



Nam Theun 2 dam site,
November 2007

Nam Theun 2 Hydropower Project:

RISKY BUSINESS FOR LAOS

The US\$1.45 billion Nam Theun 2 Hydropower Project (NT2), in the small Southeast Asian country of Laos, has been marketed as a model dam project and a panacea to cash-strapped Laos' development woes. But other hydropower projects in Laos tell a different story: villagers lose the farmlands, forests, and fisheries on which they depend, and often receive too little, too late in return. The unlucky ones receive nothing at all. And the electricity gets sent across the border to Thailand.

Nam Theun 2's construction is nearing completion and the project is expected to generate power by the end of 2009. Yet as water begins to rise behind the Nam Theun 2 dam, key questions remain:

- **How will people feed their families?** Nam Theun 2 has forcibly resettled more than 6,200 indigenous people. The large reservoir will leave them with only one-third of the land they once used for farming, grazing and collecting forest products. Nam Theun 2 will also devastate a downstream river system on which more than 120,000 people depend for their fishing and farming-based livelihoods. After more than a decade of project preparation, plans to restore people's food and income sources are still vague.
- **Will this be a repeat of past mistakes?** The Lao government's troubled dam history, especially in terms of managing resettlement and mitigating environmental impacts, does not augur well for a project as large, complex and risky as Nam Theun 2.
- **Will revenues trickle down?** The World Bank and the Asian Development Bank (ADB), which are supporting Nam Theun 2, claim that revenues from its power exports will be used to help the poor. But that is a high-risk bet in a country ranked as one of the 10 most corrupt by Transparency International.



NAM THEUN 2: UNSETTLED QUESTIONS

How will people feed their families?

Roughly 6,200 indigenous people living on the Nakai Plateau have been moved to make way for the Nam Theun 2 dam and its reservoir. While resettled villagers have received better houses, water supply, and electricity, it is unclear how they will feed their families and earn income in their new sites. Villagers were given small plots of poor quality land that has not yet been irrigated. They will be forced to grow mainly vegetables to sell in an as yet unidentified market. They were originally guaranteed 10,000 hectares of production forest, but the area has since been reduced by at least 40 percent and is further threatened by illegal logging. Villagers were promised bountiful fish in the new reservoir, but the company has cleared only a minimal amount of vegetation from the area. This rotting vegetation will cause water quality problems and kill fish.



Children collecting water from the Xe Bang Fai

Finally, approximately 15,000 people have experienced negative impacts caused by the construction of Nam Theun 2's transmission lines, roads, and project facilities. Villages near the power station, regulating pond and downstream channel have been the most severely affected. Between 300 and 400 households there lost more than 10 percent of their land as a result of Nam Theun 2's construction. The vast majority are still waiting – some for more than two years – for replacement land and income restoration.

Will this be a repeat of past mistakes?

Large hydropower projects in Laos have impoverished villagers and damaged the environment, with their revenues going to pay off the electric utility's debt. These projects – including the Theun-Hinboun Hydropower Project and others funded by the ADB – were much smaller than Nam Theun 2, but their outstanding problems still have not been addressed. This hydropower legacy will cost Laos dearly in the long-term, as wild-capture fisheries, agricultural land, navigation routes and cultural sites are lost forever, and farmers migrate in search of food and income.

To manage the impacts of large hydropower projects, government commitment and capacity are essential. "However, the [Lao] Government's capacity to enforce environmental laws and meet social safeguards is limited," according to the ADB.¹ New dam projects are moving forward with little transparency and few indications that social and environmental concerns will be addressed.

Will revenues trickle down?

Nam Theun 2's development justification hinges on the Lao government using project revenues to help the poor. But according to World Bank indicators, Laos rates below most countries on control of corruption, citizen participation, and freedom of expression. The World Bank bemoans that "despite sizeable donor contributions," Laos still spends much less on health and education than other low-income countries.²

The World Bank's revenue management proposal for Nam Theun 2 provides no assurances that these obstacles will be overcome. Revenues will be channeled through the Lao Treasury. The allocation, monitoring and reporting on the use of Nam Theun 2 revenues will be primarily left to the Lao Finance Ministry and the fledgling State Audit Organization. There will be no independent oversight body or external independent auditing of Nam Theun 2 revenues.

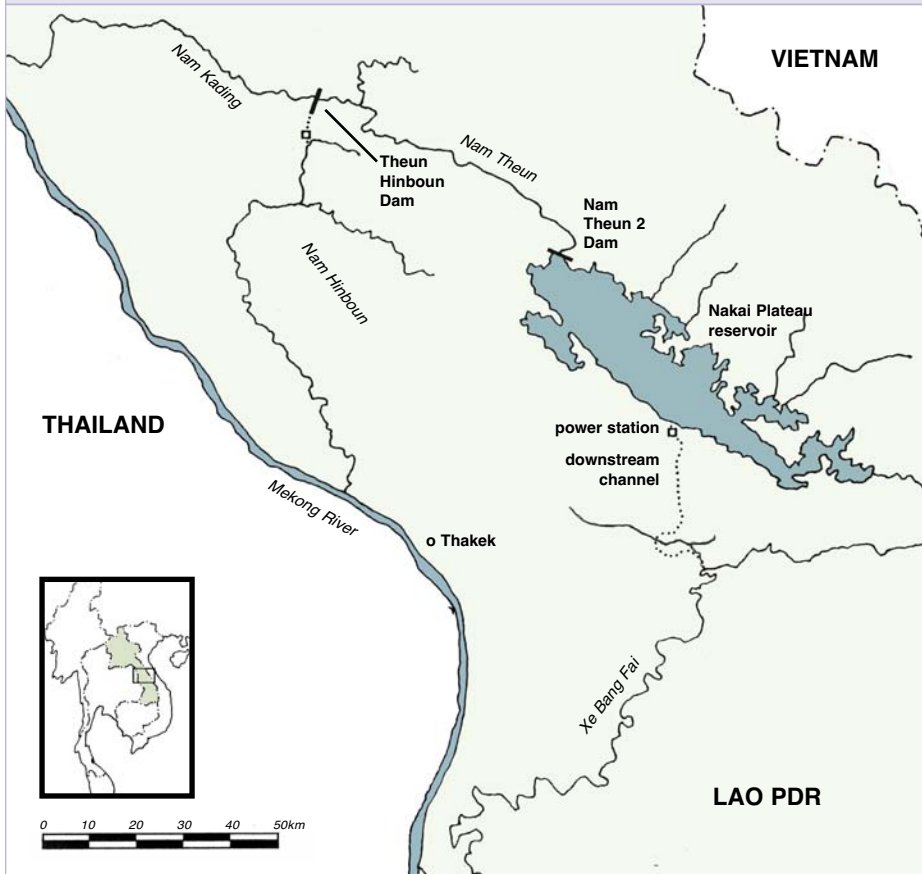
The World Bank and the ADB have no real enforcement powers to ensure that the Lao government keeps its promises,

This hydropower legacy will cost Laos dearly in the long-term, as wild-capture fisheries, agricultural land, navigation routes and cultural sites are lost forever, and farmers migrate in search of food and income.

Nam Theun 2's International Panel of Experts notes that after an initial boost from project jobs and other support, resettlers' living standards are likely to decline once the reservoir is flooded.

Nam Theun 2 will also affect more than 120,000 villagers living along the Xe Bang Fai, the Mekong tributary into which Nam Theun's waters will be diverted once the dam is operational. Xe Bang Fai villagers can expect more frequent flooding, devastated fisheries, and inundated riverbank gardens. Solid plans to deal with these impacts have yet to materialize, so many villagers will see their fisheries and incomes decline before mitigation measures are in place. Nam Theun 2's International Panel of Experts asserts that the company's US\$16 million mitigation budget is insufficient to restore villagers' livelihoods and compensate for their losses.

Nam Theun 2



PROJECT DESCRIPTION

The 39-meter high Nam Theun 2 dam is being built on the Theun River, a major tributary of the Mekong, in central Laos. Water will be stored in a 450-square kilometer reservoir on the Nakai Plateau

and diverted to a powerhouse before being released into another Mekong tributary, the Xe Bang Fai. The project is being developed by the Nam Theun 2 Power Company Limited (NTPC), which includes Electricité de France, the

Electricity Generating Company of Thailand, Ital-Thai Development and the Lao government. More than 95 percent of Nam Theun 2's 1,070 megawatts of electricity will be sold to Thailand.

STATUS

In March and April 2005, the World Bank and the ADB approved loans and guarantees for Nam Theun 2. European and Thai export credit agencies and a number of private banks also financed the project.

Nam Theun 2's construction began in 2004, and has proceeded largely on schedule. As of early 2008, more than 80 percent of Nam Theun 2's construction had been completed.

Resettlement on the Nakai Plateau has been plagued by delays since it was initiated in May 2006. While these delays threatened reservoir impoundment, the dam gates closed as planned in June 2008.

Livelihood restoration programs for the resettled villagers, villagers affected by construction activities, and villagers downstream along the Nam Theun and the Xe Bang Fai are all behind schedule.

Power production (and revenue generation) will start by December 2009.

and they are typically unwilling to exercise the limited recourse options at their disposal. For example, despite violations of World Bank and ADB policies during Nam Theun 2's construction, neither institution has suspended loan or grant

disbursements. Once Nam Theun 2 and other hydropower and mining projects start generating revenue for the Lao government, the World Bank's and the ADB's leverage will decline even further.

BROKEN PROMISES

Nam Theun 2 developers and financiers asserted that the project would help protect the environment and alleviate poverty in Laos. They also claimed that Nam Theun 2 would build government capacity and improve the social and environmental performance of the Lao hydropower sector overall. These promises are not being kept.

PROMISE: *Nam Theun 2 will protect the ecologically significant watershed, called the Nakai-Nam Theun National Protected Area, through its contribution of US\$30 million to support a watershed management program.*

REALITY: The Nakai-Nam Theun National Protected Area is already threatened by hunting and poaching, illegal logging and mining activities. While the efforts of the Watershed Management Protection Authority (WMPA) have been commended, Nam Theun 2's International Panel of Experts also notes that "to date, the patrolling results are still inadequate."³ The Panel of Experts points to the WMPA's failure to focus on alternative livelihood options for villagers and improve its organization and staffing. Once the Nam Theun 2 reservoir is filled, access to the National Protected Area will increase, making illegal logging and poaching even more difficult to control.

PROMISE: *Nam Theun 2 will be a model for sustainable hydropower development and a "best practice" project.*

REALITY: Nam Theun 2 is a large and complex project that promised big things. Despite the reality check urged by Nam Theun 2's critics during its design, project proponents asserted that the project could be done well. While Nam Theun 2 includes some innovative measures in principle – such as external monitoring arrangements, regular public reporting, and a revenue management framework – its serious missteps to date have taken it out of the running for any awards.

Provisions of the Concession Agreement and World Bank and ADB policies have been violated, without consequence. International monitors have cited the poor environmental performance of the Head Construction Contractor and road-building subcontractors. The company and the government made only a minimal and belated effort to clear biomass from the reservoir area. And most importantly, the project faces major challenges in developing viable livelihood programs for villagers, providing adequate funding, and making up for lost time. These failings have had or will have repercussions for affected communities.

PROMISE: *Nam Theun 2 will improve the overall social and environmental performance of the hydropower sector in Laos.*

REALITY: There are at least six dams under construction as of mid-2008, and the Lao government intends to develop nearly 30 new hydropower projects by 2020. But the National Policy on the Environmental and Social Sustainability of the Hydropower Sector in Lao PDR, enacted three years ago at Nam Theun 2's approval, is still not being implemented. Environmental impact assessments have not been disclosed. Construction is proceeding before licenses are granted. Resettlement guidelines are not being followed. The Lao government's environmental regulator lacks the capacity and the authority to effectively assess, approve and monitor these new dam developments.

PROMISE: *Hydropower is the golden ticket to Laos' development; Nam Theun 2's revenues are critical to help Laos lift its citizens out of poverty.*

REALITY: The "resource curse" looms large in Laos as new hydro and mining projects outpace the government's regulatory and financial management capacity. The ADB warns that "the increase in revenues from natural resources could undermine the will to undertake reforms for mobilizing nonresource revenues."⁴ There is also no discussion of earmarking revenue from proposed hydro projects for poverty reduction expenditures.

The flood of new hydro projects brings irreversible trade-offs and long-term costs for the Lao economy, particularly in terms of lost agriculture, fisheries and tourism potential. For the Lao people who live off rivers and forests and have few other means to provide for their families, the short-term costs are also unbearably high.

Furthermore, the importance of Nam Theun 2 revenues has been overstated. Nam Theun 2 will provide US\$250 million (net present value) to the Lao government over the life of the concession, with revenues expected to contribute three to five percent of total projected Lao government revenue over that period.

There are less destructive ways for the Lao government to generate US\$20 to \$80 million per year. As donors have noted, broadening the tax base and improving revenue administration nationally has great potential. The ADB agrees that big dams are not the answer: "Since hydropower and mining have only a limited capacity to create employment, an expansion of agriculture remains the key to raising incomes and employment."⁵ What Laos needs is a development strategy that does not destroy the land, rivers and resources upon which its people depend.

Endnotes

¹ ADB, "Lao PDR Country Strategy and Program, 2007-2011," September 2006, p. 34.

² World Bank, IMF, ADB and the European Commission, "Lao PDR Public Expenditure Review and Integrated Fiduciary Assessment," May 2007, p. 25.

³ Nam Theun 2 International Panel of Experts, 13th and 14th Report, April 2008, p. 28.

⁴ ADB, "Asian Development Outlook 2008: Lao PDR," November 2007, p. 208.

⁵ Ibid.