



July 20, 2006

Mr. Jean Foerster
Social and Environmental Director
Nam Theun 2 Power Company
PO Box 5862
Vientiane, LAO PDR
By email: jean.foerster@namtheun2.com

Dear Mr. Foerster

As you are aware, IRN visited the Nam Theun 2 area from June 6-9, 2006. We spent time on the Nakai Plateau, in villages located along the downstream channel and Nam Kathang, and in villages located along the Xe Bang Fai. I am writing to bring to your attention some serious problems regarding interim compensation for villagers living along the downstream channel. These problems were raised by villagers during our interviews with them on June 8, and are outlined below.

In addition, we are in the process of writing up all of our findings into a trip report, which we will be happy to provide to NTPC once it is complete. Before completing our trip report, we wish to give NTPC the opportunity to comment on a number of issues. In the second part of this letter we pose a series of questions to NTPC. In order for your responses to be included in our trip report, I would ask that you respond by August 4, 2006.

A. Problems with Interim Compensation, Downstream Channel

IRN visited the downstream channel on June 8, 2006 and interviewed five households in Ban Keovilay, Group 1; four households in Ban Lao, including the village headman; and three households in Ban Lad Kuai, also including the village headman. All these villages are located in Gnommalat district. The information we received was consistent between households, and wholly unexpected. IRN was aware that interim compensation had been distributed to affected families living on project lands while a permanent livelihood restoration program was under development. However, what we were not aware of is the inadequacy of the interim compensation, and the impacts that this is having on people's livelihoods and food security.

Since this time, IRN has learned that World Bank and ADB staff visiting the area in May 2006 found similar evidence of problems with interim compensation, and demanded that compensation be recalculated and redistributed to affected communities. As far as we are aware, this has not yet taken place.

A more detailed outline of the results from our interviews is included in Appendix 1 to this letter. A summary of our key findings is as follows:

- Villagers have been given cash as temporary compensation for loss of rice fields. Most villagers understand that this will be paid every year until a permanent livelihood restoration program is implemented. Some families have lost almost all of their rice fields to the project, while others have lost a portion of their rice fields.
- The villages IRN visited are almost all of Makhong ethnicity. Many people cannot read or write Lao. This makes them more vulnerable to exploitation when calculating and distributing cash compensation.
- The cash compensation that has been given to villagers is wholly inadequate in compensating for the lost production value of the land. In addition, there appears to be no systematic way of calculating compensation and the amounts given to families are inconsistent and uneven. For example, three families in Ban Keovilay lost most of their rice fields and received only 600,000 kip (US\$60) in compensation for lost production value. This buys enough rice to feed a family of eight for a little over six weeks. These families were previously self-sufficient in rice. Other families in Ban Keovilay received 800,000 and 1.8 million kip in compensation, still insufficient to compensate for lost production value. The same is true for the other villages visited: people received anywhere from 20,000 kip to almost 4 million kip. There seemed to be no reason as to why some families got more compensation than others.
- The lack of adequate compensation is leading to rice shortages in some families. These villagers are already poor and have no safety net on which to fall back.
- Some villagers in Ban Lao and Ban Lad Kuai report that although they used to practice double cropping on their rice fields, they were only compensated for the lost production value of one crop.
- People have received inadequate compensation for loss of common property resources. Most villagers from Ban Lao and Ban Keovilay, Group 1 used to fish in the Nam Kathang in the deep pools where the regulating dam is being built. No-one has received compensation for loss of fisheries. Some people have received compensation for loss of vegetable gardens along the banks of the Nam Kathang, others have not. Many villagers also lost bamboo forests and fruit trees and have not been compensated for these losses.
- Two households in Ban Keovilay were reportedly forced to relocate in September 2005, and have not received all of their promised compensation.
- Water in the village well at Ban Keovilay, Group 1 dried up in March this year for the first time. We suspect that the downstream channel drained the groundwater from the well.

Given the seriousness of the situation along the downstream channel, IRN would appreciate answers to the following questions:

1. Why has interim compensation been given in cash? Whose decision was this?
2. Who has been responsible for distributing interim compensation to villagers along the downstream channel?
3. How many families have lost land along the downstream channel and could you please provide us with a list of all families and amount of compensation distributed?

4. What is the proposed process for recalculation of interim compensation to be disbursed?
5. What is the timeline for the additional compensation to be disbursed?
6. Who is taking responsibility for addressing this issue?
7. Can you confirm that the revised interim compensation will account for loss of double cropping, access to riverside vegetable gardens, fisheries, fruit trees and bamboo forests?
8. Rather than monetary compensation, will food supplements be included within the revised interim compensation package?
9. When will the detailed resettlement plans and livelihood restoration programs for project lands be completed and released to the public? According to the Concession Agreement, Schedule 4, Part 1, Section 13.1 (c), an updated resettlement plan for project lands is supposed to be submitted to the Resettlement Committee at least 15 days prior to the proposed commencement of implementation. Yet these plans are yet to be released to the public.

Furthermore, according to the Concession Agreement Schedule 4, Part 1, Section 13.1 (d);

the Company shall ensure that compensation in the form of cash and replacement housing applicable to each household is provided to each affected household and that compensation payment and relocation is satisfactorily completed prior to the handover of land to the Company in accordance with the updated resettlement plans.

As compensation has not been satisfactorily completed for villages along the downstream channel, this violation of the concession agreement would seem to provide grounds for halting construction on the downstream channel until proper compensation arrangements are put in place. Can you let me know whether this will occur or not?

B. Other questions

Answers to the following questions will be included in our trip report, to be published after August 4, 2006.

1. Biomass clearance:

- Are there plans to clear the biomass in the reservoir area? If so, could you please provide details of the plans?
- Will the biomass in the reservoir zone be completely cleared? If not, in which areas will it be cleared?
- What methodology will be adopted for biomass clearance?
- What is the proposed schedule for this work?

2. Release of information: Could you please let us know whether the following documents will be released to the public, and if so, when they will be released?

- Study on fish in the Nam Theun by Maurice Kottelat
- Marketing study for goods from the Nakai Plateau and Xe Bang Fai

3. Could you please provide us with an update on the status of the Wildlife Protection and Management Program for the Nakai Plateau?

4. Could you provide details on the mechanisms put in place to ensure that construction roads running through villages will be sprayed on a daily basis during the next dry season? Are you able to provide an explanation as to why during the 2005-2006 dry season the construction roads running through villages were not sprayed several times a day as promised by NTPC?

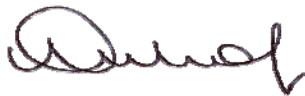
5. When will the Downstream Livelihood and Asset Restoration Program Phase 1 study be released to the public? Villagers and district officials from Beung Xe pilot village told us that as far as they understood, the village would be getting a total of \$250 per family in compensation that would be paid into a revolving fund. They understood that this would be a one-off payment, and was to compensate for loss of fisheries. They further understood that this was how fisheries compensation was to be calculated throughout the Xe Bang Fai. Are you able to confirm or deny this or provide other information about the compensation program for Xe Bang Fai villages?

6. Are there any updated plans for resettlement of the remaining villagers from Ban Sop Hia and Nam Nian who elected to move to Kamkeud District?

7. How often is the contractor using flocculating agents in the sediment basins which are being used to capture the outflows from the powerhouse tunneling works?

I look forward to your responses to the above issues.

Sincerely



Aviva Imhof
Campaigns Director

Cc Dr. Somboune Manolom, General Manager, Lao State Holding Enterprise
 Mr. Xaypaseuth Phomsoupha, Chief of Bureau of the Secretariat, Lao National
 Committee for Energy
 Mr. P. Ilangovan, Lao Country Manager, The World Bank
 Mr. Mohinder Gulati, NT2 Task Manager, The World Bank
 Mr. John Cooney, Director, Infrastructure Division, SERD, Asian Development Bank
 Mr. Bui Duy-Thanh, NT2 Task Manager, Asian Development Bank
 Executive Directors, Asian Development Bank
 Mr. Emmanuel Boulet, COFACE
 Mr. Thayer Scudder, Nam Theun 2 Panel of Experts
 Mr. David McDowell, Nam Theun 2 Panel of Experts
 Mr. Lee Talbot, Nam Theun 2 Panel of Experts

Appendix 1:

IRN Visit to Communities Affected by Downstream Channel Construction, Nam Theun 2 Hydropower Project

Date of visit: June 8, 2006

Note: most of these villagers are from the Makhong ethnic group. Also note that many villagers describe the quantity of land in “blocks”. This is one square rice field. Names and identifying features have been omitted to protect the identity of interviewees.

Ban Keovilay, Group 1

Located next to upper part of Downstream Channel

Makhong Family

The family lost all their land (15.5 blocks). There are 8 people in family (6 children and 2 adults). They have only half a block left. They received 600,000 kip in compensation for the year. They don't have enough rice to eat. A 50 kg bag of rice costs 200,000 kip, so they can only buy 3 bags of rice with their compensation. A 50 kg bag would last 15 days with 8 people in the family. Before, they had enough rice with the harvest from their fields.

The father applied for a job with the company, but they have to bribe someone 400,000 to 500,000 kip to get a job. Now they do a lot of small activities to get by, such as collecting NTFP, bamboo and bananas.

They used to fish in the Nam Kathang but now there's construction so they can't access the river. They used to have a well, but since the canal was dug it has been empty. The village well also dried up in March this year. They started constructing the canal in December 2005.

They are fed up of asking the construction company for compensation as they always send them to the district. The district always tells them to grow vegetables and mushrooms and to dig their own well. The company hasn't come to see them but may have seen the village headman.

The father can't read but his son can.

Another woman from Ban Keovilay, Group 1:

Of a total of 15 blocks of rice fields, she lost 12. She got 1.8 million kip in compensation, which included compensation for her vegetable garden along the Nam Kathang. She used to plant vegetables along the Nam Kathang but has been prevented from doing so for the past 2 years. She has five children and doesn't have enough rice. The district keeps telling them to do things for themselves – eg dig fish ponds.

Another woman from Ban Keovilay, Group 1:

She had a total of 17 blocks of rice fields, now has only 4 blocks left. She got 800,000 kip in compensation. She has six children. She had a vegetable garden and got 250,000 kip in compensation for this. She used to make 80 bags of unhusked rice from her land, which was more than enough for the year. The compensation is not enough to buy rice for the year.

Woman and man from Ban Keovilay, Group 1:

They lost all their land and got 600,000 kip in compensation for two years, including compensation for the loss of their vegetable garden along the Nam Kathang. They lost some bamboo forest as well and didn't get any compensation.

Another woman from Ban Keovilay, Group 1:

She got 600,000 kip for 30 blocks of rice fields this year. She doesn't know if she'll get any more compensation. She has two children. She lost her land 4 or 5 months ago. She didn't get any compensation for lost vegetable gardens along the Nam Kathang. Some people got compensation for vegetable gardens, others didn't. Her husband has worked for NTPC for the past 2 or 3 months. She confirms that the well water dried up this year.

Ban Lao, opposite side of the canal

Woman

She lost all her land and received 1.2 million kip in compensation for 1 year. She lost 10 big blocks of rice fields. She has four kids. When she used to do rice cultivation she had enough rice – she would harvest around 2400 kg of unhusked rice. Now she doesn't have enough rice. In this village, 8 or 9 households lost everything to the project. There's one person who lost his land and all he got was 40,000 kip.

She understands that she'll get 1.2 mill/yr until NT2 is finished, and then she'll get permanent compensation.

They took her land in November right after harvest, and she got compensation in March. She has asked for more compensation but hasn't received it.

Man

He lost 3 hectares of land. He has half of 3 blocks left on each side of the canal. He received 2.93 million kip. He got compensation in January. He's unclear about future compensation. They say they're going to compensate each year but he's not sure whether they will. He thinks he received the compensation from NTPC not the government. He has just enough compensation to survive. He has 7 people in the family. He received 270,000 kip for vegetable gardens. He didn't get compensation for banana trees, bamboo forests or other fruit orchards. He used to fish in the Nam Kathang in the deep pools, but now they've been buried. He says the whole village would

fish in the Nam Kathang and haven't received compensation. There are 130 families and 122 households in the village.

Another person in the group:

Two houses in Keovilay village were forced to move as their houses were in the path of the canal. They were forced to take their home apart and the company promised to compensate for this by building a new home within 20 days, but this didn't happen. They moved in September 2005. Now they don't have home or land and have to rent a house. The government came and made them take the house apart in the middle of the rainy season. The government paid 1.2 million kip for the family to take apart the house and paid the first month's rent in their shack that they're renting (50,000 kip/mth). After that the family had to cover the 50,000 kip themselves.

Village headman

Everybody has been affected by loss of vegetable gardens. There are 14 families in the village who lost rice fields. For vegetable gardens, most people got compensation, but some didn't.

He says that the person in charge of money from NTPC and the government representative came and gave money at the same time. It wasn't clear why some people got compensated and others didn't. Some people didn't get compensated for lost fruit trees.

They would like to ask that the company pay permanent compensation soon, because the villagers are waiting. He would also like to point out that in some fields they do double cropping, but the compensation was calculated based only on one crop cycle.

They have been doing dry season rice agriculture for 6-10 years. For irrigation, the pump belongs to the government and they pay for the electricity. Sometimes they can make money from dry season agriculture, sometimes not.

Ban Lad Kuai

Village headman

A lot of people have lost land in the village. Some families have lost 1-2 ha and have only received about 2 million kip in return. In total the village lost 20 ha of land. They only give a little for compensation and it's not enough to buy rice.

About 18 families lost land, and most only have a few plots left. The typical compensation was 1.2 million kip for 1 ha loss. Some people get compensation, some don't. Some people got as little as 20,000 kip. It's not clear how the compensation was calculated.

The compensation was distributed on September 10, and they said they would come back (not sure who "they" are.) They called this temporary compensation and they are supposed to get permanent compensation later. They have asked the government how much they will get in permanent compensation, but the government says they haven't calculated it yet.

They fish in a local stream so have not been affected by construction on the Nam Kathang. Their water supply is also okay.

He would like to ask the company to build more bridges across the channel, as there are not enough in the current plan. They will have to walk very far. They want three more bridges to be built.

For vegetable gardens near the headrace tunnel, some people got compensation and some didn't. They also lost bamboo forest and fruit trees which they had planted themselves (mango and others). They have not been compensated for these losses. They gave the officials the estimated cost of peppers, fruit trees and others and were told they would receive compensation for five years, but have heard nothing since.

He doesn't know how people who don't have land now will get by. It will affect the whole village as those who don't have land will have to depend on relatives.

They don't have electricity now, but they want it.

Family group of women

They lost 2.45 ha of land, and received 3.995 million kip. They have six blocks of land left. The district gave the compensation to the village headman, who gave it to her. They received no compensation for vegetable gardens. Also, she used to double crop, but they only compensated for one crop. She doesn't know when they will be receiving the compensation again. Right now they are eating rice from last year's crop but they have only a few sacks left.

18 people in their family cultivate the land. They cannot read. The construction workers building the canal work all night when it doesn't rain. If it is really loud it wakes them up. Construction started in November.