

# The World Bank



## East Asia & Pacific Region

### Lao PDR's Development Partners Sign Equity Financing Agreements for Nam Theun 2

#### Implementation Arrangements for Poverty Reduction, Environmental Conservation Confirmed

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Vientiane, April 27, 2005 - The World Bank's International Development Association (IDA), the Asian Development Bank (ADB), the Agence Française de Développement (AFD), the European Investment Bank (EIB), the Government of Lao PDR, and the Nam Theun 2 Power Company (NTPC) yesterday signed a number of equity financing agreements confirming their respective commitments and obligations in implementing the Nam Theun 2 (NT2) Hydroelectric Project in Lao PDR. These documents specify the terms and conditions of the grants and loans provided by Lao PDR's public-sector development partners to finance the Government's equity in NTPC, which will develop, construct, and operate a 1,070 megawatt trans-basin diversion power plant on the Nam Theun river, a tributary of the Mekong river, in central Lao PDR. With these terms and conditions confirmed, the project's public and private lenders and guarantors are expected to sign further agreements related to partial risk guarantees and other financing instruments for NTPC later this week.

His Excellency Somdy Douangdy, Vice-Minister of Finance of Lao PDR, welcomed the signing of the agreements, noting that the Government was "pleased to formalize our ongoing commitment to implementation of the NT2 project in accordance with international standards of transparency and accountability, and social and environmental safeguards." He emphasized that "NT2 has long been regarded by the Government as an essential component of the long-term development plans for the Lao PDR. The project has an important role to play in funding key elements of the National Growth and Poverty Eradication Strategy

(NGPES).”

NT2 will export about 5,354 gigawatt-hour (GWh) of electricity annually to Thailand and provide revenue to Lao PDR through taxes, royalties, and dividends. It will generate about \$1.9 billion in foreign exchange earnings for the Government over the 25-year operating period, expected to begin in 2009. An additional 200 to 300 GWh of electricity will be supplied each year to consumers in Lao PDR.

The agreements signed yesterday detail the obligations of the Government and NTPC with respect to managing the risks associated with the project. They include a clear framework for managing project revenues soundly and transparently; extensive social and environmental measures to be undertaken by the Government of Lao PDR and NTPC in respect of the World Bank and ADB’s safeguard policies; and robust oversight arrangements during project implementation.

“The terms and conditions specified in these agreements resulted from years of careful study, preparation and discussion -- a lengthy process with which we remained engaged because we believed that NT2 offers Lao PDR its best chance to earn the revenues it needs to pursue long-term poverty-reduction and environmental conservation efforts,” said World Bank Country Director Ian C. Porter. “These agreements will guide our continued engagement with the Government and the developers to ensure that the expected benefits flow directly to the poor.”

ADB Country Director James Nugent noted, “Today’s signing is an important milestone in mobilizing Government funds for the project. This project is an integral part of the Government’s development plan for economic growth and poverty reduction. It will generate significant revenues for the Government that will help it improve livelihoods, rural infrastructure, irrigation systems, water supply, education and health facilities in many parts of the country.”

Mr. Etienne Weitellier, AFD Director in Vientiane, emphasized the commitment of AFD and all partners to be particularly vigilant of the project’s social and environmental aspects. “NT2 must be exemplary in this respect,” he said. “We are confident that each partner will work to achieve this.”

Mr. Matthias Zöllner, European Investment Bank Head of Division for Operations in Asia, said that “by contributing to the conservation of the natural environment and the improvement of the livelihoods of the people living in the area, this project is perfectly in line with the EU’s Cooperation Policy.”

NTPC Chief Executive Officer Bernard Tribollet added that the signing of the agreements signalled NTPC’s “commitment to full compliance with the NT2 social and environmental risk-mitigation plans, studied and prepared over 10 years, in accordance with the discipline required by our shareholders and financing partners, including the bilateral and multilateral development institutions.”

Under the agreements signed yesterday, NTPC is contractually bound to implement the project in accordance with the Social Development Plan (SDP) and the Environmental Assessment and Management Plan (EAMP) that resulted from extensive consultations with local communities and international stakeholders. The legal agreements for the NT2 project also commit NTPC to engaging a technical advisor to monitor and evaluate the technical, physical, environmental, and social aspects of the project and the management of the NT2 watershed on behalf of the project's private and public lenders and guarantors. Additional monitoring and evaluation arrangements include international experts to monitor dam safety, technical progress, project effectiveness, and the achievement of income targets and other key objectives of the NT2 social and environmental programs, as well as annual consultations with stakeholders to provide a high level of public scrutiny.

“We are pleased with NTPC’s obligations relating to social and environmental mitigation, and we are comfortable with the level of contingency financing allocated for unanticipated and unforeseen impacts during implementation,” said Mr. Nugent. “We believe adequate measures are in place to effectively manage the risks entailed by a project of this nature and magnitude.”

Mr. Porter noted that sound implementation of the NT2 project was embedded in the World Bank’s broader program of support for Lao PDR’s development objectives. “Our Country Assistance Strategy (CAS) for Lao PDR includes programs to assist the Government’s efforts to improve its public expenditure management, starting well in advance of the flow of NT2 revenues,” he said. “We will also work with the Government so that experience in preparing and implementing NT2 is applied more broadly to management of the country’s natural resources.” Importantly, the project will help preserve the Nakai Nam Theun-National Protected Area, one of southeast Asia’s few remaining intact tropical rainforests and wildlife habitats.

Mr. Nugent also noted the project’s importance for regional cooperation. “The project will also supply Thailand with long-term and competitively priced electricity, reducing its dependence on natural gas and oil for its generation need,” he said. “This makes the project an essential element of the Greater Mekong Subregion regional cooperation initiative.”

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Detailed information on NT2 is available at <http://www.poweringprogress.org>, <http://www.namtheun2.com>, and <http://www.worldbank.org/laont2>.