

Khirbet As Samra

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The Jordanian government earlier this year broke ground with its US\$185.9 million development and expansion of the Khirbet As Samra wastewater treatment plant – the country's first ever build operate transfer (BOT) project. It is also the first such deal in the country to benefit from a substantial grant from the United States Agency for International Development (USAID).

This 25-year water treatment concession is expected to be the first of many such deals as the Jordanian government grasps the benefits of project finance. Indeed, there are at least two major projects nearing closure in the country – the Disi water project and the Egyptian gas project.

In an interview with Infrastructure Journal, a source at Arab Bank – which acted as lead arranger for the transaction – hinted at a raft of similar deals on the cards.

'The government is now encouraging this kind of financing,' said the Arab Bank spokesman. 'Jordan is a small country, but it has one of the most advanced privatisation programmes in the Middle East and this method of project financing suits our strong privatisation programme.'

The project

The new wastewater treatment plant replaces an existing underperforming plant that had fallen below environmental standards for treating non potable water from Amman and Zarqa. The new plant will provide an average capacity of 268,000m³ per day and will treat the sewage of 2.5 million inhabitants in Amman and surrounding areas.

Once in full operation, the new plant should treat more than three times the water being processed at the existing facility.

The Jordanian investors financed the Khirbet As Samra project with support from USAID, but upgrade of a pumping plant at Zarqa – costing US\$17 million – was financed purely by the USAID grant.

Sponsors

The Jordanian government awarded the 25-year management contract to the 50:50 sponsors – Suez Environment/Ondeo Degremont and The Morganti Group.

The contract operator and the EPC contractor was the one special purpose vehicle (SPV) set up between Ondeo Degremont and Morganti.

The SPV was awarded the 25-year concession – which includes a three-year design and build period. When completed the plant will be able to process more than three times the water being currently treated.

Financing

The total project value was US\$185.9 million – and of that figure, US\$160 million came in the shape of project finance. The project received a US\$92 million grant from USAID, senior debt of US\$68 million and equity of US\$25.9 million from the sponsors. The debt was financed in Jordanian dollars and funded by a consortium of Jordanian commercial banks led

by Arab Bank.

The consortium that provided US\$68 million of senior debt included Arab Bank, Bank of Jordan, the Jordanian branch of HSBC, Jordan Investment & Finance Corporation, Arab Jordan Investment Bank, Export and Finance Bank, Industrial Development Bank of Jordan, Jordan Investment & Finance Corporation, and Social Security Corporation.

The Arab Bank spokesman said: 'The loan as we have it now is a 10-year loan, but there are certain financial conditions which, if they are achieved by the end of year 10, the loan is extended for a further five years. We left a balloon payment at the end of year 10 and this balloon payment can be rescheduled for five years. Under normal conditions, it will be a 15-year loan.'

The balloon payment is understood to be for 40-45 per cent of the loan.

The first three years of the project has been set aside for construction and 22 years for operation. For the financing of the first three years, the interest on the loan has been set at 7.6 per cent.

HSBC in London acted as financial adviser to the project company.

Legal

Swedish law firm Mannheimer Swartling advised the Jordanian government's ministry of water, with further advice on water treatment facilities coming from the Swedish government and Swedish engineering firm Sweco.

Latham & Watkins advised Arab Bank and the consortium of bankers, led out of the London office by projects partner Dennis Nordstrom. Freshfields Bruckhaus Deringer advised the sponsors.

Nordstrom said: 'The financing for the new Khirbet As Samra wastewater project, although not large in financial terms, was a unique and innovative project financing in that it was the first public-private partnership transaction to have successfully achieved financial close in Jordan and was the first time that USAID and commercial banking institutions co-financed a BOT project anywhere in the world,' said Nordstrom.

'The banking and project teams overcame a number of obstacles, including some structuring challenges associated with aid contributions to close the financing within three months after agreeing the financing term sheet.'

He added that the structure achieved on this transaction could and should be adopted for a variety of other projects around the world that otherwise merit aid or concessionary financing to encourage and facilitate economic growth.

Conclusions

As the first BOT transaction in Jordan, the industry is expecting to see a spate of similar deals make it on to the radar. The government has made it clear that this is a form of financing that it not only supports, but will actively encourage.

Although the Jordanian government did not have to leave its shores to arrange financing, it will not be long before international finance houses are investing in infrastructure projects in the country.

This project sees Ondeo Degremont and Morganti break into the country with support from USAID and Sweden – it is only a matter of time before the market opens up to worldwide investment potential.

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