



Waiting for new houses in Sop Hia resettlement village. Photo by Shannon Lawrence, IRN.

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## EXECUTIVE SUMMARY

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**A**n International Rivers Network (IRN) staff member visited the Nam Theun 2 hydropower project (NT2) in early March 2007 to gather first-hand information regarding NT2's implementation. This report summarizes information gathered on that visit from interviews with villagers and representatives of the Government of Laos, (GoL), the Nam Theun 2 Power Company (NTPC), the Asian Development Bank (ADB) and the World Bank. Information from the field was verified and supplemented by a review of recent project documents.

Nam Theun 2 is another two-speed large infrastructure project, where construction proceeds apace while social and environmental programs lag behind. Livelihood restoration programs for resettled villagers on the Nakai Plateau, villagers along the Xe Bang Fai, and villages affected by downstream channel construction are all at risk. Many NT2-affected villagers with whom IRN spoke were increasingly open in expressing their frustrations and concerns about the future.

**The World Bank's and the ADB's "model" hydropower project is dangerously close to becoming a replica of past dam mistakes.**

The NT2 Panel of Experts (PoE) warns in its February 2007 report:

*... the overall emphasis in project planning and implementation continues, as in other large dam projects, to be on the relatively simple functions of civil works, physical relocation and building social infrastructure. A better balance in timing and more emphasis on livelihood development are essential now (PoE 11th Report, p. 9).*

The World Bank's and the ADB's "model" hydropower project is dangerously close to becoming a replica of past dam mistakes. Despite the stacks of NT2 studies and the multitude of assurances, the gaps in planning, budget and political will surrounding NT2 are now evident. Prior to project approval, NGOs warned that the agricultural plans for the Nakai Plateau were inappropriate, the downstream program plans were inadequate, and the community forestry component was unrealistic. Regrettably, it seems these warnings have come true.

In belated recognition of the plans' shortcomings, some are being re-drafted midstream, while others—such as irrigation for downstream channel villagers—appear to have been abandoned, as time runs short before reservoir filling and power generation begin. NTPC's Social and Environmental Division seems to be understaffed,

overworked, and unequipped with the resources and high-level buy-in necessary to address NT2's massive impacts on affected villagers.

Two years before power production begins, there have already been numerous violations of NT2's legal framework, including the Concession Agreement and World Bank and ADB policies. The failure of NTPC, the GoL, the World Bank, the ADB, and other project backers to take action on these issues calls into question the accountability of all parties and the enforceability of these agreements.

Urgent action is required if the GoL, NTPC, and the international financial institutions are to meet their commitments to more than 100,000 affected Laotians, and to their shareholders.

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## Summary of Major Concerns

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**Livelihood restoration programs are in jeopardy in all project-affected areas.** In their latest report, the Panel of Experts states that income targets for resettlers on the Nakai Plateau are unlikely to be met. Livelihood restoration programs for Project Lands' and Xe Bang Fai villagers have yet to effectively begin and face significant time and budget constraints.

**Both the GoL and NTPC are backtracking on commitments they made at project approval.** The violations include failing to provide irrigation for downstream channel villagers, ensuring biomass clearance of the reservoir, guaranteeing Nakai villagers' rights to their forest resources, and protecting the Nakai-Nam Theun National Protected Area from logging and mining.<sup>1</sup>

**Neither the GoL nor NTPC has committed to clear biomass from the reservoir area before it is flooded,** despite the Environmental Assessment and

Management Plan assertion that "Vegetation will be removed before flooding the reservoir..."<sup>2</sup> Time is running out, with only one dry season left to take action. Leaving biomass to decompose in the reservoir will likely lead to fish kills in both the reservoir area and downstream, and result in water that is unsuitable for domestic use and irrigation in the downstream channel and along the Xe Bang Fai. Biomass clearance has major implications for the success of mitigation and livelihood restoration programs in all project-affected areas.

**NTPC has failed to disclose resettlement plans in violation of World Bank and Asian Development Bank policies,** as well as other key social and environmental documents, such as wildlife surveys and management plans. IRN has repeatedly requested these documents from NTPC, the World Bank and the ADB.

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## Detailed Concerns and Recommendations

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### Xe Bang Fai Downstream Program

- Implementation of NTPC's Downstream Livelihood and Asset Restoration Pilot Program has only recently been initiated in 21 villages, which constitutes less than 10% of the downstream villages that will be affected when NT2 operations begin in 2009.
- The Downstream Program plan has not been disclosed to the public, despite World Bank and ADB policy requirements.
- NTPC says it is planning for the worst-case scenario along the Xe Bang Fai, which means 85% fish losses, increased high frequency floods, erosion, major water quality problems, and transportation difficulties for downstream villages. However, the Downstream Program budget is only \$16 million, of which more than \$1 million will be spent on consultants.<sup>3</sup> Using NTPC's figure of 75,000 affected people (versus the 120,000 affected people identified by independent experts<sup>4</sup>), only **\$200 per person** is available to compensate and mitigate for all these long-term livelihood impacts. Villagers told IRN that their main priorities were flood protection and irrigation, but NTPC has reportedly told villagers there is not enough money for these measures.
- The primary livelihood restoration pilot projects—live-stock raising, fish ponds and cash crops using a micro-credit village savings fund, as well as water and sanitation improvements—are inadequate to deal with the scale of impacts that villagers will face. Some people were having trouble selling their vegetables, the pigs they purchased had died, and they couldn't pay back their loans to the village savings fund. The reliance on the micro-credit scheme to deliver compensation creates a cycle of debt if projects fail.

#### Recommendations:

- NTPC should commit to develop and implement an interim compensation scheme to address the impacts of NT2 operations on downstream villagers until livelihood restoration programs yield sustainable results. Additional funding will be required, as the \$16 million budget is likely to be inadequate to deal with the scale of anticipated downstream impacts.
- The GoL, World Bank and ADB should work with villagers and donor partners to develop an integrated rural development plan for the Xe Bang Fai region.
- NTPC, the GoL, the World Bank and the ADB should ensure disclosure of: 1) the Downstream Livelihood and Asset Restoration Program Phase 1 in its entirety; 2) marketing surveys for the Xe Bang Fai; 3) biomass clearance plans and for the Nakai Plateau; and 4) hydraulics and water quality studies for the downstream areas.

## Biomass Clearance and Water Quality

- Failure to clear biomass from the reservoir area will result in water quality problems and fish kills in the reservoir and downstream. The Concession Agreement requires that a biomass survey be conducted and used to propose means for “maximising removal of biomass in high biomass areas of the Nakai Reservoir. The priority shall be to clear the vegetation in areas which will be permanently flooded” (Schedule 4, Part 2, Section 3a). The Concession Agreement also requires that “... water in the Downstream Channel must at least be suitable for irrigation purposes” (Schedule 4, Part 2, Section 9.1f).
- Despite these commitments, approved by the World Bank, the ADB and NT2’s other funders, neither the GoL nor NTPC have plans to remove or ensure the maximum removal of biomass from the reservoir. NTPC is only now conducting a study on water quality optimization during reservoir impoundment and says that “biomass clearance may be part of the answer.”

### Recommendations:

- NTPC and the GoL should commit to clear biomass from at least all permanently flooded areas of the NT2 reservoir.
- NTPC and the GoL should implement an independently reviewed clearance plan and impoundment strategy to minimize downstream water quality problems in the first years of NT2 operations.

## Project (Construction) Lands Compensation

- Compensation payments to Project Lands villagers have been unequal and insufficient, failing to compensate for the full production value of land, fisheries losses and water quality problems caused by project construction. Many villagers do not understand what they are entitled to, why they have received what they have, and if they will be receiving more in the future. Compensation payments started a year after villagers’ land was taken and impacts were first felt, in violation of the Concession Agreement and World Bank policy.
- Resettlement Action Plans for Project Lands have not been disclosed, nearly two years after villagers lost land and assets, in violation of World Bank and ADB policies.

### Recommendations:

- The Independent Monitoring Agency for the Resettlement Management Unit (RMU) should urgently undertake a comprehensive review of Project Lands compensation and mitigation measures and publicly disclose its findings.
- NTPC and the GoL should: 1) urgently find comparable replacement land for Project Lands villagers, and 2) detail the livelihood restoration options that will replace irrigation for significantly affected Project Lands villagers.

- The livelihood restoration program for the downstream channel area has come undone. It is unclear if replacement land is available for villagers who lost more than 10% of their incomes as a result of NT2, despite the requirements of the Concession Agreement and World Bank policy. Similarly, using the downstream channel to provide irrigation for affected villagers, as promised in the 2005 NT2 Social Development Plan, no longer seems to be a viable option.

*Recommendations, continued*

- NTPC, the GoL, the World Bank and the ADB should ensure immediate disclosure of the Resettlement Action Plans (RAPs) for Project Lands.<sup>5</sup>



*Villagers along the upper Xe Bang Fai. Photo by Henrik Lindholm, SwedWatch.*

## Nakai Plateau Resettlement

- Livelihood programs for Nakai Plateau resettlers are being re-written and/or coming undone halfway through the resettlement process. Agriculture plans in the 2005 NT2 Social Development Plan are considered unworkable, so NTPC is experimenting with new approaches. It is now clear that there is not enough land for all of villagers' buffalo and cattle, and families with large numbers will have to sell some of their buffalo.
- The Village Forestry Association (VFA) is in jeopardy. The 2005 NT2 Social Development Plan assigns responsibility to the VFA for harvesting, selling and processing timber from the resettlement area (such as housing plots and agricultural land). The VFA is now being run by a former Ministry of Agriculture and Forestry (MAF) official and several VFA positions have apparently been given to district government representatives. This appears to have resulted in the government agencies taking responsibility for harvesting the timber. Revenues from timber harvesting on resettlement lands have reportedly not gone into VFA accounts. Illegal logging in the community forest area has reportedly removed all the big, valuable trees that were supposed to provide each resettled family with dividend payments in the future.
- Resettled villagers on the Nakai Plateau are still in temporary houses on their permanent sites. Villagers' houses are falling apart and some people report water shortages. Many villagers with whom IRN spoke are increasingly concerned about their future and about finding food "after the flood". Some people in the demonstration village reported selling buffalo to buy rice, as they are no longer receiving rice support from NTPC.

### Recommendations:

- NTPC and the GoL should address resettled villagers' concerns by ensuring adequate food support until livelihood programs prove sustainable, fixing temporary houses, repairing or developing water supply systems, paying villagers for land clearance and spraying roads.
- NTPC and the GoL should ensure that the VFA has received all the revenue it is due from timber sales in the Resettlement Area, and that illegal logging in the community forest area is stopped immediately.
- NTPC, the GoL, the World Bank and the ADB should ensure disclosure of: 1) studies and plans regarding the new agriculture approach; 2) marketing surveys; 3) the buffalo reduction strategy; 4) wetlands, terrestrial, elephant and fish surveys and management programs for the Nakai Plateau and other project areas; 5) the community forestry plan; 6) the salvage logging plan and 7) the forthcoming reservoir impoundment strategy, upon its completion.