefits.

b. Finance and Accounting. TAPS performed a review and assessment of accounting and financial systems, a design and development of system improvements, a training needs assessment and recommendations report. Parallel work was carried out by the Finance and Accounting Systems (FAS) project under the coordination of the finance expert of the project. Additionally, TAPS assisted hiring the financial management and helped preparing the opening financial statements and the first three-year budget.

c. Technical and Operational Business Plan Preparation, including the identification of key company result areas and performance indicators, setting key corporate and departmental performance outputs and targets, outlining of monitoring and evaluation plans, consolidation of prioritized capital investment program, designing an annual report format and preparing a pro forma financial statement for each year of planning period.

2. Matters Subject to Negotiation

As part of the negotiation process the issues presented below were subject to discussion by both parties based on texts prepared by TAPS project and the technical advisors for ASEZA from the ATASP project. The agreements reached were included in two documents, the Assignment Agreement prepared by WAJ and the Development Agreement prepared by ASEZA. Both documents were signed on June 19, 2004.

The two agreements are mirror documents including issues representing the interest of each party regarding the transfer of assets and rights, introducing clauses on regulatory matters, establishing performance indicators and standards of quality of service and addressing specific issues such as bulk water supply and tariff setting.

A referential list of issues included in different topics covered by the documents is as follows:

a. Transfer of Assets and Rights

The issues considered in this area were transfer of legal rights of assets and assumption of liabilities including the duration (indefinite) and all types of assets, accounts receivable, assumed liabilities, third-party consents and excluded assets.

In this section, the dates of transfer and control and the conditions precedent including the termination of employees were clearly defined as well as the respective approvals from WAJ and ASEZA at every stage.

Also the obligations assumed by the company were detailed in every activity carried out by the company in its water and wastewater activities. The scope of services is clearly outlined including the conditions in case the service has a failure.

b. Performance Standards

In both documents there were specific regulations on performance standards including technical standards in under- ground water, wastewater control, drinking water, commercial and industrial wastewater disposal through the sewerages reclaimed domestic wastewater standards, sewage sludge, drinking water standard and specification of bottled drinking water standard.

c. Economic Regulation

A very detailed discussion was conducted on economic regulation and the tariff setting mechanism. The parties arrived to the conclusion that tariffs are set by the government as the last stage of tariff determination, nevertheless, it was agreed that AWC as a new business model, would be in a better shape to identify better ways to structure its tariff setting policy and therefore better positioned to propose changes.

Therefore the parties identified procedures to rate-setting and the mechanisms of recommendations through the regulator. Also a tariff structure was determined with allowed revenue formula including a permitted return on equity indicator, with different customer classes and the standard formula for calculation of allowed revenue including the possible variations in the future. Likewise, the parties agreed on the allocation of costs between user groups, the basis of the tariff schedule and the subsidies to be made. The agreement was compatible with the general understanding to maintain a cap to present levels limiting future subsidies.

As part of the regulations regarding financial information, the parties adopted strict observance to International Accounting Standards on records management, accounting keeping, inspection and auditing. The parties agreed to have fiscal year and annual reports, quarterly financial reports, annual audit and financial report and established wide used principles of data ownership, information, and documentation.

d. Bulk Water Supply

A comprehensive policy to supply water was agreed between the parties including bulk water supply and development policies of ownership of underground water resources, ownership of wells and surrounding land, rights to extract ground water on existing wells and new wells as well as assignee's duty to supply water to users assignee's right to construct additional facilities.

The agreement details the quantity and quality of water, its price and terms of payment, the water distributed to ASEZ, the water for villages, and the policy for distribution of the Disi water to nearby settlements including required policies for meter installation.

e. Customer Service Provisions

The agreements on customer service procedures were not only part of the two negotiated documents but also were incorporated in company bylaws.

The content of the procedures is very detailed including clauses to be included in customer contracts, special information to be part of required forms, amount of deposits, notices, rendering of payment of bills and treatment of disputed bills, discontinuance and restoration of service.

The agreements also included information that should be publicly available to customers, characteristics of temporary service, continuity of service, characteristics of service to main extensions, service connections and meters and customer facilities. Detailed information on meters such as relocation, tests, and adjustment of bills for meter errors were part of the agreements between parties.

f. Technical Standards and Performance Measures

Both, the assignment and the development agreements included clauses that detailed the type of service with its specific standards. In the Development Agreement ASEZA included as a precondition to start operations the water utility permits, the raw water performance measures, the drinking water performance measures, the standards for reclaimed domestic wastewater, performance measures for the use of sludge in agriculture, performance measures for industrial and commercial wastewater disposal into the wastewater network.

Also the agreements included provisions related to standards of health and safety plans, environmental matters, emergency response plans and management information systems.

g. Customary Provisions

As any other contract on this matter, the parties negotiated standard legal clauses on breaches and remedies, dispute resolution, force majeure, arbitration, indemnity and insurance, mitigation by parties, limitation of liability, survival of indemnification rights and obligations, responsibility of taxes and charges, etc.

ASEZA and WAJ had in mind that in the future, when private investors would come to participate in the company, the standard clauses would be familiar to them and would enhance its participation.

The Benefit of Negotiation

The extended period of negotiation between the two parties between January 2003 and July 2004 played a key role in the improvement of the process and the increase of quality in technical as well as legal components of the transaction.

ASEZA´s role as a key stakeholder proved to be beneficial adding credibility to the process and assuring the participation of a critical party that was also totally embarked on reforming the country and its institutions.

Traditional criticism on corporatization processes relies mainly on the biased guidance by government employees that bring unilateral decisions that normally protects their buorocratic interests. In this case, both parties fought for genuinely different interests that after extensive negotiations arrived to a final agreement with a better final product for the consumers, the shareholders and the government.

The Final Outcome

Corporatization should be an option for private sector reform in the infrastructure sector. As an intermediate step of reform or as a final stage, corporatization should be seen as a way to modernize companies, introduce principles of management and transparency and allow the private sector incentive a crucial role in two senses: as part of a profit structure through shareholder maximizing profit or through employees and managers that receive performance payments. However, as any other option, this can be applied to certain cases and not as an across the board solution. In the case of Jordan, there are many factors that justify why this transaction has great opportunities of success.

Jordan: Different from Other Cases

1. *Reform with Modernization*

Jordan has been undergoing a modernization process during the past decade. Current policies continue renovating various areas of government. Privatization has been taken place in almost all key sectors of the economy such as telecommunications, potash company, cement, and other sectors such as port and airports.

The regulatory reform has created modern regulatory agencies in the telecommunications and the electricity sectors. Employees in those institutions have started a new generation of civil servants with higher technical standards and more competitive wages.

Aqaba is the place that looks for the leadership in the reform process in Jordan. A more flexible and radical change has taken place in the region starting a modernization process in customs, the port and the airline sectors as well as in the business development trough industrial and free zones that are attracting significant investments from all over the world.

In general the modernization process in Jordan is characterized by a more aggressive plan to attract private sector participation from national and international investors or operators.

AWC has benefited with the enthusiasm of two main players of modernization, ASEZA and the Ministry of Water and this represents undeniably a significant cause for the success of the process.

2. *Legal Framework*

Jordan's water sector like very few countries have a legal framework that grants significant power to a sectoral authority like WAJ to execute a complete separation of business units transferring ownership to private or public bodies. At the same time the separation is effective, ending all governmental regulations on civil service employment policies and having a completely autonomous financial management.

The legal framework adopted for AWC not only counted with WAJ Law to give the utility free autonomy to manage itself but also was complemented by the ASEZA Law that gave a modern context encouraging the qualification and enhancement of the capacity of Jordanian manpower and giving commercial practices a great deal of importance.

3. *Strong Civil Service*

The stability of WAJ personnel and the significant assistance received from bilateral and multilateral institutions over the years have created a group of well educated and experienced technicians that are one of the most valuable resources and a key ingredient for a successful corporatization.

Unlike other less developed countries where political influence and intervention have allowed the excessive rotation of personnel and therefore inhibited the formation of technical cadres, in Jordan, WAJ has become a training center that have exported significant number of engineers to the Gulf [6].

4. *Ministry with Clear Goals*

MWI/WAJ has currently a clear development plan translated in the Master Plan 2002-2011. In such document, there are three areas of

[6] A reference given by a senior WAJ engineer estimates the number of over a hundred and fifty engineers that have worked temporarily in different Gulf countries.

monitoring and development that are related to the Technical Assistance, Private Sector Projects and Water Projects.

Within the Private Sector Projects, there is a list of eight projects to be undertaken during the reference period and two under execution, the Amman Management Contract and the As Amra BOT wastewater project. The rest of the projects are under progress with the exception of the Wadi Mousa Management contract and the Northern Governorates Management Contract that were cancelled.

The Ministry has a clear agenda to reform introducing private sector participation and now after the completion of AWC, to continue corporatizations specially in the Northern Governorates, creating business units and separating completely from WAJ operations.

5. *ASEZA's Role in the Process*

After three years of consolidating the basic set up in the ASEZ, the next step for ASEZA is to develop more aggressively the attraction of investment and the development of infrastructure.

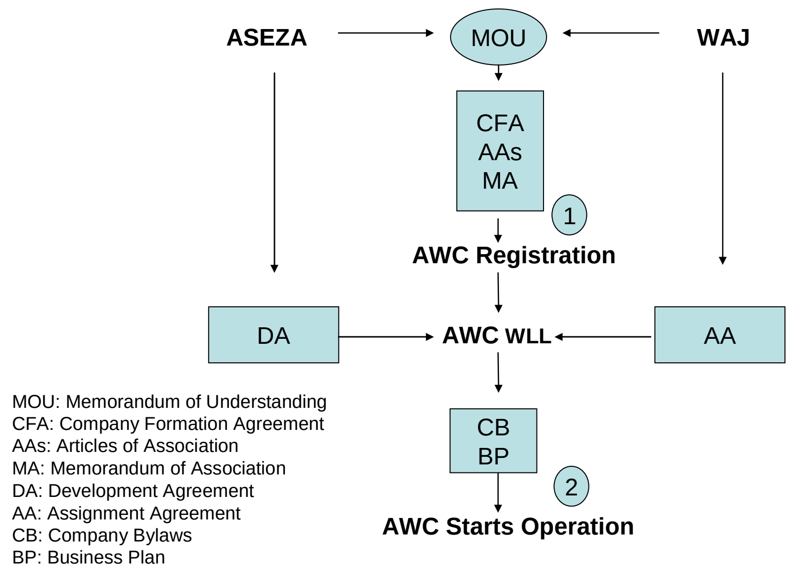
A major shift of roles in the Zone is expected when ASEZA transfers all its development responsibilities to the Aqaba Development Corporation (ADC) and concentrates its role in the development and execution of regulations.

ASEZA's profound involvement in the creation process of AWC has benefited the newly created company but it also was critical for the learning process for the establishment of ADC. The modernization process in the Zone will continue being the right framework and environment to continue improving AWC.

The Unique Legal and Institutional Framework

AWC had to follow a unique legal and institutional framework. Three main laws set the framework for the company: the Companies Law, the WAJ Law and the ASEZA Law. The requirements of every law put into a single transaction dictated the sequence of the process which is presented graphically in the next diagram:

Legal & Institutional Framework



The Memorandum of Understanding was the initial step in the process which was followed by the registration of AWC with the Company Formation Agreement, the Articles and the memorandum of Association. The creation of the company was the first part of the process and allowed the company to subscribe the next documents that would allow the company start its operations.

Once completed the Assignment and Development agreements, the parties: AWC, MWI/WAJ and ASEZA could now finalize the process and sign the final agreements to start operations.

Additional documentation was needed to start operations such as the business plan and certain company bylaws as well as the finance and accounting documentation including the opening balance, and all the requirements set by the accounting software.

1. *The Companies Law*

AWC follows the regulations of a limited liability company of the Companies Law of Jordan. The company has no limits on the number of shareholders, it may also enjoy indefinite duration. The liability of shareholders is limited to the amount of their investment. Only one class of shares is allowed.

The limited liability option was chosen for AWC because various advantages such as the absence of the requirement that directors also be shareholders[7]. The limited liability company can be formed quickly, and is not subject to public scrutiny: it is exempt from the requirement to publish its annual balance sheet, its profit and loss account and a summary of the report of its manager or its Management Committee[8].

Nevertheless, as is mentioned in the Memorandum of Understanding, AWC may be transformed into a Public or Private Shareholding company to be able in the future to enter into concession agreements, offer its shares for public subscription, increase its capital through public or private share offerings, issue bonds to raise loans and borrow by subscription.

2. <u>Corporate Agreements</u>

WAJ and ASEZA took almost six months and ten draft versions to finalize the corporate agreements. During this exercise both parties wanted to introduce best practice and modern lessons from corporate governance in similar companies. A number of principles were introduced and they are reflected in the following list:

a. <u>Generally Accepted Accounting Practice</u>

Article 64 of the Memorandum of Association states that the Management Committee shall, at a minimum, keep accounting records according to Generally Accepted Accounting Practice. The Assignment Agreement has also the same principle although referred as to International Accounting Standards. In any case, one of the strongest efforts presently going on at the Ministry of Water and specially at AWC is the implementation of the Finance and Accounting system using the E-Oracle Business software and introducing best practices in this critical area.

b. <u>Transparency</u>

Across the Memorandum of association, there is a number of articles that stress on the importance of transparency in the

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[7] Companies Law, Article 60
[8] Companies Law, Article 69

management of AWC. A detailed description of the General Assembly meetings, including its form, location, quorum, agenda of annual and extraordinary meetings, voting procedures, declaration of results, evidence disputes, etc; assures the shareholders that their participation in the maximum level of authority will be clearly established.

Also the Management Committee is defined in detail including its proceedings, minimum number of meetings, notice of meetings, waivers of notice, quorum of meetings, voting procedures, majority rules, minutes of meetings, etc. The delegation of roles and responsibilities between the Management Committee and the General Manager is clearly established as well.

Finally the notices to every party in the control of the company are also defined with form and method, address for delivery of notices, notices to joint parties, etc.

c. <u>Conflict of interest</u>

Article 46.2 of the Memorandum of Association deals with the conflict of Interest stating that “no member shall vote at any Management Committee meeting in respect of any contract or proposed contract with the Company in which the Member, in his personal capacity, holds an interest, directly or indirectly, however remotely, or on any matter arising therefrom and, if they do vote, their vote shall not be counted.”

d. <u>Authority Conferred to the Management Committee</u>

The Management Committee (MC) retains all the powers necessary to manage the business and affairs of the company. The MC can borrow any sum of money for the purposes of the Company and may secure repayment in any manner. Can issue bonds, debentures, mortgage, charge or other debt obligation or security, whether specific or floating, at a discount, premium or otherwise and with special or other rights or privileges as to redemption, surrender, drawings, allotment of or conversion into Shares. The limit of the borrowing may not exceed one half (1/2) of the amount of the Company’s issued Share Capital without the prior sanction of an Extraordinary Resolution.

The limitations are defined in the Companies Law and in the Extraordinary Resolutions taken by the General Assembly including any increase or decrease in the share capital, any payment of management salaries or fees that would have the effect of stripping the Company of revenues, any change of company objectives, any borrowing in excess of any Extraordinary Resolution, any change of the Company auditors.

e. Power Delegated to Officers

The Management Committee has a dominant role in AWC. No officer is voting member of the Management Committee, only the General Manager is a non-voting, ex officio Member. The Management Committee may appoint and terminate the General Manager, the Deputy General Manager, the Financial Manager, the Technical Manager and any other officer that deems appropriate.

The Management Committee may from time to time entrust to or confer upon any Officer the powers and authorities vested in them as they may deem fit. Those powers shall be described in a formal job description for the same.

f. Appointment of Auditor

AWC has established that in addition to the Companies Law requirements, no Auditor shall serve as the Company's auditor for more than ten (10) contiguous years without an absence of at least three (3) years before becoming eligible for any further election as Auditor.

3. Regulatory Arrangement

Based on article 13 of the Memorandum of Understanding on regulatory matters, both parties translated the agreements in the Assignment and the Development Agreements.

a. Regulatory Body and Procedures

As an interim arrangement, until a national regulatory body is created, AWC is regulated by contracts, and there are two parties to enforce the regulation, AWC will be regulated by WAJ through the Assignment Agreement and by ASEZA through the Development Agreement, and where provisions of both agreements concern regulation of AWC, ASEZA and WAJ are joint Regulators.

A pending legal agreement related to “Rules of Practice and Procedure” (“RPP”) is to be finalized by ASEZA to be implemented in the regulatory process.

b. Division of Regulatory Functions Between ASEZA and WAJ

AWC will be regulated by performance standards that will be monitored by WAJ and ASEZA. ASEZA will regulate activities that directly affect consumers and WAJ will regulate activities related to the supply of water, and other technical standards that apply to providers of water and wastewater services throughout Jordan.

c. Technical Standards

Both the Assignment and the Development agreements adopt the Jordanian standards on wastewater collection, transmission, treatment, reuse, and wastewater effluent and reuse standards. Other standards are also applied such as the uses of sludge, constancy of water supply, provision of potable water a minimum of twenty-four (24) hours per day, six (6) days per week, meeting all quality standards. Constancy of wastewater collection, pumping and treatment system operation, provide for collection, pumping, treatment, and reuse of all wastewater

4. Bulk Water Supply

Underground water resources were not transferred to AWC and remain under the ownership of the Government of Jordan. Wells supplying AWC as well as land adjacent to the wells are included as transferred assets.

The extraction of water is limited to a maximum of 17.5 MCM/year of Disi Water and in non-normal withdrawal conditions, the limit can be increase up to 20 MCM/year for a maximum period of 2 years. AWC will be allowed to develop new wells procuring the respected permits from ASEZA and WAJ.

AWC will pay JD 0.250 Fils/cubic meter for Disi Water. AWC will continue delivering Disi Water to subsidized areas up to the amount currently delivered with a price of JD 0.001 Fils/cubic meter.

Cost Recovery and Tariff Setting

The tariff issue was also subject of wide discussion between ASEZA and WAJ and nevertheless the issue is defined at a national level and is subject to Cabinet decision, the parties agreed to go a step further and allow the principles of cost recovery or cost of service approach to be introduced in the company operation so it can be in the future subject to any adjustment proposal if circumstances call for it.

1. *The Present Situation in Jordan*

Jordan has a water pricing scheme since 1997 and is contingent on two factors: usage purpose and method by which water reaches de customer[9]. The usage purpose is divided into residential, commercial, industrial, governmental and irrigation and they receive by a combination of methods as municipal network, private wells, water tankers, and irrigation network.

The residential water tariffs are structured in the form of an increasing block tariff with two tariffs, Amman Governorate and the rest of the country. The first group with the lowest consumption of 20 cubic meter/quarter is charged a flat rate, the rest is charged according to a formula.

The commercial, industrial and governmental customers are charged by a restructured tariff with a regional uniform level of JD 1 per cubic meter of water and JD 0.5 per cubic meter for the rest of the country with the exception of Amman and Zarqa which are 12% higher.

2. *The Need to Introduce Mechanisms to Establish the Relationship Between Costs and Tariff*

As tariffs are set nationally or regionally, they don't represent the value of water neither the costs of operation and maintenance of each particular area. The separation of business units such as AWC will allow the calculation of more specific information that will help discuss tariff structure changes to make companies more able to develop and also encourage a more competitive scheme to develop the rest of the sectors.

[9] Abdalla Hazem, Naber Helena, Quossous Razan an Asad Tamer. *Pricing as a Tool for Water Demand Management in Water Scarcity.* International Water Demand Management Conference, Dead Sea, Jordan, 2004.

3. *The Option Followed by the Company*

Although AWC will charge only rates contained in a Tariff Schedule approved by the Council of Ministers, it has the right to submit a proposed Tariff Schedule or change to ASEZA and WAJ or to the national regulator in the future.

The tariff structure is defined in the Development Agreement based on an Allowed Revenue formula that includes the cost of purchased bulk water, cost of purchased desalinated water, operating expenses including maintenance costs, taxes, depreciation of assets and a return on net equity of not more than 10%.

AWC can propose a new structure of classes of customers, and the allocation of costs between user groups. Every proposed structure should be based on cost recovery and permitted return on equity.

Conclusion: The Crucial Phase of Start Up

AWC has started its operations on August 1st 2004 with the great challenge to become a successful model for water reform in Jordan. Equipped with modern principles of corporate governance, with a reorganized utility following best practices in water business, with a flexible approach to regulation and performance management, AWC has an intense work ahead to implement what is available and to complement what has been left for later implementation.

The following is a list of critical areas that would need to be followed by company management as well as by the parties that have assisted the process since its inception.

Four Key Elements to Safeguard the Process

The process of establishing AWC will need to take special care of four elements that are detailed below:

1. *Corporate Governance*

AWC has a set of corporate governance principles embedded in the registration documents as well as in the Assignment Agreement and Development Agreements. The principles, although in some cases very detailed, should be implemented rigorously from the very beginning so the company starts a tradition of formality with rules that no matter whom is part of the company or when it is applied, it is always a law to observe.

At this initial stage of development when there are few external people involved at the level of the Management Committee, there could be a tendency to have a loose application of principles and therefore weaken the ultimate objective.

2. *Finance, Budget and Business Discipline*

Along the process of start up, two elements were subject of great interest for all the parties: the three-year budget and the business plan. The two elements were correctly seen as the work plan that would guide the process of development with clear goals and specific amounts of revenue and expense.

At this initial stage, these two instruments may not be as accurate as needed and therefore they should be probably reviewed and adjusted with more precise data available in the future.

Although this initial flexibility might be necessary, in the future, once the numbers are correct, these instruments should be used as a critical inflexible steering instrument where every party involved at the control or managerial part of the company should look into.

3. *Organizational Development Based on Merits and Rewards*

Probably the reform area at AWC with the most important potential for development is the human resource management. The new organizational structure has established a new set up for employees with a clearer role, a separation of responsibilities and specific goals. The job responsibilities come along with a new and more reasonable wage and remuneration structure that rewards employee’s performance and career development.

The implementation of the plan is not going to be simple or easy but if applied correctly and keeping the principles at all times, the medium and long term benefits will be seen in every area of the company.

4. *Open to New Knowledge and Private Sector Practice*

Any corporatization faces the great challenge to acquire new knowledge to modernize every area of work including the best practices in business management. For some companies, the management contract is a way to get it initially and to build upon it, for others there are contracts with specialized firms on certain areas of work and for others there is the possibility of directly hiring expatriates to manage specific areas.

In the case of AWC, the technical assistance provided by TAPS is designed to assist the start up of the company providing the required know-how and business acumen for this stage.

In the future, a successful development of AWC should go along with aggressive programs to attract permanently new knowledge and better business management techniques.

Mentality Change

All but one Executive Staff at AWC come from the previous WAJ Aqaba or from WAJ Amman. Only the Finance Manager has a background of private sector experience. This is probably one of the most challenging issues that will have to face AWC management, the change of government mentality and the adoption of private sector practices.

1. *How to Spend*

As government employees the most striking change is the management of financial resources. Under Government regulations, the limitations of managers to spend funds were extreme. Every relevant expense had to be authorized by Amman and the process and requirements to obtain the resources had to follow a significant process of red tape.

Presently AWC has the Procurement Policies and Regulations where a new set of spending limits has been established giving internal approvals up to JD 200,000. This change of spending procedure will surely be a key component of the undergoing transformation in management of the new administration.

2. *To Whom to Report*

The new organizational structure has shifted some responsibilities from one division to another, and in addition, part of the personnel that remained in their division has to report to a different manager.

The change of reporting line also goes, and most importantly for the managers that have to report to an in-house manager with full executive power. Also this reporting line has to see with a different reporting attitude for a private sector rather than a governmental one.

3. *Training and Improvement at Work*

Typical government attitude towards employees inhibited performance and career development. Now workers will be paid not only according to their merits but they will also receive payments based on their career advancement.

AWC will provide training, will foster certification programs and workers that succeed completing steps of improvement of qualification will be better paid and promoted.

The challenge of AWC to instill this new mentality will be great but the rewards will be reflected in a better company.

The Look at a Brighter Future

Expectations on AWC's future are high. The impact of its success will be great. It will not only help Jordan reorganize its water management policies but will promote the creation of business units that will deal efficiently with the provision water and wastewater services.

AWC model will probably have to be adjusted for many other areas in the country that don't enough revenues to operate systems and require subsidies. Even in those cases, the AWC model will be more efficient and transparent when subsidies will be assigned through modern, independent and better run water utilities.

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