

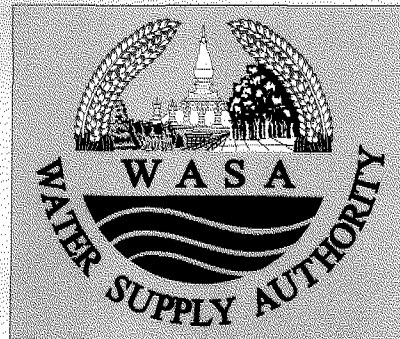
Water Supply

Authority

Annual Water Sector

Performance Report

2002



Water Supply Authority

Our Vision

“A first class water supply infrastructure that delivers the highest service possible that represents best value to customers now and in the future”

Our Mission

“To regulate in a way that provides a potable, sustainable and affordable water supply for all by 2015.”

Annual Water Sector Performance Report 2002

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Director's message



The decentralisation and liberalisation of many central government institutions has been the cornerstone of the Government's initiatives to improve the economy of the Lao PDR. This process has resulted in the creation of many smaller yet more efficient institutions. In the water sector the Provincial Nam Papas were born from the decentralisation of Nam Papa Lao. However, the replacement of one large monopoly with many smaller local monopolies is not a perfect servant of the customers' interests. The Water Supply Authority (WASA) has as one of its functions the responsibility to regulate these local monopolies to ensure that the customers receive the best value service possible. I am the Government appointed water supply regulator and as such I am required to carry out my responsibilities in terms of the Prime Minister's Decision 37 (1999).

Our vision is a first class water supply infrastructure that delivers the highest service possible that represents best value to customers now and in the future. Our mission is to regulate in a way that provides a potable, sustainable and affordable water supply for all by 2015.

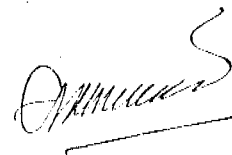
We are all aware that the provision of water supply services in many parts of the country is not to a standard that we would like. Although many of our problems are being solved with financial assistance from various international donor agencies money alone cannot raise the quality of service to the levels we expect. Greater efficiency in managing and operating the water supply businesses is just as important if not more so. My role as the regulator puts the interests of customers at the top of my agenda. This requires me to ensure that the water supply entities are operating at their maximum efficiency thereby giving the customers the best value service that can be provided. This is achieved in three ways: enforcement of statutory regulations that set out the legal obligations of the water supply businesses, the promotion of an environment that is attractive for investment, both private and public, and the promotion of continual improvement in service delivery through comparative competition.

Water supply provision can no longer be considered a 'free service' and in order to achieve the desired targets the operators must have the financial resources necessary to finance their activities. In return for the services provided, the customers themselves have a primary obligation to pay their dues but at the same time the operator has an equally important obligation to ensure maximum efficiency. Customers should not be expected to finance inefficiency indefinitely.

A regulatory framework can only function with the support and confidence of the people it is designed to protect, in this case the customers of the regulated water suppliers. I welcome any comments from whatever quarter letting me know of any particular concerns they may have. Although as a regulator I have the interests of customers, especially the economically disadvantaged, as the highest priority I have to take a society-wide perspective and I may not be able to fully satisfy the needs of every individual or organisation, at least not in the short-term. It is hoped that with the support of all the stakeholders I, and my colleagues in WASA, can provide a regulatory service that, over time, delivers a water supply service that will eventually meet the needs and expectations of all.

The regulatory framework is currently under development and soon to be confirmed in a Prime Minister's Decision. In anticipation of this decision we have already embarked on some of the regulatory tasks in accordance with our expected new role. Although our achievements so far have been modest we have prepared the way for a brighter future. Examples include preparation of draft legislation for WASA's regulatory remit, water quality legislation, the establishment of benchmark comparisons of the various PNPs, and a detailed review of the Nam Papa Vientiane tariff increase application. Our plan is to continually improve our regulatory processes and policies including the development of a transparent and non-discriminatory tariff policy and the promotion of alternative management models for water supply. This first Annual Water Sector Performance Report is just one of the many tools employed in this process of continual improvement.

Vientiane, 31 July 2003



Dr Somphone Dethoudom

Introduction

This first Annual Water Sector Performance Report is designed to inform the all stakeholders, especially the customers, of the performances of the various water companies falling under the regulatory remit of WASA. Customers can see for themselves the actual performance of their water supply company in comparison to others in the country. More importantly, the managers of the suppliers can observe how they are performing against their competitors.

It is recognised that not all water companies are the same and each one has unique characteristics that make comparisons less than perfect. We have tried to factor in such uniqueness in order to facilitate the best possible comparison. This first performance report, however, is too early for any sweeping judgements to be made and a degree of caution is advised.

This Water Sector Performance report examines the financial and technical performances of the various organisations based upon readily available information. In future years WASA's information requirements will expand to include a more detailed comparative analysis.

The principal performance measures identified for this report are:

- *Financial data, notably profit and loss statements and balance sheets.*
- *Technical data, notably service coverage, water quality, leakage etc.*
- *Managerial data, notably staffing levels.*

Aside from this performance comparison this report will also inform the reader of policies and practices of WASA, activities undertaken in this reporting period, and any future planned activities.

The Role of WASA

Who are we?

WASA (the Water Supply Authority) is responsible for making sure that the water supply companies under its regulatory remit give their customers a good-quality, efficient service at a fair price. We are a government department within the Ministry of Communication Transport Post and Construction led by Dr Somphone Dethoudom, the WASA Director.

Between the Director and the Ministry is the Regulatory Board consisting of representatives of various government and non-governmental agencies. This Board is responsible for setting the overall policy of WASA. WASA's role is to implement this policy.

What is WASA's role?

We are the regulator of the urban water industry in the Lao PDR. Draft legislation, currently under consideration by the Government states that we:

- Limit the amount companies can charge customers
- Make sure that companies carry out their responsibilities as set out in legislation and regulations
- Protect the standard of service customers receive
- Encourage companies to be more efficient
- Encourage competition in the sector where appropriate

- Ensure that the companies carry out their activities in an environmentally sustainable manner

We also compare the activities of all the companies helping poor performers rise to the standards of the best.

What do we do?

Setting tariffs

Currently the responsibility for tariffs is totally vested in the Provincial Governors' Offices. This all too often results in uneconomically low tariffs that in turn results in falling levels of service and is a major disincentive for investors. Draft legislation intends to transfer some of this responsibility to WASA in the near future, although final approval of tariffs will still remain vested in the local political authorities.

To this end the Regulatory Board and WASA is in the process of developing a tariff policy, a necessary first step before the WASA can meet its tariff setting obligations. Following this we intend to develop a more transparent tariff determination process based upon regulatory accounts, affordability and many other factors. It is envisaged that WASA will be in a position to provisionally set tariffs in many, but not all, of the companies by the end of 2003. Until then responsibility will remain vested in the local political authorities.

In the long term we envisage a tariff regime that is a balance between ensuring that the operators have the necessary finance to provide the best possible service and at the same time address the needs of the customers, notably the poor.

Compliance with regulations

The rights and obligations of the various water companies are set out in various legal instruments, included proposed legislation. It is our role to ensure that the water companies comply with such legal instruments. In the event of non-compliance we may impose enforcement measures on the water companies.

In the event of a dispute between a water company and one of its customers that cannot be resolved at a local level then we will have the powers to act as an arbitrator to the dispute.

Compliance with regulations is one of the key benchmarks of comparative competition between the various water companies. Future monitoring will include a detailed analysis of enforcement measures.

Protecting customers

We check that companies meet their responsibilities to customers, for example, water quality, and reliability of service.

Each year we intend to publish information about how the companies perform and we will take action against companies if they are considered to be seriously failing their responsibilities.

Economy and efficiency

We check how companies perform to make sure that customers get value for money. We expect companies to improve their services by being more efficient, not just by putting up prices.

We monitor specific performance indicators such as lost water, labour utilisation and financial management. These indicators shall form the key components of annual published comparative competition results. Customers will themselves see how their water company is performing in comparison to others in the Lao PDR.

Encouraging competition

Although direct competition in the water sector does not exist we promote the concept of comparative competition described above.

We also promote competition in other areas such as capital investment where fair and open competition in the tendering process is standard practice.

In the longer-term we envisage a more competitive environment whereby companies may have to bid on a competitive basis for the right to operate water supply services.

Environmental duty of care

We are required to exercise our powers with due regard to the environment. This means that we should recognise environmental constraints that the companies operate within. We must respect that demands for efficiency

improvements should not be at the expense of the environment.

What we are not

We do not have any jurisdiction over rural water supplies as this activity falls under the jurisdiction of Nam Saat, itself under the jurisdiction of the Ministry of Health.

WASA is not responsible for any of the day-to-day management of the water companies. Operational responsibility has been delegated to them through the decentralisation process. Our role is to supervise their activities to ensure compliance with statutory requirements and to encourage efficiency.

WASA is also not responsible for the protection of the environment as this is a direct responsibility of various departments within the Ministry of Agriculture and Forestry. However, WASA has an obligation to recognise the environmental impacts of its actions and those of the operating companies, all of which are compelled to adhere to statutory regulations and best practices.

Support

Although the concept of regulation of utilities has been employed elsewhere in the world it is new to the Lao PDR. In this respect we have enjoyed significant support through various international development agencies in helping to establish an appropriate regulatory framework for the water supply sector for our country. This includes a long-term support programme funded by

NORAD and occasional support by the World Bank's Water and Sanitation Programme. Other agencies such as the Asian Development Bank (ADB) and the Japan International Co-operation Agency (JICA), and the Public Private Infrastructure Advisory Facility (PPIAF) have also recognised our efforts in this area and have given us their unqualified support.

Ultimately, it is the support of the customers that is most important for our work to be considered a success.

This Year's Achievements

WASA Charter

The principal achievement of 2002 was the development of the WASA Charter through a process of consultation with various government and non-governmental agencies.

The Charter sets out the roles and responsibilities of the various stakeholders in the water sector, especially the rights of the consumers.

The consultation process culminated in a workshop held at the MCTPC on 11 November 2002. Although many comments were received the overall outcome was positive and the Charter enjoyed widespread support.

This Charter has still to be confirmed as a legal instrument but it is expected that a Prime Ministerial Decision on this Charter will be announced before the end of this year.

Tariff Policy

In accordance with one of the requirements of the draft legislation described above we have progressed with the development of a National Water Tariff Policy based upon¹:

- Consumer interest and affordability

- Supplier costs of service provision
- The environment
- National economic policy

This Tariff Policy shall be the cornerstone of future tariff determinations for the water companies.

It is our intention to make this policy statement public knowledge at the earliest opportunity.

Water quality regulations

We have prepared draft legislation on water quality standards and monitoring systems for the various water companies. This legislation recognises the financial and technical limitations of the companies. Rather than set mandatory targets to take immediate effect we have provided for generous time allowances for the companies to reach the specified quality and monitoring standards.

Technical and financial management training

We recognise the need for the water supply companies to improve their technical and financial management expertise in order to achieve the objectives of improved service levels and efficiency. With the support of several donor agencies we have provided, and will continue to provide, training to the

¹ Developed in the first half of 2003.

staff and management of the water companies.

As the regulatory targets become more demanding as service levels improve the expertise of the staff of the water companies will have to improve. Continual improvement through training and other mechanisms is therefore strongly supported.

Development of arrears collection strategies

A major constraint to the financial viability of the water companies is poor cash flow, largely as a result of government customers failing to meet their water bill obligations within a reasonable period of time.

Although cash flow management is a management function and outside our responsibilities as a regulator we have provided assistance to the water companies in the form of suggested arrears collection strategies.

It is too early to determine the results of this initiative but we are observing the situation closely with a view to reporting on cash flow in more detail in subsequent annual reports.

Water loss analysis

We have undertaken research into the water loss statistics of all the provincial nam papas employing scientific statistical analysis techniques.

This research into water loss control is an ongoing project that will enable WASA to set realistic,

achievable and economic targets of water loss reduction.

Awareness development

The general understanding of the water sector in the Lao PDR is generally weak. In many instances people still refer to Nam Papa Lao as a national institution but in fact now only serves Vientiane Prefecture since decentralisation and the creation of Provincial Nam Papas.

This lack of awareness extends to several areas including tariffs, cost recovery, level of service, investment planning etc.

We have initiated several programmes of general awareness building to enable the customers to make informed choices about the water supply services that are available to them.

By the same token, we in WASA cannot claim to be fully informed about the needs and aspirations of the general public. We have also initiated many programmes whereby we can gain a greater understanding of the customers. Activities include affordability analyses for several project towns, the establishment of benefit monitoring and evaluation programmes, and continual dialogue with all the stakeholders.

Small towns sector policy

The current institutional arrangements for water supply include the Nam Saat for rural communities and the Provincial Nam Papas for the larger towns and cities. We recognise that this leaves

a gap that is not served by either group, the small towns.



National consultation workshop leading to the small towns sector policy study, December 2002.

With the assistance of the World Bank's Water and Sanitation Programme and the PPIAF we have initiated a study that focuses on this group. The objective of the study is to identify appropriate management models that can deliver a safe and reliable water supply to these communities. We anticipate the publication of the results of this study later this year.

International recognition

Regulation in the water sector is a relatively new concept worldwide but has gained acceptance as a necessary component of any strategy to improve the value of water supply services.

WASA has been recognised as a regional leader in this field. This recognition has resulted in researchers representing agencies such as the Asian Development Bank observing the activities of WASA, presenting it as a role model for regulation in other countries in the SE Asia region and elsewhere in the world.

Technical Performance

Concept

The concept of comparative competition is the annual publication of the performances of the individual companies. The driver for improved service is the psychological desire to be the best (or at least a desire not to be amongst the worst).

In order to achieve this structure it is necessary to establish a detailed reporting regime setting out the information requirements of WASA. At this stage in the regulatory process this reporting regime has not been established and this report is based upon statutory financial reports and other readily available data. Future reports will be significantly more detailed based upon regular performance reports from the water companies and the adoption of regulatory accounting practices.

The primary areas to be addressed in these annual reports are:

- Water quality
- Level of service
- Compliance with regulations
- Efficiency

Water quality

Water quality is an area where it is extremely difficult to employ comparative competition as only Nam Papa Vientiane has the resources to undertake regular water quality monitoring.

Draft legislation has been prepared by us that sets out a timetable for the water companies to:

a) Acquire the resources for testing (including appointment and training of staff)

b) Comply with World Health Organisation (WHO) minimum requirements for water quality with respect to health

c) Comply with all other water quality requirements as stipulated in the WHO guidelines.

Until this legislation is passed it is not appropriate to compare performance on water quality.

The targets on water quality monitoring vary depending upon the current status of the various water companies. Nam Papa Vientiane has the tightest target of full compliance by 2005, because it already has much of the monitoring infrastructure in place and has the capacity to generate the financial resources necessary for implementation. The larger more advanced provincial water companies have medium targets, up to 2007, whereas those that are less advanced and economically disadvantaged have much later targets, up to 2009.

Levels of service

The primary levels of service criteria are a) service coverage, and b) reliability of supply.

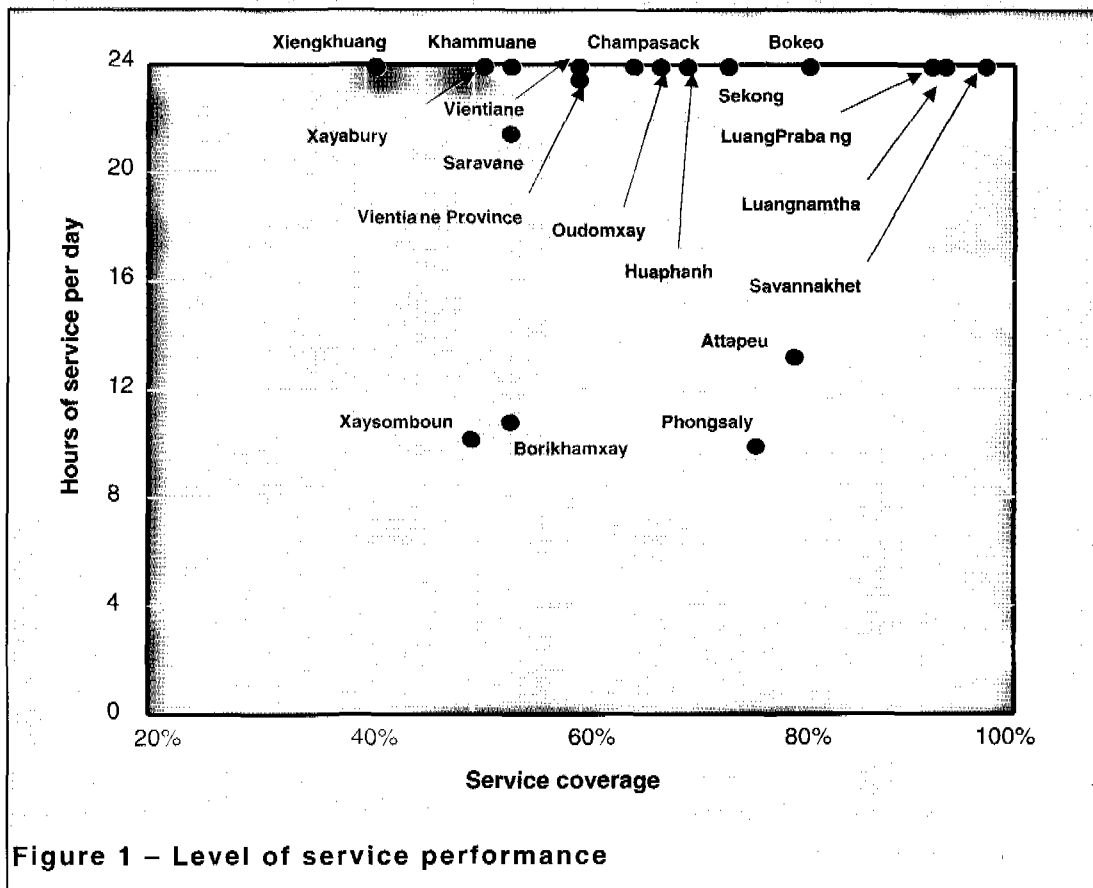


Figure 1 – Level of service performance

As with water quality it has not been possible at this very early stage of regulation to determine in detail how good or bad each company is in this respect and we can only record performance based upon details reported to us by the companies themselves.

We observe that although many service providers provide a continuous (or near continuous) supply, service coverage is far from complete.

The combination of these two performance criteria is illustrated in Figure 1.

In future years we intend to measure level of service performance based upon other factors such as: water pressure, the number and type of customer

complaints and other measurable factors.

Compliance with regulations

For 2002 the regulatory framework was not established and very few regulations existed with respect to the operations of the water companies. Consequently the measurement of compliance with regulations has not been possible.

In future years we will establish criteria whereby compliance with regulations can be measured such as the number and severity of enforcement notices issued by WASA.

Efficiency

The operational efficiency of the water companies is recognised as being significantly below what it should be. The principal areas of concern include:

- a) manpower utilisation.
- b) water loss management.
- c) financial performance.

Manpower efficiency

The utilisation of manpower is possibly the most important operational aspect that impacts upon overall efficiency. Although relatively simple benchmarks such as employees per thousand connections and water sold per employee appear to offer a means of comparison they need to be treated guardedly recognising the uniqueness of each water company, notably their relative sizes and economies of scale they enjoy.

We have analysed the manpower efficiency based upon these two benchmarks but building in the economy of scale factor as illustrated in Figure 2 and Figure 3. It should be recognised that the average line should not be interpreted as being a target level of efficiency and those that are better than average should not be complacent. In all cases the efficiency levels are well below 'best practice' observed in many other countries throughout the world. All operators have the capacity to improve efficiency; the diagrams simply indicate those where the needs are greatest.

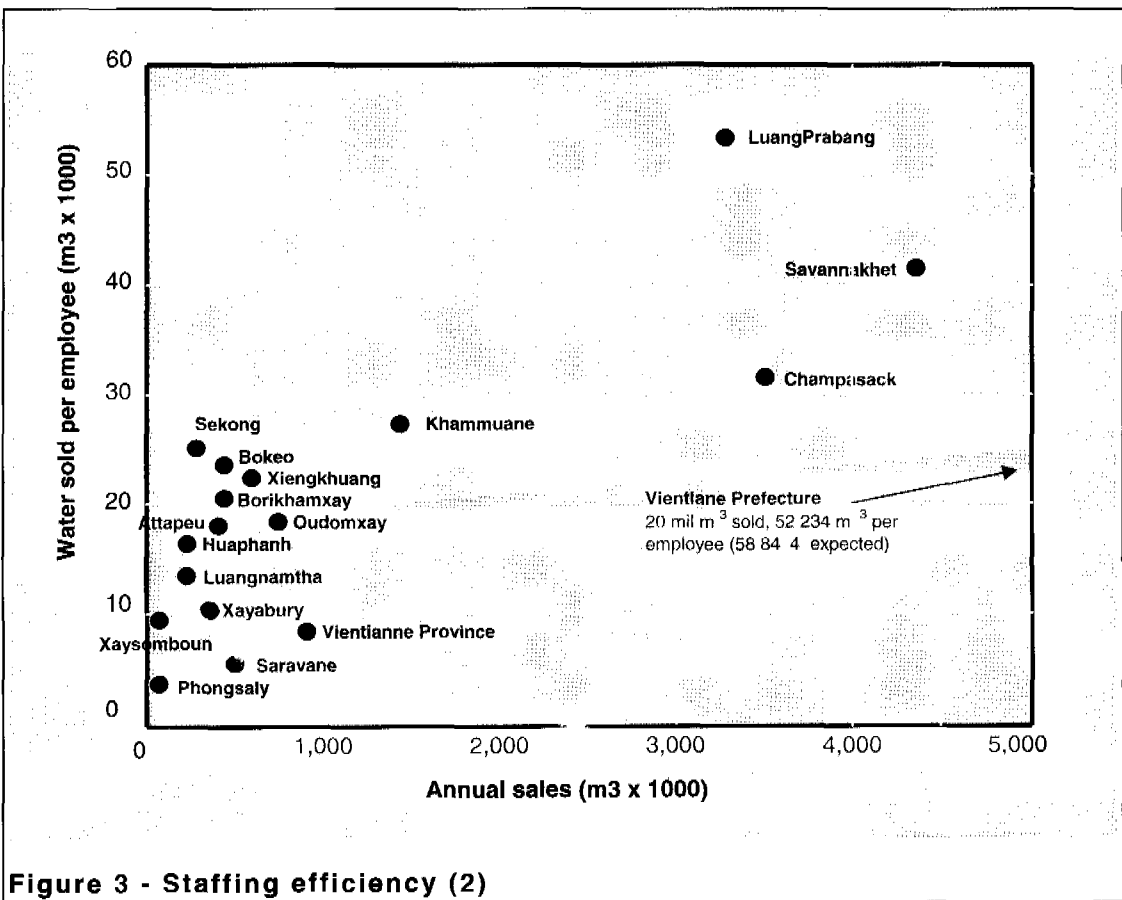
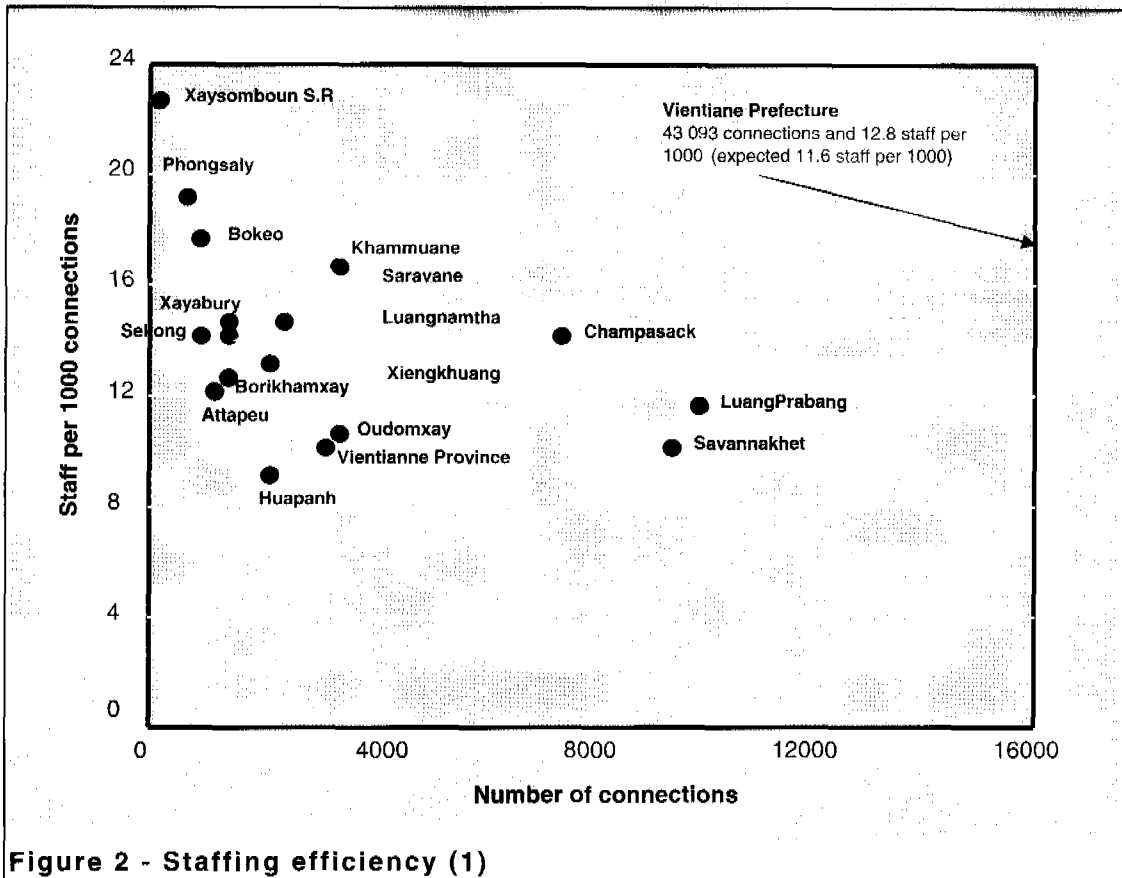
Luang Prabang and Savanakheth stand out as possibly

the two best performing companies with the balance displaying a relatively large degree of performance variation around the average. Phongsaly² and Xaysomboun appear to be the two that have the greatest capacity to improve efficiency, either by reducing staff or by increasing the customer base and therefore water sales.

Of special interest is Vientiane Prefecture, by far the largest utility and with the most expertise but does not display a high level of efficiency. In order to comply with average expectations a staffing efficiency gain of approximately 10% is required.

As expected the most efficient organisations with respect to staff per thousand connections would also be the most efficient with respect to water sold per employee. However, there are a few exceptions, e.g. Vientiane Province. This appears to be due to differing water use patterns in the provinces with Vientiane Province customers consuming less half than those from Luang Prabang (refer Figure 4)

² Phongsaly is a special case and has many technical, financial and institutional problems that are not encountered by other companies. Some of these problems cannot be blamed on management inefficiency but rather as an accident of geography. It is recognised that the current institutional structure for Phongsaly will not be able to deliver much in the way of improved performance. It is the subject of a more rigorous examination by WASA to identify potential long-term sustainable solutions.



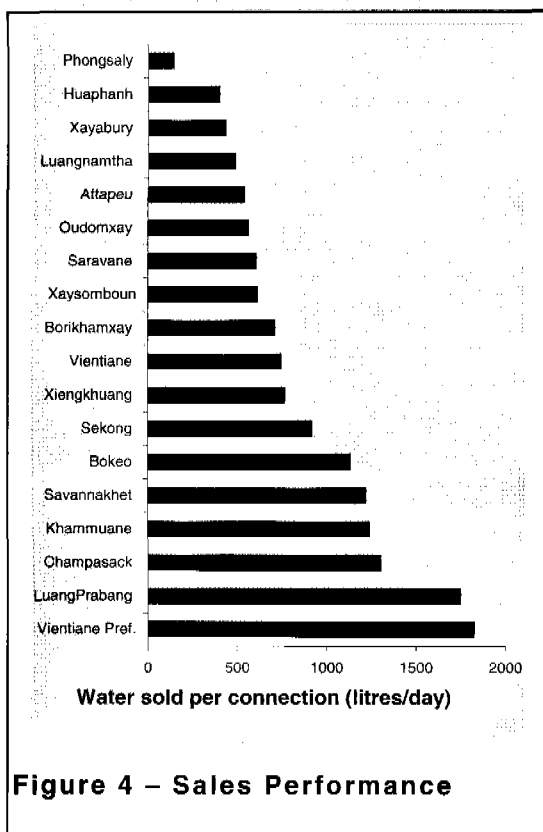


Figure 4 – Sales Performance

The wide variation of water consumption per connection appears to be due to several factors:

- Those suffering from supply disruptions, i.e. not a 24-hour supply, have reduced sales, notably Phongsaly.
- The larger, and hence wealthier, towns and cities may have higher water consumption due to increased household sophistication, e.g. internal plumbing, etc.
- The larger towns may have large water consuming commercial customers thereby distorting the overall sales per connection.

Although efficiency in the use of water is encouraged low sales figures do have an adverse financial

impact. Where systems have the capacity to sell more the companies should try to exploit this spare capacity to the maximum, either by providing more connections or ensuring that the service is reliable allowing greater freedom of use by the customers.

Environmental concerns

Environmental duty of care

To date we have not undertaken any environmental supervision of the water companies' activities other than scrutiny of the environmental impact assessments of new projects.

We intend to request all companies to submit for our scrutiny detailed environmental assessments of their activities highlighting those that may be detrimental to the environment, e.g. sludge disposal. The companies shall be required to describe in their corporate plans what actions, if any, they propose to take to remedy or limit any environmental damage that has occurred or continues to occur as a direct result of their activities. We shall monitor and report on their progress in future annual reports.

The water companies do not (yet) have a responsibility for wastewater management, a major environmental concern. We do expect this situation to change in the foreseeable future whereupon we shall take an active role in monitoring wastewater discharge quality and practice.

Water loss management

Water losses are not losses to the company but losses to the customers. For every litre of water lost through leakage the cost of its production is wasted and it deprives a customer of being able to use that litre.

Production and sales data from the water supply state owned enterprises have been analysed in detail. The primary result of our technical research has identified that leakage appears to relate to the number of connections more than any other single factor. Leakage levels also appear to be related to the age of the systems although the evidence is not statistically conclusive.

The very strong relationship between leakage levels and the number of connections suggests that the majority of water losses occur at the connection between the main and the service pipes, attributable, in all probability, to inappropriate materials and working practices during the connection process. Unfortunately, the remedial measures in this case are

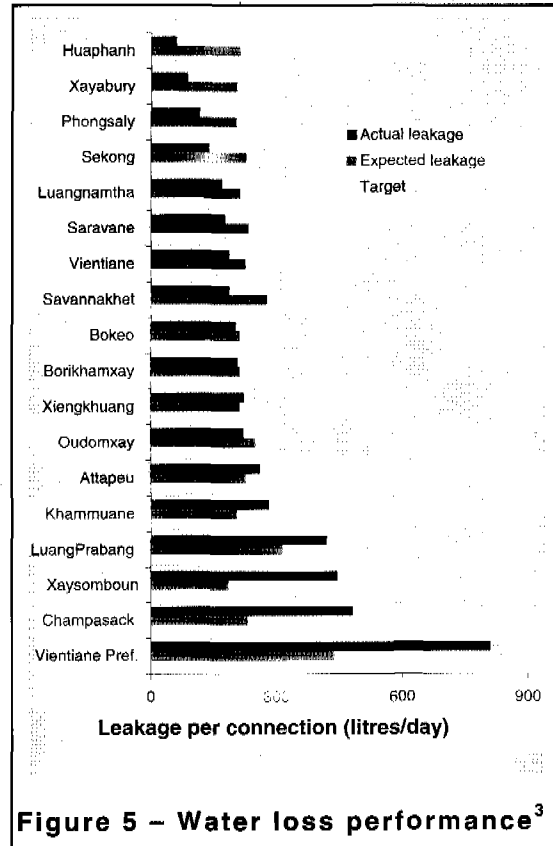


Figure 5 - Water loss performance³

expensive, generally involving the replacement of water mains and significant improvements should not be expected in the short term.

Leakage per connection is, on average, approximately 260 litres per connection per day, with a range of 60 to 810 litres per connection per day for different Nam Papas. The leakage performance of the 18 water supply state owned enterprises is presented in Figure 5.

The worst performing company is Nam Papa Vientiane with a leakage per connection of over three times the average. Even allowing for the age of the system it is still almost twice what would be expected. At the other end of the scale Huanphanh and Xayabury both have suspiciously low levels of leakage, well below expectations. It

³ Notes to figure:

- i) Figures adjusted to take account of intermittent supply
- ii) 'Expected' is calculated based upon statistical expectations after allowing for the age of the systems. The statistical analysis excluded Vientiane Prefecture as the number of connections is so large that it significantly distorts the overall analysis. For Vientiane Prefecture, data from all systems applied.
- iii) 'Target levels of leakage are the lesser of 75% of actual and 75% of expected.

is possible that this may be due to errors or misunderstandings in the reporting process and must be treated with a degree of caution.

We do not support a policy of setting arbitrary targets for levels of leakage, as we believe that it does not offer the best value to customers. We intend to continue analysing the water loss performance of the water companies with a view to establishing appropriate and economically efficient targets for each company recognising its individual characteristics and constraints. In the interim we have assumed that water suppliers should be able to reduce their leakage levels to 25% below average (adjusted for age), or 25% less than their current performance, whichever is the lower.

Financial Performance

The financial performance of the water companies is extremely variable with some reporting very high profits whilst others report catastrophic losses (refer Annex 2 – Financial statements). This variability is due to a variety of reasons:

- Tariffs set by varying criteria, e.g. cost of service, political perception of affordability etc.
- Different cost structures due to the unique technical characteristics of the companies' systems
- Water companies accounts including the financial performance of non-core activities such as bottled water factories
- Different levels of efficiency (described earlier)
- Varying capital structures
- Inequitable accounting policies that favour older systems over newer ones (depreciation charged on original asset procurement costs)

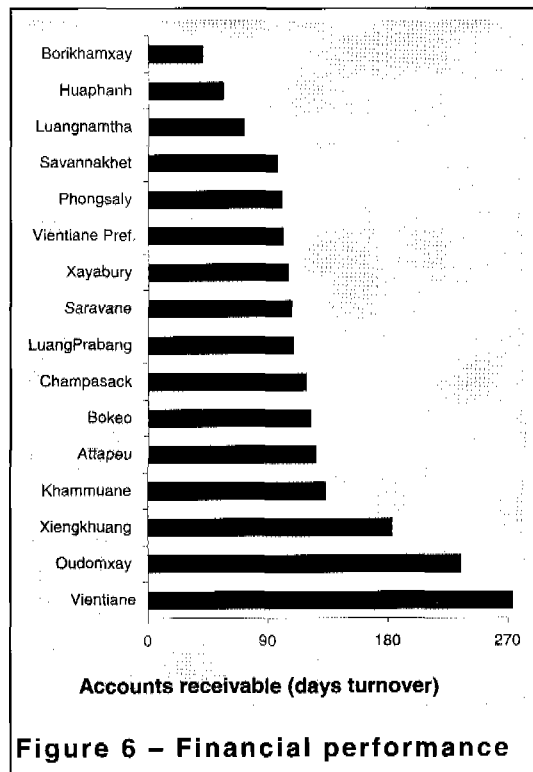
Because of these differences and many more besides simple comparisons of financial performance through standard accounting methods cannot necessarily distinguish poor performers from good ones.

We are in the process of developing regulatory accounting standards that eliminates many of the anomalies in the current

accounting systems for comparative analyses and tariff determination methods.

Cash flow performance

A major area of concern that plagues almost all of the water companies is their very poor cash flows. We have undertaken a detailed analysis of several companies and have discovered that the problem is very often due to non-payment by government agencies. We have prepared a strategy for the water companies to improve their cash flow but without the support from the government to ensure that its provincial agencies meet their financial obligations to the water companies this strategy will not succeed. The cash flow status is one that we intend to



monitor on a monthly basis, reporting to the government in order to secure the financial commitments necessary to achieve acceptable levels of liquidity. The seriousness of this situation cannot be underestimated. Various international development agencies have expressed their serious concern over this issue and future financial support in the sector is threatened.

Figure 6 illustrates the accounts receivable for the 18 water companies relative to the number of days turnover as at 31 December 2002. The short-term target, in line with the expectations of various international development agencies, is to reduce this to no more than 90 days although a longer-term target of nearer 60 days should be achievable. On current performance only three water companies comply with the 90 days target, i.e. Borikhamxay, Huaphanh and Luangnamtha.

Tariffs

Tariffs for the 18 water supply companies are generally based upon the actual costs of service provision, themselves based upon statutory accounting principles, some of which do not reflect the real costs, especially depreciation. Along a similar vein many companies have high levels of debt but do not, as yet, incur costs related to that debt due to generous grace period provisions. Once these costs start to be incurred significant rises in tariffs may well be necessary.

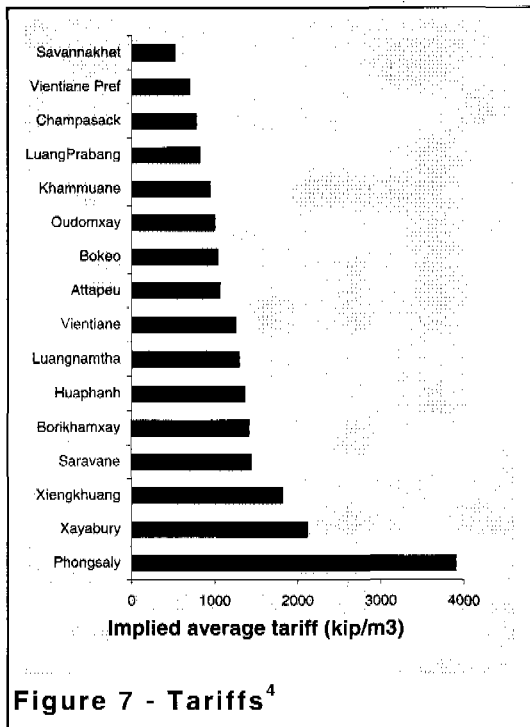


Figure 7 - Tariffs⁴

Although it is possible to report on current tariffs is important to recognise that without a more rigorous regulatory accounting system no firm conclusions can be drawn at this stage of the regulatory process.

Figure 7 illustrates the very wide disparity between tariffs throughout the country.

⁴ Determined as turnover (excluding non-core activities) divided by water sales by volume. This automatically captures connection charges and other revenue inputs into the volumetric charge. This calculation process is adopted for comparative purposes only.

Tariff Determinations

WASA's responsibilities

Until very recently WASA has not been vested with the necessary powers and responsibilities for tariff determinations for the various water companies. WASA has, however, made considerable progress in the development of draft legislation that will define WASA's powers and obligations. The development process for this legal instrument included a high degree of public consultation with numerous government and non-governmental agencies.

This draft legislation requires the WASA Regulatory Board with our assistance, to develop a tariff policy that addresses the needs of all the stakeholders:

- **Consumers:** to provide the best value level of service that can be afforded by promoting maximum efficiency
- **Water Companies:** To ensure that the financial integrity of the operating utility is maintained
- **The environment:** To ensure that water resources are exploited at sustainable levels by promoting efficiency in the use of water
- **National and local treasuries:** To reduce or remove the economic and financial burden of subsidies
- **Politicians:** To promote social fairness

- **International development agencies:** To promote economic development and poverty alleviation in a sustainable and affordable manner.

Although this policy is not yet in place its development is well advanced and a final policy statement is likely to be announced later this year.

Once this tariff policy is in place WASA's responsibility is to develop detailed methodologies for the tariff determination process, recognising that different management models may very well demand different tariff determination methods. This will include the establishment of regulatory accounts and reporting requirements incumbent upon the water companies. A pilot project funded by the Public Private Infrastructure Advisory Facility (PPIAF) together with the World Bank's Water And Sanitation Programme sets out to employ these tariff determination methods.

NP Vientiane tariff review

Although not yet empowered to be responsible for tariff determinations WASA was invited by the Government to review the September 2001 Nam Papa Vientiane tariff increase application.

In the absence of a tariff policy it was only possible to analyse tariffs on a simple cost of service approach in this instance.

The Future

Comparative competition

This first Annual Report is the first step of what will be a long-term process of improved services through comparative competition.

Although the data presented in this report is relatively brief we intend to present more sophisticated and detailed information in future reports including the results of our benefit monitoring and evaluation exercises recently initiated.

Tariff determinations

We shall soon have a principal role in the tariff determination process in the near future. The development of the National Water Tariff Policy, to be published later this year, is the first step in this process.

Regulatory enforcement

To date WASA has not employed its regulatory powers to ensure that the water companies comply with their statutory obligations.

Once the appropriate monitoring mechanisms are established we intend to apply pressure, by whatever means are appropriate, on those companies that we believe are failing in their obligations.

Communication

Our policy of openness and transparency ensures that much of

our work shall be freely available to members of the public through various media, including the Internet. We are in the process of the development of a web site whereby this report and many others besides shall be posted.

We also intend to establish mechanisms for improved contact with all the stakeholders in the sector, most importantly the general public.

Annex 1 – Contact Details

The Water Supply Authority

We welcome input from any sector, especially customers. Any comments, suggestions or criticisms not only related to this Annual Water Sector Performance Report but also related to other activities of WASA, can be forwarded to us by letter, telephone, fax and e-mail, details as below:

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Annex 2 – Financial statements

Notes to the financial statements

Responses

1. Financial data from Sekong and Xaysomboun were not submitted in time for the preparation of this Annual Performance Report. All other Nam Papa State Owned Enterprises submitted financial data in accordance with government accounting regulations.

Accounting system

2. The accounting system employed is the Lao Accounting System.
3. No adjustments have been made to comply with International Accounting Standards or any other internationally recognised systems.

Audit and reliability of accounts

4. The financial statements presented are based upon un-audited data submitted by the water companies. WASA cannot guarantee the accuracy and reliability of these statements at this stage.

Currency and amounts

5. All financial statements are based in Lao Kip.
6. All figures are kip x 1000.

Consolidated accounts

7. Where possible the accounts for non-core activities, e.g. bottled water plants, have been removed from the accounts. However, in some cases this has not been possible and that Attapeu, and Saravanne have non-core activities included.
8. There is no guarantee that other PNPs also have non-core activities included in their accounts, e.g. it is understood that Nam Papa Vientiane receives income from other PNPs in relation to debts that they have inherited from Nam Papa Lao.
9. It shall be a requirement for future regulatory accounting for all non-core activities to be separated from the accounts of the core activities.

Debt service

10. It is understood that many of the PNPs have longer term debt obligations but these may not necessarily appear on the profit and loss statements due to grace periods where no interest is payable.

Depreciation

11. Depreciation is calculated on the basis of historic (actual) purchase cost in accordance with the government accounting procedures.
12. No provision has been made for adjusting depreciation in accordance with inflation, necessary to meet the longer-term capital maintenance requirements.

Asset valuations

13. No adjustments for asset revaluations have been undertaken. Asset values reflect the net purchase price less depreciation.
14. With the exception of Xayabury, none of the water companies attaches value to land.

Profit and Loss Statements (1 of 6)

	Attapeu	Bokeo	Borikhamxay
1. Revenue (excluding turnover tax)	374,796	464,429	671,355
Water sales	211,510	393,036	543,740
Connection charges	56,578	68,610	109,592
Meter rental	17,440	-	-
Other income (excluding subsidies)	45,244	2,783	18,023
Drinking water	44,023	-	-
2. Expenditure	(292,840)	(416,047)	(441,502)
Personnel	(83,482)	(166,102)	(161,447)
Power	(65,150)	(37,398)	(81,266)
Chemicals	(31,049)	(12,870)	(5,740)
Fuel	(22,087)	(28,256)	(28,570)
Maintenance	(2,832)	(58,494)	(1,651)
Office and administration	(56,084)	(92,050)	(98,962)
Installation costs	(32,158)	(20,877)	(63,866)
3. Gross income (excluding depreciation, finance charges and tax)	81,955	48,382	229,853
Depreciation	(74,704)	(94,427)	(155,186)
4. Net operating income	7,251	(46,045)	74,667
Net interest and finance charges	(62,402)	(96,842)	(88,595)
Provision for bad debts	-	-	-
Net income from disposal of assets	-	-	-
Increase (decrease) in inventory	(730)	-	27,342
5. Net profit (loss) before tax	(55,881)	(142,888)	13,414
Profit taxes	-	-	-
6. Net profit (loss) after tax	(55,881)	(142,888)	13,414
Add government subsidies	-	-	-
7. Net profit (loss)	(55,881)	(142,888)	13,414

Balance sheets (1 of 6)

	Attapeu	Bokeo	Borikhamxay
Fixed Assets	1,116,023	2,984,548	3,727,348
Land	-	-	-
Buildings Plant & Equipment	1,356,059	3,335,055	4,326,215
Less: Depreciation	240,036	350,507	598,867
Net Fixed Assets	1,116,023	2,984,548	3,727,348
Work in Progress	-	-	-
Current assets	179,014	384,045	441,774
Inventory	27,738	197,342	126,632
Debtors	128,524	154,943	74,726
Advance	-	-	-
Cash	22,752	31,761	240,415
Current Liabilities (amounts falling due within 1 year)	184,434	95,343	274,332
Creditors	184,434	95,343	274,332
Net current assets	(5,420)	288,702	167,441
Total assets less current liabilities	1,110,603	3,273,250	3,894,789
Liabilities			
Long term loan	1,468,376	2,876,841	1,465,137
Equity	(357,774)	396,409	2,429,653
Capital- Government	258,340	836,800	2,707,481
Accumulated Profit/Losses	(627,271)	(440,391)	(277,829)
Reserves	11,157	-	-
Total Liabilities (equity + debt)	1,110,603	3,273,250	3,894,789

Profit and Loss Statements (2 of 6)

	Champasack	Huaphanh	Khammuane
1. Revenue (excluding turnover tax)	2,757,679	406,641	1,352,209
Water sales	1,694,528	304,466	1,000,869
Connection charges	244,864	67,863	307,558
Meter rental	189,517	23,064	-
Other income (excluding subsidies)	628,769	11,247	43,782
Drinking water	-	-	-
2. Expenditure	(2,679,440)	(267,029)	(1,388,766)
Personnel	(486,247)	(79,395)	(389,135)
Power	(901,734)	(1,466)	(340,286)
Chemicals	(625,125)	(6,629)	(88,555)
Fuel	(103,108)	(8,852)	(51,907)
Maintenance	(67,386)	(10,233)	(71,618)
Office and administration	(165,123)	(80,605)	(247,896)
Installation costs	(330,715)	(79,849)	(199,371)
3. Gross income (excluding depreciation, finance charges and tax)	78,239	139,611	(36,557)
Depreciation	(213,232)	(140,769)	(237,656)
4. Net operating income	(134,994)	(1,158)	(274,214)
Net interest and finance charges	(177,290)	(70,992)	-
Provision for bad debts	-	-	-
Net income from disposal of assets	-	-	-
Increase (decrease) in inventory	(460,338)	13,585	151,554
5. Net profit (loss) before tax	(772,622)	(58,566)	(122,660)
Profit taxes	(16,945)	-	-
6. Net profit (loss) after tax	(789,567)	(58,566)	(122,660)
Add government subsidies	-	-	-
7. Net profit (loss)	(772,622)	(58,566)	(122,660)

Balance sheets (2 of 6)

	Champasack	Huaphanh	Khammuane
Fixed Assets	5,341,908	3,430,987	5,704,455
Land	-	-	-
Buildings Plant & Equipment	5,949,242	3,740,803	6,403,153
Less: Depreciation	607,333	309,816	698,698
Net Fixed Assets	5,341,908	3,430,987	5,704,455
Work in Progress	-	-	-
Current assets	2,388,674	394,482	948,774
Inventory	1,473,574	71,565	386,685
Debtors	839,273	62,880	495,297
Advance	-	-	5,425
Cash	75,827	260,037	61,367
Current Liabilities (amounts falling due within 1 year)	1,507,210	2,541	519,410
Creditors	1,507,210	2,541	519,410
Net current assets	881,464	391,941	429,364
Total assets less current liabilities	6,223,373	3,822,928	6,133,819
Liabilities			
Long term loan	6,825,883	1,282,139	-
Equity	(602,511)	2,540,789	6,133,819
Capital- Government	2,537,490	2,836,094	6,410,887
Accumulated Profit/Losses	(3,143,491)	(326,266)	(283,905)
Reserves	3,490	30,961	6,838
Total Liabilities (equity + debt)	6,223,373	3,822,928	6,133,819

Profit and Loss Statements (3 of 6)

	Luangnamtha	LuangPrabang	Oudomxay
1. Revenue (excluding turnover tax)	374,852	2,689,722	714,809
Water sales	255,819	1,443,724	634,197
Connection charges	80,545	494,428	-
Meter rental	9,009	-	57,549
Other income (excluding subsidies)	29,480	751,570	23,063
Drinking water	-	-	-
2. Expenditure	(339,638)	(2,270,099)	(561,291)
Personnel	(85,636)	(359,326)	(190,031)
Power	(6,048)	(100,427)	(56,507)
Chemicals	(51,823)	(207,631)	(138,672)
Fuel	(78,092)	(54,539)	(8,603)
Maintenance	(22,349)	(282,357)	(18,440)
Office and administration	(47,079)	(361,367)	(80,281)
Installation costs	(48,610)	(904,453)	(68,758)
3. Gross Income (excluding depreciation, finance charges and tax)	35,215	419,622	153,517
Depreciation	(242,357)	(176,811)	(344,887)
4. Net operating income	(207,142)	242,812	(191,370)
Net interest and finance charges	(58,478)	(122,003)	-
Provision for bad debts	-	-	-
Net income from disposal of assets	-	-	-
Increase (decrease) in inventory	(599,678)	115,414	103,714
5. Net profit (loss) before tax	(865,299)	236,223	(87,656)
Profit taxes	-	-	-
6. Net profit (loss) after tax	(865,299)	236,223	(87,656)
Add government subsidies	-	-	-
7. Net profit (loss)	(865,299)	236,223	(87,656)

Balance sheets (3 of 6)

	Luangnamtha	LuangPrabang	Oudomxay
Fixed Assets	2,883,854	708,608	12,901,021
Land	-	-	-
Buildings Plant & Equipment	3,302,147	1,062,090	13,329,328
Less: Depreciation	418,293	353,482	428,306
Net Fixed Assets	2,883,854	708,608	12,901,021
Work in Progress	-	-	-
 Current assets	 65,433	 3,225,487	 816,865
Inventory	(48,486)	979,206	93,504
Debtors	73,815	805,524	459,985
Advance	-	17,060	123,574
Cash	40,103	1,423,696	139,802
 Current Liabilities (amounts falling due within 1 year)	 56,089	 66,969	 42,648
Creditors	56,089	66,969	42,648
 Net current assets	 9,344	 3,158,517	 774,218
 Total assets less current liabilities	 2,893,197	 3,867,126	 13,675,239
 Liabilities			
Long term loan	3,225,045	191,119	11,867,648
 Equity	 (331,848)	 3,676,006	 1,807,591
Capital- Government	223,561	2,110,639	1,743,334
Accumulated Profit/Losses	(609,285)	236,223	12,683
Reserves	53,877	1,329,145	51,573
 Total Liabilities (equity + debt)	 2,893,197	 3,867,126	 13,675,239

Profit and Loss Statements (4 of 6)

	Phongsaly	Saravane	Savannakhet
1. Revenue (excluding turnover tax)	163,231	864,546	2,259,117
Water sales	105,871	527,415	1,867,394
Connection charges	34,097	52,629	150,032
Meter rental	9,157	24,931	38,465
Other income (excluding subsidies)	14,107	178,316	203,226
Drinking water	-	81,254	-
2. Expenditure	(191,111)	(736,158)	(2,054,471)
Personnel	(30,639)	(208,376)	(358,496)
Power	(1,423)	(114,396)	(665,030)
Chemicals	(9,264)	(93,591)	(468,032)
Fuel	(100,936)	(24,458)	(51,411)
Maintenance	(23,065)	(68,576)	(89,524)
Office and administration	(20,148)	(78,543)	(227,839)
Installation costs	(5,638)	(148,217)	(194,140)
3. Gross income (excluding depreciation, finance charges and tax)	(27,880)	128,388	204,646
Depreciation	(80,058)	(109,752)	(74,785)
4. Net operating income	(107,938)	18,636	129,861
Net interest and finance charges	-	(111,469)	(34,506)
Provision for bad debts	-	-	-
Net income from disposal of assets	-	-	-
Increase (decrease) in inventory	-	34,454	(41,151)
5. Net profit (loss) before tax	(107,938)	(58,380)	54,204
Profit taxes	-	-	-
6. Net profit (loss) after tax	(107,938)	(58,380)	54,204
Add government subsidies	79,600	-	-
7. Net profit (loss)	(28,338)	(58,380)	54,204

Balance sheets (4 of 6)

	Phongsaly	Saravane	Savannakhet
Fixed Assets	2,529,146	1,827,084	1,276,374
Land	-	-	-
Buildings Plant & Equipment	2,991,474	2,213,315	1,998,356
Less: Depreciation	462,328	386,231	721,981
Net Fixed Assets	2,529,146	1,827,084	1,276,374
Work in Progress	-	-	-
Current assets	198,368	396,761	720,317
Inventory	107,214	119,568	60,930
Debtors	45,074	256,654	602,079
Advance	16,603	-	-
Cash	29,477	20,539	57,309
Current Liabilities (amounts falling due within 1 year)	(389)	190,539	867,058
Creditors	(389)	190,539	867,058
Net current assets	198,757	206,222	(146,740)
Total assets less current liabilities	2,727,903	2,033,306	1,129,634
Liabilities			
Long term loan	2,460,367	2,312,906	63,167
Equity	267,535	(279,600)	1,066,468
Capital- Government	712,577	426,193	999,757
Accumulated Profit/Losses	(445,041)	(793,347)	41,496
Reserves	-	87,554	25,215
Total Liabilities (equity + debt)	2,727,903	2,033,306	1,129,634

Profit and Loss Statements (5 of 6)

	Sekong	Vientiane Province	Vientiane Prefecture
1. Revenue (excluding turnover tax)	-	1,069,978	20,082,166
Water sales	-	834,660	15,607,088
Connection charges	-	92,683	2,039,670
Meter rental	-	38,809	1,108,154
Other income (excluding subsidies)	-	103,826	1,327,254
Drinking water	-	-	-
2. Expenditure	-	(777,741)	(17,800,962)
Personnel	-	(206,227)	(2,512,242)
Power	-	(122,290)	(4,013,331)
Chemicals	-	(69,821)	(3,333,553)
Fuel	-	(34,459)	(663,010)
Maintenance	-	(55,911)	(756,073)
Office and administration	-	(152,435)	(3,612,011)
Installation costs	-	(136,599)	(2,910,740)
3. Gross income (excluding depreciation, finance charges and tax)	-	292,237	2,281,204
Depreciation	-	(390,760)	(2,733,253)
4. Net operating Income	-	(98,523)	(452,049)
Net interest and finance charges	-	(83,626)	(1,175,785)
Provision for bad debts	-	-	-
Net income from disposal of assets	-	-	-
Increase (decrease) in inventory	-	118,066	2,387,755
5. Net profit (loss) before tax	-	(64,083)	759,920
Profit taxes	-	-	-
6. Net profit (loss) after tax	-	(64,083)	759,920
Add government subsidies	-	-	-
7. Net profit (loss)	-	(64,083)	759,920

Balance sheets (5 of 6)

	Sekong	Vientiane Province	Vientiane Prefecture
Fixed Assets	-	6,007,202	25,105,213
Land	-	-	-
Buildings Plant & Equipment	-	6,764,705	32,932,594
Less: Depreciation	-	757,503	10,275,814
Net Fixed Assets	-	6,007,202	22,656,780
Work in Progress	-	-	2,448,433
Current assets	-	1,479,242	13,972,408
Inventory	-	246,251	4,176,734
Debtors	-	861,278	5,574,832
Advance	-	49,529	15,157
Cash	-	322,184	4,205,685
Current Liabilities (amounts falling due within 1 year)	-	873,553	5,363,418
Creditors	-	873,553	5,363,418
Net current assets	-	605,689	8,608,990
Total assets less current liabilities	-	6,612,891	33,714,203
Liabilities			
Long term loan	-	3,873,906	22,809,900
Equity	-	2,738,985	10,904,303
Capital- Government	-	2,751,603	10,003,916
Accumulated Profit/Losses	-	(345,123)	383,815
Reserves	-	332,505	516,572
Total Liabilities (equity + debt)	-	6,612,891	33,714,203

Profit and Loss Statements (6 of 6)

	Xayabury	-	Xaysomboun	-	Xlengkhuang
1. Revenue (excluding turnover tax)	556,864	-		-	1,044,703
Water sales	445,878	-		-	855,967
Connection charges	70,824	-		-	155,913
Meter rental	34,796	-		-	22,055
Other income (excluding subsidies)	5,366	-		-	10,768
Drinking water	-	-		-	-
2. Expenditure	(558,552)	-		-	(438,826)
Personnel	(119,735)	-		-	(168,058)
Power	(3,656)	-		-	(2,972)
Chemicals	(48,350)	-		-	(17,655)
Fuel	(157,169)	-		-	(20,547)
Maintenance	(65,998)	-		-	(34,412)
Office and administration	(102,785)	-		-	(70,748)
Installation costs	(60,861)	-		-	(124,434)
3. Gross Income (excluding depreciation, finance charges and tax)	(1,688)	-		-	605,877
Depreciation	(16,672)	-		-	(170,981)
4. Net operating income	(18,360)	-		-	434,896
Net interest and finance charges	(9,034)	-		-	(341,364)
Provision for bad debts	-	-		-	-
Net income from disposal of assets	-	-		-	-
Increase (decrease) in inventory	54,868	-		-	(52,455)
5. Net profit (loss) before tax	27,474	-		-	41,077
Profit taxes	-	-		-	-
6. Net profit (loss) after tax	27,474	-		-	41,077
Add government subsidies	-	-		-	-
7. Net profit (loss)	27,474	-		-	41,077

Balance sheets (6 of 6)

	Xayabury	-	Xaysomboun	-	Xiengkhuang
Fixed Assets	5,506,479				4,938,866
Land	152,712				-
Buildings Plant & Equipment	5,386,719				5,109,847
Less: Depreciation	32,952				170,981
Net Fixed Assets	5,353,767				4,938,866
Work in Progress	-				-
Current assets	338,089				2,193,143
Inventory	17,546				1,135,133
Debtors	160,375				524,883
Advance	80,000				7,403
Cash	80,168				525,724
Current Liabilities (amounts falling due within 1 year)	134,607				9,332
Creditors	134,607				9,332
Net current assets	203,482				2,183,811
Total assets less current liabilities	5,709,960				7,122,677
Liabilities					
Long term loan	3,779,176				4,266,843
Equity	1,930,785				2,855,834
Capital- Government	1,891,260				2,814,242
Accumulated Profit/Losses	27,494				41,077
Reserves	12,031				515
Total Liabilities (equity + debt)	5,709,960				7,122,677