

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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February 11, 2005

Mr. Peter Bosshard
International Rivers Network
1847 Berkeley Way
Berkeley, CA 94703

Ms. Aviva Imhof
International Rivers Network
1847 Berkeley Way
Berkeley, CA 94703

***Subject: Your Memorandum on Procurement Aspects of the Nam Theun 2
Hydropower Project, Lao PDR***

Dear Mr. Bosshard and Ms. Imhof,

I am writing concerning your memorandum dated November 2004 on the Nam Theun 2 Hydropower Project. Your memorandum contains several misstatements regarding the applicability of the World Bank's procurement guidelines to the NT2 Project, which we think it necessary to correct, and several allegations about the outcome of project procurement actions that we would like to address.

First, you state that the lack of international competitive bidding (ICB) for the head construction contract and the CW1 contract is a violation of World Bank procurement guidelines. That statement is incorrect. These contracts will be financed not by World Bank funds but by commercial banks. The World Bank's proposed involvement in the project would be limited to the extension of a partial loan guarantee. Thus, the relevant provisions of the World Bank's procurement guidelines are those which apply to guarantee operations (paragraphs 1.5 and 3.16 of the Guidelines for Procurement under IBRD Loans and IDA Credits, May 2004), not those which apply to Bank loans or credits. The Bank's procurement guidelines for guarantee operations require that the goods and works are procured with due attention to economy and efficiency, that they are of satisfactory quality and compatible with the balance of the project, that they are delivered or completed in timely fashion, and that they are priced so as not to affect adversely the economic and financial viability of the project. The Bank has satisfied itself that the NT2 Project meets these requirements of our procurement guidelines.

In the case of the proposed IDA grant, which has been requested to fund environmental and social aspects of the project as part of the Government's equity contribution, World Bank procurement and consultant guidelines for credits would be applicable and the Bank will undertake its customary supervision of this grant, to ascertain that our guidelines are followed.

Second, I would like to address your assertion about the negative impact that the lack of ICB might have in reducing the Lao Government's revenues from the project and in inflating the capital cost of the project and what you have called the "comparatively high cost" of electricity produced to Lao and Thai consumers. Because our procurement guidelines for guarantee operations are also concerned with the outcomes of the procurement procedures which have been followed under projects supported by such guarantees and because we too are aware that the award of sole source contracts to project sponsors — a common occurrence in privately-financed infrastructure projects — may have the potential to result in conflicts of interest, we have looked very carefully at the cost of the HCC package and its components, including the subcontracts (four out of five of which were competitively tendered), management fee and risk premium. That analysis has confirmed to our satisfaction that the cost of those components, and of the HCC as a whole, are broadly consistent with the outcomes which might be expected under competitive bidding in a country such as Lao PDR.

I have enclosed a copy of the Bank's current "Guidelines: Procurement under IBRD Loans and IDA Credits" (May 2004) for your reference. I draw your attention to paragraphs 1.5 and 3.16.

Thank you for your attention to this matter.

Sincerely,



Robert A. Mertz
NT2 Project Manager
Energy and Mining Sector Unit
East Asia and Pacific Region

cleared with and cc: Mr. Moss (EAPCO)

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