Executive summary

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. Governance of the sector, which is based on highly centralised responsibilities and decision-making powers, is also revealing its limitations.

In this situation, institutional inertia prevails and it is not clear that the Tunisian authorities appreciate the urgency of reform. Despite the transition to democracy, government instability has made it impossible to develop a strategic vision of water policies, and growing social pressure has evoked a management approach to the water sector that is reactive and crisis-driven rather than proactive and forward-looking.

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 development of the water sector. With the recasting of the legislative framework and the consideration now being given to new models for the country's economic development, it is timely to engage in strategic thinking about the water sector and the private sector's role, and the institutional and regulatory implications of PSP, before choices are made.

If Tunisia is to give serious consideration to private sector involvement, there will have to be a change of administrative culture and of the approaches to delivering water and wastewater services in the country. The historic operators will have to be given greater financial and decision-making autonomy, and mechanisms will have to be developed to ensure transparency and integrity in the budgetary process and to guarantee value for money in government spending. Some regulatory functions will also need to be reconsidered with a view to rendering the existing tools more efficient, systematising procedures, and making service more customer-oriented.

The authorities should also take steps to reinforce the sector's financial viability. Operators are facing significant financial challenges because of rising costs, low water tariffs, and the insistent demand for high-quality services. This situation could discourage PSP and could even spark a vicious circle of service deterioration.

A participatory and territorially differentiated approach would seem to be needed, one in which water policy is geared in a more transparent manner to the various levels of government and non-governmental players. Stakeholders' engagement, and in particular that of users at the regional level, will be a critical dimension for the future development of the sector, whatever the modality chosen for managing water services. This is an essential factor for improving service performance, and for gaining public acceptance of the reforms underway and the potential resort to PSP.

This report offers considerations and recommendations on three specific themes, which the Tunisian authorities may wish to take into account in the course of their ongoing efforts:

1. Understanding the variety of PSP modalities, their objectives and conditions for success, and identifying those most appropriate to the Tunisian context;
2. Ensuring the financial and fiscal sustainability of PSP in the Tunisian water sector;
3. Improving the mechanisms for transparency and enhancing stakeholders' engagement in order to enlist greater public support.

The feasibility of PSP depends not only on the complexity of the manner in which it is envisioned, but also on the existence of a number of framework conditions and on the willingness of the private partners to assume the risks and commitments inherent in PSP, in a country the size of Tunisia.

Several possible forms of PSP are now under consideration in Tunisia. Provided certain conditions are met (in particular, the strengthening of capacities), the involvement of small-scale operators in pilot projects in rural areas could help to overcome the shortcomings of some of the *groupements de développement agricole* (GDA, "Agricultural development groups", essentially local water management associations or boards). Private operators working under management contracts with clear objectives in terms of improving technical and commercial performance could also help improve the quality of service. The Tunisian authorities could moreover sponsor a pilot project of the "build-operate-transfer" (BOT) type to develop a plant for water treatment (conventional or nonconventional water) or re-treatment, in order to test the applicability of such a solution and the private sector's willingness to commit to such a partnership in Tunisia. The country's ability to undertake more complex forms of PSP will depend on its capacity to implement the necessary framework conditions.

This report identifies financial viability and fiscal sustainability as the essential conditions for success with PSP, and more broadly for the sustainable management of public services in Tunisia. Such an outcome will require a combination of factors that includes greater autonomy for operators, more transparent budgetary processes, and the adoption of a financial planning tool that will allow strategic decisions to be taken with respect to alternative scenarios for financing the sector. An essential step to making the operators more viable will be to reconsider the service charges, but this is not the only issue at stake.

Adoption of the law on PPP and establishment of a PPP unit should go some way to addressing the legal and institutional shortcomings and establishing better co-ordination among the key players. Introduction of this institutional architecture should go hand-in-hand with the development of tools for ensuring value for money and strengthening capacities at the central level and in the line ministries for developing and monitoring projects.

This report proposes three pillars for strengthening stakeholders' engagement: better access to information, consolidation of the communications strategy, and activation of participatory platforms. A complete and broadly disseminated database on water and sanitation services, including service quality indicators, would help bring greater transparency to the water sector. To be effective, a solid information base should be accompanied by efforts to strengthen the communication capacities and tools of the government and the operators. At the same time, the reform process would be enhanced by strengthening the role of non-governmental organisations (NGOs) in the water sector, and that of the Tunisian consumer defence organisation (ODC).

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