

## POTABLE WATER SECTOR REFORM

(TC-96-03-08)

### EXECUTIVE SUMMARY

**REQUESTER:** République d'Haïti

**EXECUTING AGENCY:** Sector Reform Unit (SRU), located within the Ministry of Public Works, Transport and Communications (MTPTC)

**BENEFICIARIES:** Municipal governments of Cap Haïtien, Les Cayes and Port-de-Paix, and Service National de l'Eau Potable (SNEP).

**FINANCING:**

IDB:	US\$550,000 (SF)
Other donors:	US\$350,000 (Belgium Fund)
Local counterpart funding:	US\$ 25,000
Total:	US\$925,000

**TERMS:**

Execution period:	12 months
Disbursement period:	18 months

**ENVIRONMENTAL CLASSIFICATION:** The Environmental Management Committee, at its meeting of November 21, 1995, classified this as a Category II operation.

**OBJECTIVES:** The proposed technical cooperation seeks to design and prepare for the implementation of key elements of the Potable Water Sector Reform.

**DESCRIPTION:** Specifically, the proposed TC will finance: (i) studies aiming at: (a) preparing a comprehensive tariff policy; (b) drafting technical, environmental and sanitary norms; and (c) defining the scope and modalities of intervention of the private sector in potable water services; (ii) activities aimed at defining the exact role of the SNEP and preparing the reorganization of its central office and three pilot regional offices (Les Cayes, Port-de-Paix, Cap Haïtien); (iii) activities aimed at defining the exact role of Municipal Councils and preparing them for their new role in the three pilot regions; and (iv) activities aimed at fostering community development in the three pilot regions.

**BENEFITS:** The proposed Potable Water Sector Reform is expected to: (i) improve local participation in decision-making and service oversight; (ii) improve quality and cost-efficiency of services; and (iii) enhance sustainability of future investments through the establishment of sound cost-recovery mechanisms.

**RISKS:** The implementation of the proposed reform contains three main elements of risk linked to financial sustainability, private sector participation and decentralization. The proposed TC has been designed to reduce these risks. Political commitment on the part of the Government and the development of a real participatory approach should help further mitigate these risks.

**THE BANK'S COUNTRY STRATEGY:** The Bank's program for Haiti for the 1996-1998 period is based on the following strategic elements: (i) investment in human capital; (ii) institution building; (iii) private sector development; and (iv) cofinancing. The proposed TC will facilitate the first three elements through decentralization, institutional strengthening and private sector participation respectively. The proposed TC will also facilitate cofinancing in the potable water sector through improved donor coordination.

**SPECIAL CONTRACTUAL CONDITIONS:** (1) Prior to first disbursement of the TC funds, the Borrower must present evidence of:

- a. having established the SRU (see 3.2);
- b. having appointed its two local professionals (see 3.2);
- c. having selected the international adviser to be contracted by the Bank (see 3.2).

(2) Other contractual obligations:

- a. Quarterly monitoring reports will be prepared by the executing unit (see 3.20).
- b. The Borrower will ensure that trainees are required to commit themselves to staying with their institution for a duration of two years after training is completed (see 3.9).

**INCLUSION ON THE  
AGENDA:**

Pursuant to document AT-1046-4, approved by the Board of Executive Directors on November 21, 1995, this operation must be submitted for consideration by the Committee of the Whole.

## I. BACKGROUND

- 1.1 Traumatized by over 30 years of dictatorship and political instability, the republic of Haiti has faced its first year following the reestablishment of the constitutional government with a mix of hope and resignation. Some precursory signs of recovery can be observed throughout the country; macro-economic stabilization is underway, with some burden on the lower-middle class and the lower class; the infrastructure is being rebuilt thanks to a massive contribution from the international community; a new parliament and new mayors were elected last June, and presidential elections were held peacefully last December. The country seems to be slowly preparing for an historical opportunity to shift away from emergency management towards more sustainable development.

### A. The potable water sector

- 1.2 **Institutional perspective.** According to the 1982 decree on municipal government responsibilities, potable water supply and sanitation services in Haiti are a primary responsibility of municipalities. In practice, however, the Ministry of Public Works (MTPTC), deals with the sector through two public entities characterized by a long tradition of poor management and high inefficiency, the "Centrale Autonome Métropolitaine d'Eau Potable" (CAMEP), in Port-au-Prince, and the "Service National de l'Eau Potable" (SNEP), in the rest of the country.
- 1.3 The Health Ministry, as executing agency for two IDB-financed projects (known as POCHEP I and II), bilateral donor agencies and non-governmental organizations have also sponsored the construction of a considerable number of generally very small water supply projects in the rural areas.
- 1.4 **Quality of water services.** Access to water services remains very limited, and such services are extremely unreliable where provided. Despite the US\$85 million total investment made in the sector during the 1980's (International Decade for Potable Water and Sanitation), the needs coverage remains the lowest in the Western hemisphere: 53.2% in the Port-au-Prince area, 58.6% in secondary cities, 33.5% in rural areas. Water quality is highly variable; little treatment and no controls are carried out.
- 1.5 **Port-au-Prince.** Served by the CAMEP, the capital is home to an estimated 2 million Haitians. An estimated 15% of the population have their own house connection, which represents about 27,000 private connections. The rest of the population gets water from neighbors, public standpipes, water tanks, street vendors or natural surface-water sources. Water is severely rationed and supply to a majority of house connections and public standpipes is limited to six hours per day.

- 1.6 **Secondary cities.** The situation in secondary cities is no better. However, it can vary tremendously from one city to the next. The SNEP information system are extremely weak and data have to be evaluated with caution. In 1989, 587,000 persons lived in 72 secondary cities of over 2,000 inhabitants and 68 of these 72 cities had some kind of water supply system managed by SNEP. Today, SNEP manages an estimated 15 to 20,000 private connections. Due to electricity shortage and other flaws in the SNEP systems, water is available in a very random manner. There is very little water treatment and no quality control.
- 1.7 **Rural areas.** The situation in rural areas is just as precarious. In 1991, an estimated 33.5% of the rural population had access to some kind of water systems whereas the other 66.5% would get water from rivers, non-protected springs or pools. In 1991, over 2,500 water systems had been inventoried. These systems have not been maintained and there is no information on water quality.
- 1.8 **Water resources global management.** Despite the number of conflicts which have arisen over its use, there has been no global policy on overall water resources management in Haiti. Since water resources are shared between the MTPTC (through CAMEP and SNEP), the Ministry of Health (through POCHPEP projects) and the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR), there has always been a certain level of competition on this issue between these ministries. The International Decade for Potable Water has been the occasion for the Government to start working on the establishment of a National Water Council, an initiative now revived by the Bank under a separate TC being prepared by RE2/EN2.
- 1.9 An overall diagnosis of both the SNEP and the sector was recently carried out. Three fundamental causes explain the poor level of services: (i) the SNEP, as water authority, is unduly influenced by political decisions: there is insufficient autonomy from a political and financial perspective; (ii) the SNEP, as service provider, is positioned too far from its customers: there is insufficient decentralization; and (iii) there is conflict of interest among the different functions of SNEP: there is no independent regulation of the industry. As a result, cost-recovery is very low (and so is the SNEP's financing capacity <sup>1/</sup>) and the SNEP's technical capacity is weak. The non-existence of basic information systems compounds this state of chaos by dissimulating its extent.

B. The sanitation sector

- 1.10 No public entity (other than the municipal governments) is legally responsible for sanitation services. The existing institutions in

---

<sup>1/</sup> The SNEP financial situation is very poor. Financial resources are limited: incomes from users do not cover operating expenses. The payroll accounts for 80 to 90% of total expenses and the Government has to give the SNEP a yearly subsidy of over 3 million gourdes.

charge of potable water services (CAMEP and SNEP) do not deal with waste waters. This institutional vacuum has led to major deficiencies in the provision of sanitation services. Apart from the rainwater drainage infrastructure in Port-au-Prince, most of the existing infrastructure consists of very limited, mostly individual systems.

- 1.11 Because of (i) the urgency to improve potable water services and (ii) the present non-existence of an institutional framework for sanitation services, the proposed reform concentrates deliberately on the potable water sector, as opposed to the potable water and sanitation sector. As part of the reform, however, it is proposed to initiate a major move to build up the sanitation sector and to answer such crucial questions as: what level of government should be in charge of sanitation? What services can be provided in the short, medium and long term? How can they be financed? Who should the service providers be? How should investments in the potable water sector be linked with investments in the sanitation sector?

C. The sector reform

- 1.12 Following the return of the constitutional government in October 1994, the Bank reinitiated the preparation of its "Potable Water in Secondary Cities" Program. Preliminary investigations demonstrated clearly that an investment loan would not produce sustainable results prior to an in-depth reform of the sector. The Bank proposed to the Government a pre-feasibility study to redefine the structure of the sector and distribute responsibility among the actors involved. The Canadian Development Agency (CIDA), agreed to finance this study, which was carried out from September 95 to February 96. The principles of the proposed reform are presented in paragraph 1.14.
- 1.13 The principles of the proposed reform define a common framework for both CAMEP and SNEP. They were elaborated in coordination with the donors presently involved in providing assistance to CAMEP, namely the World Bank and the French Development Agency (CFD). These two donors will concentrate on the reform of CAMEP while the proposed TC deliberately concentrates on the rest of the country. Coordination will continue to be ensured through both MTPTC and donor coordination meetings.

1. The principles of the reform

- 1.14 In response to the diagnosis presented in paragraph 1.9 above, the proposed reform consists of a long-term strategy based on: (i) the systematic involvement of users in cost-sharing; (ii) the gradual decentralization of the responsibility for water services to municipalities; (iii) the transfer of systems management to the private sector or the community; (iv) a reorientation of the SNEP's mandates toward regulation, sectoral planning and technical assistance; and (v) the initiation of efforts to build up the sanitation sector.

## 2. Decentralization

- 1.15 The involvement of local actors in the sector will enable the gradual decentralization of the functions that are best performed and accounted for locally. Four levels will be involved:

▲ At the level of each water system, the role of the Local Water Commission (LWC), will be reinforced, in particular for smaller systems where the LWC is expected to organize the community for the maintenance of the system 2/;

▲ The Municipal Council (MC), will be the legal owner of all systems and the political authority responsible for the services; the MC will also ensure planning and coordinate investments at the municipal level; in large cities, the MC will be responsible for organizing operations and maintenance;

▲ At the regional level (a region is defined by the presence of a major urban center, and therefore of a local SNEP office), the SNEP Regional Office (RO), will coordinate technical assistance to smaller networks and provide technical assistance to MC's;

▲ At the national level, the SNEP and its board, the National Potable Water Board (NPWB), will coordinate and regulate the sector.

- 1.16 This new distribution of responsibilities among the four levels is based on two principles: (i) not to create new institutions and/or administrative boundaries but to reinforce existing offices and councils wherever possible; and (ii) to allocate to each level the tasks it performs best (principle of subsidiarity).

- 1.17 Decentralization and private sector participation are expected to take place simultaneously, as the transfer of system management to the private sector will make the transfer of sector responsibilities to municipalities less costly.

## 3. Proposed distribution of roles

### a. Global Water Resources Management

- 1.18 Global resource management (protection and allocation of the resource) will be the responsibility of a National Water Council, to be chaired by the Prime Minister and integrated notably by the MTPTC (potable water, electricity), the Minister of Agriculture and Rural Development (irrigation), the Minister of Environment and the

---

2/ LWC's already exist in smaller centers: they are formed - often on an ad-hoc basis - directly by influential members of the community. Their main responsibility is to regulate the use of existing systems (standpipes and other basic devices). They are limited in their success, mostly since they do not have access to any resources. In larger urban centers, the local branch of the SNEP plays this role, but in the future, the municipal council is expected to take over.

Minister of Health 3/. Environmental and sanitary norms will be defined and enforced by the Ministries of Environment and Health respectively.

b. Potable water policy making

- 1.19 Policy making on potable water will be the responsibility of the new board of the SNEP, renamed National Potable Water Board (NPWB) 4/, chaired by the Minister of Public Works and integrated by municipal officials and representatives from the Ministries of Environment and Health. Sector policy making encompasses three areas: (i) the sector investment policy 5/, (ii) the tariff policy, and (iii) the establishment of technical norms.

c. Tariff setting

- 1.20 Local tariffs will be set by the MC's with input from the communities, in accordance with the national tariff policy set by the NPWB. Tariff regulations will be enforced by the SNEP.

d. Management of Investments

- 1.21 Investments will be planned through a bottom-up process involving the LWC's at the local level, the MC's at the municipal level and the SNEP at the national level.
- 1.22 Investment financing will be a top-down mechanism. The nationally-available envelope will be distributed among municipalities by the NPWB (in accordance with the results of the planning process and performance criteria), and then, within each municipality, among localities by the MC.
- 1.23 Project selection will be the responsibility of the LWC's (or the MC's in major urban centers), but the construction process (studies, works and supervision) may be managed by the RO's and sub-contracted to the private sector. This arrangement would separate decision-making power (MC's) and fund management (RO's).
- 1.24 In order to ensure transparency, the LWC's and the MC's will have access to the RO's books for each locality.

---

3/ A specific technical cooperation is being prepared by RE2/EN2 to assist the Government in the definition of the mandates of this council and in its establishment.

4/ It is proposed that the NPWB also be the Board of CAMEP, the public entity managing potable water services in Port-au-Prince.

5/ Financial autonomy for the service providers is implied for the long term. This may mean a later review of the role of SNEP in sector investment policy. Its involvement is only meaningful as long as the central government is doing the financing. Ultimately, the usefulness of any central coordinator is questionable, except with respect to certain externalities such as allocation of sources of water.

e. Operation and maintenance

- 1.25 As much as possible, operation and maintenance of the systems will be contracted out to the private sector. In larger cities, the international/national formal private sector is expected to be interested. The MC's will have the decision-making power and the regional offices of the SNEP will assist the MC's in the management of the operation and maintenance contracts.
- 1.26 As for smaller systems, local communities will be involved directly. A mechanism will be established whereby, within a region, smaller systems receive technical assistance from the private company managing the system of the main urban pole of the region.
- 1.27 In principle, funds generated by water system operations in a given municipality will have to be reinvested in the water systems of the same municipality. However, rural systems might require external financing and the national tariff policy will need to define the regime of subsidies in a transparent fashion. Cross-subsidies will be avoided 6/.
- 1.28 The central office of the SNEP will be the technical arm of the NPWB, and its regional offices will provide technical assistance to the MC's and the LWC's in all the tasks related to the sector.

D. Implementing the reform

- 1.29 The principles of the reform are the result of a long process of discussion with the SNEP and the MTPTC. They were then discussed at length with the new Government who formalized its agreement in an aide-mémoire signed with the Bank in March 1996. The modalities for the reform implementation were also discussed with the Government and the present document reflects the agreement reached. In particular, all the terms of reference mentioned in the present document have received the Government's approval.

---

6/

The following argumentation can be developed concerning cross-subsidies:

(i) Against cross-subsidies: If municipalities are given the power to set tariffs (within the framework of the national tariff policy) and if they know that some of the revenues generated by their system after operating costs are covered may be transferred to water systems in other municipalities, they will have little incentive to raise tariffs above the minimum necessary to cover operating costs.

(ii) In favor of cross-subsidies: Rural water systems will need financial support from urban systems. In municipalities where there is no major urban center (in more than 50 municipalities, the biggest urban center is smaller than 2,000 inhabitants), this support will have to come from outside.

In several countries, an alternative to cross-subsidies has been the establishment of a rural financing fund fed by a % overcharge on (urban) water bills. One of the purposes of the tariff studies (see paragraph 3.11) will be to incorporate sustainable financing mechanisms for rural areas in the tariff structure.

- 1.30 The implementation of the reform will be a particularly complex process. As is the case for any profound reform of a sector that concretely affects the life of millions of people, it would be presumptuous to assume that the proposed scheme cannot be improved and risky to apply it abruptly to the whole country. Instead, it is proposed to begin implementation with three pilot regions and to evaluate in a continuous manner the performance of the reformed system. The three pilot cities are Cap-Haïtien (200,000 inhabitants), Les Cayes (80,000) and Port-de-Paix (40,000) 7/. This approach will permit the Government to adapt the principles of the reform to each particular case and to fine-tune the mechanisms and procedures proposed as necessary. In addition, it will enable the Haitians to develop ownership of the reform.
- 1.31 Some important organizational issues have not yet been decided. It is one of the aims of the proposed TC to advance in the research of the optimal option for each of them. These unresolved issues include:
- ▲ the precise organizational positioning of the SNEP regional offices (between the municipal councils and the SNEP central office) and the division of responsibilities and functions between the municipalities and these offices; in some cases, the best option may be an outright transfer of the SNEP regional office to the municipality; in other cases, the weak organizational capacity of the municipal government might make such an option too risky;
  - ▲ the modalities of involvement of the community in tariff setting and service oversight (see paragraph 4.1, issues);
  - ▲ the scope and conditions of involvement of the private sector in service provision.
- 1.32 Concretely, the Bank's strategy to help the country move along the reform implementation path consists of the following actions:
- ▲ A US\$100,000 FSO-financed TC (ATN/SF-5121-HA, presently under execution) will enable the redefinition of the legal framework of the sector. In accordance with paragraph 1.31, it has been decided not to fundamentally modify the existing legal framework now but rather to adjust it to the extent that it does not presently permit the implementation of the proposed reform.
  - ▲ The present TC will then help initiate the implementation of key aspects of the reform, as described in chapter II below. Reform implementation will concentrate on three pilot regions.

---

7/ For the reasons mentionned in paragraph 1.13, Port-au-Prince has not been retained as a pilot city. However, the lessons learned from the capital's case will be incorporated as the pilot experiences proceed.

▲ In the meantime, and in view to prepare new investments in the sector, two additional TCs are being put together to prepare the feasibility studies and final designs for the rehabilitation of water systems in the three pilot cities (ATN/SD-1518-HA, financed by the Swiss Fund for Small Projects, US\$125,000; and TC-96-03-17-8, financed by the Canadian Trust Fund, US\$250,000).

▲ Once critical elements of the reform have been satisfactorily defined and/or implemented (see benchmarks, paragraph 3.27), an investment loan (LOPUS HA0014) is expected to finance rehabilitation and new investments in the sector. This project would be a time-slice, and the first-year slice would concentrate on the three pilot cities. An overall time schedule is provided in Annex I-1.

E. Lessons learned from past experiences in the sector

1. Around the World

1.33 The proposed reform draws from several experiences in restructuring the potable water sector in various developing countries. The recurrent lessons of these experiences form the basis of the principles laid out in paragraph 1.14: (i) for the reform to be sustainable, users must cover operation and maintenance costs; (ii) some degree of local decision enables to better match local demand for services; and (iii) service provision is generally more efficient when performed by the private sector under community control than by centralized, national public agencies.

1.34 Another overwhelming lesson learned from many potable water sector reforms (most notably in Africa) is that the development of participatory approach is key to the success of the reform. Because provision of potable water is so central to people's well-being, community participation in this sector has often proven to be a very powerful vector of change 8/. This option implies that change should be expected to take place at a slower pace and that a lot of energy and time will need to be spent establishing a structure for dialogue between "experts" and the communities.

2. In Haiti

1.35 The German Technical Agency (GTZ), and the Financial Cooperation Agency (KfW), have over 10 years of experience working with the SNEP since its establishment in 1977. This cooperation has been recently evaluated by GTZ and KfW and found an overall failure for two reasons: (i) the SNEP has never been given the level of autonomy required for a sound management; and (ii) its hyper-

---

8/ Deepa Narayan (World Bank Technical Paper 207F: "Participatory evaluation - Tools to manage change in potable water and sanitation services", 1993) proposes to make communities the major contributors to water sector reforms by involving them in the definition of service standards and progress indicators as well as in service evaluation.

concentration in Port-au-Prince always prevented local accountability and efficiency. Germany has recently decided to suspend its technical and financial cooperation in the sector until an overall reorganization takes place, which makes the proposed sector reform all the more needed.

- 1.36 The Bank has acquired significant experience in the construction of rural systems through the two POCHEP projects: over 100 systems were built in the last 10 years. Several Non-Governmental Organizations (NGO's), have also been working on rural systems, sometimes developing very innovative approaches. Two lessons can be retained from these experiences:

(i) there is some degree of evidence that smaller potable water systems operated by the community work better (and longer) when they were financed by the community itself (at least partly) than when initial financing was completely exogenous; and

(ii) a conjunction of three factors is needed to have rural systems achieve sustainable development objectives:

- ▲ some formalized mode of community involvement in operations and maintenance;
- ▲ a network of technical assistance available to support and motivate the community;
- ▲ a mechanism to channel financial resources in order to purchase spare parts and materials that cannot be found locally.

- 1.37 With regard to this last feature, several mechanisms have been tried with various degrees of success:
- ▲ direct cost-recovery (based on monthly lump sum fees) has proven difficult to handle, since money management at community level is generally deficient and not secure;
  - ▲ capitalization of water systems through porcine breeding projects has shown some potential although it requires a significant amount of technical assistance;
  - ▲ cross-subsidies have never been used systematically to support rural networks, except indirectly through the SNEP.

## II. OBJECTIVES AND EXPECTED OUTPUTS

- 2.1 **Goal.** The proposed technical cooperation seeks to design and prepare for the implementation of key elements of the Potable Water Sector Reform.
- 2.2 **Objectives.** Specifically, the proposed TC will finance: (i) studies aiming at: (a) preparing a comprehensive tariff policy; (b) drafting technical, environmental and sanitary norms; and (c) defining the scope and modalities of intervention of the private sector in potable water services; (ii) activities aimed at defining the exact role of the SNEP and preparing the reorganization of its central office and three pilot regional offices (Les Cayes, Port-

de-Paix, Cap Haïtien); (iii) activities aimed at defining the exact role of Municipal Councils and preparing them for their new role in the three pilot regions; and (iv) activities aimed at fostering community development in the three pilot regions.

- 2.3 **Expected outputs.** The TC will produce: (i) a draft tariff decree and tariff by-laws in the three pilot municipalities; (ii) draft sets of technical, environmental and sanitary norms; (iii) a set of administrative and financial procedures for the SNEP (central and regional offices) and MC's; and (iv) models of contracts for the private management of potable water services in the three pilot cities.
- 2.4 The respective roles of the SNEP, the MC's and the private sector are inter-related and their definition will proceed simultaneously in accordance with the results of the investigations undertaken in the three pilot regions. The proposed TC will prepare the reform but actual reform implementation is not expected to be an output. However, having agreed with the Government on clear targets and a precise timeframe for reform implementation will be a condition for the presentation of the investment loan to the Board. This loan is expected to be a time-slice and the first year program will concentrate on the three pilot regions.

### III. DESCRIPTION

#### A. Activities

- 3.1 The proposed TC consists of six components for a total amount of US\$925,000.
1. Reform coordination activities (US\$390,000)
- 3.2 The proposed TC will finance the establishment of the executing unit, the Potable Water Sector Reform Unit (SRU). This unit, placed under the authority of the Minister (MTPTC), will be housed in the SNEP's offices. It will consist of two local consultants, cofinanced by the Government of Haiti (GOH), and will be assisted by one international adviser. The proposed TC will provide financing for the first year of operation of the SRU. Additional financing may be provided through the Bank's investment project (HA0014). Detailed terms of reference for the SRU and its international adviser are available in the technical file of this TC (RE2/EN2). The SRU will be asked to:
- ▲ coordinate the overall reform process;
  - ▲ ensure participation of municipalities in the reform process;
  - ▲ hire and supervise a Community Development Specialist (CDS), (see paragraph 3.10);
  - ▲ ensure liaison with CAMEP on key issues of the reform;
  - ▲ prepare the SNEP's reorganization;
  - ▲ design a comprehensive training plan and hire consultants to

implement its first stage;

- ▲ provide support to the Government in looking for external financing for the potable water sector;
- ▲ provide assistance to the Government on the building-up of the institutional capacity of the sanitation sector;
- ▲ evaluate the pilot experiences and propose adjustments to the proposed reform as deemed necessary;
- ▲ coordinate all the components of the present TC.

- 3.3 With regard to sanitation, the SRU will help the MTPTC develop a national policy on sanitation. The SRU will draft a preliminary plan of actions oriented towards concrete issues, in order to build up the institutional capacity of the sector and increase the population's awareness.
- 3.4 With regard to the SNEP's reorganization, the SRU will: (i) define the new structure of the central office and the pilot regional offices; (ii) prepare a staff rationalization plan; and (iii) prepare a comprehensive plan of actions for the implementation of the reorganization. The actual reorganization is expected to take place as part of the implementation of the reform (see paragraph 2.4).
- 3.5 This component of the TC also includes: (i) short trips of key staff from the municipalities and/or other governmental institutions involved in the sector to visit countries that have taken an innovative approach to water decentralization and/or private sector participation (CT/INFRA may be used to cover related expenses); and (ii) the provision of adequate transportation and office equipment for the SRU.

## 2. Training component (US\$100,000)

- 3.6 Significant training will have to accompany the reform. The proposed TC will concentrate on areas critical to the rapid implementation of the reform in the three pilot regions. The training component will be put together by the SRU which will write detailed terms of reference and hire consultants to implement it. At the same time, a comprehensive training plan will be prepared by the SRU. Its implementation may then be financed by the investment project.
- 3.7 Initial training will be put in place in the following five areas: (i) Project management; (ii) Financial and accounting management; (iii) Human resources; (iv) Private sector supervision; and (v) Public relations.
- 3.8 Training will be targeted towards the pilot MC's and the SNEP. Training will start only after the selection of the staff that will remain in the reorganized SNEP is completed. To the extent permitted by local law, three measures will be taken to increase the sustainability of the training benefits: (i) the institutions whose staff will be trained will have to commit to keeping the

trainees for a duration of two years after training is completed; (ii) similarly, trainees will be required to commit themselves to staying with their institution for a duration of two years after training is completed; and (iii) trainees will be asked to train other members of their institution to transmit their newly-acquired knowledge.

3. Technical, environmental and sanitary norms (US\$125,000)

- 3.9 The TC will finance the establishment of technical, environmental and sanitary norms for the sector. A private consulting firm will be hired by the SRU to draft these norms. Detailed terms of reference are available in the technical file of this TC. The following consultants are expected to be needed: (i) 6 engineer-months; (ii) 3 water quality/public health specialist-months; and (iii) 3 water quality/environment specialist-months.

4. Community development activities (US\$60,000)

- 3.10 The proposed TC will finance activities aimed at fostering community development in the three pilot regions. One (local) Community Development Specialist (CDS), will be contracted for a duration of 12 months by the SRU. Her/his main task will be to help organize the dialogue between the communities and the "experts" involved in the potable water reform (central and local administrations, consulting firms).
- 3.11 The CDS will be responsible for identifying local groups and community representatives. Focus groups will be organized to discuss issues such as service levels and tariffs, and to establish communication channels between service providers and the community.
- 3.12 The CDS will then build on her/his experience in the three pilot regions to design a replicable model for community participation in potable water management. The SRU will be responsible to ensure that this model is built into the other systems that will come out of the present TC (tariff policy, private sector participation mechanisms, technical, environmental and sanitary norms).
- 3.13 The CDS will have a US\$20,000 budget (managed by the SRU) to facilitate meetings and organize community surveys as deemed necessary. One local coordinator in each of the three pilot regions may be remunerated with this budget.

5. Tariff policy (US\$120,000)

- 3.14 The TC will finance a two-module study to help set the tariff policy for potable water services. Particular attention will need to be given to the sustainable financing of rural water systems (see note, paragraph 1.27).

▲ The first module (US\$30,000) will define the framework of the national tariff policy, spelling out the need for subsidies (if

any) and the optimal structure of the tariff system. This will be done by applying the Haitian constraints (capacity-to-pay, standard production costs) to the long-run marginal cost theory. Willingness-to-Pay (WTP) studies carried out in Cap Haïtien as part of the prefeasibility studies will be used to this end.

▲ The second module (US\$90,000) will then adapt the national water policy to each of the three pilot regions. Once technical and economic feasibility studies have been performed for the three networks to be rehabilitated, a tariff grid will be computed for each urban center, and eventually for each region, taking into account both the economic costs of operation, and maintenance and the WTP of the population. This second module will incorporate the results of the community development efforts and will be carried out in collaboration with the respective MC's. It will lead to the preparation of a draft tariff by-law in each of the three pilot municipalities.

- 3.15 Consulting firms will be contracted to carry out this study. Detailed terms of reference are available in the technical file of this TC.

6. Study on the modes of service management (US\$135,000)

- 3.16 Finally, the TC will finance a study aimed at investigating the various options for the management of services in the three pilot cities.
- 3.17 The following rationale can be developed with regards to private sector involvement in the main urban centers:

▲ Bill collection is the most difficult step in the cost-recovery process. It is therefore essential that the private sector be involved in it.

▲ Given the unknown conditions of the existing infrastructure, it is not reasonable to expect the private sector to assume technical risks at present. It is therefore necessary to rehabilitate the systems before contracting operations out to the private sector. To develop knowledge on the condition of existing systems and develop asset management will also go some way alleviating technical risks.

▲ It is not reasonable either to rely on the private sector to assume the commercial risk at this stage because: (i) the present risk is very high, as demonstrated by the low records of the SNEP in terms of bill recovery; and (ii) the present risk is not known with enough certainty to get the private sector to commit but at a very high price for the users. It is therefore necessary to better understand the level of commercial risk before letting the private sector assume it.

3.18 This would lead to the following scenario for each pilot city:

▲ stage 1: studies (inventory/audit of the assets and updated users' register) and rehabilitation of the infrastructure;

▲ stage 2: management contract (including commercial and technical activities) to the private sector, with (i) technical risk assumed by the private sector; but (ii) commercial risk assumed by the (local) public sector through local taxes. A system of incentives to reward performance would be built into the management contract.

▲ stage 3: real "affermage" or concession contract with private sector assuming both technical and commercial risks.

3.19 Another, more radical option would be to ask the same private firm to rehabilitate the existing system and to operate it under pre-agreed terms. This option might prove more expensive since technical risks will not be known with enough precision at the time of the bidding.

3.20 The aim of the study to be financed by the proposed TC will be to: (i) confirm that the strategy developed in 3.14 and 3.15 is optimal or propose an alternative strategy; different strategies might be recommended for the three cities; (ii) investigate the potential for private sector participation; (iii) define modalities for this participation; and (iv) draft the corresponding models of contracts. It is worthwhile noting that it might be necessary to group the three pilot cities into one contract to attract the international private sector.

3.21 The study will also investigate the modalities of the private sector technical assistance to peripheral water systems within a given region, as well as the modes of community involvement in the management of the said systems.

3.22 An international consulting firm with appropriate experience in private sector participation in water systems will be hired by the SRU to carry out this study. Detailed terms of reference are available in the technical file of this Technical Cooperation, (TC).

B. Organization and execution

1. Executing unit

3.23 The proposed TC will be executed by the SRU. All funds will be controlled by the SRU, except those corresponding to the Belgian Trust Fund which will be managed directly by the Bank.

2. Execution period

3.24 The expected duration of the proposed TC is twelve months. A detailed time schedule is enclosed in Annex III-1.

C. Follow-up

1. Monitoring

- 3.25 The proposed TC will be monitored through: (i) quarterly monitoring reports from the SRU to the Bank, reporting on disbursement and progress of studies, and earmarking results achieved and problems encountered; (ii) one mid-term review meeting between the SRU and the project team; and (iii) one final meeting between the SRU and the Bank.
- 3.26 In addition, the Bank will closely monitor the evolution of the TC through its field office. This office counts with an experienced water engineer that has been involved in the reform process since the beginning and will continue to dedicate a significant amount of his time to the implementation of the reform.

## 2. Benchmarks

3.27 The following benchmarks will be used to evaluate the performance of the proposed TC:

Activities	Benchmarks	Quantified Target	Expected Date	Entity responsible for benchmark monitoring
Coordination	Establishment of the SRU	--	M+0	COF/CHA
Preparation of SNEP reorganization	Detailed action plan (for implementation of reorganization) is ready	--	M+6	SRU
Training	Number of staff trained in project management	10	M+6	SRU
	Number of staff trained in finance and accounting	20	M+6	SRU
	Number of staff trained in human resources	5	M+4	SRU
	Number of staff trained in PS supervision	20	M+12	SRU
	Number of staff trained in PR	6	M+8	SRU
Technical, environmental and sanitary norms	Norms approved	--	M+6	MTPTC/Min. of Environment/Min. of Public Health
Community development	Number of community groups involved in each of the three pilot cities	to be quantified	M+12	SRU
	Number of rural communities reached in each pilot region	1/pilot region	M+12	SRU
Tariff policy	Tariff policy approved Tariff by-laws signed in three pilot municipalities	--	M+3 M+6	SRU
Private sector participation	Draft contracts for PSP ready	--	M+6	SRU

Note: M is the month of effectiveness of the proposed TC.

3.28 **Link between the proposed TC and the investment loan (HA0014).** It is recommended that the investment loan proposal be presented to the Board only after the five benchmarks indicated in shade in the benchmark table have been successfully met.

### D. Cost and financing

3.29 **Advance of funds and disbursements.** The execution of the proposed TC will require that sufficient resources be available to carry out the programmed activities in a timely manner. It is recommended that an advance of funds equivalent to 20% of the financing be provided to the GOH. This advance will be considered a disbursement of funds and may be replenished at the request of the

GOH, once the previous amount disbursed has been justified to the satisfaction of the Bank.

- 3.30 **Audits.** Audited financial statements will be presented to the Bank by the SRU on an annual basis during the execution of the TC, beginning in the year in which disbursements commence. The last audited report will be due at the end of the fiscal year in which the last disbursement is made.
- 3.31 **Costs.** The total cost of the proposed TC is US\$925,000 as shown in the following table.

COMPONENT	IDB/FSO	LOCAL	BELGIAN TC FUND	TOTAL	%
Reform Coordination	215,000	25,000	150,000	390,000	42.2%
Design of norms	30,000		95,000	125,000	13.5%
Community development	60,000			60,000	6.5%
Tariff study	120,000			120,000	13.0%
Training	100,000			100,000	10.8%
Private Sector Participation Study	25,000		105,000	130,000	14.0%
<b>TOTAL</b>	<b>550,000</b>	<b>25,000</b>	<b>350,000 g/</b>	<b>925,000</b>	<b>100%</b>

- 3.32 The Bank will finance 59.4% of the proposed TC, i.e. US\$550,000, on a non-reimbursable basis with resources from the Net Income of the Fund for Special Operations (FSO). Local counterpart will be made available in the form of a participation to salaries of local professionals for the SRU and general support the MTPTC. This participation is estimated to reach US\$25,000 (2.7%). The Belgian Trust Fund has agreed to finance specific components of the proposed TC, for a total sum of 10,655,750 Belgian Francs (the equivalent of US\$350,000), or 37.8% of the overall TC amount.
- 3.33 **Procurement.** Consulting services will be selected and contracted according to the procurement procedures of the Bank for the FSO-financed components and according to the procurement procedures of the Belgium Trust Fund for the Belgium-financed components. The amount above which procurement will be subject to international competitive bidding and advertisement is US\$200,000.

#### IV. ISSUES AND RISKS

##### A. Issues

##### 1. Community participation

- 4.1 How to foster community participation so that it helps improve the quality of water services is a central issue in the proposed reform. The community development component of the proposed TC will help investigate the following aspects as reform implementation proceeds:

▲ **Service oversight by the community:**

(i) The community must be involved in defining minimum service standards. Focus groups will be organized to discuss whether standpipes should be preferred over private connections (given the cost implication of the latter and the social gathering function of the former).

(ii) Communities should also be involved in evaluating service quality. Communication systems must be established to enable people to voice their discontent and operators to explain their constraints. Arbitration mechanisms will need to be put in place.

▲ **Tariff setting.** For cost-recovery to be sustainable, the community must participate in the decision-making process that leads to the establishment of tariffs. The community needs to understand the quality implications of low tariffs. A delicate issue here will be to break the "low quality of services/low recovery rate" vicious circle; it is believed that quality improvement will have to precede tariff increase and efforts to raise bill-recovery rates.

- 4.2 A deliberate effort will be made to include municipal councils in the implementation of the proposed reform and the SRU will be asked to ensure that the three pilot municipalities are not left out. However, at a time when decentralization and community empowerment are (sometimes falsely) seen as panacea for every single problem confronting Haitian communities, the above-mentioned issues will need to be looked into bearing in mind that, in today's Haiti, community too is a scarce resource.

##### 2. The crucial role of women

- 4.3 A recent study conducted as part of a USAID project in Port-au-Prince estimated that getting potable water in urban areas was primarily a women's (45%) and a children's job (35%). The role of women in pushing for the improvement of water services will therefore be essential.

- 4.4 The WTP studies will attempt to determine willingness-to-pay according to gender. Prior to the studies, focus groups will be held with women's organizations. One of the issues that is expected to come out of these studies is that women, who are the primary providers in non-connected households, seldom have decision-making power over household spending.

B. Risks

- 4.5 The implementation of the proposed reform contains three main elements of risk linked to financial sustainability, private sector participation and decentralization. All three were thoroughly discussed with the Government and found acceptable in the following terms.

1. Financial sustainability

- 4.6 How well the reformed system performs will depend significantly on the political will of the Government to have the general public understand that it has to share the costs of potable water provision. Simple communication campaigns may help pass the message. WTP studies and community surveys will be used to convince politicians of the acceptability of the proposed reform 10/.
- 4.7 At the same time, the strong social character of the potable water services must not be minimized in the implementation of the proposed reform. The tariff system to be established will have to recognize the limited capacity-to-pay of a vast majority of the population.

2. Private sector participation

- 4.8 Given the overall economic instability, the interest of the private sector to manage water networks in Haiti remains the major unknown of the proposed reform. As part of the proposed TC, a study will be dedicated to investigate the potential for private sector interest and establish a framework for private sector participation (see paragraph 3.17).
- 4.9 To increase the participation of the private sector also means that the SNEP's vocation will be radically modified and that its staffing situation will need to be rationalized. The Government insisted that compensation measures be implemented to ease the social tensions that may arise from this rationalization. It is suggested that these measures be financed by the Government and

---

10/ Preliminary WTP studies have shown that, as is the case in many developing countries, the Poor end up paying much more for getting water from the informal sector than they would to get connected to existing SNEP systems. This is particularly unfair given that the vast majority of the households connected to existing systems belong to higher classes of revenue. In urban areas, the difference in the price of water per gallon between the SNEP systems and the informal sector can be in the order of 1 to 100.

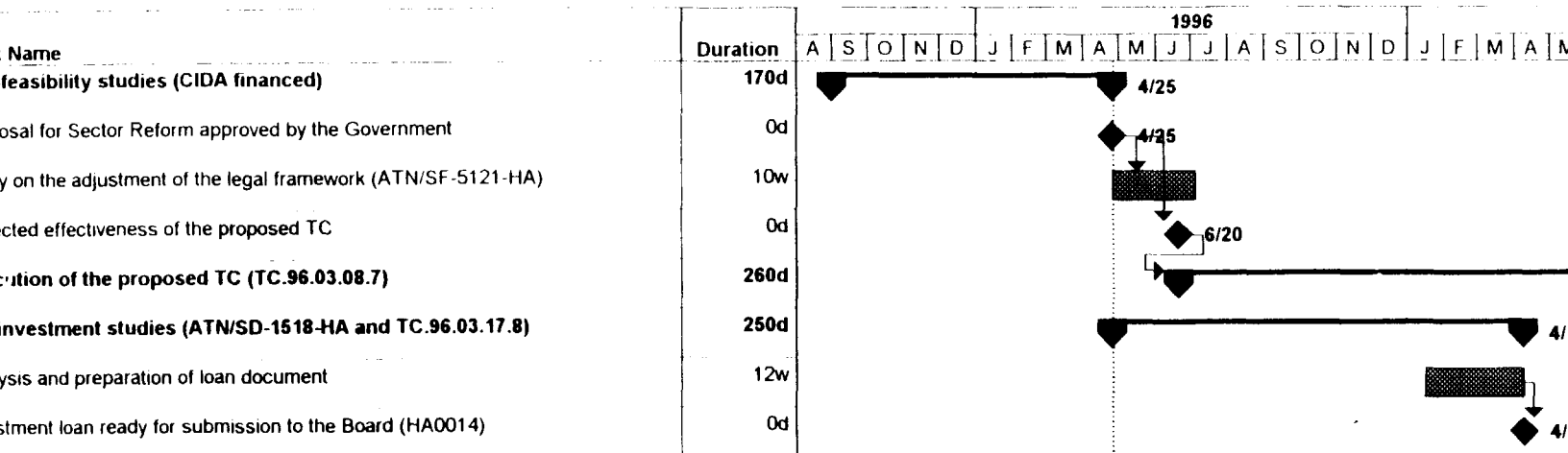
recognized by the Bank as local counterpart for the Bank's investment loan.

- 4.10 Resistance to the reform is to be expected from SNEP. The set-up of the executing unit should guarantee a certain level of autonomy for the reform process. The Government (via the Minister of Public Works) is expected to support the SRU in its endeavors and to ensure that the SNEP does not become an obstacle to the reform.

### 3. Decentralization

- 4.11 Eventually, the decentralization of some responsibilities to the municipal level sets the problem of the limited present capacity of municipalities. At a time where municipal decentralization has been set forth as one of the major political priorities by the new President, the Government is initiating, with the Bank's assistance, a major effort to reinforce the technical, financial and institutional capacity of municipal governments. The present TC will be coordinated with and should benefit from this endeavor.

## OVERALL TIME SCHEDULE



Task



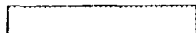
Milestone



Rolled Up Critical Task



Critical Task



Summary



Rolled Up Milestone

Progress



Rolled Up Task



Rolled Up Progress



POTABLE WATER SECTOR REFORM

PROPOSED RESOLUTION

HAITI. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE  
POTABLE WATER SECTOR REFORM

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary and to adopt such measures as may be pertinent for the execution of the plan of operations referred to in Document AT-\_\_\_\_\_ with respect to nonreimbursable technical cooperation with the République d'Haïti, for the Potable Water Sector Reform.
2. That up to the sum of US\$550,000, or its equivalent, is authorized for the purposes of this resolution, chargeable to the net income of the Fund for Special Operations.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

PROJECT RESOLUTION

HAITI. NONREIMBURSABLE TECHNICAL COOPERATION TO THE  
REPUBLIQUE D' HAITI FOR A POTABLE WATER SECTOR REFORM PROGRAM

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank as administrator of the Fund for Belgian Consultants, to enter into such agreements as may be necessary and to adopt such measures as may be pertinent for the execution of the plan of operations referred to in Document AT-\_\_\_\_\_ with respect to nonreimbursable technical cooperation with the République d'Haïti, for the Potable Water Sector Reform.

2. That up to the sum of 10,655,750 Belgian Francs is authorized for the purposes of this Resolution, chargeable to the resources of the Fund for Belgian Consultants.

3. That the above-mentioned amount is to be provided on a nonreimbursable basis.