

NGO VISIT TO THE PROPOSED NAM THEUN 2 HYDROELECTRIC PROJECT IN LAOS

DECEMBER 2003

TRIP REPORT



FEBRUARY 2004

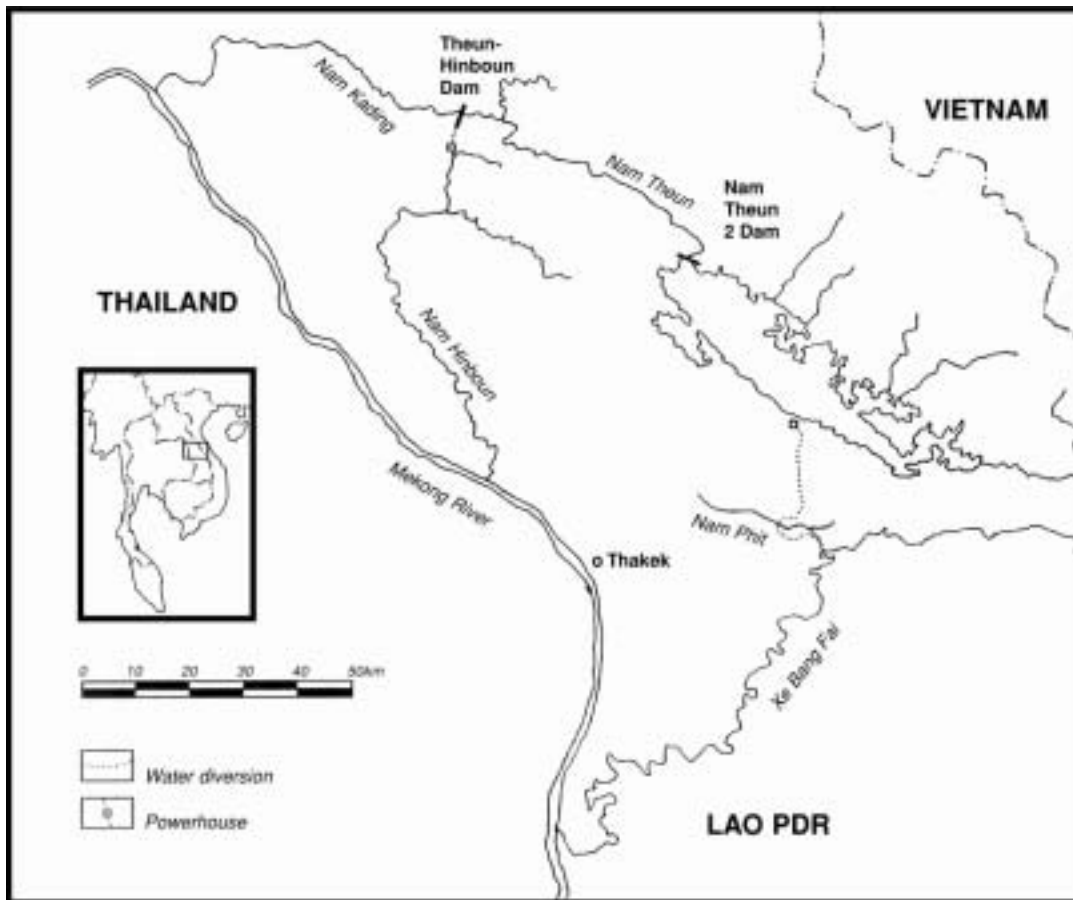


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The Nam Theun 2 Hydropower Project involves construction of a 50-meter high dam on the Theun River, a major tributary of the Mekong. Water would be stored in a reservoir on the Nakai Plateau and diverted to a powerhouse, before being released into another Mekong tributary, the Xe Bang Fai.

(International Rivers Network)

Itinerary

Day 1

- Travel from Thakhek to Mahaxai and meet with village representatives from various villages along Xe Bang Fai.
- Travel to Nakai Plateau passing through main section of the downstream channel route, stopping at regulating dam site, regulating pond (near Nam Katang), and powerhouse site.
- Visit Theun Douane Experimental Farm on Nakai Plateau and 3 pilot households.
- Travel by boat on Nam Theun and visit Phonesavang and Ban Sop Phaen villages.
- Dinner with Vice-Governor of Khammouane Province, Nakai District Officials, and Lao Women's Union Representatives.

Day 2

- Visit pilot resettlement village, nursery farm, and agricultural training center.
- Travel to confluence of Nam Phit and Xe Bang Fai.
- Travel by boat on Xe Bang Fai to observe riverbank gardens and visit Keng Savang village.

NGO Participants

Ms. Shannon Lawrence – Environmental Defense, United States

Ms. Mishka Zaman – Bank Information Center, United States

Ms. Jaroslava Colajacomo – Campagna per la riforma della Banca Mondiale, Italy

Mr. Sebastien Godinot – Amis de la Terre, France

Ms. Teena Gill – Video person with Campagna per la riforma della Banca Mondiale, Italy

Nam Theun 2 Power Company (NTPC)/Government of Lao PDR (GOL) Representatives

Mr. Ludovic Delplanque – Communications Consultant, NTPC

Mr. Hoy Phonvisouk – Resettlement Management Unit, GOL

Madame Keo Oula Soulinadeth – Lao Women's Union

Mr. Odai Soudaphon – Vice Provincial Governor of Khammouane Province

Executive Summary

In December 2003, we visited the Nam Theun 2 (NT2) project area to gather information following the November 8, 2003 signing of the Power Purchase Agreement between NTPC and the Electricity Generating Authority of Thailand (EGAT). Our American, French and Italian non-governmental organizations (NGOs) are primarily interested in monitoring the project's potential public support from the World Bank, the Asian Development Bank, the European Investment Bank, and export credit agencies (ECAs), such as the French COFACE.

Our visit was facilitated by the Nam Theun 2 Power Company (NTPC) - the project sponsor - and was conducted entirely in the presence of company and/or government officials. Therefore, as expected, the information we received reflected their pro-project perspective. Company and government officials were also present during all of our discussions with villagers. The primary translator was the head of the Government of Lao PDR's (GOL) Resettlement Management Unit.

We held formal and informal meetings with villagers from both the Nakai Plateau (who would be resettled by the project) and from along the Xe Bang Fai River (who would experience impacts from the diversion of large amounts of water into the river). These meetings revealed that villagers have not received accurate, comprehensive, and balanced information from the GOL or from the company regarding NT2, despite nearly 10 years of project preparation. The villagers' expectations for the project, particularly on the Nakai Plateau, are very high, potentially misinformed and unrealistic. However, the NTPC and government officials that were with us did little to correct these misperceptions during our meetings. Moreover, in some cases they seemed to use our presence to indicate to villagers that there is international support for the project's immediate implementation. Whereas we presented ourselves as NGOs with serious questions and concerns about the project, it was not clear if that message was always translated.

We repeatedly heard phrases from villagers such as: "We agree with the government. Give us the project now;" "We have no concerns about the project;" "We've been told that more water means more fish [in the Xe Bang Fai River];" and "We expect to get many jobs from the project." When government officials or villagers were asked about other dams in Laos or in neighboring Thailand such as Theun-Hinboun or Pak Mun, which have had well-documented negative impacts on fisheries and communities, only positive assessments or disclaimers about the differences between these dams and NT2 were provided.

Villages on the Nakai Plateau are clearly suffering from the loss of the resource base on which they depend (due to illegal logging in anticipation of the project in the mid-1990s) and from unfulfilled promises of livelihood improvements. The vice chief of Phonesavang village said they have been told since 1996 that they will soon be moved for NT2. As a result, the villagers have stopped maintaining their houses and planting fruit trees. Only after our prodding did the government official explain that it would be at least three years before that village is resettled, even if the project goes ahead as planned.

The company official said that more information would be provided to villagers in the next round of consultations. However, it is difficult to imagine how genuine consultations can be held in this political environment when the NT2 project has always been presented as a top

government priority, and even put forward as a *fait accompli*. To quote the NTPC official, the initial consultation process did not discuss alternatives, but rather began with: “There will be a dam. What are your concerns?”

Detailed information on resettlement and environmental and social mitigation plans for NT2 is still not available to the public. For example, the Social Development Plan, the Xe Bang Fai Strategy, the Fisheries Study, and the Social and Environmental Management Framework and Operational Plan are being reviewed by the World Bank and have not been publicly disclosed. The Concession Agreement is not a public document. Although local “consultations” will reportedly begin sometime around March 2004, it is unclear how documents can and will be made available in an appropriate timeframe, language, and format to meet that target. The intent and scope of these consultations is also unclear; we were told that consultations were completed in 1997 and that these meetings would simply be used to publicly disclose project documents.

Visits to the Pilot Resettlement Village and the Theun Douane Experimental Farm on the Nakai Plateau showed impressive models designed to test livelihood options for resettled communities. However, without access to detailed information regarding plans for training and implementation, we questioned the viability of these small-scale pilots as sustainable livelihood systems for thousands of villagers. Additionally, the impacts of NT2 on the Xe Bang Fai River have been only belatedly considered, as the NTPC official acknowledged. The company’s assessment of how many villagers along the Xe Bang Fai will be affected by NT2 and its plans to address impacts on fisheries, riverbank gardens, erosion, flooding and other issues have not yet been scrutinized.

As indicated during our meetings with villagers, there has been no comprehensive and open discussion of the risks and benefits of NT2. Critical environmental, social, financial and economic documents have not been disclosed to the public. Major project issues, such as the Xe Bang Fai impacts, have not been adequately analyzed and addressed. Based on the GOL’s track record, serious questions remain regarding the government’s capacity and commitment to manage a project like NT2 for poverty reduction, and to ensure compliance with World Bank safeguards. Furthermore, the economic viability of NT2 and the favorability of the project’s terms for Laos have not been publicly examined and debated.

We recommend that before public institutions such as the World Bank and the Asian Development Bank consider support for NT2, the following actions should be taken:

- Ensure prompt public disclosure of all key project documents, including the Power Purchase Agreement (PPA) and the Concession Agreement;
- Commission an independent economic analysis of the PPA to evaluate the favorability of terms for Laos, given that NT2 is promoted as a “development” project;
- Evaluate the GOL’s capacity and commitment to manage the NT2 project using independently verifiable governance indicators and publicly disclose the results;
- Ensure and independently verify that all affected villagers are given full information – in an appropriate language and format – regarding the benefits and risks of the NT2 project;

- Ensure that indigenous peoples and resettlement plans are developed in compliance with World Bank safeguard policies before initiating project appraisal, and verify compliance of on-going and planned resettlement activities with World Bank standards;
- Work with other donors to provide overdue compensation and poverty reduction measures for villagers on the Nakai Plateau who have lost their forest resource base as a result of project-induced logging;
- As called for by donors in the World Bank's IDA-13 replenishment agreement, demonstrate how the World Commission on Dams' strategic priorities will be taken into account during the consideration of NT2.

Background: Project Financing and Disclosure of Environmental, Social and Financial Documents¹

Project Finance

The 25-year Power Purchase Agreement (PPA) between the Nam Theun 2 Power Company (NTPC) and Electricity Generating Authority of Thailand (EGAT) was signed on November 8, 2003. NTPC has 18 months from the date of signing to reach financial close for the project. Twenty-eight percent of project finance (approximately \$350 million) will comprise equity from NTPC shareholders (Electricité de France International (EDFI)² 35%, Electricité du Laos (EDL) 25%, Ital-Thai Development 15%, and Electricity Generating Company of Thailand (EGCO) 25%), and seventy-two percent will be debt financing (approximately \$950 million).

The World Bank's support for the project is critical for securing financing from other public and private lenders. According to NTPC, "In the financing plan and considering the current project structure, World Bank involvement is a pre-requisite for some of the credit agreements." NTPC said that the funding for GOL equity share in the project is likely to come from the World Bank and the European Investment Bank³ (other shareholders will contribute their equity portion *pro rata* respective to their share of ownership). Additionally, the World Bank would require a counter guarantee from the GOL.

The following multilateral development banks and other public international financial institutions are being approached to provide financing and guarantees for NT2: the World Bank (possible IDA loan for social and environmental components and an IDA or IBRD risk guarantee, as well as a political risk guarantee from MIGA), the Asian Development Bank (ADB), the European Investment Bank (EIB), and export credit agencies (ECAs), such as the French ECA, COFACE. Other ECAs involved in NT2 will likely be from the countries of subcontractors to the project.

¹ Throughout this report, NTPC statements refer to a) those made by Mr. Ludovic Delplanque (NTPC Communications Consultant) during the NGO field visit, or b) to answers provided by NTPC to follow-up questions in "*Answers to NGO's Questions of 10 December 2003*" in January 2004. The "*Answers*" document further indicates that it was "for indication only and shall not be considered as NTPC's official position on the mentioned issues," and that "only the Advanced Drafts safeguards documents to be released during the first quarter of 2004 can represent an official base for Public comments."

² On July 18, 2003, EDF International withdrew from the project stating that the company would concentrate on its European portfolio. In November, EDFI rejoined the project, although the reasons for this reversal are unclear. During a meeting with the French Ministry of Finance on January 13, 2004, Denis-Samuel Lajeunesse, head of *Agence des participations de l'Etat*, explained that EDFI returned to NT2 because it had reduced its exposure and risk in the project. No additional details were given.

³ On November 25, 2003, EIB and the GOL signed a framework agreement stating that "projects should feature a mutual interest for the [...] beneficiary country and for Europe." The involvement of French EDFI would appear to meet the criteria of this framework agreement. However, EIB involvement in NT2 would seem to violate its environmental policy, which states: "In financing any investment, the EIB applies the core environmental management principles of "prevention" [and] "precaution"... as called for in EU policy." Furthermore, EIB support for NT2 would contradict the development objectives of the European Commission, whose most recent EC-Lao PDR Country Strategy Paper (2002-2006) states that it is "important to avoid large scale infrastructure projects" in Laos.

Additionally, approximately 12 of the world's largest commercial banks have been approached to support NT2; the project's lead commercial arrangers will be selected in mid-February 2004. The list of commercial banks is currently confidential, but NTPC said that the names of selected banks for lead arranger roles would be disclosed at the lenders' kick-off meeting in late February. The NTPC official explained that the most important financial ratio to consider regarding the project financing is the Debt Service Coverage Ratio (DSCR), which is just enough so that banks will accept the risk.

Social, Environmental and Economic Analyses

According to NTPC officials, the advanced draft of the Environmental Assessment and Management Plan (EAMP) will be released at the end of February 2004. The advanced draft of the Social Development Plan (SDP) (containing the Resettlement Action Plan (RAP), Ethnic Minorities Development Plan (EMDP), and Xe Bang Fai Strategy) will be released about mid-March 2004. The SEMFOP (Social and Environmental Management Framework and Operation Plan), which is drafted by the GOL, will be available to the public by March 2004. The SEMFOP includes the Watershed Management Plan and studies conducted by IUCN and the Wildlife Conservation Society. The Fisheries Baseline Study will also be released in March 2004.

NTPC explained that the 1997 Louis Berger Economic Impact Study will not be updated; however "financial institutions and multilateral development institutions are conducting specific macro analysis as part of their respective due diligence on the Project." The World Bank is supposedly working on a new economic analysis (integrating all positive and negative externalities, including the loss of eco-tourism and Xe Bang Fai impacts), which will factor into the World Bank's decision-making on the project. It is unclear if this analysis will assess the benefits and risks for Laos, including the exchange rate risk, of the PPA (which was not finalized at the time of the Berger study).

Power Purchase Agreement (PPA) and Concession Agreement

To date, there has been no commitment to disclose the PPA or the Concession Agreement. The NTPC official stated that if the PPA were to be disclosed, it would only be released after project financing has been finalized. NTPC said it agrees on principle to disclose Schedule 4 of the Concession Agreement, which outlines the social and environmental commitments of NTPC and GOL, as well as some other sections of the Concession Agreement. In addition, NTPC said it would disclose some portions of the PPA, including the tariff structure and clauses related to the power shutdown during Xe Bang Fai flooding, but still needs some formal authorization from its contracting partner EGAT.

The Concession Agreement between NTPC and the GOL was signed in 2002. Because the Concession Agreement was completed before the safeguard documents were finalized (SDP and EAMP), the NTPC official said that an addendum would be added to harmonize the contract with commitments made in these social and environmental project documents. Xe Bang Fai issues have not yet been fully addressed in the Concession Agreement.

Although the Concession Agreement was signed nearly two years ago, NTPC said that English-speaking Lao officials in charge of the project are now translating sections of the Concession Agreement into Lao for presentation and discussion with the rest of the government and the National Assembly. Therefore, it would seem to be a public document in formal terms, although it has not been disclosed to civil society.

Xe Bang Fai River Impacts

As part of the NT2 project's trans-basin diversion scheme, water from the Theun River will be diverted into the Xe Bang Fai River. In its Xe Bang Fai Strategy, NTPC calculates that 40,000 people along the Xe Bang Fai will be affected by the NT2 project. However, independent research conducted by Bruce Shoemaker, Ian Baird, and Monsiri Baird in 2001 indicates that between 100,000 to 150,000 people derive significant livelihood benefits from the river. The rationale behind NTPC's determination of project-affected people, as outlined in the Xe Bang Fai Strategy in the SDP, is not yet publicly available. According to NTPC, the company's budget to address Xe Bang Fai issues will be increased from USD \$1.5 million, as originally proposed, to USD \$5 million.

The project's impacts on the Xe Bang Fai have only recently (within the past two years) been acknowledged by the company, and compensation and mitigation measures have not yet been discussed with local people. According to the NTPC official, "[The villagers] are enthusiastic about the project in general, but they don't know the details yet." We met with approximately 40 Xe Bang Fai villagers in Mahaxai. Village headmen made brief presentations about their villages and what they hope to gain from the project. The village headmen are members of the Communist Party and are selected by villagers for a two-year term. They are paid by the district government and officially considered part of the GOL administration.

For example, although NTPC has only done rough estimates of erosion and fisheries impacts, the company admits that there will be fish losses in the first four to five years of project operation. This has not yet been discussed with villagers; to date, Xe Bang Fai villagers have been told "more water means more fish." Some villagers have heard of the Asian Development Bank-funded Theun-Hinboun dam, located downstream from the proposed NT2 site. They were told that there are more fish in the Hinboun River after the construction of Theun-Hinboun. In reality, however, significant losses in fish species and yields are widely acknowledged to have occurred as a result of the project (a trans-basin diversion dam similar to that of NT2).

While villagers in Keng Savang on the upper Xe Bang Fai are skeptical about a second (dry season) rice crop because the soil requires too much water, representatives from Xe Bang Fai villages present at a meeting in Mahaxai said that they also hoped that the project would provide more electricity and ensure that dry season irrigation is less expensive. According to NTPC, "Though NTPC will not be in charge nor will directly promote dry season irrigation for rice double cropping in the Xe Bang Fai region, it is clear that the release of more water in the Xe Bang Fai thanks to the Project will provide opportunity for increased dry season cropping, which is fully consistent with GOL policies. [...] Availability of water would also give the potential to farmers to have a better control (sic) of the wet season crop and to increase the yield and quality

of the wet season rice crop. However, actual irrigation and additional crop programme for the Xe Bang Fai area are the responsibility of the Government.”

Additionally, NTPC describes access to electricity as one of the project’s benefits for Xe Bang Fai villagers, enabling them to use electricity for domestic use and to activate their irrigation pumps. However, NTPC asserts that the provision of electricity benefits is the responsibility of the local and national government.

Various Xe Bang Fai villagers said that they rely heavily on riverbank vegetable gardens and consider those to be an important investment. NTPC said that they have “already calculated riverbank garden incomes. Though it is anticipated that villagers would initially lose between 30% and 70% of existing riverbanks gardens, it is expected that these losses will be quickly recovered by moving gardens higher on the banks. [...] Beside, an important contingency fund is considered to compensate possible initial losses in terms of food and income, in case the fisheries and/or gardens replacement programs have not yet started to produce the expected outputs at the time of COD. Bank protection will be constructed at the downstream channel confluence with the Xe Bang Fai, and NTPC will design and construct bank protection and/or houses and assets relocation (choice to be made jointly with villagers) to protect existing assets. Finally, NTPC will bear the cost for the necessary adjustment and protection work on existing irrigation pump installations.” Additional information on the contingency fund and other Xe Bang Fai mitigation measures has not yet been made available to the public.

Additionally, villagers we met with in Mahaxai believed they would get training from the project and they hoped and expected the project to provide many jobs. However, a realistic assessment of potential employment opportunities with the project has apparently not been provided to local people. Villagers also said that they expected a number of side projects to be delivered as part of NT2, such as schools and bridges. They did not know where the money would come from to support these initiatives, but they hoped the GOL or NTPC would provide the necessary funds. There has been no response from the company or government officials on this point yet.

In Theun-Hinboun, another trans-basin diversion dam similar to NT2, extensive erosion has occurred along the Nam Hai and Nam Hinboun. Regarding erosion along the Xe Bang Fai, NTPC states: “Increased flows of water (average 220 m³/s to 330 m³/s) coming from the reservoir will result in the Xe Bang Fai River modifying progressively its geomorphology during the first years of the Project operations, as indicated in the study that focused on this aspect. This will be both the result of the increased water velocity and lesser sediment content. To limit the erosion factor and avoid the level of erosion that occurred to the Nam Hinboun [as a result of the Theun-Hinboun dam], NTPC will construct a regulating pond to minimize fluctuations in daily discharge, and has designed the downstream channel in such a way to recharge the released water with sediment. Furthermore, NTPC is committed to compensate any impact on livelihood that would be due to erosion thanks to both pre-emptive measures as well as during commercial operations. A comprehensive monitoring program will be undertaken to monitor, measure and assess relevant aspects of livelihoods and incomes in villages along the Xe Bang Fai, including for riverbank garden systems and assets.” Details regarding these measures are not yet publicly available.

The company official said that NTPC has committed to stop power production during peak natural floods – which they calculate will occur about every two years for approximately six to seven days – to avoid additional flooding, and further destruction of riverbank gardens and villages. This stoppage was considered as part of the economic analysis of the project, according to NTPC. However, independent researchers have noted that “the Xe Bang Fai appears to be particularly flood-prone” and that peak flood levels can occur for more than a month each year.⁴ The NTPC official said that if peak flooding periods last longer or occur more frequently than expected, the company will stop power production for “as long as necessary.” It is not clear if the potential for longer periods of stopped production has been factored into the economic analysis and the PPA, and if EGAT has agreed to this. It is also not clear what monitoring measures will be in place to ensure that NTPC actually adheres to this commitment once commercial operation has started, and the possibility of reduced revenues from power sales becomes a reality for the company.

Nakai Plateau, Resettlement, and NNT-NBCA Issues

Nakai District, where the NT2 project will be located, has 67 villages and 3,000 households. There are 19,000 people in the district, including 9,000 women. Fifteen villages (1,013 households) or 5,700 people would be resettled for the NT2 project because 454 square kilometers of the Plateau will be flooded as part of NT2’s reservoir. According to the GOL, this number has increased from earlier estimates because of population growth and people migrating to the area to receive potential project benefits. The total resettlement area for the project is 20,700 hectares (ha). NTPC and the GOL have established a pilot resettlement village and an experimental farm to test some of their proposed livelihood models.⁵

Development on the Nakai Plateau has apparently been overlooked for years. According to the NTPC official, the donors’ focus may have been on other areas because they presumed that NT2 would ultimately provide assistance to Nakai villagers. Additionally, given the impending flooding of hundreds of square kilometers of the Plateau, donors may have prioritized other areas where their investments would be more sustainable (and free from potential NT2 controversy). Now the project proponents are using this situation of neglected development, among other arguments, to make the case that the project has to be implemented without delay.

Currently, villagers on the Nakai Plateau mainly practice slash and burn agriculture, collect non-timber forest products, and raise livestock. In the project’s resettlement villages, there will be five livelihood activities: livestock, fisheries, forestry⁶, agriculture, and handicrafts/services. Apparently, all resettled households will be trained in and rely on agriculture and forestry and

⁴ Bruce Shoemaker, Ian G. Baird, Monsiri Baird, “The People and Their River: A Survey of River-Based Livelihoods in the Xe Bang Fai River Basin in Central Lao PDR,” November 2001.

⁵ The Theun Douane Experimental Farm was started in 1996 to test various crops and to train three pilot households on the Nakai Plateau. The GOL representative said that the soil is acidic, so only certain crops can be grown successfully in the area (cabbage, tomatoes, cucumber, lettuce). Other crops, such as coffee and durian, were tested but were not suited to the soil.

⁶ According to NTPC, of the total resettlement area, 5,600 ha can be considered commercial production forests, and 12,500 ha are considered forests for other uses.

will also select a third livelihood activity. Although specific details were not provided, the GOL representative said that they will train villagers to train others in the new livelihood activities. The representative said, however, that it takes time to change people's activities ("*some women don't even wear clothes...*"). He said that a balance needed to be found between assistance and development and that a strong focus will be on education.

Twenty-nine⁷ households have already moved to the pilot resettlement village⁸ from Nong Boua, despite the fact that a Resettlement Action Plan in accordance with World Bank Operational Policy on Involuntary Resettlement has not yet been finalized. These people are from Mkong and Bo ethnic groups who have lived on the Plateau for the past 60 years (although they already moved two or three times as a result of the war). Resettlement will have to be completed two years before the start of commercial operations, because the reservoir will require two years to fill. The NTPC official said that the company might consider accelerating the resettlement process because "*people are tired of waiting.*"

In the pilot resettlement village, the houses are of traditional design (14 sq m/person) and resettled villagers will design and construct the houses themselves. They will eventually be provided with land titles. The 29 households will get ½ ha each (50 m X 100 m) for a vegetable garden and will receive food for work for three years. It is not clear how a local market for vegetables will be created and how the daily diet of the people will be affected by the change in the nutritional elements.

According to NTPC, "Rice farming on the Nakai Plateau is currently very difficult [...] Thus, the current livelihoods of local villagers is not focused so much on rice but the collection of forest products for sale or exchange for rice, or cattle and buffalo raising. [The new livelihood activities] are focused on reservoir fisheries, commercial forestry, irrigated agriculture and livestock." However, the "resettled villagers will be given land and an irrigation system in which they can grow rice, but mainly vegetables or other crops (with a comparative advantage for other crops on the Nakai Plateau) that can then be cashed out or traded for rice. It is likely that resettlers will grow a mixture of rice on the lower terraces, and vegetables and fruit trees on the mid and upper terraces of the new agriculture fields."

Although rice production on the Plateau is difficult, Nakai villagers currently have both dry season and irrigated paddy. There is concern amongst villagers that the size of the irrigated plots in the resettlement area will not be comparable to their existing paddy field. The area that will be flooded to fill the NT2 reservoir is also used for buffalo raising. It is not clear what replacement land will be available for this activity once the Plateau is flooded.

According NTPC, fisheries and forestry livelihood options for the resettled villagers will be provided by the reservoir and the designated community forest area. However, questions remain regarding the management of access to the reservoir and the community forest to ensure that resettled villagers receive these benefits. NTPC says only that "measures have been taken to

⁷ At the time of our visit, the company and GOL representatives were unable to give us a precise number of the households that had already been resettled. We were told that the number was somewhere between 15-20 households. NTPC corrected that number during a review of this report draft in February 2004.

⁸ According to NTPC, there will be 15 resettlement sites in total.

ensure that the income from forestry and fisheries accrues in priority to the affected people. In the early or transition years of the resettlement, there are a number of activities which will provide supplementary income to resettlers while their new livelihood activities are developing to the stage of stabilization. Rice supplements will also be provided in the first few years, as a safety net. Apart from these modest rice supplements during the early years, at no time will the GOL or NTEC actually supplement incomes. Instead, NTPC will provide considerable funds to the development of sustainable livelihood programs and activities. They will derive income from both the initial development of these new activities (as food or cash for work), and then from the productivity of these new activities.”

NTPC has indicated that there is no intention to stock the reservoir with fish “but rather [to] let native species develop and adapt to the new conditions (as they have done in other reservoirs). If it is found that fisheries productivity is low, then fish species may be stocked, but only after careful consideration of the probable ecological impact of such releases, if any, and taking into account experience from other similar reservoirs.” The company estimates that fisheries catch from the reservoir will average 35 kg/ha or approximately 1,500 ton/year for the entire reservoir. This is the figure they have used to develop income projections for the resettled populations. Apparently, Fisheries Associations will be established in the villages and they will manage access to the reservoir, but more details have not been provided.

To deal with conflicts that might arise concerning livelihood provisions in the resettlement area, a grievance process for villagers is contained in Schedule 4 of the Concession Agreement (which is not publicly available). It seems that the mechanism functions at the village level primarily, and then grievances can be raised to the district resettlement management unit, and eventually to the provincial level. The GOL determines the remedy. It is not clear if this mechanism will be independently monitored or how decisions will be enforced. According to NTPC, the grievance process is also outlined in the Social Development Plan (which is not yet publicly available).

Finally, in the mid-1990s, the Nakai Plateau was extensively and illegally logged in anticipation of the NT2 project. As a result, villagers lost the resource base from which they derived part of their income. Villagers were never compensated for these losses. Widespread illegal logging in the area was documented as recently as 2000, despite the World Bank’s assertion that the control of illegal logging was essential for its consideration of the project. The GOL and NTPC representatives insisted that no logging has occurred since then in the community forest area. (We did not visit the community forestry area and could not verify the claim.) A 2002 World Bank mission report noted that logging in the area “has declined” (see NNT-NBCA below).

Nakai-Nam Theun - National Biodiversity Conservation Area (NNT-NBCA)

The NNT-NBCA is a 4,000 square kilometer biodiversity-rich conservation area adjacent to the proposed NT2 reservoir and bordering Vietnam. Project supporters claim that the NT2 project will provide resources to protect this area and preserve its largely intact primary forest cover.

The Watershed Management Protection Authority (WMPA) is the GOL department under the Ministry of Agriculture that is responsible for NNT-NBCA management. NTPC will have seat on the board of the committee managing the area, and will commit USD \$1 million/year for

conservation and protection of the NBCA. The SEMFOP (which is not yet publicly available) describes implementation of the management plan. NTPC says it has an interest in protecting the watershed because it is critical to protecting its investment in the project “by decreasing considerably the risk of reservoir sedimentation, while providing long-term biodiversity protection trade-off”.

NTPC and the GOL claim that illegal logging in the NNT-NBCA stopped four years ago. According to the 2002 World Bank logging mission Aide Memoire, “no significant evidence of logging other than those reported by GOL was found by the current Mission.” The mission concludes that “logging in and around the project area has declined.” An earlier draft of the 2002 Memoire (which is not publicly available) was revised after the GOL criticized its discussion of “negative matters and speculation;” the draft Memoire stated that “logging may actually have continued for some time after the May 2000 Logging Mission.”

The protection of the Northern Extension Area (Nam Chad-Nam Pan Protected Area), linking the NNT-NBCA to Phou Hin Poun NBCA, is critical for species migration in the area. The 2002 logging mission documented new road construction which is “suggestive of logging activity in the adjacent areas.” The GOL says that this area is not a part of the NT2 project although conservation NGOs argue that it should be in order to maintain the ecological integrity of the entire area and ensure adequate habitat and migration routes for key species.

NTPC notes that the District and Upland Conservation Development Project, supported by a World Bank Learning and Innovation Loan (LIL), is currently being implemented in the NNT-NBCA “as a pilot effort for the development of the NBCA population through conservation activities.” Additionally, NTPC states that “patrolling and sensitization of the population under the management of the WMPA has also started with the anticipated funding of NTPC.”

Conclusions and Recommendations

Our NGO visit to the NT2 project area, while limited in scope, provided the opportunity to raise questions directly to NTPC and GOL officials and to hear from villagers who would be affected by the project. This firsthand information was supplemented by the analysis of documents, research reports, and evaluations of NT2 and other hydropower projects in Laos, produced by various organizations over the past decade. While the NT2 project has been the subject of extensive analysis for more than 10 years, a number of crucial questions remain unanswered.

As indicated during our meetings with villagers, there has been no comprehensive and open discussion of the risks and benefits of NT2. Critical environmental, social, financial and economic documents have not been disclosed to the public. Major project issues, such as the Xe Bang Fai impacts, have not been adequately analyzed and addressed. Based on the GOL’s track record, serious questions remain regarding the government’s capacity and commitment to manage a project like NT2 for poverty reduction, and to ensure compliance with World Bank safeguards. Furthermore, the economic viability of NT2 and the favorability of the project’s terms for Laos have not been publicly examined and debated.

We recommend that before public institutions such as the World Bank and the Asian Development Bank consider support for NT2, the following actions should be taken:

- Ensure prompt public disclosure of all key project documents, including the Power Purchase Agreement (PPA) and the Concession Agreement;
- Commission an independent economic analysis of the PPA to evaluate the favorability of terms for Laos, given that NT2 is promoted as a “development” project;
- Evaluate the GOL’s capacity and commitment to manage the NT2 project using independently verifiable governance indicators and publicly disclose the results;
- Ensure and independently verify that all affected villagers are given full information – in an appropriate language and format – regarding the benefits and risks of the NT2 project;
- Ensure that indigenous peoples and resettlement plans are developed in compliance with World Bank safeguard policies before initiating project appraisal, and verify compliance of on-going and planned resettlement activities with World Bank standards;
- Work with other donors to provide overdue compensation and poverty reduction measures for villagers on the Nakai Plateau who have lost their forest resource base as a result of project-induced logging;
- As called for by donors in the World Bank’s IDA-13 replenishment agreement, demonstrate how the World Commission on Dams’ strategic priorities will be taken into account during the consideration of NT2.

Fisherman on the Nam Theun. Many rapids along the Nam Theun will be submerged to fill Nam Theun 2's massive reservoir, destroying important fish habitat and breeding grounds.



Trucks carrying logs from old growth forests along road from Mahaxai to Thakhek.



Phonesavang village on the Nakai Plateau would be resettled to make way for Nam Theun 2.



Phonesavang village on the Nakai Plateau would be resettled to make way for Nam Theun 2.



Ban Sop Phaen village on the Nakai Plateau would be resettled to make way for Nam Theun 2.



Housing construction and demonstration farm at the pilot resettlement village on Nakai Plateau, where approximately 29 households have already moved.



Villagers will be trained to grow new crops in the resettlement villages. The land is apparently not suitable for the production of rice – the staple of their diet.



Riverbank vegetable gardens along the Xe Bang Fai River. Villagers will likely be unable to cultivate riverbank gardens once Nam Theun 2 is operational due to increasing water flows along the Xe Bang Fai.



Fish ponds in Keng Savang village along the Xe Bang Fai River. These fish ponds will likely be flooded once Nam Theun 2 is operational.



Confluence of the Nam Phit and Xe Bang Fai rivers. Nam Phit will serve as the downstream channel along which water from Nam Theun will be diverted to the Xe Bang Fai.

