

ADB's Statement on Melamchi Water Supply Project

KATHMANDU, NEPAL (22 May 2007) – The Asian Development Bank (ADB) wishes to make the following statement regarding its involvement in the Melamchi Water Supply Project (MWSP or the Project).

"A key provision of the loan agreement signed between the Government of Nepal (Government) and ADB on 24 January 2001 was that the restructuring of the Nepal Water Supply Corporation and award of a private sector management contract for delivery of water services under competitive procedures must be completed prior to initiation of civil works contracting for the construction of the diversion tunnel from Melamchi Valley to Kathmandu. This provision of the loan agreement recognized that the chronic water shortages affecting Kathmandu are caused not only by a lack of supply infrastructure and bulk water resources, but also by the poor management of water services.

The MWSP, therefore, combined investments in physical infrastructure with major institutional reforms, including partnering with the private sector for water service management, to help ensure that the investments in supply infrastructure would be sustainable and economically justified. The signing of the private management contract was the very last stage of a long process to achieve the agreed institutional reform for efficient utilization of Melamchi's water. This long process, which has required six years of effort, cannot be completed now that the water utility operator is unable to obtain approval from the Government to sign the duly negotiated contract and the final bid validity has been withdrawn on 15 May 2007 (after nine extensions made since March 2006).

As a reliable and trusted development partner of Nepal, ADB has remained steadfast in its commitment to the MWSP, which would have brought significant development benefits to the people while providing a long-term solution to the water scarcity problems in Kathmandu Valley. ADB has also made strenuous efforts and shown maximum flexibility to sustain the Project at several critical times when it has been at risk over the past six years. However, the inability of the Government to authorize the signing of the duly negotiated management contract at this very late stage creates considerable uncertainty on the way forward. As it stands now, it would not be possible to carry on with project activities, with the Project due to close on 30 June 2007. In such difficult circumstances, it is now for the Government to decide how it wishes to proceed.

ADB nevertheless would encourage the Government to press ahead with implementation of the institutional reforms started under the MWSP and Kathmandu Valley Water Services Sector Development Program, and sincerely hopes that it remains serious about finding a long-term and sustainable solution to Kathmandu's water supply problems."

Media Inquiries

Paul J. Heytens
Country Director
Tel +977 1 422 7779
E-mail pheyten@adb.org

Electronic versions of ADB news releases

ADB Online Media Center: media.adb.org
ADB website: www.adb.org