



Doing a Dam Better

The Lao People's Democratic Republic and the Story of Nam Theun 2

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The US\$1.45 billion Nam Theun-2 Hydropower Project is a storage type with 1086MW capacity. Commercial operations began on 15 March 2010. Nam Theun-2 (NT2) is located in Nam Theun a tributary of Mekong River in Laos. It is a 48m high concrete dam having 450km² of reservoir area with a net head of 348m. It is a trans-boundary project, and has combined social and environmental aspects, undertaken simultaneously.

In the 54 month construction period there was a delay of only four months. About 6,200 people living in the inundation area were resettled nearby. The operation period (concession) will be 25 years, after which it will be fully owned by the Lao state at no cost to it.

The share holders of the company are EDF international of France (35%), EGCO of Thailand (25%), Italian-Thai Development Public Company Limited of Thailand (15%), and Lao Holding State Enterprise (LHSE) of Lao PDR (25%). For the first time a truly a diverse set of large investors from all over the globe participated. Nine multi lateral, bilateral, and export credit agencies provided direct loans, guarantees and funding for the Govt.'s equity contribution. US\$1.15 billion limited recourse private funding was secured for NT2.

NT2 is a successful project. During the 25 year concession period the Lao state will earn US\$1.95 billion revenue.

As the very name of the project implies it is about how to build a dam better. This book is written by the staff and consultants of the IBRD/World Bank who have impressive backgrounds. The two editors are alumni of the World Bank (WB) who were previously involved in the project. This book reveals how hard work and dedication of the team has made NT2 a success. Enormous effort has been put forth over many years by all parties involved, including a high level team at WB headquarters, and in the field. It analyses rewards and risks for Laos. There is an introductory chapter by the editors, followed by eight chapters by different authors.

The central theme of the book is that the WB took a lead in very high level due diligence assessment in administering NT2 in project preparation, financial closure, handling environmental and social concerns, resettlement, a multi layered project monitoring program, revenue and expenditure management, procurement, etc. Political guarantees to NT2 by the WB and Asian Development Bank (ADB), gave comfort to other international financial institutions. The WB's association in this project has increased the credit-worthiness of Laos. The spin off from the successful implementation of this project is that the international financial institutions, export credit agencies and investors may now invest in large infrastructure projects without a guarantee from the WB.

The authors describe several interventions by the WB in the policy, strategy and implementation levels, though at times relations between the Bank and the Laos government were strained by claims that the WB was interfering in the internal matters of Laos. Similarly, the development partners felt that the WB was imposing unnecessary studies, and that the associated costs were high. Developers perceived that the WB did not fully appreciate the constraints under which private sector projects are prepared.

Ch. 1: Overview, contains a brief synopsis of each chapter. The editors describe various activities in project planning and preparedness, and the story of World Bank involvement. Planning and preparation of the project were undertaken at a time of complications, such as the dam debate of the 1990s that culminated in the creation of the World Commission on Dams, and the Asian financial crisis of 1997. And, due to long delays at the beginning, the major shareholder and other two shareholders sold their shares.

Ch. 2: The Lao PDR Gets Ready, is written by three authors who describe the preparedness of Laos in taking up this project, and how it was implemented. They discuss the various steps undertaken by the Bank to make a framework for the government's commitment for strengthening public institutions, managing NT2

revenues for poverty alleviation programs, and others. Considering political and cultural sensitivities in the Lao Republic, the Bank prepared the right management strategy.

Ch. 3: The Project is Prepared, the authors state that the technical and engineering challenges were not as significant as the social, environmental and financial issues. There was fear among the partners that the WB's stringent rules would cause delay. The Lao government, NT2 power company, and other stakeholders balked at the demands placed on them, stating that the WB was increasing the scope. The partners and developer felt that the WB was changing the 'goal posts' a number of times. The authors then suggest ways to improve the WB's business model.

The good news is that due to the very high standard of WB involvement in the NT2, it was successful and the door is now open in the Lao Republic and other low income Asian countries for private international investors on large infrastructure projects. The bad news is that due to high costs and hassles with the WB, it is a choice of last resort; hence, the authors suggest reduction in the WB costs while doing business with the private sector.

Ch. 4: Working with Stakeholders: Local consultation need to be early on the project cycle. Relationship between the WB and developer were strained sometimes due to multiple point of contact. The authors found that the World Bank's decision making mechanism to be diffusive and unpredictable and its focuses on risk excessive. Further, they suggested that the WB clearly communicate its decision to all stakeholders; and clearly prioritize in a transparent manner.

Ch. 5: The Communication Challenges: There was need for the WB to be clear on its position at all times. The author suggests that projects that undervalue the role of communication expose projects to needless and expensive risks. It is further suggested that the communication component of NT2 can be and should be adapted to other complex infrastructure developments. International support was garnered through transparent sharing of information, they say. They also point out that negative press coverage should be anticipated and that throughout the project there should be clear single point of contact for coordination.

Ch. 6: Some Cross Cutting Lessons, points out that cross-cutting lessons were derived on the following areas:-

- Transforming NT2 into a social development and poverty reduction project.
- Building government capacity and trust between the World Bank and the government.
- Applying the World Bank's environmental and social safeguard policies to the project.

- Managing project financial risks.
- Constructively engaging stakeholders.
- Overseeing and managing the NT2.

As a large numbers of the international financial institutions were involved, missions should be conducted jointly to reduce disruptions.

The author's viewpoint is that the WB needs to be clear right from the start and should clearly point out the non-negotiable standards and communicate why they are in the best interest of the country. At times the WB required increased financial management, whereas the Lao government insisted that it was an intrusion in its internal affairs. Without the imposition of the WB's social and environmental standards, the NT2 would have been only an energy project. Instead, it became not only an energy project but also an investment to stimulate economy, promote fair social development, reduce poverty and strengthen good financial management and governance capacity.

Ch. 7: Reflections on Implementation. The multi layered and independent monitoring mechanism have added value in risk identification and providing guidance on finding and implementing solutions to complex issues and problems.

Ch. 8: NT2: A Transformative Behavior. The success of the NT2 reveals many learnings, including these:

- NT2 helped institutionalize public-private partnership in successful business model.
- Financial management path breaking and wide reaching reforms were attained.
- The NT2 resettlement process is an example for others to follow.
- A very complex and layered monitoring structure evolved as preparation progressed.

The developers also perceived that the standard procurement rules applied to public sector projects may not be appropriate for private sector.

The largest shareholder, the French company EDF, is also a large contractor. In the book, however, how the procurement standards of the WB were used when the shareholders were also the contractors is not discussed.

Conclusions

After the completion of NT2, the Laos Government is reaping benefits in the form of further development aid, investment, trade, and knowledge through its engagement with the international community.

Doing a Dam Better is a nicely written book, comprehensive, and is recommended for those involved in dam building or in large infrastructure projects, especially in developing countries with multi-lateral support.