

## The way forward

In consideration of the initiatives underway in the water sector in Tunisia, the Policy Dialogue offers practical recommendations to authorities and other stakeholders, including concrete measures for successful water reform in relation to three main areas:

### KEY AREAS FOR IMPROVEMENT

Enhancing financial sustainability through improved budgetary processes

Developing the regulatory framework

Enhancing stakeholders' engagement

They are briefly presented below in the form of a checklist for actions while more detailed information can be found in the Report.

### SUGGESTED WAYS FORWARD INCLUDE:

- Consider forms of PSP in the water sector **in light of past experience**, the local and international private sector appetite, and the improvement of framework conditions;
- **Involve small private operators to support the GDAs** in rural areas by identifying specific appropriate cases and carry out pilot applications;
- Analyse further the **use of BOT type PSP arrangements** for desalination or wastewater treatment plants based on feasibility studies;
- Give the water operators **more autonomy and greater flexibility** in managing their investments and their current operations;
- Ensure that **tariffs cover the operators' costs** and accompany price-setting with cost reduction measures to ensure better bill recovery;
- Record government subsidies to the water sector **transparently** in the budget and accounts;
- Introduce **strategic financial planning tools** specific to the water sector to a) Prepare the **benchmark scenario**, including a thorough analysis of the current situation, a definition of objectives for the sector, and the steps needed to achieve them; b) Evaluate the **financial feasibility** of the benchmark scenario and c) Conduct a **dialogue on the alternative scenarios** to achieve consensus;
- Specify in the budget all **contingent liabilities** arising from government commitments in the water sector in order to minimise fiscal risks;
- Strengthen the **legislative framework** for PSP and PPP in the water sector, and have mechanisms in place for reconciliation with existing laws;
- **Strengthen government capabilities** in the area of PSP, and PPP in particular;
- Maintain a close link between the budget and planning processes and, on the basis of the PPP law and its application decrees, establish the procedure for tendering PPP contracts and introduce methodologies for assessing value for money;
- Establish a **list of water and sanitation investment projects**, showing the order of priority;
- Define **equitable rules** of the game for selecting between a public option and a PSP option;
- Establish a **competent team** to monitor projects and manage the engagement with the private partner during the operational phase of a PSP project;
- Scale up efforts to develop **performance indicators** and see that the results are published;
- **Update and complete** the existing water information system and check its consistency with the various information producers;
- **Strengthen the capacities** of the communication divisions of SONEDE and ONAS;
- Define the **target population groups for communication** purposes;
- **Strengthened the GDAs** as a forum for participation and sharing of experience;
- **Strengthen the role of NGOs** and the participation of vulnerable groups (young people/women);
- Improve the **representation of governorates and municipalities** on the National Water Board;
- Strengthen **communication and co-operation** among public agencies.

## About the Governance & Financing for the Mediterranean Water Sector Project

Labelled in 2012 by the Union for the Mediterranean (UfM), the *Governance & Financing for the Mediterranean Water Sector Project* is a joint undertaking of the Global Water Partnership - Mediterranean (GWP-Med) and the Organisation for Economic Cooperation and Development (OECD).

The aim of this regional four-year project (2013-2017) is to diagnose key governance bottlenecks to mobilising financing for the water sector and to support the development of consensual action plans based on international good practices.

Country reviews are carried out to identify main governance challenges to sustainable financing via in-depth technical work and informed multi-stakeholder national dialogues, in close cooperation with the Ministries in charge of water, while a regional dialogue enables the sharing of policy and practical experiences among Mediterranean countries and the promotion of best practices. The project is executed through an interplay of national and regional activities, where the outcome of national work feeds into the regional dialogue, and findings and experiences from the regional dialogue bolster the national work.

Strategic partnerships with the Swedish International Development Cooperation Agency (Sida), the FEMIP Trust Fund (FTF) of the European Investment Bank (EIB), the GEF - UNEP/MAP MedPartnership programme and the Mediterranean Component of the EU Water Initiative (MED EUWI) have been instrumental in setting the project in motion and under effective implementation.

THE PRESENT DOCUMENT WAS DEVELOPED WITHIN THE FRAMEWORK OF THE PROJECT:

Governance & Financing for the **Mediterranean Water Sector**

PROJECT LABELLED UNDER:



THE PROJECT IS IMPLEMENTED BY:



WITH THE SUPPORT OF:



Front cover image courtesy of Dennis Jarvis  
Description: Chott el-Jerid, the largest salt pan of the Sahara

### POLICY BRIEF

## WATER GOVERNANCE IN TUNISIA: OVERCOMING THE GOVERNANCE CHALLENGES TO PRIVATE SECTOR PARTICIPATION

## Governance & Financing for the **Mediterranean** Water Sector

The present document is based on the outcomes of the Tunisian Water Policy Dialogue (2013-2014) conducted jointly by the Global Water Partnership - Mediterranean (GWP-Med) and the Organisation for Economic Co-operation and Development (OECD) and in close cooperation with the Planning and Hydraulic Balance Department (BPEH) at the Tunisian Ministry of Agriculture, Water Resources and Fishery (MARHP). The Dialogue allowed building a shared consensus among key stakeholders on the main areas for improvement towards the sustainable financing of the Tunisian water sector, including with private sector involvement, and specific actions to achieve this. These were described in an analytical country Report and are based on best practices and internationally recognised tools. The Dialogue was carried out in the framework of the Union for the Mediterranean (UfM) labelled project *Governance & Financing for the Mediterranean Water Sector*, with the support of the FEMIP Trust Fund of the European Investment Bank (EIB), the Swedish International Development Cooperation Agency (Sida), the GEF UNEP/MAP MedPartnership and the Mediterranean Component of the EU Water Initiative (MED EUWI).

## Water Financing in Tunisia: Context of the dialogue & policy relevance

Although it has performed remarkably well in the past, the water sector in Tunisia is now faced with deteriorating infrastructure and declining service quality, as well as increasingly severe financing difficulties. These problems are exacerbated by the increasing scarcity of water resources and the fact that they are already heavily exploited, which makes further investment more costly. The technological solutions to which the country might turn, such as exploiting nonconventional sources, are expensive. Operators are showing signs of exhaustion and are facing significant financial challenges because of rising costs, low tariff levels, and the insistent demand for high-quality service. Governance of the sector, which is based on highly centralised responsibilities and decision-making powers, is also revealing its limitations.

The post-revolution reconstruction now under way, however, offers a unique opportunity to rethink the water governance framework and the potential role of private sector participation (PSP) in supporting the water sector, before choices are made. With the recasting of the legislative framework (most importantly the inclusion of a "right to water" clause in the new Constitution and the update of the Water Code) and imminent decisions on new economic development models for the country - based *inter alia* on greater private sector involvement in the Tunisian economy as a whole - now is the time to engage in strategic thinking about Private Sector Participation (PSP) in the water sector, and its institutional and regulatory implications, before choices are made.

*This is particularly important as the question of PSP is now receiving greater attention in the country, as demonstrated by the adoption of the public-private partnerships (PPP) law in November 2015 and the support now accorded to the PPP programme by senior government officials.*

A sound understanding of the different forms of PSP, their objectives and their potential benefits (given the sector's specific conditions and performance), their modes of application, their challenges and the conditions for their success would allow the water sector to respond fully to the fundamental choices that the country will have to make once the political conditions are in place.

*In particular, the capacity to undertake more complex forms of PSP, involving a greater transfer of risks to private partners, a longer term and a direct relationship between the private sector and users, will depend on the country's ability to implement the necessary framework conditions.*

Specifically, issues with the sector's financial sustainability have recently emerged and if they are not addressed they could jeopardise future investments. These problems could discourage private partners from becoming involved in the Tunisian water sector. They could also become worse if PSP was undertaken without a clear perspective on cost recovery. Furthermore, a successful partnership with the private sector will depend on the country's capacity to guarantee transparency, value for money, and stakeholders' engagement.



1<sup>st</sup> Consultation Workshop, Tunis, 1 October 2013.

## The national water policy dialogue: What for?

The GWP-Med / OECD Policy Dialogue on Water Governance and Financing in Tunisia (2013-2014) identified important gaps and challenges on the governance and financing of the Water Sector, including through Private Sector Participation, and actions to move towards a more financially sustainable water sector while sustaining the current reform process.

More than 160 Tunisian actors were engaged in the Policy Dialogue that relied on multi-stakeholders consultations to guide and validate the technical work carried out in parallel. They included government bodies, agencies and water operators, municipalities, private sector, research institutes and academia; international organisations including donors, as well as civil society and users.

All key findings of the dialogue were compiled in a tangible outcome, the Report entitled 'Water Governance in Tunisia: Overcoming the challenges to Private Sector Participation' that aims to be utilised as a tool in the hands of policy-makers.

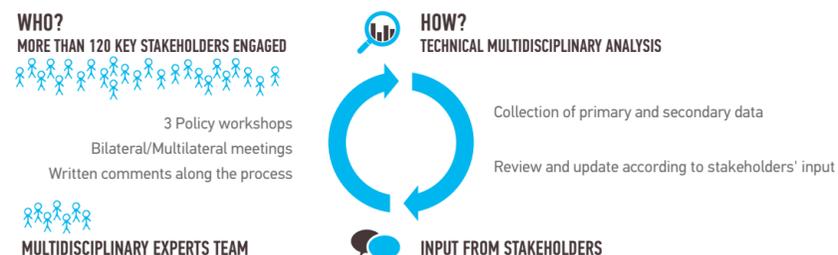
Key milestones of the process have been three Consultation workshops contributing respectively to:

- set the ground for the technical work to be conducted (October 2013), with emphasis on the policy, institutional and legislative framework for private sector involvement in the water sector; the regulation of water and sanitation services; the budgetary process and tools for planning and financing water projects with the private sector; and the engagement of end-users and other stakeholders.
- share and discuss findings and provisional policy recommendations (March 2014) of the Report around three main areas: Governance challenges to overcome in relation to the institutional and legal framework; Transparency mechanisms, stakeholders involvement and budget implications of the sector decisions; and Financial viability and budget sustainability of private sector participation (PSP) in the water sector of Tunisia.
- present the final National Report (June 2014) and its findings and recommendations in relation to identifying appropriate forms of PSP; improving financial sustainability of the water service sector and; strengthening stakeholder's engagement and transparency mechanisms.

Participants have welcomed the conclusions and recommendations developed in the Report and considered the findings as reflecting a broad consensus on the governance challenges faced by the Tunisian water sector and on the steps needed to deepen and sustain the current reform process.

The recommendations were considered timely as they can feed into on-going water reforms and initiatives led by national authorities and donors. Moreover, the added value of this inclusive policy dialogue was widely acknowledged for building consensus among stakeholders and for serving as a useful coordination tool for water initiatives.

### SNAPSHOT OF THE DIALOGUE: POLICY DIALOGUE – METHODOLOGY



## What are the main findings of the policy dialogue?

A number of priority issues have been identified during the Dialogue process in Tunisia:



2<sup>nd</sup> Consultation Workshop, Tunis, 5 March 2014.

- The **institutional framework for the water sector and for PSP is in transition**, including a possible move towards enhancing the decentralisation process, the management of PPP projects and also strengthen participatory democracy and open governance in the preparation of projects (including PPP projects) and their execution.
- Implementation of PSP programmes will require a **review of the traditional tasks of administration and operators**, as well as developing new competencies for projects' preparation, contract award, performance monitoring and dispute settlement. This is particularly important for the water sector that has little experience with PSP.
- Although the **PPP framework legislation represents in itself a strong signal of political commitment to PSP**, it is important that all other planned steps for updating existing sectoral legislation or promulgating new one relevant to PSP will complement each other.
- The **efficiency and performance of the two big national operators** (ONAS and SONEDE) that have played key roles in ensuring the quality of coverage in the country **is held back by several factors**, including shortcomings of the financial and organizational model and the sector's traditional operating modalities that have impaired their financial and management autonomy.
- There are **capacity shortages in the rural water and sanitation sector**, particularly in relation to rural water supply services delegated to the Groupements de Développement Agricole (GDA), while there is no entity responsible for rural sanitation services, resulting in an institutional void.
- PSP is limited so far to service and management contracts while more advanced forms are explored particularly for the sanitation sector. The experience so far shows that **service quality overall improved in areas operated privately**.
- The authorities and their development partners have concentrated on rehabilitation and expansion projects, but the **efficiency of the system and the services, including their maintenance**, also **need to be strengthened**.
- Citizens are demanding a greater role in the decision-making process**, including in water policy and service delivery, and they are exerting heavy pressure on the political authorities. So far, the formal mechanisms for user participation have essentially relied on water user associations (the GDAs), but their mandate covers only irrigation and drinking water in rural areas. **Mechanisms for civil society involvement are being developed** while the effectiveness in communicating with users about the issues involved, such as water pricing and service quality, should be improved.