



Lao People's Democratic Republic: Water Supply Sector Project

Project Name	Water Supply Sector Project		
Project Number	53389-001		
Country	Lao People's Democratic Republic		
Project Status	Proposed		
Project Type / Modality of Assistance	Grant Loan		
Source of Funding / Amount	Grant: Water Supply Sector Project		
	concessional ordinary capital resources lending / Asian Development Fund		US\$ 5.00 million
	Loan: Water Supply and Sanitation (Additional Financing 2)		
	concessional ordinary capital resources lending / Asian Development Fund		US\$ 58.30 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth		
Drivers of Change	Governance and capacity development Partnerships		
Sector / Subsector	Water and other urban infrastructure and services - Urban policy, institutional and capacity development - Urban sanitation - Urban water supply		
Gender Equity and Mainstreaming	Effective gender mainstreaming		
Description	The project will focus on increasing access to safe water supply and, considering the impacts of COVID-19, is expected to contribute towards (i) increasing job opportunities in the sector; (ii) improving health benefits, with reduced exposure to water-related illnesses; and (iii) providing greater opportunities for the establishment of new businesses and industries in the project area. It is aligned with the strategic goals in ADB's country partnership strategy for the Lao PDR, 2017-2020 and is consistent with ADB Strategy 2030's operational priorities of addressing remaining poverty and reducing inequalities; accelerating progress in gender equality; tackling climate change and disaster resilience and enhancing environmental sustainability; making cities more livable; and strengthening governance and institutional capacity.		

Project Rationale and Linkage to Country/Regional Strategy

Economic outlook. Mining and hydropower, along with agriculture, manufacturing, tourism, transport, and distribution industries have been the primary drivers of the economy of the Lao People's Democratic Republic (Lao PDR). Recent flood and drought events, however, have slowed down production in the agriculture and hydro-electric sectors, which has resulted in a decline in the average gross domestic product (GDP) from 6.2% in 2018 to 5.0% in 2019.

COVID-19 impact. The economy, which had slowed down in 2019, will experience a further decline due to the outbreak of the coronavirus disease (COVID-19). The GDP is projected to drop to 3.5% in 2020, and the tourism sector, which contributed about 4.7% of the GDP in 2019 (approximately \$900 million), will also suffer because of border closures and a country-wide lockdown. Poverty level is also likely to rise by 3.1% in 2020 due to the pandemic, with an additional 96,000 falling into poverty. COVID-19 has highlighted the importance of good health and hygiene practices and how water shortages and poor water quality can adversely affect the ability to maintain hygiene levels in communities. Such limitations can affect efforts to address the spread of the disease and as such, increasing the population's access to safe water to protect human health will be fundamental to curb the spread of COVID-19, and any future health emergencies.

Urbanization. Since 1995, the population of the Lao PDR has grown annually at 1.72%, increasing from approximately 4.6 million (in 1995) to 6.5 million in 2015. The current population is estimated to be approximately 7.2 million. While the country remains predominantly rural based, the urban population has had an average growth of 4.29% per year since 1998 and now represents 36% of the total population (approximately 2.5 million people).

Policy framework. The water supply sector is governed by (i) the 2009 Water Supply Law, which regulates the production and provision of water supply; and (ii) the Strategy of the Urban Water Supply and Sanitation Sector (2013-2030), which aims to (a) provide safe, reliable, and affordable water supply and sanitation to 90% of the urban population; and (b) develop the capacity of provincial water utilities, also known as provincial nam papas (PNP), to be sustainable water utilities. Achieving the urban water supply target is guided by the Sector Investment Plan (SIP), which is prepared by the Ministry of Public Works and Transport (MPWT) and updated regularly. The implementation of the strategy and its accompanying SIP is overseen by the Department of Water Supply (DWS) under the MPWT.

Access to water supply services. About 72.5% of the total population has access to water on premises (94.4% urban; 61.1% rural). Of this total, approximately 49.5% of the total population has access to piped water supply (82.3% urban; 32.3% rural), and only 16.1% of the total population (26.3% urban; 10.8% rural) has access to water that is free from contamination. For households without access to water source on premises, women and girls are primarily responsible for collecting water, with 48.7% adult females (29.1% urban; 50.3% rural) carrying out this duty, compared to 19.9% adult males (28.2% urban; 19.1% rural).

To date, ADB has supported the government in providing 49,178 urban households (9.2% urban population) with connections to new or improved water supply and 47,553 urban households (8.9% urban population) with new or improved sanitation. The completion of the Water Supply and Sanitation Sector Project in 2023 is expected to increase this contribution to 16.7% for both water supply and sanitation.

Quality of water service provided. Water supply systems across the country are aging and in need of expansion or rehabilitation. In some cases, systems were built more than 20 years ago, and there have been limited planned or preventative operations and maintenance (O&M) works carried out. This lack of proactive O&M has resulted in the provision of intermittent supply, high levels of water losses in the distribution networks, and a low quality of service provided to consumers. Population growth has also placed increasing demand on the water supply service. Existing water treatment plants are operating over their design capacity and unable to provide adequate treatment to supply safe drinking water.

Institutional arrangements. In 1999, following a process of decentralization, the national water supply authority was divided into 17 PNPs, operating under the Provincial Department of Public Works and Transport (DPWT). The PNPs oversee the operation, maintenance, and management of the piped water supply systems in urban areas. Each PNP is established with a board of directors, which reports through the DPWT to the Provincial Governor. The DWS, which was established in 2015, is mandated to develop urban water and sanitation systems in the country and provide guidance to provincial governments and the DPWT.

At both central and provincial levels, there is shortage of experienced and skilled workers, with capability in corporate business planning, financial management, accounting, and financial reporting. The limited staff in PNP presents difficulties in providing and maintaining an efficient service. As new water networks are to be commissioned to achieve the 90% target by 2030, human resource capacity will need to be addressed. Ongoing skills development in planning, reporting and policy development will be important, as will upskilling of PNP staff in the fields of water engineering and corporate, financial, and business planning.

Financial sustainability. Historically, the PNPs have relied heavily on grant funding from external agencies and subsidies from the government to fund capital investments. Adopted tariff structures were inadequate, often set low, and O&M was underfunded. The financial performance of the PNPs was also constrained with the inability to raise tariffs and collect charges due to poor levels of service provided to their customers. A sector reform program initiated under the ADB funded Northern and Central Regions Water Supply Project has enabled the PNPs to introduce tariff adjustments to cover O&M expenses and depreciation.

Despite the reforms, the financial sustainability and the capacity of the PNPs, particularly in corporate governance and financial management, requires further strengthening. The PNPs continue to face challenges in reaching full cost recovery with tariff adjustments allowing the PNPs to only cover 100% of their O&M costs and a portion of the annual depreciation charges. In addition, the PNPs also face difficulties in maintaining water bill arrears at less than 90 days. PNPs will require continued support to maximize and increase revenues to improve their institutional sustainability.

Impact	Increased service coverage and provision of safe, reliable, and affordable water supply
Outcome	Access to safe piped water supply services in participating towns improved
Outputs	Regulatory environment improved
Geographical Location	
Safeguard Categories	
Environment	B
Involuntary Resettlement	B
Indigenous Peoples	B
Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Responsible ADB Officer	Swain, Wei Kim
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Urban Development and Water Division, SERD
Executing Agencies	Ministry of Public Works and Transport Dept of Housing and Urban Planning, Lao PDR, Lane-Xang Ave., Vientiane Lao PDR P.O. Box 206
Timetable	

Concept Clearance	22 Jun 2020
Fact Finding	17 Aug 2020 to 04 Sep 2020
MRM	01 Oct 2020
Approval	-
Last Review Mission	-
Last PDS Update	17 Jul 2020

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