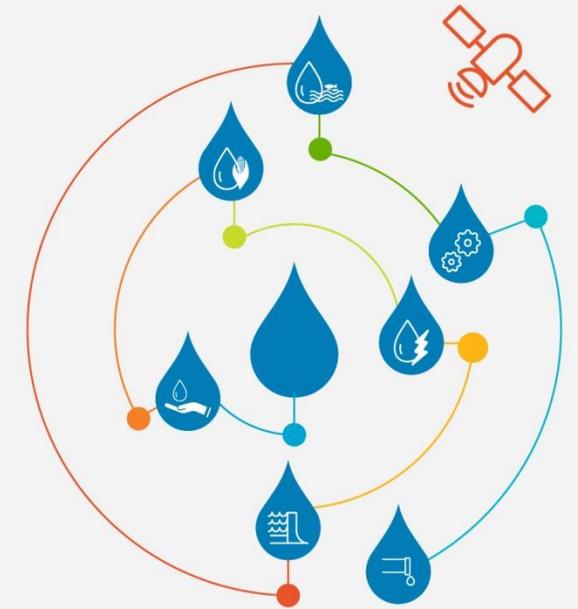


# ASIA WATER FORUM 2018

INFORMATION, INNOVATION AND TECHNOLOGY



## Improving financial resilience of public water utilities in Lao PDR

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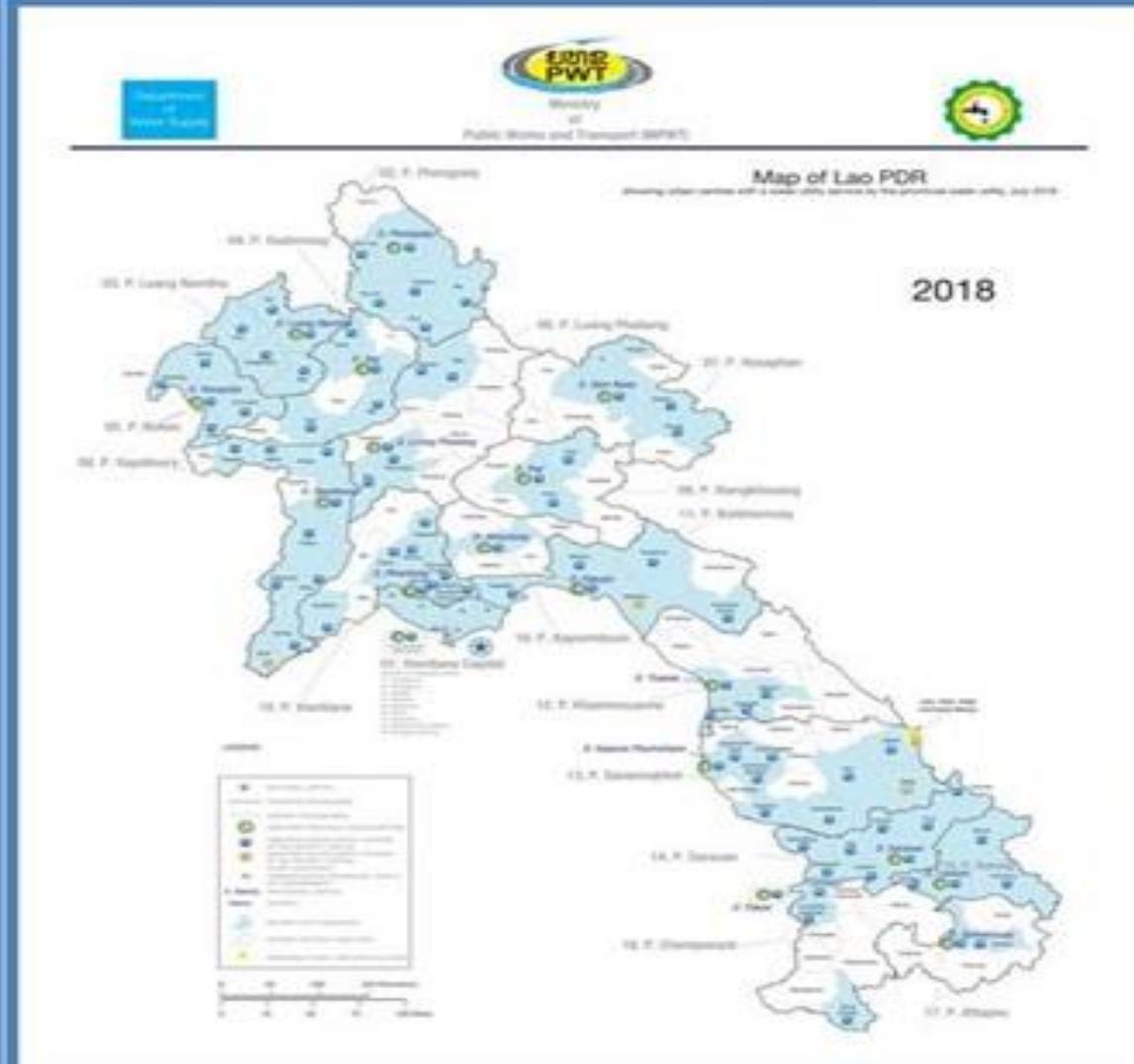


# 1995



5 urban centres with  
water supply system  
(Nam papa)

# 2018



More than 120 urban centres  
with water supply system  
(Nam papa)

# Historical Perspective

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- Sector reform program launched in 1999 with decentralization of sector
- Decree 37/PM (1999) approved to set out the structure of the sector and institutional responsibilities
- Decree 191/PM (2005) approved aimed at setting up a regulatory framework
- Enterprise Law (2005) introduced to define the legal framework for the operation of state-owned enterprises – update in 2013
- Water Supply Law (2009) approved to shape and guide the sector for the future – replaced 37/PM and 191/PM



# Key Aspects of Sector Reform

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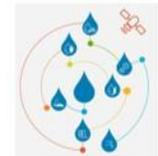
- In 1999, the water utilities had very limited capacities and resources
  - Capital investment was totally subsidized
  - O&M was either subsidized or “deferred”
- Highest priority – to generate greater revenues, improve performance and minimize costs
- Tariff reform commenced in 2008 to generate greater levels of revenue
- Attempts to improved performance started in 2010 with the introduction of KPIs
- More effective management of the higher levels of revenue started in 2012 through corporate planning



# Sector Regulation

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- Economic regulation effected in each province by the Provincial Assembly acting on technical advice of Department of Water Supply
- Tariffs approved every 3-years with annual adjustments as necessary
- Service Agreements between the provincial government and provincial water utility set out the tariffs approved and the KPIs that are required to be met – effectively a basic regulatory contract
- Technical regulation – Ministry of Health (water quality) and Ministry of Public Works and Transport (planning, policy, standards)



# Financial Targets

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- To work towards financial resilience, the provincial water utilities are currently requested to:
  - Keep all arrears at less than 90 days, and preferably less than 45 days
  - Meet all O&M costs
  - Provide for at least 50% depreciation provision
  - Maintain a minimum debt service coverage ratio of 1.2 (net operating income/total debt service)
- Fund 30% of major capital investments through a loan (ADB-funded projects)



# Corporate Planning

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- Provincial water utilities are now required to prepare 3-year corporate plans as a condition of any concessional financial assistance
- The plans are based on financial projections which enable:
  - Structured analysis of short- to medium-term demand, assessment of resource requirements, required changes/reform, etc.
  - Tariff structures/levels to be tested and agreed
  - Assessment of projected performance against a range of financial indicators – return on assets, DSCR, gearing, operating ratio, etc.
- The plans provide MOF and donors with some level of confidence in water utility management, and some assurance that loan covenants

will be met



# Administration/Accounting

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- In parallel with the corporate planning, MPWT with assistance from ADB, Norad and other donors, has provided capacity development – training and systems development
  - Training topics have ranged from spreadsheet analysis to accrual accounting
  - Systems development include the installation of integrated billing and accounting systems, and payment of water bills by mobile



# Corporate Governance

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- The Enterprise Law (2005 and 2013) sets out the corporate governance requirement of any state-owned enterprise
- Provincial water utilities not familiar with the operations of corporate entities – previously government units
- In 2016, MPWT embarked on an awareness program for the Boards of Directors of the water utilities – MOF is currently drafting a Decree to help further in this respect
- External audits have also been introduced conducted by the State Audit Office – provide valuable feedback to the corporate planning

process



# Asset Management

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- More recently, and with assistance from ADB, MPWT is initiating through the Department of Water Supply the first programme on asset management for the state enterprise water utilities – Nam Papa – following the guidance of the Law on State Assets (2013).
- A new activity from 2018, first steps are focusing on the ADB’s Guide on Water Utility Asset Management (2013) to improve asset records for linking into improving the corporate planning and capital expenditure (CAPEX) financial forecasting.



# Progress and Lessons

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- Since 1999, the provincial water utilities have progressed from heavily subsidized government units to more efficient state-owned enterprises
- Short- to medium-term financial resilience is improving as can be seen in the corporate plans, but we recognize that these plans should be set within a longer-term plan examining the financial impacts of future debt service and asset replacement
- Although progress has been positive and steady, we know that there is still a long way to go



# THANK YOU FOR YOUR ATTENTION

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