



September 28, 2004

Mr. Jusuf Anwar
 Executive Director
 Asian Development Bank
 PO Box 789
 0980 Manila
 Philippines

Dear Mr. Anwar,

I am writing to call your attention to the *Nam Leuk Project Performance Audit Report* (“*Nam Leuk PPAR*”), which was recently submitted to the Board Development Effectiveness Committee by the Bank’s Operations Evaluation Department. Unresolved problems mentioned in the report highlight the lack of consistent and systematic ADB monitoring of the project and follow through by the Lao government. This report is timely given the Bank’s plans to finance the Nam Theun 2 Hydropower Project. We urge you to propose a discussion of this report at an upcoming Development Effectiveness Committee meeting to consider these issues and to take steps to ensure that impacts of ADB-funded hydropower projects in Laos are resolved.

Completed in 2000, the Nam Leuk Hydropower Project has negatively affected several thousand people through declines in fisheries and water quality. The *Nam Leuk PPAR* states that villagers suffer from continued water quality problems and that fisheries mitigation measures have not been implemented. Protection of the Phou Khao Khouay National Biodiversity Conservation Area (“PKK Park”), one of the objectives of the ADB’s Nam Leuk loan agreement, has not been achieved and remedial measures have not been implemented. The report attributes these shortcomings to lack of follow-up monitoring by Electricité du Laos and the Asian Development Bank. For your convenience, we have put together a short compilation of excerpts from the Nam Leuk report (see attached).

While the findings of the *Nam Leuk PPAR* are significant alone, what is more striking is the fact that many of the issues documented in the report were identified roughly 2-½ years ago in the Bank’s *Nam Leuk Project Completion Report* (“*Nam Leuk PCR*”) published in February 2002. IRN also brought these issues to the attention of the Bank’s Lao Resident Mission and Mekong Department in February 2003. But it appears that no significant steps have been taken to resolve these issues over the last 2-½ years. Below are a few examples demonstrating how problems identified in the *Nam Leuk PCR* remain unresolved.

NAM LEUK PROJECT COMPLETION REPORT, FEBRUARY 2002	NAM LEUK PROJECT PERFORMANCE AUDIT REPORT, JUNE 2004
<p><i>Phou Khao Khouay</i> “The disbursement of funds for the PKK NP has not yet been adequately institutionalized, and ADB must ensure that this matter is resolved and that the funds reserved for the stipulated purpose are safeguarded until they are used in accordance with an environmental management plan for the PKK NP.” (pg. 20)</p>	<p>The PKK Park “is not sustainable as a national park unless efforts are made immediately to channel the funds allocated under the Project in a more productive manner.” (pg. viii)</p>

NAM LEUK PROJECT COMPLETION REPORT, FEBRUARY 2002	NAM LEUK PROJECT PERFORMANCE AUDIT REPORT, JUNE 2004
<p>Phou Khao Khouay Phou Khao Khouay “will not become a real national park unless its management is improved drastically.” (pg. 20)</p> <p>ADB follow-up monitoring “[I]t would be prudent for the ADB to monitor the Project’s performance through regular visits, keep the necessary records, and provide assistance as appropriate. It would be contentious to hand over a large and essentially dynamic infrastructure project to an agency, with limited funds and little operational experience or skills in environmental and social mitigation measures, and not expect problems.” (pg. 20)</p>	<p>“Unless the management of the PKK Park is strengthened, its long-term sustainability is not assured.” (pg. 29)</p> <p>“...supervision and monitoring waned substantially once the power plant was built and the loan was closed.” (pg. 41)</p> <p>“ADB also could have provided better post-completion follow-up monitoring of environment and social mitigation measures, particularly because the PCR specifically recommended it as a follow-up action.” (pg. 18)</p>

It should be of serious concern to the DEC that problems with Nam Leuk remain unresolved though noted twice in official ADB documents. It highlights the importance of immediately resolving problems with Nam Leuk, including management of Phou Khao Khouay Park, diminished water quality, broken water supply systems and lack of mitigation for fisheries impacts. This should also raise questions about implementation of Nam Theun 2, which is likely to have greater impacts and which is also supposed to generate revenues to protect a national conservation area.

We understand that Bank management has been working with EdL to develop a Nam Leuk action plan to resolve outstanding issues with mitigation and PKK Park. This is a step in the right direction. However, complete and lasting resolution of these problems requires much more than a one-off action. The *Nam Leuk PPAR* explicitly states

“Based on the information available and the lack of monitoring data, the OEM recommends that further mitigation work should be carried out in the affected villages to replace the fishing opportunities and improve the water quality and quantity. This should be accompanied by a *defined monitoring program*.” (emphasis added, pg. 42)

We urge you to use your influence within the Bank to ensure that ADB management effectively resolves these problems, once and for all. We ask you to urge ADB management to develop a systematic and clearly defined plan for how the Bank will monitor and track EdL’s progress in carrying out the *Nam Leuk PPAR*’s recommendations to mitigate impacts and to protect PKK Park. Considering EdL’s documented lack of capacity to monitor and mitigate hydropower impacts, this oversight step is essential to resolve the impacts of Nam Leuk.

Moreover, the problems with mitigation for Nam Leuk are emblematic of the ongoing problems with hydropower projects in Laos such as Nam Song, Nam Mang 3 and Houay Ho. Experience shows that impacts of hydropower projects will remain unresolved unless EdL and the ADB establish defined monitoring programs which continue even after projects are commissioned. According to the *Nam Leuk PPAR*, “Unfortunately, environmental and social impacts do not terminate when the power plant begins operation and the project loan closes. In fact, often, additional impacts only commence at this stage.” (pg. 42) The ADB has recognized the importance of 3rd party monitoring for hydropower projects and has worked with the Lao government to require it for all sensitive projects approved by the government after January 1,

2003. This is a positive step, however, it does not address the unresolved issues for Bank-financed projects approved before 2003.

IRN is often asked to propose positive solutions to improve development projects. We urge you to consider and support the following proposals:

1. We urge you to propose a discussion of the *Nam Leuk PPAR* at an upcoming Development Effectiveness Committee meeting.
2. OED stated in the *Nam Leuk PCR* and *Nam Leuk PPAR* that ADB responsibility for ensuring that project impacts are resolved does not end once a loan closes or a project is completed. We ask you to support OED's recommendation that ADB management develop a detailed monitoring plan to ensure that EdL upholds its commitments to mitigation of Nam Leuk impacts and successfully implements the specific recommendations in the *Nam Leuk PPAR*. In addition, the Bank should examine how it enabled problems to persist for 2 additional years after they were identified at Nam Leuk.

In light of the outstanding impacts of Nam Song and ongoing mitigation work for Theun-Hinboun, the ADB should also develop monitoring plans to ensure that EdL and Theun-Hinboun Power Company effectively mitigate the impacts of these ADB-financed projects. This monitoring should be carried out at 6-month intervals for the life of the projects.

3. The ADB's Environmental and Social Program Loan requires 3rd party monitoring for hydropower projects in Laos approved by the government after January 1, 2003. We ask that you urge ADB management to extend this to ADB-financed hydropower projects in Laos approved before 2003 (which would include Nam Leuk, Nam Song and Theun-Hinboun).
4. We ask you to support OED's recommendation to set aside a percentage of project revenue from Nam Leuk to ensure that environmental and social mitigation measures are successfully implemented. The OED recommended in the *Nam Leuk PPAR* that "a suitable percentage of revenue (in the range of about 0.5% of project revenues) be allocated in the first 10 years of operation specifically to continue the environmental and social mitigation measures associated with a project. The management of the fund should be periodically monitored to ensure its effectiveness." (pp. 42-43) This should be implemented for all hydro projects.
5. Lastly, until the social and environmental impacts of existing hydropower projects in Laos are resolved and EdL has demonstrated its commitment and capacity to resolve such impacts, we urge you to reject support for future hydropower projects in Laos, including Nam Theun 2.

Thank you for your time and attention to this matter. We encourage you to use your leverage with management and with the upcoming DEC discussion to ensure that problems with Nam Leuk and ADB-financed hydropower projects in Laos are resolved promptly and effectively.

Sincerely,

Susanne Wong
East and Southeast Asia Campaigner