

PROJECT PROFILE

I. BASIC DATA

Project Name:	Institutional Strengthening and Reform of the Water and Sanitation Sector		
Project Number:	HA-L1090		
Project Team:	Sarah Matthieussent Romain (WSA/CHA), Team Leader; Corinne Cathala (INE/WSA), Alternate Team Leader (INE/WSA); Thierry Delaunay, Carlos Faleiro and Sergio Perez (WSA/CHA); Jorge Ducci (WSA/CCH); Maria Julia Bocco and Irene Cartin (INE/WSA); Laurence Telson (ICS/CDR); Taos Aliouat (LEG/SGO); and Marise Etienne Salnave (PDP/CHA)		
Borrower:	Republic of Haiti		
Executing Agency:	Minister of Economy and Finance (MEF)		
Financial Plan:	IDB:	US\$ 15,000,000	
	Cofinancing:	US\$ 7,000,000 ¹	
	Local:	US\$ 0	
	Total:	US\$ 22,000,000	
Safeguards:	Policies triggered:	PTI, SEQ, OP-703, OP-708, OP-745, B.1, B.2 and B.13	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification of the Program

- 2.1 **Macroeconomic Outlook.** Haiti's macroeconomic outlook has been affected significantly in the past few years by debt cancellation, and January's 2010 earthquake. The general macroeconomic outlook has been, during that time, and continues today, of relative stability, although growth was interrupted by the earthquake (the economy shrank by 5.4% in real terms), and seemed to be sluggish to accelerate sustainably since then.
- 2.2 For 2013, it is expected that economic growth will reach 3.4%, after a 2.8% in the previous year. Reconstruction efforts are commonly cited in explaining that performance, with help from manufacturing and services industries. Agriculture, on the contrary, is suffering from long term decline, reduced productivity and external shocks, so that contribution to GDP growth remains below its potential.

¹ Co-financing from Spain, available in the Haiti Reconstruction Fund, for an amount of US\$7 million will be confirmed in January 2014.

Solvent economic policy, especially regarding monetary issues, has kept inflation and the foreign exchange rate in check. Single digit inflation is the norm in Haiti, and 6.0% is expected for 2013 (with 6.5% in the previous year). The exchange rate remains stable, and has increased only marginally in the past years, and has passed from 42 HTG/US\$ in 2012 to 43.8 HTG/US\$ in 2013. Fiscal and external deficits are always a source of moderate concern, although not unusual under Haiti's circumstances. Haiti has sustained both at levels around 5% of GDP recently, and scored an overall fiscal deficit (grants are considered here) of 5.5% in 2013 (up from 5.1% in 2012), and 5.8% external deficit (up from 4.5% in 2012). Although Haiti has low levels of debt after the cancellation (and is currently not taking on more debt except for very specific and concessional sources, such as Petrocaribe), a low tax and narrow export base advice against debt accumulation. In fact, the latest Debt Sustainability Analysis (early 2012, performed jointly by the WB and the FMI) considers the risk of Haiti's debt distress as high.

B. Diagnosis of the water and sanitation sector and challenges.

- 2.3 Water and sanitation is a key aspect for the improvement of the conditions of life of the Haitian population. Despite some efforts to modernize the sector and to develop access to services, conditions of access to water and sanitation are still the worst of the Northern Hemisphere. The services provided are characterized by very low potable water coverage (about 77% of urban residents and 48% for rural residents), unreliable supply, and high rates of unaccounted for water of up to 90% in some systems and untested water quality. Sanitation services are virtually non-existent with a 34% access to sanitation in urban areas, and 17% in rural areas in 2011².
- 2.4 The Bank has provided a strategic support to the sector for the last ten years, not only by financing investment but also by promoting institutional changes³. Following the initiation of the reform outlined in the *Loi Cadre portant sur l'Eau Potable et l'Assainissement* in 2009⁴, the sector benefitted also from other support such as the one from the Spanish Cooperation⁵. It has also received funds from UNICEF, Centers for Disease Control (CDC), Swiss Cooperation and the World Bank⁶. The sector table⁷, held on a regular basis, facilitates coordination between the donors and other actors of the sector.

² WHO/UNICEF Progress on drinking water and sanitation, 2013 update.

³ IDB supports the sector with a total amount of US\$215 million of approved operations (confinancements from OFID and Spanish fund included for an amount of US\$ 76.6 million)

⁴ The Law was approved unanimously in Congress in January 2009 and published in March 2009. When created, DINEPA had a portfolio of US\$60.6 million, as of now it reaches more than US\$300million.

⁵ The Spanish Water and Sanitation Cooperation Fund for Latin America and the Caribbean in Haiti funds DINEPA for a total amount of US\$ 170 million (US\$100 are administrated by AECID and US\$70 million are cofinancing to the Bank's portfolio)

⁶ CDC (US\$2.5M), Swiss Cooperation (US\$1.65M) and UNICEF (US\$2.0M). In total, DINEPA receives supports from donors for an estimated amount of US\$323.6M. For information, national budgetary support to functioning costs and investments totalized US\$6.5M for 2012/2013 fiscal year.

⁷ Thematic group led by DINEPA. this sector table is functioning since 2007. It is one of those that are better structured. Meetings are held bi-monthly BETWEEN Donors, NGOs, Ministries and DINEPA.

- 2.5 However, in spite of increasing financial contributions to the sector and efforts of coordination among the donors, the sector lacks a strategy and effective institutional structures to ensure efficient use of public resources, delivery of quality and sustainable services and solid sector oversight. The main issues include:
- 2.6 *Incomplete legal framework.* The Framework Law contemplates that DINEPA, the Water and Sanitation National Directorate, will manage the transformation of the sector while maintaining its role as the policy setting entity for the sector. However, implementation of the institutional reform, the cornerstone of recovery, has been very slow since 2009⁸, thus jeopardizing the modernization of the sector. Four regional water and sanitation offices (OREPAs) were established. However, they are currently very weak and their policies and operating procedures have not been defined⁹. The public water utilities or *Centres Techniques d' Exploitation* (CTEs) act as operators, though they do not have any legal existence.
- 2.7 *Weak planning and lack of regulation.* Today, DINEPA acts more as an operator than a regulator since it operates as the execution agency for all international financing in the sector. In addition, investments are based more on availability of financing than on strategic sector planning. Lastly, very little progress has been made in key areas such as tariff policy or financial viability of the sector.
- 2.8 *Very poor performance of water operators.* In urban or rural areas, water operators (CTEs and CAEPAs), if they exist, are performing very poorly¹⁰. Not only is the infrastructure often obsolete or badly maintained, but human resources are not qualified either. In spite of DINEPA's efforts to support these operators, tools to monitor and follow-up on performance must be systematized.
- 2.9 *A difficult improvement in sanitation.* While the national strategy was defined in 2012, its implementation has been extremely limited. To date, no measurable improvement has been registered in terms of coverage.
- 2.10 **Consistency with the National Priorities and Sector Strategy.** In the Haitian National Water and Sanitation Strategy for 2010–2025, the above-mentioned issues are identified as some of the key constraints to develop the water and sanitation sector. Likewise, the proposed program is consistent with the decade-long sector strategy being implemented in the country by the Bank which focuses on improving sustainable and quality access to water and sanitation. The proposed program will address institutional weaknesses and constraints that affect a sustainable implementation and output delivery of the IDB-financed sector operations currently under execution and expected for the following years.
- 2.11 **Consistency with the Country Strategy and GCI-9.** This operation is consistent with the Bank's Country Strategy for Haiti for 2011-2015 (GN-2646), which sets the Water and Sanitation Sector as a priority sector. This operation is included in

⁸ DINEPA has responded to an emergency situation in 2010 following the earthquake and the appearance of cholera.

⁹ As planned in the Framework Law (Art.13).

¹⁰ Except in rare cases where specific support has been made in terms of technical assistance in conjunction with investments on the networks, such as in Port de Paix or Jacmel (HA-L1039).

the 2013 Country Program Document for Haiti. It is also aligned with two of the priorities of the Ninth Capital Increase (GC-9): (i) it targets small and vulnerable countries; and (ii) it contributes to reducing poverty and promoting equity. It also addresses an important issue highlighted in the December 2012 OVE report, which supports good governance by strengthening the public water utilities to operate existing infrastructure and manage it sustainably.

B. Program objectives and Expected Results

- 2.12 **Program objectives.** The overall objective of the program is to improve the sustainability and quality of water and sanitation services. The specific objective is to speed up the reform process by strengthening the institutions of the sector and stabilizing the institutional framework.
- 2.13 In order to foster the process of the reform, the program is structured as a Programmatic Policy Based Grant (PBP) consisting of three individual operations. The design in three phases is justified by the need to support a series of institutional, legal and policy reforms in the water and sanitation sector. The flexibility of the PBP makes it best suited to implement the sequential measures required. . The specific targets for each of the components of the program will be defined in the Policy Matrix, supported by GOH's Policy Letter. This PBP will have the following components:
- 2.14 Component 1. Macroeconomic Stability. The component seeks to ensure that the GOH maintains a solid macroeconomic framework that is consistent with the objectives of the proposed operation and the guidelines of the sector policy letter.
- 2.15 Component 2. The implementation of the institutional reform. This component will seek to improve the legal framework of the reform in order to improve the provision of water and sanitation through (i) refocusing of DINEPA's mission, and operation as stipulated in the Framework Law; (ii) the finalization of the legal framework related to OREPAs; (iii) the legal constitution of the public utilities; and (iv) the legalization of *Unités Rurales Départementales* (URD) as entities "déconcentrées"¹¹ of the OREPAs. In this regard, the proposed first PBP operation seeks to promote a programmatic approach by DINEPA to pursue the implementation of the legal and institutional reform.
- 2.16 Component 3. Sector planning and regulation. This component will contribute to improving key functions of DINEPA, such as regulation and planning. It will focus on: (i) designing mechanisms to prioritize investments; (ii) establishing a financing policy for the sector taking into account different sources of financing; (iii) establishing a tariff policy based on economic efficiency, financial viability and social equity; (iv) contributing to the financial sustainability of water operators; and (v) establishing guidelines to facilitate coordination among the different ministries and sectors for investment implementation.

¹¹ Entities that are not autonomous financially or legally as opposed to decentralized entities.

- 2.17 Component 4. Improvement of water operators' performance. This component's objective is to: (i) ensure qualified operators manage water and sanitation services in areas where Bank financing is available; and (ii) strengthen the tools to monitor and follow-up on these operators available to entities that have oversight.
- 2.18 Component 5. Implementation of the sanitation strategy. This component will support the implementation of the sanitation strategy. It will promote: (i) the operationalization of the strategy; (ii) a better articulation of DINEPA's entities; and (ii) a better coordination among the various National Authorities involved¹². It will also evaluate the impact of such a strategy (based on an improved supply).

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 IDB, in its water and sanitation strategy, emphasizes the need to expand coverage, improve the sustainability of services through more efficient water operators and cost recovery of water tariffs. Each water and sanitation investment operation under execution includes an institutional component. However, this is not sufficient to improve the institutions of the sector as a whole. In this respect, a PDP would be much more appropriated to tackle these issues.
- 3.2 Regarding the risk of non-accomplishment of the conditionalities, the institutions in charge can count on already available resources to hire any technical assistance that may be necessary to comply with conditions stated in the PBP. Moreover, DINEPA's staff has been consistently associated with the preparation process.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 **Environmental Aspects.** In accordance with the Bank's Environment and Safeguard Compliance Policy (OP-703), Directive B.13 on Noninvestment Lending and Flexible Lending Instruments, policy-based operations are not classified. Given the nature of the program, no negative associated environmental or social impacts are expected and the preparation of an Environmental and Social Strategy (ESS) is not considered necessary.
- 4.2 **Fiduciary Aspects.** The fiduciary risk is considered moderate given the minimal development and systematization of structures, rules and procedures for public finance management and in control in Haiti, in general.

V. RESOURCES AND TIMETABLE

- 5.1 Annex V details the timetable for the preparation of this program and points out the milestones to be achieved for OPC approval in April 2014, and final approval of the Grant Proposal in May 2014. Annex V also specifies administrative costs for the preparation of this PBP, which are estimated at US\$43,730.

¹² Ministry of Health and Population; Ministry of Environment, Ministry of Interior and Local authorities, Ministry of Public Works, Transportation, Energy and Communication and Municipalities.

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SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	
IDB Sector	WATER AND SANITATION
Type of Operation	Policy Based Loan (PBL)
Additional Operation Details	
Investment Checklist	Infrastructure Water and Sanitation
Team Leader	Matthieussent Romain, Sarah C. (SARAH@iadb.org)
Project Title	Institutional Strengthening and Reform of the Water & Sanitation Sector
Project Number	HA-L1090
Safeguard Screening Assessor(s)	Kotschoubey, Nicolas (nicolask@IADB.ORG)
Assessment Date	2013-10-18

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	Loan Operation	
Safeguard Policy Items Identified (Yes)	Operation for which (Type 1) disaster risk is most likely to be low .	(B.01) Disaster Risk Management Policy– OP-704
	The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
	Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)
Potential Safeguard Policy Items(?)	No potential issues identified	
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate	

	Directive(s), including B13, for guidance. No project classification required. Submit Report and PP (or equivalent) to ESR.
Additional Comments:	B.13 Potential Risks: None. this is for capacity building only

ASSESSOR DETAILS

Name of person who completed screening:	Kotschoubey, Nicolas (nicolask@IADB.ORG)
Title:	
Date:	2013-10-18

COMMENTS

No Comments

ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)

1. Given the nature of the program, that involves institutional strengthening activities, there are no associated environmental or social risks. Based on the results of the “Safeguards Policy Filter Report and Screening Form (see annex II),” no project classification is required according to the B.13 policy.
2. The overall objective of the program is to improve the provision of water and sanitation services by strengthening the institutions of the sector and implementing the legal and institutional reform of the sector, agreed and ratified by law in 2009.
3. The program will play an important role in implementing reforms, making water utilities more efficient and financially sustainable, and improving public health and the environment through improved sanitation. The Environmental and Social Strategy (ESS) of the program consists of ensuring systematic inclusion of: (a) environmental and social impact assessment and mitigation in the design of operations; (b) health and safety measures during construction and operations; and (c) adequate compensation of people affected by loss of land or assets. Furthermore, the ESS would be to ensure that DINEPA’s capacity to fulfill this mandate is adequate, including the capacity to monitor and supervise. The corresponding commitments will be included in the policy matrix (to be annexed to the POD).
4. With the above points taken into consideration, no further environmental assessment is required for this program.

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Index for Executed and Proposed Sector Work

Issues	Description of works	Expected Dates	References and hyper links to Technical files
Sector reform	IADB, <i>Water and sanitation Sector Note</i> , INE/WSA, August 2011	Completed	GN-2646
	DINEPA, <i>Sector Strategic Plan for the water and sanitation sector, Haiti</i> , April 2008.	Completed	38188627
	<i>Le Moniteur Journal officiel de la Republique d’Haiti, Framework law on the organization of the sector of drinking water and sanitation</i> , 25 Mars 2009.	Completed	38188546
	Office international de l’Eau, <i>Diagnosis and Prospects for the water and sanitation sector</i> , March 2008	Completed	38188532 ; 38188682 ; 38188739
	Office international de l’Eau, <i>Governance, economic and financial simulation for the water and sanitation sector</i> , March 2008.	Completed	38188449
	DINEPA, <i>Implementation of new organizational structures, implementation plan</i> , Haiti, December 2009	Completed	38188551
	DINEPA, <i>VISION 2025-Towards a sustainable service transformation Drinking Water and Sanitation</i> , Haiti 2009.	Completed	38188633
	DINEPA, <i>Priority action plan 2009-2011</i> , October 2009.	Completed	38188617
	DINEPA, <i>Reform, modernization and investment in the water and sanitation sector: Five year plan 2011-2015</i> , Haiti 2010.	Completed	38188474 ; 38188503 ; 38188509
	DINEPA, <i>Sector Strategic Plan for the water and sanitation sector, Haiti - update</i> , 2010.	Completed	38188452
	DINEPA, <i>Priority action plan 2010 : funding program</i> , Haiti, May 2010.	Completed	38188572
	DINEPA, <i>Priority action plan 2010 : general timetable</i> , Haiti, May 2010.	Completed	38188594

	DINEPA, <i>Annual report 2009-2010</i> , January 2011.	Completed	38188589
	Jan Janssens (JJC Advisory Services), <i>Case study : Haiti - Capitalization and Evaluation of the Institutional Reform of the Water Sector and Sanitation and its Achievements</i> , March 2012.	Completed	38188458
Technical options and design aspects	DINEPA, <i>Operational guidelines for rural water and sanitation</i> , Haiti, January 2008.	Completed	38188564
	DINEPA, <i>National Response Strategy to the Cholera epidemic, Haiti</i> , November 2010.	Completed	38188509
Cost analysis and economic viability of the Program	Data required to develop economic viability of the program.	February 2014	
Financial management and fiduciary issues	No special fiduciary issues are anticipated.	N/A	
Data collection and analysis for reporting the results	Identification of proposed indicators to measure impact of program	February 2014	
Environmental and Social Safeguards	No risks are anticipated.	N/A	
Macroeconomic	<i>Independent Macroeconomic Assessment (IMA)</i> to be updated in conformity with IDB Procedures	March 2012	

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