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## [Laos: French company pulls the plug on Nam Theun 2](#)

Electricité de France has pulled out of the Nam Theun 2 dam project in Laos. EDF announced its departure on 17 July 2003, a day before the consortium developing the dam, the Nam Theun 2 Power Company, was to have signed a power purchasing agreement with the Electricity Generating Authority of Thailand (EGAT).

The French state-owned EDF was the biggest investor in the proposed dam. In June 2001, EDF and Harza Engineering (now Montgomery Watson Harza) formed a joint venture as head contractor to build the dam.

EDF's pullout followed a French parliamentary commission which reported that EDF's expansion plans were "a failure" and involved taking unnecessary risks with taxpayers' money. Last year, the Financial Times described EDF as "a loss-making state-controlled group which faces years of work to dig itself out of the hole in which it has landed after a string of overpriced international acquisitions."

The remaining members of the consortium are Electricity Generating Company of Thailand (25%), Ital-Thai Development of Thailand (25%) and the Lao government (25%). The Lao government has given the project developers three months to find a replacement investor, after Thailand issued a one-year ultimatum to sign the power purchase agreement.

EDF's exit has left Nam Theun 2's future looking shaky. "This raises some questions over the future of the project. EDF was more than just the main investor, they were also the lead technical agency," World Bank spokesperson Peter Stephens told Reuters.

Without a US\$100 million partial risk guarantee from the World Bank, commercial investors are unlikely to risk getting involved in the project. In 1997, Jack Cizain, president of EDF International told the Bangkok Post that without the Bank's guarantee, it would be difficult for the developers to continue with the project.

Although the Bank has supported the project since it funded a feasibility study in 1989, it has repeatedly put off taking a decision on whether to provide the guarantee.

According to an August 2001 World Bank Aide Memoire, the Bank will not make a decision on the guarantee until the Lao government has met a series of conditions. Among these is "The development of a full PRSP [Poverty Reduction Strategy Paper] to underpin poverty alleviation and progress in meeting program targets."

Enter the International Monetary Fund. The IMF's advice to the Lao economy is identical to its prescription for all governments: "financial, fiscal, and trade reforms". In 2001, IMF staff wrote, "Real GDP growth of about 7 percent by 2003 is achievable, if structural reforms are pursued in earnest and the country's considerable hydropower resources are tapped for further development." In other words, force open the economy and dam the rivers.

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As is often the case, however, the IMF's medicine is making the patient sicker. Last year, the IMF pressured the Lao government to increase revenue collection. The government increased tariffs on goods from Thailand. Far Eastern Economic Review correspondent Bertil Lintner described the results as "counterproductive". Smuggling increased and inflation shot up from 7 to 16 per cent. Government revenue improved only slightly and budget shortages meant no pay for teachers and other civil servants -more poverty rather than less.

In May 2002, Electricité du Laos increased the price of electricity. At its annual meeting this year EDL announced that its clients owed it almost US\$8 million. "We cannot cut the electricity, because most of the debtors are the state organisations," an EDL official told the Vientiane Times.

Over the past two decades, EDL has received a huge amount of "aid". By the end of 1999, as a result of this generosity, EDL owed a total of almost US\$300 million. The Asian Development Bank alone had lent EDL more than US\$200 million. ADB's consultants Electrowatt estimated that servicing this debt in 2000 would cost EDL more than US\$28 million.

Hans Luther is a German economist who worked since the early 1990s at the National School of Administration in Vientiane. Before he returned to Germany recently, the Lao government awarded him the prestigious Labour Medal. In an interview published in the Bangkok Post, he offered some advice to the Lao government: "Foreign aid is like a drug. . . . Instead of putting up your own money for building roads and repairing them, you get rich foreigners to do it for you. There are also kickbacks and all kinds of other benefits. It is the easy way out in economic development. Now what should a poor country like Laos do? They should be modest and have some clear priorities. But most opt for foreign aid as it seems to promise everything at the same time. . . . I believe hydro-electricity will not help. Firstly, there is the matter of demand; there is only one customer, Thailand. Also, once the investment is done there are ongoing costs for repair and maintenance and these costs are high, so I don't think this is a sustainable solution."

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