

December 6, 2010

Mr. Robert B. Zoellick
President
The World Bank
1818 H Street NW
Washington, DC 20433

Mr. Haruhiko Kuroda
President
The Asian Development Bank
6 ADB Avenue,
Mandaluyong City 1550, Philippines

Dear Mr. Zoellick and Mr. Kuroda,

Re: Unresolved issues on the Nam Theun 2 Hydropower Project in Lao PDR and the hydropower strategy of the banks

We write to you to raise concerns about unresolved issues concerning the Nam Theun 2 Hydropower Project in Lao PDR and the World Bank Groups' and Asian Development Bank's strategies to scale up "hydropower for poverty alleviation and sustainable development" and to re-engage in "high-reward/high-risk hydraulic infrastructure projects" (WBG 2009, WBG 2010, ADB 2001, and ADB 2006). The World Bank Group's progress report for the Water Resources Sector Strategy states "The WBG will scale up support for hydropower as the largest source of renewable and low-carbon energy" (WBG 2010: vii, para13). We are concerned about the World Bank Group's intentions as we look at the current unresolved challenges with the Nam Theun 2 Hydropower Project in Lao PDR, a project that the World Bank saw as a test case for sustainable hydropower.

Ensuring sustainable livelihoods in the resettlement site

The first challenge we see is ensuring sustainable livelihoods for families living on the Nakai Plateau who were resettled for Nam Theun 2. In October 2010, Ms. Annette Dixon, the World Bank's Country Director for Southeast Asia said "In Laos, where we have worked with the Government on Nam Theun 2 [...], local people are seeing their livelihoods and the health of the children improved, as well as better access to services like roads, schools and clinics" (WB 2010). However, more than 6,200 ethnic minority people relocated by the project are still struggling to achieve sustainable livelihoods three years after they lost access to their natural resources such as paddy fields, swidden fields, forests, and grazing lands.

There is little doubt that the families on the Nakai Plateau have better infrastructure, such as houses, electricity, access roads, schools, and health centers. However, one of the key pillars of the livelihood program, agriculture, is still highly questionable. There is no evidence that resettlers have been able to sell commercial agricultural products to new markets in order to buy rice and other food as planned. While reservoir fisheries are providing income for villagers, the sustainability of this income is in question. Resettlers are reporting that catching and selling reservoir fish is becoming increasingly difficult because of the number of people fishing in the

reservoir. Furthermore, the yield is likely to decline significantly when the reservoir water surface area decreases by 75% during the dry season, in the first half of 2011 (NTPC 2005: 17, SDP Vol 2-Chapter 15).

In addition, the adverse impact of encroaching outside interests is having an increasingly adverse impact on the forest resources in the Resettlement Area allocated to the resettlers, even though the resources are meant to be reserved for the exclusive use of the resettlers under the Concession Agreement. The Nam Theun 2 Panel of Expert states “District authorities appear unable to arrest, fine and deport encroachers, while in some cases Provincial forestry authorities are actually playing a major role in illegally removing [...] resettler resources” (McDowell, Scudder and Talbot 2010: 16-17). Many of the plans for securing sustainable livelihoods have failed to come to fruition, putting people’s long-term food security at risk.

Sustainable management of the Nakai-Nam Theun National Protected Area (NPA)

Conservation of the biodiversity of the NPA and protection and restoration of forest cover in the watershed has been a fundamental objective of the Nam Theun 2 project and a primary reason for the involvement and support by the World Bank and other international financial institutions (McDowell, Scudder and Talbot 2009: 35). However, as warned prior to project approval, Nam Theun 2 has actually exacerbated pressures on the protected area rather than alleviating them.

The reservoir now provides easy access by boat to areas of the NPA that were formerly difficult to reach. According to the Panel of Experts, this has resulted in an “increasing threat to the biodiversity of the NPA” (McDowell, Scudder and Talbot 2009: 36&38). The Panel stated this year that the illegal harvest of rosewood and poaching of wildlife within the NPA appear to be more serious than before (McDowell, Scudder and Talbot 2010: 12). In addition, “the most serious current threat to the integrity of the NPA is gold mining and prospecting, and what we understand maybe a concession within the NPA given to the Military” (McDowell, Scudder and Talbot 2010: 9).

Unknown risks in downstream

Over 110,000 people living in 71 riverside villages and 101 hinterland villages of the Xe Bang Fai River are directly affected by changes to the river ecosystem (NTPC 2008: 21-25). Impacts on the downstream areas include flooding, decline of fisheries, riverbank erosion, flooding of riverbank gardens, ecosystem changes along the river and poor water quality. In the last dry season, villagers in the area complained about poor quality of water and declining fish catch, particularly in the upper Xe Bang Fai River. However, boreholes in the villages have not provided appropriate alternative domestic and drinking water and the village livelihood restoration fund has not fully compensated what the villagers lost. Some villagers are even indebted due to the village livelihood restoration programs. In October 2010, unusual flooding during harvest season was experienced upstream of Mahaxai and some of the riparian villages all along the Xe Bang Fai Rivers also experienced flooding in their lower paddy fields despite the fact that less flooding was experienced in other parts of Central Laos. Villagers attribute this to project releases. We have no way of verifying this since hydrological data is not being publicly released by Nam Theun 2 Power Company (NTPC). Similarly, with the exception of dissolved oxygen measurements, water quality and fisheries data for the Xe Bang Fai River are not being released, preventing any public oversight of the project’s impacts.

Of great concern is the limited budget for the downstream program and the 2015 deadline for completion of the program. The Panel of Experts and many outside observers have continuously recommended allocating additional funds for the downstream program and extending its mandate, yet Nam Theun 2 Power Company and your institutions have remained silent on this. NTPC should be responsible for project-related impacts to fisheries, flooding, erosion, and clean water supplies for the life of the project.

Challenges in complying with commitments

Although it is commendable that portions of the Concession Agreement for Nam Theun 2 were disclosed, and that there are several independent monitoring systems in place, the project has still failed to comply with its legal obligations. For example, in violation of the Concession Agreement, the irrigation system for Nakai resettlers was not completed prior to commercial operation and “[a]lternative sources of domestic water of appropriate quality” were not provided to downstream affected communities before the Commercial Operation Date. Compensation payments for loss of paddy fields, fruit trees, and riverbank gardens hadn’t been paid before the taking of land and related assets from the affected communities, in violation of the World Bank’s safeguard policy on resettlement (OP 4.12 paragraph 10). In fact, some villagers have still not been paid for their loss of assets as a result of the project. As mentioned above, disclosure of information has been a constant battle for outside observers, with many key documents and data unavailable for public scrutiny.

Failure to strengthen Lao PDR hydropower sector standards

Despite World Bank and Asian Development Bank claims to the contrary, there is little evidence that Nam Theun 2 has resulted in any improvements to other hydropower projects being developed in the country. The National Policy on Environmental and Social Sustainability of the Hydropower Sector in Lao PDR and Decree on the Compensation and Resettlement of the Development Project have not been fully implemented to date. For example, Nam Ngum 2 and 3, and Xekaman 3 projects have commenced construction without disclosure of an EIA, there is no third party monitoring of projects other than Nam Theun 2, very few monitoring reports have been publicly disclosed, and no plans have been disclosed to bring existing projects into compliance with the policy.

Recommendations

We recommend that the World Bank and ADB take the following actions as a priority to ensure the long-term sustainability of livelihoods for all affected communities:

1. Ensure provision of secure land-based livelihoods other than reservoir fisheries to resettlers and a significant increase of budget for it, and to protect and replace the forest resources allocated to the resettlers;
2. Ensure improvement of the downstream of the program including direct compensation for losses rather than relying on savings and credit schemes, extension of the downstream program to at least 10 years after Commercial Operation, and a significant increase in budget for the program;
3. Disclose the monitoring reports prepared by the Independent Monitoring Agency as stated in the 2008 annual update (WB 2008: 19, para 60) and ensure the complete and timely disclosure of key monitoring reports and data on fisheries, water quality, hydrology, socioeconomic situation, and village livelihood restoration fund and updated management plans; and

4. Ensure full implementation of the National Policy on Environmental and Social Sustainability of the Hydropower Sector in Lao PDR, Decree on the Compensation and Resettlement of the Development Project, and other hydropower-related national regulations.

Until the World Bank and ADB can prove that a hydropower project of the size and scope of Nam Theun 2 can be successfully managed, we do not believe that there is any justification for scaling up of World Bank or ADB support for large dams. Thank you for your attention and we hope we can count on a response to this letter before January 7, 2011.

Sincerely,

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34. Nguy Thi Khanh, Vietnam Rivers Network, Vietnam

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CC: Keiko Miwa, Country Manager Lao PDR, World Bank
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