Electricity Liberalization in Thailand, Vietnam and Lao PDR

Evaluation of Political and Economic Conditions and the World Bank loan impacts on the electricity sector policies

by

Tue Anh Nguyen

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ABSTRACT

**Purpose** – This study aims to examine the impact of political and economic conditions as well as the World Bank loan impacts and pattern on market liberalisation in the Electricity sector in Thailand, Vietnam and Lao PDR.

**Research design/methodology** – The study combines qualitative and quantitative research approaches based on secondary data mainly from the World Bank.

**Findings** – The study finds that political and economic conditions are influential to the electricity sector policy changes. There is also clear evidence that the World Bank loans are strategic and deliberately structured to make impact on the sector policies. The same patterns of periods, purposes and values of these loans are witnessed in all three countries despite differences in politics, economics and time.

**Limitations** – It is definitely advantageous to have access to classified implementation and completion reports of the World Bank loans in order to make a clearer analysis of how the loan values are broken down, how they are allocated, and in which category. This information can give a deeper understanding of why the patterns occur and their justification.

**Recommendations** – The most plausible explanation for these recurring patterns of World Bank loans is that they are structured carefully and strategically so that the Bank can continuously exercise their powers over the recipient countries and influence the sector policy direction. The study suggests a broad and comprehensive study of all developing countries to examine whether the same patterns occur and whether this is justifiable.

**Value** – The study offers a rare research into the electricity market liberalisation process and the impacts of politics, economics and IFIs in the three chosen countries. The study is valuable because it discloses three World Bank loan patterns in purposes, time and values to the electricity sector in the developing countries.

**Keywords**: Electricity sector, liberalisation, World Bank, political conditions, economic conditions, energy policy.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Agreements</td>
</tr>
<tr>
<td>BCG</td>
<td>Boston Consulting Group</td>
</tr>
<tr>
<td>CEGB</td>
<td>Central Electricity Generating Board</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EdF</td>
<td>Electricité de France</td>
</tr>
<tr>
<td>EdL</td>
<td>Electricité de Laos</td>
</tr>
<tr>
<td>EE</td>
<td>Energy Efficiency</td>
</tr>
<tr>
<td>EGAT</td>
<td>Electricity Generating Authority of Thailand</td>
</tr>
<tr>
<td>ESI</td>
<td>Electricity Supply Industry</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EVN</td>
<td>Electricity Vietnam Corporation</td>
</tr>
<tr>
<td>DG TREN</td>
<td>Directorate-General for Transport and Energy (European Commission)</td>
</tr>
<tr>
<td>DSM</td>
<td>Demand-Side Management</td>
</tr>
<tr>
<td>DSO</td>
<td>Distribution System Operator</td>
</tr>
<tr>
<td>GATS</td>
<td>General Agreement on Trade in Services</td>
</tr>
<tr>
<td>IEA</td>
<td>International Energy Agency</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPP</td>
<td>Independent Power Producer</td>
</tr>
<tr>
<td>MEA</td>
<td>Metropolitan Electricity Authority, Thailand</td>
</tr>
<tr>
<td>NEPO</td>
<td>National Energy Policy Office, Thailand</td>
</tr>
<tr>
<td>NETA</td>
<td>New Electricity Trading Agreements</td>
</tr>
<tr>
<td>PEA</td>
<td>Provincial Electricity Authority, Thailand</td>
</tr>
<tr>
<td>PPA</td>
<td>Power Purchasing Agreements</td>
</tr>
<tr>
<td>REC</td>
<td>Regional Electricity Company</td>
</tr>
<tr>
<td>SPP</td>
<td>Small Power Producer</td>
</tr>
<tr>
<td>TSO</td>
<td>Transmission System operator</td>
</tr>
<tr>
<td>WB</td>
<td>The World Bank</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
<tr>
<td>WWII</td>
<td>The Second World War</td>
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</tbody>
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CHAPTER 1 INTRODUCTION AND RESEARCH QUESTION

For the last 20 years, the liberalisation model in the electricity sector has been a popular choice in many countries. Some countries have implemented the complete market model in energy sector, some are still on the way, whilst others are flipping the coins and waiting. Chile is the first country to implement the liberalisation model in the electricity sector in 1982 as a result of a political and economic stabilization policy. Behind the policy change is a great number of Chilean economists and politicians having studied and being influenced by neoliberalism development policies promoted in the US. However, this highly liberal market did not benefit consumers and governments in prices and private investment as expected. Shortly after that, the UK actualised its ‘famous’ British model of electricity liberalisation under the Conservative government by privatising generation companies and splitting integrated companies. The sector receives many compliments as a prime example of liberalisation success. However, the electricity increased and competition is highly limited. The model is still being amended. Beside the UK, the EU has soon asked its member countries to liberalise their electricity sectors as a part of unifying the internal market of EU. The EU electricity market now is concentrated with national-champion state-owned electricity companies from France, Germany, Italy, etc. In general, recent empirical studies show an unsatisfactory performance in the sector compared to what the model promises to deliver.

Lessons have been acknowledged by the leading countries of the liberalisation model, i.e. the UK, US and EU countries. However, it can be witnessed that numerous developing countries are still following the liberalisation model. An analysis of affordability, reliability and accessibility in developing countries in general show that consumers have to bear increasing price, governments have not yet attracted significant volume of private investment. Electrification is heterogenous across areas and countries. It
is then questionable of why the model is widespread and popular in these developing countries despite of negative results witnessed in the developed countries. This research looks at the factors of politics, economics as well as the World Bank conditionalities-attached loans which are widely believed to be the reason for this popularity of the liberalisation model.

The research chooses to analyse three developing countries of different development stages in Southeast Asian region, they are Thailand, Vietnam and Lao PDR. All 3 countries are taking the first steps in the liberalisation process with Thailand as the most progressive and Lao PDR as the last. The sector was exposed to suggestion of liberalisation since the early 1990s but the process is slow and sometimes reversed. There is clear evidence that political stability and economic growth make a strong base for liberalisation. However, sometimes, these factors are not present but the sector policies are still changing. An analysis of the occurrence of World Bank loans along the timeline of the sector policies shows a relatable connection between policy changes and World Bank policies promoted via loan conditionalities.

The research then attempts to answer the broad research question of ‘What are the influences of political, economic conditions and World Bank policies and loans on the electricity market liberalisation process in the country?’.
CHAPTER 2 LITERATURE REVIEW

MARKET LIBERALISATION MODEL

Table 1. Main Steps in Electricity Reform

| Restructuring | Vertical unbundling of generation, transmission, distribution, and retail supply activities  
|               | Horizontal splitting of generation and retail supply |
| Competition and Markets | Wholesale market and retail competition  
|                       | Allowing new entry into generation and retail supply |
| Regulation | Establishing an independent regulator  
|            | Provision of third-party network access  
|            | Incentive regulation of transmission and distribution networks |
| Ownership | Allowing new private actors  
|           | Privatising the existing publicly owned businesses |

TABLE 1 MAIN STEPS IN ELECTRICITY REFORM

(Reproduced from Jamasb and Pollitt, 2005)

There are slightly different versions of how a liberalised electricity market is composed. Jamash and Pollitt (2005) set out four key elements, including privatization. Bacon and Besant-Jones (2001) sees it as a reform programme for the electric power sector with 4 essential stages. First, governments need to prove its commitment in reform by form and implement broad guidelines for all companies, including state-owned generation companies to operate under fair commercial principle, to start exposing the system to competitive market-like conditions. Secondly, the market should be restructured by unbundling previously vertically integrated companies, so that wholesale and retail markets can be created. Thirdly, the state should withdraw its ownership in the incumbent companies because private ownership is believed to bring in financial resources and efficiency. Fourthly, the market should be regulated by an independent body that is competent and transparent. Under this model, the system is expected to move from monopoly to a a single buyer of electricity and wholesale competition, to a free choice of
energy source for supply companies, to retail competition where consumers can choose their suppliers.

Electricity market liberalization primarily aims to ‘improve performance: financial performance, supply side efficiency and demand-side efficiency’ (World Bank, 1994). It is expected that liberalization attracts new investment in generation, reduces prices, ensures security of supply and provides universal coverage. Section 3 in this chapter reviews whether these objectives have been achieved in developing countries.

**ELECTRICITY MARKET LIBERALISATION EXPERIENCES IN THE WORLD**

During WWII, essential utilities, mostly electricity and transportation, were consolidated to provide unified support to armies and after that, were nationalised to restore to pre-war levels through significant investment by governments, which could not have been undertaken by private forces. The priority of the energy sector was to develop a well-functioning network to provide electricity for other industries and facilitate economic growth in all areas. Up to the 1980s, virtually all countries employed vertically integrated models in the energy sector. In the 1980s, the development of neoliberal economics led to attempts to introduce market mechanism to the sector. This model was first implemented in Chile, the UK and the EU and under the influence of World Bank and other international financial institutions; it then spread out to other countries.

**CHILE**

The Chilean economy had been characterised by high governmental interferences and control before the take-over of military dictatorship of General Augusto Pinochet in September 1973. Under the political influence of the US through the ‘Chile Project’, Chilean ministers of Economy, Finance, Education, Planning and Labour, along with leading...
economic advisors to the government were all ‘re-educated’ by free-market academics in University of Chicago, namely Milton Friedman and Arnold Harberger. These ‘Chicago boys’ reformed the declining economy with market liberalisation and privatisation of state-owned companies. The free market policies were also seen as reactions to the old regime of closed economy. In 1982, with the Electricity Act, Chile was the first country and so far the most radical in reforming its electricity market. This policy was described as ‘liberalisation for stabilization’ (Edwards, 1983).

Chilean’s electric power sector was unbundled vertically and horizontally integrated companies, opened wholesale market, introduced a centralized power poll, let large users choose supply sources, and opened access to transmission and distribution networks (Kessides, 2004). At first, the newly reformed system increased capacity to 1.5 times in 1985. However, the demand more than doubled during the years, leading to lack of supply of more than 80%, compared to 75% as before (Batlle et al, 2010). The system in fact discouraged investors to build new capacity and exposed consumers to artificially high costs in time of shortage.

THE UK

If Chile was the first country implementing the liberalisation model, the UK was the main inspiration for the liberalisation and privatisation era of the 1990s. In the UK, ‘liberalisation was a domestic political decision’: the Labour party believed in the Keynesian model of nationalisation to boost aggregate demand through government spending, whilst the Conservative party argued for the market mechanism as the answer to state-owned enterprises’ inefficiency and national budget deficit (Newberry, 2002).

After WWII, more than 600 electricity companies were nationalised to form one central generation and transmission company, CEGB, which then sold electricity in bulk to
12 regional distribution and retail companies, which were also state-owned. Under the Electricity Act 1989, the CEGB generation and transmission units were unbundled into one privatised transmission company (NGC) and 3 generation companies (Powergen, National Power and Nuclear Electric: Powergen and National Power were then gradually broken up into 8 generation companies. The distribution companies were also privatized, and later split into separate retail and distribution units. A Power Pool was set up in 1990 for generators to bid against each other, but was abandoned and replaced by NETA, which allows generators to enter bidding process voluntarily. Also, since 1998, generators are also allowed to buy retail businesses. This resulted in the progressive integration of generation and retail companies and then the collapse of the remaining IPPs in 2002.

The UK model was the most complete version of electricity liberalisation. (Newbery and Pollitt, 1997). It can also be argued that the model does not deliver its objectives in the sense that the wholesale market is perplexingly designed, price does not decrease and competition does not actually exist, and only 2% of total demand is bought and sold via the wholesale market NETA (Thomas, 2010). Moreover, the generator/retailer combination increases market concentration, making it too difficult for potential companies to enter the competition. Finally, the generation part of final price (taking 51% of final price) is not publicly known, which does not provide incentives for retailers to transfer lower generation price to consumers (Butler, 2001) (Appendix A). In fact, the electricity price went down from the 1980s, and then rose temporarily again (Dagdeviren, 2009). It is predicted that the price will continue to rise in real terms (Redpoint, 2010).
The EU electricity market was created by a series of directives in the 1990s during a period of greater political and economic unification between member countries. The Directives address four aspects: opening generation and retail markets; access to transmission and distribution networks, unbundling integrated companies and regulatory bodies of ESI (Thomas, 2005). After 15 years there are still wide discrepancies between what is required in the Directives and what has been implemented (Wolf et al., 2009). In 2004, the EC sent formal warnings to 18 out of 25 members about their non-compliance (Thomas, 2005). The wholesale market is still dominated by former monopoly companies. In most countries, the market is highly concentrated. Mergers and acquisitions led to control of large market shares by an oligopoly, and it is clear that the Directives have not been able to force break-ups of integrated companies. Thomas (2005) criticized them for
leaving ‘too many ways to get around the provisions’ and being ‘totally silent on the issue of how far integration of retail and production/import should be allowed’. Also, the governments are reluctant to release ownership of transmission therefore major companies’ government shares are commonly large.


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<tbody>
<tr>
<td>Generation</td>
<td>Monopoly</td>
<td>Authorisation</td>
<td>Authorisation</td>
<td>Authorisation</td>
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<tr>
<td></td>
<td></td>
<td>Tendering</td>
<td></td>
<td>(plant to reduce emissions)</td>
</tr>
<tr>
<td>Transmission (T)</td>
<td>Monopoly</td>
<td>Regulated TPA</td>
<td>Regulated TPA</td>
<td>Regulated TPA</td>
</tr>
<tr>
<td>Distribution (D)</td>
<td></td>
<td>Negotiated TPA</td>
<td></td>
<td>(allow certification to third countries and independent parties)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Single Buyer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply</td>
<td>Monopoly</td>
<td>Accounting</td>
<td>Legal Separation</td>
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<tr>
<td></td>
<td></td>
<td>Seperation</td>
<td>from T/D</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>No choice</td>
<td>Choice for</td>
<td>All households</td>
<td>All</td>
</tr>
<tr>
<td>Unbundling T/D</td>
<td>None</td>
<td>Accounts</td>
<td>Legal</td>
<td>Legal</td>
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<tr>
<td>Cross-border trade</td>
<td>Monopoly</td>
<td>Negotiated</td>
<td>Regulated</td>
<td>Unregulated</td>
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<td>Government Department</td>
<td>Not Specified</td>
<td>Regulatory Authority</td>
<td>Regulatory Authority (corporate at regional level)</td>
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**Figure 2: Market Share in EU Electricity Market - Three Largest Retailers (2008)**

Source: EREG data
### Table 3: State Participation in EU Gas and Electricity Companies 2006

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Government participation (%)</th>
<th>Position in home country</th>
<th>Position in Europe</th>
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<tbody>
<tr>
<td>EDF</td>
<td>France</td>
<td>87</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>GDF</td>
<td>France</td>
<td>80</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>RWE</td>
<td>Germany</td>
<td>31</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>EnBW</td>
<td>Germany</td>
<td>45</td>
<td>3</td>
<td></td>
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<tr>
<td>Enel</td>
<td>Italy</td>
<td>32</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Eni</td>
<td>Italy</td>
<td>30</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>EDP</td>
<td>Portugal</td>
<td>20</td>
<td>1</td>
<td></td>
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<tr>
<td>Galp</td>
<td>Portugal</td>
<td>8</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>British Energy</td>
<td>UK</td>
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<td>CEZ</td>
<td>Czech Republic</td>
<td>68</td>
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<td>PPC</td>
<td>Greece</td>
<td>51</td>
<td>1</td>
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<td>Verbund</td>
<td>Austria</td>
<td>51</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>EVN</td>
<td>Austria</td>
<td>51</td>
<td>2</td>
<td></td>
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<tr>
<td>Dong</td>
<td>Denmark</td>
<td>73</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Fortum</td>
<td>Finland</td>
<td>51</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Source: LionShares, Factiva, Companies

Note: State participation includes both state and regional or local administrations.
THE WORLD BANK AND WASHINGTON CONSENSUS

The policies of electricity liberalization appeared in developing countries due to the activity by World Bank and other IFIs who were following a general neoliberal development policy based on ‘Washington Consensus’ coined by John Williams in 1989.

WASHINGTON CONSENSUS AND THE BIRTH OF PRESCRIPTION FOR DEVELOPMENT

The wide spread of liberalization policies in the world is associated with the ‘Washington Consensus’, a term coined by John Williamson. The consensus includes trade liberalization, privatization, and deregulation among other fiscal and monetary consolidation policies. As Birdsall et al (2010) points out, ‘it is not a coincidence that the
appearance in 1989 of the Washington Consensus coincided with fall of the Berlin Wall, which symbolically marked the burial of centrally planned economies’. In Williamson’s own words, it was the year that marks the beginning of the British model, the gift that Mrs. Thatcher brought to the world (Williamson, 2004). Primarily intended for Latin America, the ‘Universal Convergence’ 10 policies then became the prescription used by the Bretton Woods institutions for developing clients in need of capital inflows via conditionalities in the 1990s, the Washington Consensus’ ‘glorious years’ (Williamson, 2004; Birdsall et al, 2010). In 2004, the President of World Bank, Wolfensohn, admitted that the consensus was dead and had been replaced by other consensuses. Yet, the IFIs still hang on to the notion of liberalization, especially in public utilities, and public sector reforms quite similar to the prescription of the Consensus (IPC-IG, 2009).

**Figure 2. Latin American Structural Reform Index Average (1985-2002)**

![Graph of Latin American Structural Reform Index Average (1985-2002)](image)

*Note: The advance of the reforms is measured as the margin for reform existing in 1985 that has been utilized in subsequent years. The index combines measures of trade, financial, tax and privatization policies. Source: Lora (2001).*

**FIGURE 4 LATIN-AMERICAN STRUCTURAL REFORM INDEX AVERAGE (1985-2002)**

(Reproduced from Birdsall, 2010)

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**WORLD BANK AND THE CONDITIONALITIES**

To developing countries, the World Bank is ‘the vital source of financial and technical assistance’ (World Bank, 2011). In fact, annual loans to energy sector investment
and reform projects amount to 15-20% of total bank loans (World Bank, 2001). During the 1970s and 1980s, WB’s energy policies focused on helping developing countries build capacity via government investment in one public monopolist company. In the 1990s, the Bank changed its position to promoting market-based energy sectors, taking inspiration from the UK and the US.

In the 1993 Energy Policy Paper, the World Bank states its concerns over unsatisfactory performances of public monopolies, financial over-burden on national budgets, price undercut by the governments and the potential gap for improvements via commercialization, corporatization and privatization. Because of distrust of client countries for past non-compliance, the WB also started to aggressively pursue conditionalities on loans to ensure the commitment of the governments to reform their public sectors and liberalise the electricity market as guided (World Bank, 1993).

RESULTS OF ELECTRICITY MARKET LIBERALIZATION IN DEVELOPING COUNTRIES

WHAT LIBERALISATION PROMISES TO DELIVER FOR DEVELOPING COUNTRIES?

Erdogdu (2011) examined the case of electric power sector liberalization in 63 countries, 31 are developing countries, from 1982 to 2009. It shows that despite economic differences, a number of developing countries progress towards a complete reform at a relatively similar pace as developed countries. They are more inclined to accept WB loans in order to expand their capacity, and liberalization of electric sector is one of the conditionalities (Hall et al, 2009). Second, economic growth, rather than economic stability, is the primary objective of these countries. Universal electrification is an essential source of economic growth. Therefore, they should expect the new policy would provide wider electricity coverage, especially in rural areas (World Bank, 2001). Third, as a result of lower
national income and growing gaps in income distributions, the governments in these countries commonly have to subsidise for low income households, partly because of lack of supply. The governments would expect the price of electricity to be reduced by a reform process so that it is affordable for even low-income households.

TABLE 4 ELECTRICITY ACCESS IN 2009

<table>
<thead>
<tr>
<th>Region</th>
<th>Population without electricity</th>
<th>Electrification rate</th>
<th>Urban electrification rate</th>
<th>Rural electrification rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>507</td>
<td>41.8</td>
<td>68.8</td>
<td>25.0</td>
</tr>
<tr>
<td>North Africa</td>
<td>3</td>
<td>99.0</td>
<td>99.5</td>
<td>98.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>585</td>
<td>30.5</td>
<td>59.9</td>
<td>14.2</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>675</td>
<td>81.0</td>
<td>94.0</td>
<td>73.2</td>
</tr>
<tr>
<td>China &amp; East Asia</td>
<td>102</td>
<td>90.8</td>
<td>56.4</td>
<td>66.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>493</td>
<td>68.5</td>
<td>89.5</td>
<td>59.9</td>
</tr>
<tr>
<td>Latin America</td>
<td>31</td>
<td>93.2</td>
<td>98.8</td>
<td>73.6</td>
</tr>
<tr>
<td>Middle East</td>
<td>21</td>
<td>89.0</td>
<td>98.5</td>
<td>71.8</td>
</tr>
<tr>
<td>Developing countries</td>
<td>1,314</td>
<td>74.7</td>
<td>90.6</td>
<td>63.2</td>
</tr>
<tr>
<td>Transition economies &amp; OECD</td>
<td>3</td>
<td>99.8</td>
<td>100.0</td>
<td>99.5</td>
</tr>
<tr>
<td>World</td>
<td>1,317</td>
<td>80.5</td>
<td>93.7</td>
<td>68.0</td>
</tr>
</tbody>
</table>

Source: WEO-2011

ACCESSIBILITY –DO LIBERALIZATION PROVIDE WIDER NATIONAL ELECTRICITY COVERAGE?

The IEA study shows that from 1990-2000 developing countries reduced the population without electricity from around 2 millions to 1.6 million people and extended rural electrification to 0.4 million people. Also, Winkler et al (2011) examines the case of accessibility in 3 developing countries which are South Africa, Brazil and Bangladesh. The study points out that in those countries, there is significant increase in electricity coverage in both rural and urban areas, in numbers and proportion to population. In the best case, South Africa managed to provide electricity to 68% population in 2002, a huge increase from 31% in 1990. However, the South Asia and Sub-Saharan Africa regions experienced a
rise in population without electricity. Yet, as Doll and Pachauri (2010) found out private investors are unlikely to find it profitable to invest in distribution networks in underdeveloped regions with only a few households. Besides, accessibility needs to be accompanied with affordability so that households can truly benefit from electricity coverage. Unfortunately, in order to provide more networks, companies have to transfer their additional costs to consumers, causing the price to rise.

TABLE 5 ELECTRICITY ACCESS IN THE WORLD, BY REGIONS

(Reproduced from Doll and Pachauri, 2010)

In 2010, NUS Consulting Group report points that global electricity prices have been increasing and will continue in the future. In particular, in 15 most expensive countries for electricity, prices are subject to rise from 3 to 33% per year. Among them are leading examples of liberalization, namely, Sweden, Austria, and UK. The study of real electricity prices in OECD from 1978 to 2008 by IEA also shows similar results. Dagdeviren (2009)
points out that in the short term when investment starts to kick in, electricity prices went down but this temporary results ‘can be misleading’. Since 2000, when markets are relatively open, ‘prices started to increase’. Using data of 83 countries from 1985-2002 in Latin America, the former Soviet Union and Eastern Europe, Nagayama (2007) finds little correlation between unbundling, wholesale market competition and decrease in electricity prices. On the contrary, they are associated with a rise in prices. One example of shocking price rise due to liberalization in developing countries is in Uganda. Just one month after the unbundling of Uganda Electricity Board, consumers had to face a 158% rise in electricity bills (East African Standards (Nairobi), 2001). Argentina and India also see price rising regardless of poor quality of services (Wamukonya, 2003). From Erdogdu (2011)’s study, developing countries like Chile and Colombia actually let private generators enjoy a higher profit margin. Besides, as Thomas (2005) argues, the cost of competition is not cheap. The combined cost of capital/loan, cost of market design, cost of marketing, cost of customer switching, cost of installation… is additional to generation costs that in the end, taxpayers have to pay.
Woodhouse (2006) points out that by 2030, developing countries need investment of $5 trillion, two thirds of it for new generation capacity. Demand in these countries is growing exponentially, which private investment is expected to benefit from. In fact, private investment in new generation boomed in the 1990s. Yet, similar to what is witnessed in price movements, it started to go opposite way in the 2000s. Private investment in infrastructure more than halved from 1997 to 2001. The World Bank (2004) argues that this drop is due to ‘falling stock markets worldwide, financial crises in
emerging markets, and hesitancy caused by public opposition to privatisation'. However, Thomas (2006) believes the problem could be ‘more fundamental’. Private generators have to face demand risk, political risk, fuel risk, payment risk along with currency risk for foreign investors (Thomas, 2006; Woodhouse, 2006; Liong, 2008). As being risk averse, private investors do not have sufficient incentives to invest unless long-term contracts or capacity payment mechanism are offered to them by the government (Neuhoff and De Vries, 2004). However, if the government intervention in the sector is so important, it is questionable whether liberalization is needed in the first place.

![Figure 2 Private Investment in Infrastructure in Developing and Transition Countries Peaked in 1997](image)

**Figure 6 PRIVATE INVESTMENT IN INFRASTRUCTURE IN DEVELOPING AND TRANSITION COUNTRIES 1990-2001**

(Reproduced from Kessides, 2004)
CHAPTER 3 HYPOTHESES AND METHODOLOGY

The literature review shows it is possible to establish the link between political and economic factors and World Bank loans with the electricity sector policies. This research then attempts to prove the impacts of these 3 factors by testing the three hypotheses:

**Hypothesis 1:** Political and economic conditions influence the policy changes in the electricity sector

**Hypothesis 2:** World Bank policies and conditional loans are as important as political and economic conditions in influencing the electricity policy changes

**Hypothesis 3:** World Bank loans show a consistent preference for particular reform policies and this particular preference structure is more dominant than the attempt to finance infrastructure.
The research employs qualitative approach in assessing the impacts of the 3 factors and quantitative approach in assessing the patterns of WB loans. The research use secondary data mainly from World Bank database. Other sources of data are UNDP, European Union, and Offices of National Statistics and previous research published on Energy Policy.

In order to test these hypotheses, the research is divided into three stages: collecting data for each country, generating data links between three factors and energy policies and analyzing the similarities of these links across three countries. Before collecting data, I had to go through the history of politics and economic policies in each country to understand the background of the country and its development. After a sufficient background is established, I aimed to collect data including energy policies, political events, economic events that are important to the sector. The sector events are the policies related to liberalization, from general policies of reform to decrees on privatization, corporatization, unbundling, to IPOs of state-owned companies on the stock exchange, to the problems occurring in the sector and the government’s suggested solutions. The political events include any change in political ideologies, the reason behind these changes, political relationship with developed countries, such as the US, UK or EU, political decisions under different Prime Ministers or Heads of States. And the economic events include the history of economic growth, economic liberalization, budget deficit/surplus, national debts, industries that drive growth, demand for electricity by industries. It was expected that there would be many irrelevant information or events that are too general or not influential enough to the sector. A timeline was drawn to contain put these events in accordance with the policy change. Events that cannot be linked are eliminated.

Regarding World Bank loans, I went to the World Bank database to search for the list of all World Bank loans to each country. There were in total more than 400 loans for all
3 countries. I then quickly looked at each of them to see the sector and theme on which the loans were issued. This information is available in the summary page of each loan. Relevant loans are the loans lent directly to the energy sector or related to public sector reforms. In the end, there are in total more than 50 loans to be analysed in detail. I realized that for each loan, there are detailed project periods, costs, purposes and implementation reports. For pipelined or unfinished loans, there are loan agreements and appraisal report. I then made a list of all these details, put them into a table under the columns of project start and end date, project ID, title, sector that it is lent to, focus themes, total project costs, the bank funds out of those total values, how much has been spent on infrastructure, how much for non-infrastructure categories, and whether the main purpose of each loan is to generate capacity, provide rural electrification or for reforms. Some projects have two purposes: reform and non-reform. Some projects list one purpose as non-reform but allocate more funds to reform purposes. I would then use the allocation of the project funds to decide the purpose of projects that they should be perceived or titled.

After all data has been collected and checked, all political and economic events and related loans are put into the timeline of the energy policies for each country. The results are the 3 tables seen in Chapter 4. The purpose of the tables is to show the link between the events and loans and the sector policies. I then divided the WB loan information into their periods, purposes and values. All the loans are numbered according to the time they were issued. With periods, I put all the project periods in their order of occurrence and in their start and end time under the frame of actual time. The result shows an overlapping pattern of these loans. With purposes, I also use the order of loans in time as one axis of measurement and the three purposes on the other axis. The final figure shows a pattern of loan purpose that moves gradually from generating capacity and rural electrification to reform. With loan values, there are two analyses made. The first one is the pie chart of total values of non-infrastructure items and total values of infrastructure in all loans. 100% is the total fund provided by WB for these loans. The second one is the comparison between
the value of reform and non-reform loans. I used the bar chart to express the differences witnessed in these loan values. The yellow bars represent the values of non-reform loans while the red bars represent the values of reform loans. These two charts show the importance that the Bank puts in reforms. Once the analysis of each country is done, these graphs are then combined to produce comparative graphs for all three countries for each topic. These graphs are presented in Chapter 5. This combination shows the same patterns of WB loans across 3 countries. Another comparative analysis is the connection of political and economic events with the sector policy changes in all the countries. Besides, the timelines across 3 countries suggest the continuous pressure that WB put onto the sector via its conditional loans.

The research is reinforced by the personal contact with Mrs. Nguyet Tran, Head of Department, Department of Finance, Ministry of Trade and Industry, Vietnam. Via informal talks with Mrs. Tran, I am more confident that the findings, although they had not been proved before, have been realized by the government of Vietnam. WB has been ‘generous’ to Vietnam in public sector reform loans. A number of projects are not initially requested by the government but initiated by the bank consultants. Yet, Mrs. Tran cannot provide detailed financial statements of these loans as these statements are not published and classified.
CHAPTER 4 DATA PRESENTATION, EVIDENCE AND ANALYSIS

THAILAND

ELECTRICITY LIBERALISATION MODEL

Before the 1990s, the electricity sector in Thailand comprises of 3 state-owned companies: EGAT (Electricity Generating Authority of Thailand) being in charge of electricity generation since 1968, MEA (Metropolitan Electricity Authority) being in charge of distributing and selling to Bangkok and its suburban areas since 1958; and PEA (Provincial Electricity Authority) being in charge of distribution to all other Thai provinces. The triopoly played important role in supporting the industrialisation years of Thailand in the 1980s. Their financial loss and expansion projects were both largely financed by international debts. This debt amounted to ‘nearly half of all of Thailand’s external borrowing between 1967 and 1971’ (Wisuttisak, 2010). The World Bank therefore advised the government to level retail prices to the market level and privatise SOEs since the 1980s.

The government under Prime Minister Chatichai Choonhavan then attempted to privatize the electricity sector in 1989 but failed because of strong opposition from EGAT Trade Union in 1989. Not until 1992 did the government under Prime Minister Anand Panyarachun successfully pass the amended Electricity Generating Authority of Thailand Act which allows the participation of Small Power Producers (SPPs) and Independent Power Producers (IPPs). SPPs aimed to promote clean and renewable energy. However, SPP licenses were limited to large industrial power customers because of the discrimination of EGAT and PEA. At the same time, EGAT established the first IPP- EGCO (Electricity Generating Public Company Limited) then offered its shares on stock exchange in 1995. IPPs mostly operated under Power Purchasing Agreements that forced EGAT to buy in any amount of production. The government allows PPAs to be pegged to dollars in
order to provide certainty and lower risk to investors (Greacen and Greacen, 2004). The independent regulatory body, National Energy Policy Office (NEPO), was established.

In 1998, the ‘Master Plan for State Enterprise Reform’ was approved by the government that planned the restructuring and privatisation of the energy sector with 3 other public sectors. The plan set out 3 stages for the liberalisation of the sector: 1998-2001 with EGAT as primary generation source, 2001-2003 with increased competition in generation and distribution to large customers, 2003 onwards with the unbundling of EGAT and the creation of complete wholesale and retail markets. However, in 2003, the government under PM Thaksin cancelled the NEPO model and consulted the Boston Consulting Group who later came up with a relatively similar model, ESB but less focusing on objectives of liberalisation. In 2004, EGAT was about to be privatised by offering shares on the Stock Exchange but this act was postponed when EGAT Trade Union protested. However, Thaksin government later resumed the plan of corporatising EGAT in November 2005. Foundation of Thai Consumers requested the Supreme Administrative Court to consider the validity of corporatisation of EGAT. In March 2006, the Court declared the corporatisation invalid and later in 2006, privatisation became illegal in the sector. From that on, the sector returned to the oligopoly structure with the dominance of three utilities, EGAT, MEA and PEA. RATCH and EGCO are the main IPPs in generation with 14% and 11% market share respectively. Yet, majority shares of these companies are held by EGAT of 45% and 25% shares respectively. MEA also is now vertically integrated with EGAT. The latest change in the industry is limited to the management restructure with the separation of policy making, regulation and operating functions, stated in Energy Industry Act 2007. Since NEPO’s authority was absorbed by the Ministry of Energy in 2003, these companies are self-regulated and the current regulator does not have access to sufficient inside information for supervision purposes.
FIGURE 8 THAILAND’S ELECTRICITY SUPPLY INDUSTRY.

(Reproduced from Woo, 2005)

POLITICAL CONDITIONS

Politics in Thailand is highly unstable. In history, there were 18 coups which result in 18 constitutions. The changes in electric power sector are not without political motives. The first attempt to privatise the sector in 1989 failed because of strong opposition by EGAT Trade Union. Prime Minister Chatichai Choonhavan, a pro-market politician, at the time had just been elected in 1988, hence, prioritised social stability during the first years in position. Later, the reform policy eventually came in place in 1992 under Prime Minister Anand Panyarachun. There are several reasons for his success. First, briefly from 1991-1992, Thailand was under military governance of General Sunthorn Kongsompong after the coup in 1991. The government could enforce the policy change with military support. Second, it is suspected that Prime Minister Anand is personally benefited from this reform.
After his term, Prime Minister Anand then chaired at Saha Union, parent company of Union Energy which was rewarded with the first and the largest IPP projects in Thailand. Third, the reform was lobbied by financially well-endowed and influential Dr. Piyasavasti Amranand, a neoclassical economist with PhD from London School of Economics and CEO of Kasikornbank. Dr. Piyasavasti, a close friend of Prime Minister Anand - a graduate from University of Cambridge, was appointed as director of NEPO in 1992. However, the plan drafted by NEPO was later cancelled in 2003 by newly elected prime minister of 2001, Thaksin Shinawatra. He rejected the NEPO model and hired BCG which later came up with a similar model but more focused on the privatisation of EGAT. Another protest by EGAT Trade Union happened in winter 2004, close to the election in February 2005. The plan to offer EGAT's IPO on the Stock Exchange was then halted. But soon after being re-elected, Thaksin continued with his plan. His persistence faced strong opposition from Foundation of Thai Consumers, who asked for the invalidity of privatisation of EGAT from Supreme Administrative Court. In September 2006, he was overthrown in a military coup. He was later accused of taking advantage of privatisation process in general to undersell SOEs. The Supreme Court then declared privatisation illegal in the sector. From 2007 to 2010, Thailand is constantly experiencing political disputes, making it unattractive and uncertain for private investment. The liberalisation process in electricity sector is therefore reversed to before-reform.

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**ECONOMIC CONDITIONS**

<table>
<thead>
<tr>
<th>Table 1. Economic growth and electricity growth 1988-93²²</th>
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<tr>
<td></td>
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<tr>
<td>Economic growth</td>
</tr>
<tr>
<td>Growth in electricity demand</td>
</tr>
<tr>
<td>FY 88</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Economic growth</td>
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</tr>
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<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Growth in electricity demand</td>
</tr>
<tr>
<td>15%</td>
</tr>
</tbody>
</table>

**TABLE 6 THAILAND'S ECONOMIC GROWTH AND ELECTRICITY GROWTH, 1988-1993.**
(Reproduced from Greacen and Greacen, 2004)

Before the 1970s, Thailand’s economy was agriculture-export-based. The economy moved into the industrialisation stage in the 1980s, focusing on energy-intensive sectors such as petrochemicals, steel mills, cement and refineries. In 1982, the World Bank foresaw this robust growth would put the energy sector under extreme pressure and it is likely to undersupply. The Bank then advised the government to privatise the sector to increase efficiency and attract private investment in new capacity. However, this plan could not be implemented. From 1988-1993, the economy was growing at average rate of more than 10% GDP growth. The demand for electricity therefore increased significantly. In response to this exploding demand, in 1992, the government allowed SPPs and IPPs to participate in the generation market to increase total electricity output.

Before 1997, the economy was growing into a bubble. The major industries relied heavily on imported inputs. The reliance on EGAT, MEA and PEA which were financially dependence on international debts posed further risks to the imbalance and overburden on the government’s budget (nearly 50% national debts were for energy sector). In 1997, the bubble burst. The value of baht was heavily depreciated. The government needed loans from international financial institutions, i.e. IMF and WB to save the economy. The conditionalities addressed liberalisation of public sectors, including electricity. WB loan at the time asked for privatisation of MEA and PEA. Also, the government used privatisation of SOEs to acquire extra money. Therefore, in 1998, the Master Plan for reform was approved. In 1997 crisis, in order to save losses for investors as a result of currency devaluation, the government adjusted all PPAs with 70-90% of US dollar-indexed capacity payments and extended them to 25-year-take-or-pay contracts. Consequentially, EGAT had more supply than demand and a negative financial balance. EGAT then had to sell its generation unit- Ratchaburi in 1999.
From 2000, Thailand constantly has more capacity than demanded. The Trade Unions found no reasons for privatising EGAT to increase efficiency or extra investment. The winning case against EGAT privatisation in 2006 therefore reinforced this belief. Since 2006, EGAT buys in shares of its previous subsidiaries and IPPs. The model of monopoly SOE in electricity sector has not been challenged until now.

![Electricity production graph](image)

**TABLE 7 THAILAND’S ELECTRICITY PRODUCTION, 2000-2011. REPRODUCED FROM INDEXMUNDI, 2011**
TABLE 8 THAILAND’S ELECTRICITY CONSUMPTION, 2000-2011. REPRODUCED FROM INDEXMUNDI, 2011
FIGURE 9 TIMELINE OF ENERGY POLICIES, POLITICS, ECONOMICS AND WB LOANS IN THAILAND

<table>
<thead>
<tr>
<th>YEAR</th>
<th>THAILAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>First attempt to privatize EGAT but failed</td>
</tr>
<tr>
<td>1992</td>
<td>Electricity Act 1992, SPP, IPP, EGGL established &amp; privatized</td>
</tr>
<tr>
<td>1997</td>
<td>PPAs signed for IPPs</td>
</tr>
<tr>
<td>1998</td>
<td>Master plan for liberalization</td>
</tr>
<tr>
<td>2000</td>
<td>Letter of intention to IMF from NEPO</td>
</tr>
<tr>
<td>2001</td>
<td>Taksin wins election</td>
</tr>
<tr>
<td>2003</td>
<td>Canceled NEPO model</td>
</tr>
<tr>
<td>2004</td>
<td>Choose BSC model, less focus on reform</td>
</tr>
<tr>
<td>2005</td>
<td>Offer EGAT's IPO on stock exchange</td>
</tr>
<tr>
<td>2006</td>
<td>Privatization postponed</td>
</tr>
<tr>
<td>2008</td>
<td>2 Royal Decrees on privatization</td>
</tr>
<tr>
<td>2009</td>
<td>Offer EGAT IPO in Nov</td>
</tr>
<tr>
<td>2010</td>
<td>Foundation of Thai consumer</td>
</tr>
<tr>
<td>2011</td>
<td>Court invalid privatization of EGAT</td>
</tr>
<tr>
<td>2012</td>
<td>Mar. Corporate Bank of EGAT</td>
</tr>
</tbody>
</table>

Public Services International Research Unit (PSIRU) www.psiru.org

Researchers: Prof. Stephen Thomas, David Hall (Director), Jane Lethbridge, Emanuele Lobina, Vladimir Popov, Tue Anh Nguyen
WORLD BANK LOANS

The World Bank has been lending to Thailand specifically in energy sector since the 1950s with projects which focuses on increasing capacity and rural electrification. In contrast to the belief that World Bank only started to promote neoliberalism policies since 1993, the Bank actually suggested privatisation and corporatisation in the energy sector since 1982 with its SAL 01 (1982-1983) and SAL 02 (1983-1984). However, the first attempt failed. The model had not been popular to academics and had interfered with the interest of labour unions in SOEs. From 1989, the Bank focuses its financial resources to reinforce reforms in public sectors in general and in energy sector in particular. When the Electricity Act 1992 was published, Thailand was actually on Power System Development Project (02) which facilitated private sector development in energy sector. As an aftermath of 1997 financial crisis, Thailand obtained IMF loan on condition of public sector restructuring. During this time, World Bank also provided 2 loans with objective of privatising MEA and PEA as a complimentary act with IMF. The loans did not however deliver their objectives. The Bank later moved to loans on public administrative and law reform that promoted decentralisation and SME supports from 1999. Since 2001, the Thaksin government strongly pursued their own direction in energy sector which marginalised the Bank’s influence. In 2006, the military coup resulted in the reverse of all its efforts. From 2006-2010, the political crisis suspended WB plan for Thailand’s public sector reform. Yet, the Bank still perseveres with its reform policies by substantially increasing its loan sum. In 2010, the latest Public sector Development Policy loan amounts to $1 billion with focus on private sector development.

After analysing 175 loans by World Bank to Thailand, 25 projects in details, the four graphs are drawn to reflect three important findings. Figure 10 (below) shows the time periods when the loans are taken in the sequence of time. Thailand’s energy sector has been constantly on loans with the World Bank. These loans are even overlapping in time.
The former one has not finished, the later one already comes. The sector has never been out of debt since 1957. Figure 11 (below) looks at the objectives of these loans categorised in reform or non-reform projects. The height of the columns indicates project values. The yellow columns stand for non-reform projects whilst the red ones stand for reform projects. It shows that the Bank tends to evaluate the cost of reform-based projects much higher than capacity and electrification-based projects. To clarify, some projects may allocate funds to infrastructure and non-infrastructure purposes (equivalent of non-reform and reform). By dividing this fund according to its expenditure categories, Figure 12 shows that in fact, more funds are allocated to non-infrastructure category. Figure 13 (below) looks at the three main objectives of these projects: investment in capacity, rural electrification or reforms. It shows that reform projects are more in number. WB actually moves away from the electrification projects to reform policy projects with time. In recent years, loan objectives focus on the development of private sector and privatisation of SOEs.

(Source: Author’s own compilation from World Bank data)
FIGURE 11 WORLD BANK LOANS IN THAILAND: VALUES OF NON-REFORM AND REFORM LOANS
FIGURE 12 WORLD BANK FUND ALLOCATION TO INFRASTRUCTURE AND NON-INFRASTRUCTURE ITEMS IN TOTAL LOANS TO THAILAND

FIGURE 13 WORLD BANK LOANS IN THAILAND, PATTERNS OF LOAN PURPOSES.

VIETNAM

ELECTRICITY LIBERALISATION MODEL

In contrast to Thailand, Vietnamese government only officially committed to energy sector liberalisation from 2004. One reason is that the country had been in war with the
imperial powers for fifty years until 1945 and only been unified since 1975. In 1986, Renovation Policy opened a new chapter of trade and industry reform for Vietnam to change from pure communism model to a market-based economy. In the 1990s, the country focused on rural electrification since over 80% population lived in the rural areas. In 2001, Decree No. 45 permits private investors to participate in the power grid via PPAs with EVN (Electricity Vietnam). From 2001 to 2004, IPPs’ market share increased to 23% (UNDP, 2006). In 2004, the government passed the Electricity Law outlining the framework for a competitive electricity market. But the actual implementation plan only came in 2006 under Prime Minister Decision 26. The electricity market is expected to be competitive in more than 20 years, passing three stages: first, a single buyer market from 2005-2014; second, wholesale market creation from 2015-2022 and third, introduction of retail market from 2022 onwards.

Until now, little changes have been made. EVN holds monopolistic power over generation, transmission and distribution to the whole nation. EVN is also the single buyer which provides PPAs to IPPs and buys in electricity from PetroVietnam (gas-fired plant) and Vinacomin (coal-fired plant) under negotiations. These two companies are actually monopolies in petrochemical and coal industries and are also 100% state-owned. It is evident that the state controls the market tightly via its SOEs. In 2007, Prime Minister Nguyen Tan Dung declares that Vietnam needs to hold 100% ownership in electricity transmission lines and generation companies of large scale and at least 50% ownership in generation companies of medium scale.

World Bank (2004) reports that the performance in the industry is unsatisfactory and the Bank’s efforts to assist the liberalisation process faces reluctance of EVN to unbundling. It can be seen by looking at the moves taken by EVN in history. First, in 1996, the government passed Decree on Equitization regarding the need to improve efficiency of SOEs via equitization. Yet, ten years later, EVN was actually reorganised into a corporate
group with more than 60 subsidiaries. EVN still holds complete ownership and control. Second, under Prime Minister Decision, EVN had to sell shares of five power generation subsidiaries on stock exchange but it still keeps around 70% shares. These newly equitised joint-stock companies depend on PPAs granted by EVN. There is a clear strong reason that these companies should not want to be apart from EVN’s control (UNCTAD, 2008). Third, EVN’s corporatisation does not in fact benefit the industry. Taking advantage of its financial guarantee by the government in any case of loss, the corporation spread out to other industries, including telecommunication, banking, real estate development. Whilst it is making profits in other business units, the company still claims loss of $343 million in 2010 and got paid for by the government. To consumers, the company is incapable of supplying sufficient electricity during peak hours and dry seasons. It is reported that ‘in the whole country there were 3,000 blackout incidents due to system overloading during the first 7 months of 2008’, equivalent to ‘14 blackouts a day’ (Nguyen and Dapice, 2010).

The liberalisation process of Vietnam’s electricity sector is slow and painful. The Master Plan for Sector Reform has been written and rewritten several times. In 2011, the government has just announced the Seventh Power Master Plan. The content of these plans is not different from the original plan in 2006 other than that they are increasingly assertive in dealing with EVN’s reluctance and inefficiency. The authority besides discriminates between foreign investment and domestic private investment. PPAs signed for domestic generators are typically short-term ‘without government guarantees and no fixed annual capacity charge in the form of a take-or-pay agreement’ (Nguyen and Dapice, 2010). On the contrary, PPAs signed for foreign investors last for more than 20 years and dollar-pegged. EVN is also forced to buy in at any capacity. However, it is disappointing that there are only 2 foreign-owned power producers in Phu My in operation, sponsored by Electricité de France (EDF), Sumitomo and the Tokyo Electric Power Company (Lovells, 2009). AES Group (US) has been negotiating since 2007, demanding better terms on the contract regarding the devaluation of Dong and the fluctuation of output.
FIGURE 14 ROADMAP FOR DEVELOPING THE VIETNAM ELECTRICITY MARKET.

(Reproduced from Lovells, 2009)

POLITICAL CONDITION

The electricity sector was subject to international and national pressures to liberalise. Regarding international political pressures, in 1995, when Vietnam joined ASEAN and signed AFTA, the government agreed to implement trade liberalisation. Then in 2007 when Vietnam joined WTO and signed GATS in January, public services including
healthcare, education, electricity and telecommunications are subject to liberalisation in a certain amount of time. Later that year, the 6th Master Plan pushing for a competitive market was passed and a single buyer market was created.

Regarding national political pressures, before 1986, the economy was closed and Vietnam was under embargo by the US. This communist model did not work for the country, total output declined, the society hardly progressed. In the Eighth Party Congress in 1986, the reformists, led by the Secretary of Party, Nguyen Van Linh, blamed economic failure on over-centralisation. The conservatives in the party were mostly heads of provinces and their expanding powers threatened the unity of the party's decision. The Renovation Policy was born, due to both political and economic reasons. This Reform can be considered as the primary policy paper calling for liberalisation in public utilities. Since then, the economy was gradually opened. Then in 2006, after being elected as Prime Minister, Mr. Nguyen Tan Dung felt the need to prove a significant change to the state by reorganising EVN into a corporate group after many failed attempts in the past since 1996 under other prime ministers. Later in January 2011, when he is re-elected, the Prime Minister again proved his ability by passing the 7th Master Plan in July. However, the electricity market barely changes during his terms. Or it has not yet been seen!
Since 1989 when the government opened the economy, Vietnam’s GDP growth is at a constant strong rate of average 7.4% per annum. The economy was transformed from agriculture-based to industry-intensive. In response to industrial demand, electricity tripled in a decade. From Figure 15 (above), it can be seen that the movement of electricity growth synchronises with the movement of GDP growth. From 2000, when GDP growth enters a constant rising pattern, the sector also needed to introduce IPPs to provide more capacity. The period between 2001 and 2004 marks an significant increase in IPPs’ market in line with GDP growth. Yet, the restriction to domestic private investment in the sector and unattractiveness to foreign investment dragged the electricity growth since 2004 and consequentially, the economy was slowing down due to insufficient electricity. In response,
the government corporatized EVN in 2006 and sold part of its subsidiaries shares on the Stock Exchange to encourage private financing for capacity projects.
FIGURE 16 TIMELINE OF ENERGY POLICIES, POLITICS, ECONOMICS AND WB LOANS IN VIETNAM

<table>
<thead>
<tr>
<th>VIETNAM</th>
<th>YEAR</th>
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<tbody>
<tr>
<td><strong>WB Loans</strong></td>
<td><strong>Economy</strong></td>
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<td>Power Sector Reform</td>
<td>Renovation Policy</td>
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<tr>
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<tr>
<td>Power Sector Reform</td>
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<tr>
<td>Decree 45 private investment</td>
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<tr>
<td>Decree 101</td>
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</tr>
<tr>
<td>Electricity Law</td>
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</tr>
<tr>
<td>P.M. Nguyen Tan Dung in position</td>
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</tr>
<tr>
<td>P.M. Decision</td>
<td></td>
</tr>
<tr>
<td>WTO membership</td>
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<tr>
<td>GATS</td>
<td></td>
</tr>
<tr>
<td>P.M. re-elected</td>
<td></td>
</tr>
<tr>
<td>Jan/2011</td>
<td></td>
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**Notes:**
- Power Sector Reform
- Decree 45 private investment
-AES Group sign contract
-EVN reorganized into corporate group
-P.M. Decision
-Master plan VI
-Single buyer
WORLD BANK LOANS

The World Bank entered Vietnam since 1978 with one development project for basic services. Not until the US lifted embargo on Vietnam in 1994, did the Bank officially offer a series of projects to the government. It may not be a coincidence that the projects underpinned many of policy reforms in the sector. First, the first structural adjustment project was commenced in 1994 to 1996. As the end of this project, the first Decree on Equitization was passed, marking the first steps towards SOE privatisation and corporatisation. Second, the Power Sector Rehabilitation and Expansion Project from 1996 to 1999 was rated as ‘highly satisfactory’ with the issue of policy statement for power sector reform by Ministry of Industry in August 12, 1997. Third, from 2000 to 2006, the Bank constantly lent to the sector with 6 loans, 5 of them are reform-based. This full force was rewarded with Decree 45 on opening generation market to private and foreign investment in 2001, with Electricity Law in 2004 on a competitive market plan, with the creation of ERAV (Electricity Regulating Authority of Vietnam)-a regulatory body of the industry and with the corporatisation of EVN in 2006. From 2006 to 2009, despite promises to develop the private sector as in conditionalities in previous loans, the electricity sector is still dominated by EVN, the single buyer, the monopoly of the networks. Forth, from 2009 to 2011, the Bank replaced multiple-objectives loans with reform loans only in order to push the liberalisation process faster. Just in 2011, there are 4 reform-based loans, 3 for electric power sector, 1 for public administration to support a more general economic liberalisation. The result is the Power master Plan in the same year drawing a more detailed plan. In this plan, the government shows its commitment to increase efficiency in the sector, in EVN in particular, and to withdraw price subsidies, levelling it closer to the market price. Hopefully, with this effort, the sector can attract more foreign investment.
After analysing 193 loans by World Bank to Vietnam, 15 projects in detail, the four graphs are drawn to reflect three important findings. Figure 17 (below) shows the time periods when the loans are taken in the sequence of time. It shows a continuous and overlapping pattern of lending. The sector has never been out of debt since 1994. Figure 18 (below) looks at the objectives of these loans categorised in reform or non-reform projects. The height of the columns indicates project costs. The blue columns stand for non-reform projects whilst the red ones stand for reform projects. It shows that in general, the Bank allocates more funds to reform projects. It could also be interpreted that the reform project is valued more than the others. To clarify, some projects may allocate funds to infrastructure and non-infrastructure purposes (equivalent of non-reform and reform). By dividing this fund according to its expenditure categories, Figure 19 shows that in fact, more funds are allocated to non-infrastructure category Figure 20 (below) looks at the three main objectives of these projects: investment in capacity, rural electrification or reforms. It shows that reform projects are more in number. Also, at first, it might seem like the Bank lends on poverty reduction projects to help the developing country. Yet, later on, the loan objectives move completely to reform conditionalities.
FIGURE 17 OVERLAPPING WORLD BANK LOANS TO VIETNAM IN PERIODS.

FIGURE 18 WORLD BANK LOANS TO VIETNAM, THE VALUES OF NON-REFORM AND REFORM LOANS.
FIGURE 19 WORLD BANK FUND ALLOCATION TO INFRASTRUCTURE AND NON-INFRASTRUCTURE ITEMS IN TOTAL LOANS TO VIETNAM

![Pie chart showing the allocation of funds to infrastructure and non-infrastructure items.](chart.png)

- **Values of Infrastructure (in project bank funds) ($ Mil)**
- **Value of Non-infrastructure category (in project bank funds) ($ Mil)**

FIGURE 20 WORLD BANK LOANS TO VIETNAM, THE PATTERN OF LOAN PURPOSES.

<table>
<thead>
<tr>
<th>Year</th>
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LAO PDR
ELECTRICITY LIBERALISATION MODEL

In 2011, Laos is still taking the preparation steps towards a market model. From the Electricity Law 1997, EdL (Electricite de Laos) is the legal monopoly of the entire electricity network, from generation to transmission, distribution and retail. The participation of private investment is highly constrained because any infrastructure built by private investors is eventually obliged to be transferred to state enterprise in ownership after a specified period of time according to build-transfer-operate (BTO) agreements. Private investors in fact cannot claim asset ownership. Competition hence is highly limited. The latest step towards liberalisation of the sector is that since 2001, EdL has to publish its financial accounting statements as an incentive to improve performances in this state-owned company. The reform takes much longer time than expected because the first structural adjustment loans to reform the public sector took place in 1989.

There are several identifiable reasons for this sluggish process. First, Laos has a close connection in politics with Vietnam as Vietnam remains as Laos ‘political reference point’ after 1975 (European Union, 2007). The two countries share the same Marxist-Leninist political ideology. As part of this one-party state model of communism, Laos places great importance on universal electrification. In 2003, the government outlined the poverty reduction program that declares the priority of the electricity sector to provide electrification to at least 90% of population by 2020. At the moment, Laos has a lowest electricity consumption per capita rate in the Southeast Asian region. Only half of households in a third of villages have reliable electricity supply. In rural areas, this rate is even lower, only around 30% (RIAED, 2008). Second, EdL has been supplying sufficiently to the national demands of industries and connected households. The rest of the population who does not have access to electricity lives in the unconnected areas of the networks. This is considered by the government as the problem of infrastructure investment which is too costly for private investment to supply. Therefore, the need for IPPs is not significantly
strong. Third, from history, Laos’s government realises the need to maintain centralisation of the strategic sector. The country has 49 ethnics. The upland areas are the most remoted and least politically influenced in the country with the population of a third of total population. Providing electricity centrally is a political tool to keep and gain control over the minority people (Smits, 2008).

![Figure 1 National electrification rate](image)

**Figure 1** National electrification rate

Source: Rural Electrification, Project Appraisal Document, Table 4, p. 20. No. of households extrapolated back from 1995 at assumed growth rate of 2.7% p.a.

**FIGURE 21 LAOS’S NATIONAL ELECTRIFICATION RATE, 1990-2006. REPRODUCE FROM WORLD BANK, 2004**

However, it can be expected that the country will continue with the liberalisation model. First, the country is highly dependent on international funds. Half of the country’s budget comes from overseas development aids. Electricity generation is also the sector that receives most FDI, at 54.3% of total FDI from 2000 to 2005. The sector is therefore subject to international pressures to open to competition. Second, the country has abundant natural resources for hydro power and biomass that is capable of providing for domestic market and export. In fact, power exports began much early in the 1970s. Export of electricity to Thailand is about 27% of total value of merchandise export (Leung, 2006). However, the value of electricity export has decreased from 88% in the 1979 to 60% in
2004 (Ministry of Planning and Investment, 2008). One of plausible explanations is the improvement of electricity sector in the import countries, e.g. Vietnam, Thailand. Another explanation is that the domestic economy has expanded at a constant rate of 5-8% p.a. (European Union, 2008), increasing the domestic demand for electricity. The majority of generation capacity is likely to be consumed domestically. The government therefore still wishes to seek private investment to provide for this international demand for electricity. In 2003, the Governance Reform Programme indicated that public services need reforms, including electricity. The reforms in the first place will mostly be in financial transparency improvements in SOEs and in promotion of private participation in the sector.

![Chart L.2: FDI by sector, Lao, 2000 - 05](image)


**FIGURE 22 FDI BY SECTOR, LAO, 2000-2005.**

(Reproduced from Leung, 2006)

(Reproduced from Smits, 2008)

POLITICAL CONDITIONS

The political system in Laos is similar to that in Vietnam, with one legal party whose power and decision is inseparable from the state. Lao People's Revolutionary Party (LPRP) has remained in power since 1975. Influenced by Vietnam, the party also reformed its pure communist economy model to a more liberal market economy. In 1986, the New Economic Mechanism marked the change from a closed economy to a socialist economic system. The process of opening the economy was then accelerated when the Soviet Union collapsed in 1991, making its followers rethink about the sustainability of the centralised system. The government then realised the need to liberalise trade with the world economy and called for private investment. In 1994, Business Law was passed, legalising participation of private sector in all businesses. Besides, in 1997, Laos gained membership to ASEAN and applied for WTO accession. The government needed to show its commitment to liberalisation as part of membership conditions. The Electricity Law was passed in the same year, drawing a plan for a competitive electric market under the control of the
government. In particular, EdL remains as the monopoly of the networks. IPPs are welcome to participate in generation but ownership of network is not allowed. As part of GATS, the government needs to liberalise its public services, including electricity. As a result, in 2003, according to the Governance Reform Program, EdL was asked to restructure its financial management and show transparency in accounts.

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**ECONOMIC CONDITIONS**

There are several important points in the economy that affect the electricity sector policy. First, in 1989, when the ‘Soviet financing waned’, Laos, the underdeveloped country then which had been dependent on Soviet Union’s funds for infrastructure, turned to WB and IMF for loans which tie it up with reform conditionalities since the very first loan in 1989 (European Union, 2007). Second, Laos’s economy was hit severely during the Asian economic crisis in 1997-1998. Thailand, the main importer of Laos, could not afford to keep the import rate. GDP growth dropped; inflation increased, monetary and fiscal management failed. The government had to request loans from the IMF that in turn asked for public sector reform and privatisation of SOEs as a solution for the national budget. The rate of reform after the crisis was then accelerated. The government passed the Electricity Law in 1997. More IPPs entered the sector. Third, since 2005, GDP has constantly been on the rise of 7% p.a. on average. Inflation is kept low at around 4% p.a. This positive signal fuelled the growth in electricity demand. Investment in large hydroelectricity projects happened since this time The Nam Theu II project which costs $1.45 billion was commenced in 2005. Both production and consumption of electricity rose between 2005 and 2008 (Index Mundi, 2011). Strikingly, the installed capacity of IPPs took 53.43 % of total capacity in 2005 (Smits, 2008). However, the financial crisis in 2008 significantly reduced demand for electricity and damaged the financial ability of these IPPs. Electricity production as a result dropped (Index Mundi, 2011). The sector tends to open to liberalisation more in the strong GDP growth time.
FIGURE 24 ELECTRICITY PRODUCTION IN LAOS, 2000-2011.
FIGURE 25 ELECTRICITY CONSUMPTION IN LAOS, 2000-2011.
FIGURE 26 TIMELINE OF ENERGY POLICIES, POLITICS, ECONOMICS AND WB LOANS TO LAO PDR

LAOS

<table>
<thead>
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<th>WB Loans</th>
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<td>Poverty Reduction Program</td>
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<td>Economic Crisis</td>
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<td>2008</td>
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<td></td>
<td>2010</td>
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<td>Rural Electrification 2</td>
<td></td>
<td>2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GMS Power trade</td>
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SAC1
SAC2
Integration grid 91-99
IMF Loan
Rural electrification 98-04
GDP growth
Economic Crisis
GMS Power trade
GDP growth
LAO PDR

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Website: www.psiru.org Email: psiru@psiru.org Tel: +44-(0)208-331-9933 Fax: +44 (0)208-331-8665
Researchers: Prof. Stephen Thomas, David Hall (Director), Jane Lethbridge, Emanuele Lobina, Vladimir Popov, Tue Anh Nguyen
WORLD BANK LOANS

The World Bank has been lending to the electric power sector in Laos since 1981 whilst technical consultancy services had been carried out much earlier in the 1950s. Since the government decided to open the economy in 1986, and when the finance from Soviet Union diminished in 1989, the Bank came to offer a couple of Structural Adjustment Credits 01 and 02 in 1989 and in 1991. The reason for the continuous loans was that the government was not as committed to the reform vision as anticipated by the Bank (World Bank, 2004). These SAC loans aimed at lifting restrictions on the operation of private firms (World Bank, 1993). As a result of this push, in 1994, the government issues Business Law which indicates the equal treatment towards private and public enterprises. Then in 2001, during the implementation of the Southern Provinces Electrification Project which in part aimed at making EdL operate on a commercial basis, Ministry of Finance outlined the financial reporting requirements for SOEs under the Implementation Regulations to the Decree on Management of SOEs. EdL then had to implement the Financial Restructuring Plan from 2002 to 2004 (World Bank, 2004). Upon completion of the project, the Bank praised that the project managed to ‘push EdL and GoL towards commercialization of the sector’ (World Bank, 2005). Then the restructure of financial management in EdL was further supported by FMAC loan in 2002-2004 which was carried out successfully and relatively on time (World Bank, 2004). Under the FMAC conditionality, in 2003, the Governance Reform Program was announced by the government to show their commitment to long-term public sector reform. Yet, in general, the Bank still evaluates the impact of these loans on private sector development is ‘modest’ and that the liberalisation process is ‘uneven, circuitous and slow’ (World Bank, 2004). Understanding the priority of Laos as universal electrification, in the following years, the Bank had to combine rural electrification and reform objectives in a loan because of the government’s priority in poverty reduction.
Using the World Bank data, four figures can be drawn based on values, periods and purposes of the Bank loans after analysing 88 loans by World Bank to Laos, 12 projects in detail. Figure 27 (below) shows the time periods when the loans are taken in the sequence of time. It shows a continuous and overlapping pattern of lending. The sector has never been out of debt since 1981. Figure 28 (below) looks at the objectives of these loans categorised in reform or non-reform projects. The height of the columns indicates project costs. The blue columns stand for non-reform projects whilst the red ones stand for reform projects. It shows that in general, the Bank allocates more funds to reform projects. It could also be interpreted that the reform project is valued more than the others. To clarify, some projects may allocate funds to infrastructure and non-infrastructure purposes (equivalent of non-reform and reform). By dividing this fund according to its expenditure categories, Figure 29 shows that in fact, more funds are allocated to non-infrastructure category. Figure 30 (below) looks at the three main objectives of these projects: investment in capacity, rural electrification or reforms. It shows that reform projects are more in number. Also, at first, it might seem like the Bank lends on poverty reduction projects to help the developing country. Yet, the loan objectives seem to move gradually to reforms.
FIGURE 27 OVERLAPPING WORLD BANK LOANS TO LAOS IN PERIODS.
FIGURE 28 WORLD BANK LOANS TO LAOS, THE VALUES OF REFORM AND NON-REFORM LOANS.

FIGURE 29 WORLD BANK FUND ALLOCATION TO INFRASTRUCTURE AND NON-INFRASTRUCTURE ITEMS IN TOTAL LOANS TO LAO PDR
**FIGURE 30 WORLD BANK LOANS TO LAOS, THE PATTERN OF LOAN PURPOSES.**

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CHAPTER 5 DISCUSSION

The data on the three countries enables us to see how - the WB loans affect policy-making, in the context of the various political and economic factors influence the policies adopted in each country. We can also see that this influence takes a common form, with the same patterns recurring across all three countries. The evidence provides strong support for the hypothesis that the WB has a deliberate policy agenda which prioritises reform over the construction of generating capacity or rural connections, which it implements through a continuous programme of loans to create dependency.

There are political and economic factors specific to each country which create different sectoral environmental conditions and shape the direction of the sector policies. In Thailand, the fact that there are 18 coups which result in 18 constitutions show how vulnerable and unstable the electricity sector is due to the policies change every time there is a new government. There is a strong opposition from EGAT’s Trade Unions whose power has been well established since the nationalization era in 1930s that deter the process of liberalization. This resistance is also witnessed in Vietnam when EVN board members were reported to corporate loosely and reluctantly with the World Bank projects on reforms. The fact that Vietnam and Laos are communist countries which have lately decided to open their economies and expose to the market mechanism indicates that the electricity sectors cannot be expected to be free from political interferences, at least not soon. The political ideology of modern communism accepts the importance of market forces to public utilities but the objective of universal electrification is still the priority. On the other hand, the economic factor of high GDP growth also put pressure on the electricity sector to meet the increasing demand of other industries. Additionally, the economic crisis in 1997-1998 further push the countries to reform public sectors under the conditionalities laid out in IMF/WB loan contracts. Yet, interestingly, these political and economic factors sometimes are not present in all policy changes in the sector. There is a constant ‘background noise’
that keeps reminding and pushing policy-makers towards liberalization. Having collected and analysed facts and figures related to World Bank loans and the changes in the sector policies, it is noticeable that the World Bank loans are not purely coincidental with the policy change in the electricity sector. Also, the way the loans are issued, in time, purposes and budgets should not be random. It is reasonable to evaluate this likelihood.

**The World Bank loans make impacts.** In all countries, there is clear evidence of WB loans being linked to specific reforms. It is also clear that this was the intention of the WB. Indeed, in Thailand, the first attempt to privatise EGAT is the result of SAL 01 project which persuaded the government to level energy prices to reflect costs and cut down subsidies to SOEs. The Electricity Act 1992 that allows IPPs into the generation market is again the result of Power System Development Projects 01 and 02 that support private sector development. Again in 1998, the Master Plan for liberalization is the result of 2 Distribution System Projects that promote privatization of MEA and PEA. Also, indeed, the Vietnamese government, in receiving nearly 200 loans in 30 years, average of 7 loans per year is subject to a huge pressure to prove its commitment to the Bank’s policy and direction. In 1996, at completion of Structural Adjustment Credit loan, Decree on Equitization was passed, planning for SOE reform, just like what the project aimed to do. In the very first major loan, Vietnam already proved its submission to the Bank’s persuasion. Again in 1997, the Policy statement for sector reform was promulgated as a result of the Power Development Project starting in 1996 which asks for SOE restructuring and privatization. Again in 2001, Decree 45 for private investment is the result of SOE reform grant starting in 1999. Again in 2004, the Electricity Law that draws the plan of liberalization is sure an ultimate product of 5 loans running from 2000, 2002 and 2003. Besides, Laos is not less influenced by the Bank even the liberalization process is infant. As early as 1994, the Business Law opened the economy to private investment as a result of two consecutive Structural Adjustment Credit from 1989-1992 and from 1991-1993. Again, in 2001, EdL had to publish its financial statements as incentive for efficiency as the
monopoly of the sector. This is the result of Rural electrification Project running from 1998 to 2004. In Implementation Completion Reports of these projects, the World Bank implicitly and explicitly claims that they underpin a progressive policy in the energy sector. It would be unordinary for developing and ambitious countries like Thailand, Vietnam and Laos not to blend their policies with the World Bank whose back-offices are the biggest economies like the US, UK and EU. Despite differences in the economic and political conditions in each country, the same policies are being adopted as a result of the objectives and conditionalities of WB loans. World Bank (2007) praised that ‘the project underpinned reform’.

This analysis is reinforced by three clearly recurring patterns in the WB loans. The research looks at 175 loans in Thailand from 1950, closely at 25 loans related to the sector; at 193 loans in Vietnam from 1978, closely at 16 loans related to the sector; and at 88 loans in Lao PDR from 1977, closely at 12 loans related to the sector. Although these loans seem to be random and purely development-based in the three countries, it can be seen that these loans are organized carefully in purpose, value and period.

Firstly, when arranging the loans according to project periods, the figures show that there is no time when the Bank is not a lender of these countries. The loan periods are effectively overlapping. To say more correctly, the energy sectors are always and constantly under loans with the World Bank. When one project has not ended, the next one is already in operation. When one project just commenced, the next one is already in the authorization stage. When adding periods of all projects and divide this sum by the number of years from starting point of the first project to the ending point of the latest project, it is striking to see that on average, everyday, there is always more than 1 project in operation in all countries. In Thailand, 25 projects took about 114 years to complete but are only carried out in 55 years. It means the sector has at least 2 projects in operation at any point in time. In Laos, 58 years worth of project time are condensed in 32 years in real time. It means nearly 2 projects ongoing every day. In Vietnam, it takes only 19 years to complete
15 projects that are supposed to be completed in 69 years. The energy sector is in fact always operating at least 3 loans at any time. It is doubtful that the sectors truly need those loans at such a density over time. But the continuous flow makes these ‘captive’ countries as borrowers for life. Once these countries are used to receiving loans every year, they would not want to end it by clearing loans that bulk up far over their own national financial resources. Since the same pattern occurs in all three countries, it may be analysed as a deliberate strategy by the WB whose result is to give the WB effective power over sector policy for an indefinite period.

FIGURE 31 OVERLAPPING PATTERN OF WORLD BANK LOANS TO THAILAND, VIETNAM AND LAO PDR

Secondly, in dividing the projects according to their purposes, there are striking discrepancies between the value of loans for reforms and the value of non-reform loan. The
non-reform loans are the loans to build generating capacity and rural electrification; that produces tangible and lasting assets. Reform loans on the other hand involve working, discussing and planning policy papers that pave ways for sector reforms. It is difficult to see how reform projects can cost so much more than non-reform projects, how papers and travel can cost more than infrastructure. The published reports do not produce accounting statements of what the funds are spent on. But it raises a big question of transparency when infrastructure loans are subject to itemized accounting audit and easier to monitor financially whereas the accounts of reform loans are typically presented under broad headings only, such as ‘consulting services, training, program marketing, evaluation and administration costs’ (World Bank, 2003). For example, in ‘Project Appraisal Document on a Proposed Grant’ to Vietnam of $5.5 million in 2003, the project’s objectives are to ‘develop sustainable business models and mechanisms to support energy efficiency retrofit investments in commercial and industrial facilities’ which is consistent with the Bank’s Country Assistance Strategy to support market-oriented mechanisms and promote private sector participation and investment. Under the umbrella of ‘Demand-side Management and Energy efficiency Project’ 2003-2010, the grant (in addition to the loan fund to make up to $18.56 million) actually aims to promote private participation and marketisation in the sector. The break-down of this loan shows that the two recipients are EVN and MoI (Ministry of Industry). The costs comprises of ‘control program’, ‘promotion’, ‘market transformation’, ‘training’, etc. In the grant’s cost break-down, ‘consultant services’ are $3.34 million whilst the cost of ‘goods’ is only $0.93 million (Table 9 and Table 10, below). Besides, in Thailand, the Bank then issued Thailand with a strikingly valuable loan of $1 billion for public sector reform in 2010. This loan aims to ‘support institutional development in the public sector’. Although the appraisal report does not explicitly mention the impact of this project on private sector, the official website of World Bank still lists private sector development as one of the 4 themes of this project. Since Supreme Administrative Court declared privatization illegal in 2006, the liberalization process in the public sector is reversed, WB had to say that ‘the reform program itself is non-partisan, and
has broad private sector as well as public sector support’ (World Bank, 2010). It is difficult not to see that this is a politically correct statement and that the Bank actually aims to pursue competition policies in Thailand. This loan is the most valuable ever received by Thailand and is 9 times bigger than the biggest infrastructure project in Thailand, which is Power Transmission Project in 1988-93 worth of $110 million. The sheer size of these projects clearly shows the discrepancies in evaluation of costs and objectives between reform projects and non-reform projects. This discrepancy must be taken as indicating that the WB is valuing reform far more highly than infrastructure.

<table>
<thead>
<tr>
<th>Component</th>
<th>Indicative Costs (US$M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVN’s DSM Program</td>
<td></td>
</tr>
<tr>
<td>a. Expanded time-of-use metering</td>
<td>2.35</td>
</tr>
<tr>
<td>b. Pilot direct load control program</td>
<td>0.72</td>
</tr>
<tr>
<td>c. CFL promotion</td>
<td>1.79</td>
</tr>
<tr>
<td>d. FTL market transformation</td>
<td>0.78</td>
</tr>
<tr>
<td>e. Supporting programs and technical assistance</td>
<td>2.58</td>
</tr>
<tr>
<td>Mol’s Pilot Commercial EE Program</td>
<td></td>
</tr>
<tr>
<td>a. Training</td>
<td>1.25</td>
</tr>
<tr>
<td>b. Subproject financing and grants</td>
<td>7.80</td>
</tr>
<tr>
<td>c. Program marketing, evaluation and administration</td>
<td>1.30</td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>18.56</td>
</tr>
</tbody>
</table>

Notes:


Thirdly, when organizing these loans according to time and purpose, the loan purposes move over time away from capacity and rural electrification, to reform. In Thailand, the first 7 projects aim to build infrastructure, the next 10 projects move between capacity investment and rural electrification. The 7 latest loans are all reform-based. Similarly, in Vietnam, the first loans focus on infrastructure whilst the latest 7 loans are reforms-based. In Laos, despite much fewer loans have been taken, this pattern can be spotted. Over time and with a larger number of projects, Laos will expect a clearer pattern. The same pattern is visible for each country even though they cover different years. For example, Thai pattern starts in 1957 and already moved to reform by 1982 while the Laos and Vietnam loans are non-reform until 1989 and 1994 respectively. The Bank suggests ‘angelic’ projects that provide tangible products and assist developing countries to get infrastructure that they don’t have sufficient funds for. With time, the Bank gains trust and
credibility and the loans now are for reform of the sector. Yet, from literature review, the reforms do not have a good enough track record that could promise this long-term improvement, even in the UK or EU. So why does the Bank promote it to these countries which are much less financially and institutionally prepared than the developed countries? The most plausible explanation is that the World Bank uses infrastructure projects as a way of promoting the reform model preferred by the WB and its principal financiers, the USA and EU countries. These countries via World Bank want to retain and promote their influences onto the developing countries. They want to persist with the ‘Go West’ status in the world economy.

**World Bank loans are strategic.** First, the Bank carefully calculates the time they enter a new economy. Thailand, the only Southeast Asian country escaping the colonization of the western countries, was eventually ‘tied up’ with World Bank since the 1950s, soon after the war in Indochina was over and the Bank was established. Right after the US normalized the relation with Vietnam after the War, the Bank came to offer structural adjustment loans to the country. Similarly, just when Laos government decides to open its economy and as ‘Soviet financing waned’, the Bank hastily offered a couple of reform loans (World Bank, 2004). This quick movement is too well-calculated to be purely development promotion. Second, the bank is always in a ready position to offer funds to push the countries to move forward with the liberalization plan. When the first attempt failed in 1982 in Thailand, the Bank continuously put more loans that explicitly required private sector development until it turned into an official governmental act in 1992. Once the plan was drawn, the Bank pushed for privatization of SOEs in the sectors form 1993 to 2001. When Prime Minister Thaksin employed a deviated model of liberalization compared to the original model, WB immediately offered Public sector reform loan to make their voice heard. In 2010 when politics in Thailand was getting less intense, the Bank again came in and offered reform loans that are designed to put Thailand back in the electricity liberalization map. Using similar working patterns, in Vietnam, when the government
showed its intention to corporatize SOEs in the electric power sector in 1996 and 1997, there were awaiting loans for them that assisted private investment development and accelerated the corporatization of the SOEs. From 2001 to 2004, when IPPs were gaining more market share, the Bank knew the next step would be the creation of a competitive market. It generously offered 5 long-term loans that aim to ‘guarantee’ the plan is implemented smoothly. Just when the government showed signs of lagging, from 2009 to 2011, the Bank continuously created projects that push the sector, the law makers and the public administrators to continue. During this time, loans are shorter and more direct in its goal. Thirdly, the Bank listens and understands that some governments are more reluctant to reform than others and that’s when a softer approach is employed. The Bank started their reform plan for Laos since 1989 but little has been done. The government strongly resists privatization of core SOEs, especially in electricity sector. In 2004, the government declared its priority for the sector is to assist poverty reduction and increase rural electrification. The Bank in response made a series of rural electrification loans. However, these lending contracts contain clauses for sector reform.
CHAPTER 6 CONCLUSION

As discussed, the electricity sectors in Thailand, Vietnam and Lao PDR are the beginning stages of liberalization. The above discussion successfully tests the hypotheses and gives a clear answer to the research question. First, as being developing countries, these countries are prone to the political pressures from international organizations, international financial institutions and major funding countries, namely the UK, US and EU as well as domestic political risks. Also, the three countries are experiencing relatively high GDP growth rate that drives electricity demand higher than the existing capacity. The discussion above also shows a close link between political movements and economic events with the changes in the sector policy. Second, the dependence of the three countries on funding by World Bank creates a pressure on policy-makers to impose the liberalization model based on the neoliberalism development policy that World Bank has been promoting for the last 20 years. Third, the analysis of World Bank loan history shows a consistent preference of the Bank for the liberalization reform policies despite differences in political and economic conditions. This particular preference has been ‘skillfully’ structured in periods, purposes and values of these loans so that the sector policies gradually move towards a more liberal model over time. This strategy shows the bank places more importance in reforms than financing infrastructure.
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