

# Trouble on the Theun-Hinboun

**A Field Report on the Socio-Economic and Environmental Effects of the  
Nam Theun-Hinboun Hydropower Project in Laos**



*“The water levels this year since the dam was closed are the lowest we have ever seen for this time of year. The fish have all fled to the Mekong.”*

by Bruce Shoemaker  
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## **EXECUTIVE SUMMARY**

The Theun-Hinboun hydropower project, a \$260 million dam on the Theun River in Laos, is opening on April 4 1998. The dam was completed this year with financing from the government of Norway, the Asian Development Bank (ADB), and other public and private sources. But as the ADB and the project developers continue to trumpet the project's success, thousands of villagers are experiencing severe impacts to their livelihoods. Bruce Shoemaker, an independent researcher who lived in Lao PDR for seven years, recently visited the area.

The researcher interviewed 60 people in 10 villages on a three day visit to the project area in early March 1998. These interviews encompassed a wide cross section of people in the area including women, men, young people, fish market stall owners, shop owners, fishermen, village headmen, boat pilots, and others.

What was particularly striking about the visits to villages in the project area--whether downstream in the Nam Kading, downstream in the Hai/Hinboun, or along the headpond--was that without exception they ALL reported experiencing various harmful effects from the project. In all three areas visited, villagers reported substantial declines in fish catches. These declines ranged from 30% to 90%. Villagers also reported being impacted by the loss of riverbank vegetable gardens, the loss of dry season drinking water sources, and transportation difficulties. In some areas, villagers must relocate their homes and do not feel they are receiving adequate assistance with this process.

The researcher also found that the thousands of Lao citizens now suffering harmful impacts from the Theun-Hinboun project are not receiving direct compensation for their losses and there are no plans to provide them with any such compensation in the future. Within the entire \$260 million dollar project cost--which includes \$2.59 million for a mitigation program--a total of only \$50,000 has been allocated for all resettlement and compensation costs for affected local people. In fact, 67 per cent of the total mitigation budget went towards a re-regulating pond and modifications allowing for a downstream flow in the Theun River, costs which arguably should have been included as part of the project's basic infrastructure from the start. In October 1996, the Lao government, acting with legal advice from the ADB, signed a license agreement with the THPC which absolved the company from any further obligation to assist with mitigation or compensation measures for the life of the project.

Rather than addressing these issues, the ADB and the Theun-Hinboun Power Company (THPC) are trumpeting the project's success and refusing to acknowledge that these negative impacts on people's livelihoods are even occurring. No independent verification of whether even the small amounts of compensation now being provided are in fact reaching those affected has been made. No systems are in place to properly document the economic losses caused to local people. The THPC does not appear to even be making a sincere effort to discover what the real situation is in villages affected by the project.

A first step in addressing the concerns mentioned above might be for the project's public financiers--NORAD and the ADB--to sponsor an extensive and comprehensive independent examination of the points that have been raised in this field report. Such an examination could be the initial stage in providing redress to those Lao citizens currently being harmed by the project. As these harmful impacts are being experienced right now to people with extremely limited economic reserves or alternatives, this process should occur as quickly as possible.

It is clear that the company should take responsibility for their share of the true costs of the project,

costs that were ignored or downplayed by a consultant company owned by one of the outside shareholders during the project formulation period. Given this poor process, there may well be a legitimate legal argument that the concession agreement should be renegotiated to require the foreign shareholders to pay their fair share of the compensation costs. The ADB also bears responsibility for assisting in resolving these problems as it has firm policies in place stating that people should not be allowed to be left worse off than before due to the impacts of an ADB financed project. The researcher is hopeful that the responsible Lao government authorities, when they fully understand the serious negative impacts occurring to many of their country's citizens, also will want to move quickly to solve these problems and bring justice to the affected people.

## I. INTRODUCTION

This report is based on a March 1998 field visit by a researcher to the area of the Nam Theun-Hinboun Hydropower Project located in the Lao People's Democratic Republic (Lao PDR or Laos). Theun-Hinboun was financed by the ADB, the government of Norway and other public and private sources in 1994 and was completed this year (see Annex 1 for project description). The dam was approved despite concerns raised by groups in Thailand, Norway and other ADB-donor countries that the project proponents had systematically failed to safeguard the interests of Lao citizens both in the appraisal and implementation stages. Approximately 6000 Lao people live in the 25 villages near to the project site and are considered to be "especially vulnerable" to impacts from the project.<sup>1</sup> In addition, thousands of other people living in the Theun and Hinboun river basins are now being affected by the project.

In 1996 the Norwegian organization FIVAS, which had been monitoring Norwegian involvement in the project since 1993, published a 28-page report based on a study tour to the project area.<sup>2</sup> This report documented many concerns related to the project, including its poor process of implementation, lack of consultation with local people, potential for causing serious harm to thousands of people's livelihoods, and the lack of appropriate mitigation and compensation measures. The concerns raised in the FIVAS report have been consistently downplayed or ignored by the ADB and the project developers.

As Theun-Hinboun begins operation, the ADB has been engaged in a public relations campaign praising the project and its own role in facilitating its development. A recent ADB publication notes that with Theun-Hinboun, the ADB "can derive satisfaction from having backed a winner."<sup>3</sup> The article claims that "there is little for the environmental lobby to criticize in Theun-Hinboun" and "no need to resettle anyone", implying that there are few negative impacts from the project.

To follow-up on the concerns raised in the earlier FIVAS report and to document the current situation of the Lao people being impacted by the project, the researcher was asked to visit villages in the project-affected area and to interview a variety of local people. As detailed below, the researcher found that large numbers of Lao citizens are already suffering severe harmful impacts to their livelihoods because of the project. These impacts include a dramatic drop in fish catches for villagers dependent on fishing for their food security and income generation, a loss of river bank vegetable gardens, loss of dry season drinking water sources, transportation difficulties, and the relocation of houses or entire villages because of the project. The researcher also found that the mitigation program in its current form is grossly inadequate to address the impacts the project is having on local people's livelihoods.

The Theun-Hinboun project may have the potential to earn important foreign exchange for the Lao PDR. It is widely recognized that Laos needs foreign exchange and has limited options in how to obtain it in a sustainable way. While international experience shows that large dam projects frequently end up having fewer benefits and greater costs than claimed in advance by project proponents, Theun Hinboun has better income potential than many other current and proposed hydroelectric projects in the Lao PDR. But if the developers continue to ignore the substantial

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<sup>1</sup> Midas/Burapha, *Theun-Hinboun Environmental Studies in Lao PDR: Draft Final Report*, Vientiane, June, 1995. Page 9-10.

<sup>2</sup> FIVAS, *More water, more fish?: A report on Norwegian involvement in the Theun Hinboun Hydropower Project in Lao PDR*, Oslo, Norway, 1996.

<sup>3</sup> "Hydropower project to increase Lao PDR's GDP by 7 percent," *ADB Review*, Nov.-Dec. 1997, Asian Development Bank, Manila, page 8.

social and environmental costs, and fail to allocate sufficient resources to adequately compensate for this harm, it cannot be considered a successful or sustainable project or a good model for Laos or the region.

This report has been written for policy and decision makers in the Lao PDR, Nordic countries, and the ADB concerned about sustainable hydropower and economic development in the Lao PDR. It has three objectives : 1) to raise awareness about the suffering caused to local people in the Theun and Hinboun watersheds; 2) to demonstrate the need for further detailed assessment and evaluation of the environmental and economic losses caused by the project; and 3) to appeal to the responsible authorities and the project investors so that these issues may be resolved fairly and to the satisfaction of local people.

This report has been prepared for the International Rivers Network by Bruce Shoemaker, an independent researcher based in Minneapolis, Minnesota USA. Shoemaker lived in the Lao PDR for over seven years (1990-97) working for several non-governmental organizations. The researcher visited the project area as a guest of the Environmental Management Committee Office (EMCO) of the Theun-Hinboun Power Company and would like to thank the staff of EMCO and THPC for their assistance and facilitation of the visit.

## II. PROJECT IMPACTS

*“Khachow poi nam laew, nam keun, baw dy kin pa”*

(When they release the water and the river here rises, we have no fish to eat)

-- Women fishing in the Hinboun River by Ban Song Hong, March 4, 1998

In order to assess how local people are being impacted by the project, the researcher visited villages in the affected areas over a three day period (March 2-4, 1998), two months following the closing of the dam. The researcher was not accompanied by project or other officials during these interviews which were conducted in the Lao language. Ten villages were visited in three distinct areas—the headpond/reservoir area, downstream in the Theun/Kading river basin, and downstream in the Hai/Hinboun basin (see map). Interviews were carried out with 60 people in 17 separate groups. These interviews encompassed a wide cross section of people in the area including women, men, young people, fish market stall owners, shop owners, fishermen, village headmen, boat pilots, and others.

**The results of these interviews clearly show that the Theun-Hinboun project is already harming the livelihoods of many people in the Theun and Hinboun River basins. In all three areas visited, villagers - without exception - reported substantial declines in fish catches. These declines ranged from 30% to 90%. Villagers also reported being impacted by the loss of riverbank vegetable gardens, the loss of dry season drinking water sources, and transportation difficulties. In some areas, villagers must relocate their homes and do not feel they are receiving adequate assistance with this process.**

**Downstream in the Theun-Kading River basin:**

Immediately downstream from the dam site, the Theun River (known as the Kading River from here on down to the Mekong) flows 40km through the Nam Kading National Biodiversity Conservation Area (NBCA). Further downstream there are many villages along the river which depend on fishing for food and income generation. These areas are considered by the developers to be outside of the zone of "direct impact." But in reality, villages all the way down to the confluence of the Nam Kading with the Mekong are experiencing substantial negative impacts from the dam closure. Three villages in this lower area, between the Nam Kading NBCA and the Nam Kading's confluence with the Mekong, were visited.

**Ban Pak Kading:** This is a large market town located along Route 13 at the confluence of the Nam Kading with the Mekong, in Bolikhamxai Province. There are several shops and market areas here that buy fish from fishermen in the Nam Kading for sale in restaurants or for shipment to Vientiane. Several shop owners all confirmed that the fish available from the Nam Kading had declined dramatically since the dam closure:

*"I buy directly from the village fishermen. They come to the riverbank by the bridge every morning. This year in the dry season there are very few fish. They no longer come down since the dam was closed...I estimate that there is a 70% reduction in the number of Nam Kading fish available for sale here compared to this time last year."*

--Owner of restaurant, Pak Kading, March 2, 1998.

**Ban Phosay:** This village is located further south on Route 13 from Pak Kading, along the left bank of the Nam Kading, several kilometers upstream from Pak Kading. The researcher interviewed two fishermen and three people in a small market area who buy and sell fish. They all agreed that fish catches had declined dramatically since the dam closure and diversion of water out of the Nam Kading. People in the market also mentioned that people in two other villages along the Nam Kading, which were not visited, also are experiencing severe declines in fish catches.

*"In the past we caught enough fish to eat and to sell for cash income. In fact, fish from the Nam Kading were usually sold to Vientiane because of their good taste, better than Nam Ngum fish. Now we can only catch enough to eat but not to sell in the market... One problem is the population which has increased making fishing more difficult. But since the dam closure the situation has become much worse."*

-- Fisherman at market in Ban Phosay, March 2, 1998.

*"The villages of Hat Sai Kham, Phongam, Pak Soum, and Phosay all depend on fishing in the Nam Kading. In all these villages the fishing is now difficult. Fish catches have been reduced by 50 or 70%."*

--Woman selling fish at the small market at Ban Phosay, March 2, 1998.

**Ban Phongam:** This village is also located just off Route 13 along the Nam Kading, a few kilometers upstream from Ban Phosay. The 1996 FIVAS report noted that the villagers here "...depend heavily on fishing for their livelihood. Fish is part of their food almost every day, and they also get some cash income from selling fish. They normally get around a kilo a day, a very good day in the migration period they could get 20-30kg."<sup>4</sup>

In March 1998, following the dam closure, six villagers reported that their average fish catch is now at least 50% lower than it was at this time last year. They report that this has caused major impacts to their food security situation and reduced their cash income.

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<sup>4</sup> FIVAS, 1996, Page 16.

*"The water levels this year since the dam was closed are the lowest we have ever seen for this time of year. The fish have all fled to the Mekong."*

--Villager, Ban Phongam, March 2, 1998.

*"High level people came to see us. They told us there would be reduced flooding and that it would be easier to make our gardens along the riverbank. It is true that here it will be easier to do dry season gardens along the riverbank than in the past. But fishing is much more important to us than the gardens. We fish all year around...."*

--Former village head, Ban Phongam, March 2, 1998.

*"Another problem is boat travel. Here we depend on the river for transport. This has become difficult with the low water level. We have fruit orchards across and up the river and we always used our boats to bring the fruits, watermelons, etc. down to the village but now our boats get stuck. Now we will need a road."*

--villager, Ban Phongam, March 2, 1998

### **Headpond Area**

Thirteen villages are located along the headpond, or reservoir, which was created along a 24km stretch of the Nam Theun and Nam Nyouang upstream from the dam. While the ADB and THPC have claimed that the project will be beneficial for these villages--allowing for an increased fish catch--at present many villagers report harmful impacts from the project on their food security and economic livelihoods.

Ban Thabak: This village of more than 100 households is located where Route 8 crosses the Theun River, approximately eight kilometers upstream from the dam site. Thabak is spread along both sides of the now swollen and stagnant river. The FIVAS team visited Ban Thabak and found that "for villages in the area fish is the most important source of protein, and they eat fish at almost every mealtime. As there are few alternatives to fishing in the area it is unclear from where people will get their food if the dam reduces the catch."<sup>5</sup> A group of six fishermen based at the Thabak boat landing were interviewed in a group. They emphatically reported that people living along the headpond have been harmed by the project.

*"The project has many bad effects! Now it is very difficult for fishing. We can only get about half as many fish as before the dam closed. We don't know where all the fish went. We have to buy expensive new nets to try to fish deeper in the river now. It is very difficult. Also, the vegetable gardens along the riverbank have all been flooded. They were each worth more than 100,000 kip but now are gone and much erosion has occurred. There are many problems. We have not been told about receiving any help or compensation for these problems."*

--Comments from a group of 6 fishermen, Ban Thabak boat landing, March 3, 1998.

Ban Sop Nyoueng This village is also located along the headpond, across the Theun River from its confluence with the Nam Nyoueng. It is several kilometers downstream from Thabak and most easily reached by riverboat. The village currently has 34 households. The villagers originally had high hopes for the project as they were told they would receive roads, electricity, and other benefits. However, at present they appear disillusioned and greatly disturbed by the problems the project is causing.

*"This year we have no vegetable gardens. This is causing us difficulties. Every year we grow vegetables in the dry season along the riverbank but these areas are now flooded. Many of these*

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<sup>5</sup> FIVAS, 1996, Page 13.



*vegetables are eaten within the households but if sold they could bring 200,000 to 300,000 kip a year per family. New gardens can probably be developed in higher areas but it takes time to do this. At present the higher soil is not as good and it might take a few years to do it. In the meantime we have a big loss"*

--Village headman at Ban Sop Nyoueng, March 3, 1998.

*"In the past we could all do well with fishing but now it has become difficult. For a short time after the dam closed we could find many fish but now they are disappearing. Our catches are down by at least 30% and we must work harder and buy expensive new deep water nets. We can't use our old throw nets in the reservoir now."*

--Villager at Ban Sop Nyouang, March 3, 1998.

*"Another problem is that small streams have backed up and surround the village now. It is making transport difficult, especially for school children who share the same school with Ban Kapap. We tried to build bridges across the streams but they are quite wide and it is difficult."*

--Sop Nyouang village headman, March 3, 1998.

*"At Ban Kapap the situation is similar to Sop Nyouang, or maybe worse. It is very difficult for us to catch fish now and we have no gardens this year. Our fish catch is reduced at least 30%. Streams have backed up surrounding our village making land travel very difficult."*

--Boat pilot from Ban Kapap met at Ban Sop Nyouang, March 3, 1998.

### ***Nam Hai-Nam Hinboun downstream areas***

Below the powerhouse, tailrace channel, and re-regulating pond, the water originally in the Theun River flows into the Nam Hai, a small stream that had in the past only flowed seasonally. The water flows in the Nam Hai for several km to the confluence with the Nam Hinboun. The Nam Hinboun then flows approximately 80km to its confluence with the Mekong River. There are villages located all along these rivers, however only the villages in the immediate area of the project and down just past the confluence of the Hai and the Hinboun are considered by the project and the ADB to be "directly impacted." Interviews confirm that villagers from Namsanam all the way to the Mekong are suffering ill effects from the project.

Hinboun district town: National Route 13 crosses the Nam Hinboun just north of the Hinboun district center in Khammouane Province. Many people living here are district government staff and even this far downstream from the project, they reported major declines in fish catches and concerns about the water quality in the Nam Hinboun. Song Hong village is located adjacent to the district center, along the left bank of the Hinboun River.

*"Fishing has become very difficult now that the dam is releasing water. The water runs too fast and is muddy. The fish have disappeared—almost all of them! Maybe 90% are gone. Before we all fished but now it is hardly worth our time. It is difficult to find fish in the market now. Fresh fish from the Nam Hinboun are now rare and since the water release the price has gone up by half. We only see little fish caught in small streams...Upstream from here the villagers at Ban Nong Bua are all fishermen. They would always come here to the market and sell their fish but now we don't see them coming."*

--Comments of 3 family members of civil servants at the Hinboun district town, March 4, 1998.

*"In the past I could catch 3-4kg of fish a day but when they release the water this goes down to 1-2kg or less."*

--Woman fishing in Nam Hinboun by Ban Song Hong, March 4, 1998.

Ban Vang Dao: This village is located on the Nam Hinboun just downstream from where the water from the powerhouse enters the Nam Hinboun from the Nam Hai. The 1996 FIVAS report mentions the importance of fishing to the village, their concerns about flooding, and their hope for

future benefits, such as irrigation and more fish, from the project. Upstream from the confluence with the Nam Hai, the dry season Nam Hinboun's waters are relatively slow moving and clear. But at Ban Vang Dao, just downstream from this confluence, the water is now very muddy and fast flowing. During an informal discussion with the researcher, a group of about 15 villagers discussed the problems being caused by the project:

*"Before the dam closed and the water came up we got drinking water from springs down on the riverbank during the dry season. In the rainy season we get water from other nearby streams which flow at that time. Now the springs are all flooded with the muddy river water and we must go long distances to find drinkable water. The project said they would give us 200,000 kip (\$80) for well drilling but until now we have not received the money even though we requested it many times. Even today our village head has gone to the project to ask again. But now we also know that 200,000 kip will not be enough to drill the wells."*

--Villager at Ban Vang Dao, March 2, 1998.

*"The fish have all disappeared! Last year the fishing was very good. We ate fish everyday and could sell some too. Now it is terrible. The fish are almost all gone—probably 90% or more. The fishing is better upstream of the mouth of the Nam Hai, but that is the area that another village uses for fishing so it is difficult for us to fish there also."*

--Villager at Ban Vang Dao, March 2, 1998.

*"In past years we have had serious problems with flooding. Sometimes the water comes over the bank and into our houses. Now we are very worried that the flooding may be even worse. Many people want to leave but we don't know what to do. We have our rice fields here and when it doesn't flood they are very good. We want to move our houses up to another location but the officials told us to wait and see first."*

--Villager at Ban Vang Dao, March 2, 1998.

*"We have always had vegetable gardens in the dry season along the Hinboun riverbank but those areas have now all been flooded. We will try to make new gardens further up but it will take time and the land is limited."*

--Villager at Ban Vang Dao, March 2, 1998.

*"We have a similar situation in my village. We were told by the project that we would get help with well drilling and water pipes before the water is released. But the water has come up already and we have nothing. We were lied to. It is unjust, don't you think?"*

--Villager from Ban Done (located further downstream from Vang Dao), met at Ban Vang Dao, March 2, 1998.

### ***Resettlement...or just "relocation"?***

The ADB and THPC have made repeated claims that no resettlement is required for Theun-Hinboun. This is a distortion of the actual situation in the project area. While it is true that mass forced resettlement has never been an issue, Theun-Hinboun has caused a considerable amount of displacement of local people and has the potential to cause further dislocation. The project has almost no allocated funds to assist or compensate those villagers who do find they need to move due to the project.

According to a 1995 study commissioned by NORAD, bank erosion problems along the headpond would potentially require 20-30% of families in four villages to relocate<sup>6</sup>. This appears to be

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<sup>6</sup> Midas/Burapha, *Theun-Hinboun Environmental Studies in Lao PDR: Draft Final Report*, Vientiane, June, 1995. Page 45.

occurring now. At Ban Sop Nyouang villagers report that 16 families of the 50 that used to live in the village have left since project construction began (some moving to Thabak, Nahin, and as far as Laksao) and that the uncertainty and disruption caused by the project was a major factor in their moves. Villagers at Ban Namsanam, near the tailrace canal, report that they have been told by the authorities that they must move their entire village of more than 100 households due to the risk of flooding at their current location. A site across the tailrace canal and near the powerhouse has been prepared and is referred to in the Burapha Rural Development study and THPC documents. The villagers are very afraid of flooding and want to move, but are presently reluctant to do so because they have not yet received any assistance. The move will be very disruptive, labor intensive and result in the loss of the gardens and fruit trees they have at their current location.

Many other villages along the Nam Hai/Hinboun also express similar fears of flooding and feel they may have to move. The substantial impacts the project is already having on local people's livelihoods may also end up causing further relocation. Project staff, publications, and consultants, when they acknowledge these issues at all, refer to all of this as "relocation" rather than resettlement but the affected Lao people are not making such semantic distinctions.

### III. COMPENSATION AND MITIGATION MEASURES

*"The project has never looked in depth at the problems we have. They just come quickly, tell us what will happen and leave. They are not very interested in our situation. There has never been any talk about compensation for our losses."*

--a village leader at Ban Sop Nyoueng, March 3, 1998.

Thousands of Lao citizens now suffering harmful impacts from the Theun-Hinboun project are not receiving direct compensation for their losses and there are no plans to provide them with any such compensation in the future. In October 1994, the Lao government, acting with legal advice from the ADB, signed a license agreement with the THPC which limited the Company's obligations to provide compensation and environmental mitigation to \$1 million. This apparently arbitrary figure was based on an assumption of minimal environmental impacts as predicted by the discredited Norpower/Norconsult EIA.

In 1996, one and a half years after the beginning of construction, a new environmental study commissioned by NORAD revealed that the environmental mitigation costs would be much higher than originally envisioned and led many observers to question the lack of funding for such measures. In October 1996, the company signed a supplemental agreement with the government which increased the amount the developers would allocate for environmental mitigation and compensation from \$1 million to \$2.59 million. THPC also agreed to a 5m<sup>3</sup>/second minimum downstream release and to flush sedimentation past the dam. The agreement absolved THPC from any further obligation to assist with mitigation or compensation measures for the life of the project.

Within the entire \$260 million dollar project cost--which includes this \$2.59 million for the mitigation program--a total of only \$50,000 has been allocated for all resettlement and compensation costs for affected local people. The bulk of the mitigation funds, \$1.6 million, were allocated for the construction of the re-regulating pond at the end of the tailrace canal to help reduce erosion in the Nam Hai during periods of peak flow. Another \$130,000 was allocated for design modifications to the dam to allow for a minimal water flow downstream. Also included was support for a monitoring program (\$300,000), clearing of obstructions in the Nam Hai (\$100,000), modifications to the tailrace canal (\$50,000), treatment and protection of spoil heaps (\$100,000),

a local information program (\$15,000), and funding for studies on irrigation, fisheries management, and rural development (\$250,000) to be implemented by foreign consulting firms. No money for the implementation of any activities recommended in these three studies was included.

The funds for the re-regulating pond and modifications allowing for a downstream flow (together 67% of the total mitigation budget) should have been included as part of the project's basic infrastructure from the start, as would surely be required of a project of this type in any developed country, rather than being credited as special "mitigation" measures. Most of the remainder of the mitigation funds went for studies and monitoring. Unfortunately, the agreement does almost nothing to address the issue of compensation for livelihood losses being experienced by local people.

### ***Environmental Management Committee Office***

The 1996 agreement designated a new institution, the Environmental Management Committee Office (EMCO) to oversee implementation of the mitigation measures and the monitoring program. EMCO is structured as part of the THPC and staffed by three people seconded from the Lao government--one from Electricite du Laos (EdL) and one from each of the two provinces. The director is an EdL technician and one of the two provincial representatives is an electrician. EMCO and other THPC officials state that they want to make EMCO more directly accountable to Lao government institutions such as STENO (Science Technology and Environment Office), rather than to THPC, but at present this has not been formalized. EMCO is responsible for the entire mitigation program and has been overseeing the infrastructure work, implementing the public information and monitoring programs, including fisheries and water quality monitoring, and has overseen the rural development, irrigation, and fisheries management studies. The small staff of EMCO, and their ties to the central and provincial levels, make it difficult for EMCO to have a regular presence in the project-affected villages.

According to EMCO, most of the \$50,000 available for resettlement/compensation has already been spent on purchasing land for the transmission line towers. Any additional compensation for loss of property and land is being negotiated on a case-by-case basis. EMCO staff state that more research will be needed over an extended period before it will be possible to say if villagers are being harmed by the project. At present EMCO staff do not appear to be considering or recognizing the necessity of providing compensation for the loss of fishing or forest resources due to the project.

The village of Ban Namsanam is located near the powerhouse, alongside the tailrace canal and re-regulating pond. According to several interviewees, the paddy fields of six families were confiscated for the tailrace canal, re-regulating pond and access roads. These villagers say that they were promised replacement paddy but were offered only land that had been roughly bulldozed and was unsuitable for cultivation. So they refused to accept the land and have not been able to resolve the problem. One villager took a cash settlement but the other five have not. Several villagers expressed frustration with this situation and doubts about the chances of resolving it. According to EMCO, compensation for those villagers who had land taken at Ban Namsanam has been provided. It would appear that further follow-up is required to resolve this issue.

Those interviewed in all other villages visited stated that there has been no discussion with project representatives or other officials about providing any type of direct compensation for the harm caused to their livelihoods due to the project.

***The Rural Development and Fisheries Management Program***

The mitigation agreement allocated \$250,000 to develop plans for rural development, irrigation, and fisheries management. Under EMCO's supervision, the Burapha consulting firm was contracted to produce these plans which were completed in December, 1997. The plans encompass more than \$4 million in expenditures over a five year period for initiatives such as road building, irrigation, strengthening of provincial and district agricultural and health departments, reservoir fish raising, and other related components. Funding, most likely from foreign aid donors, will now be sought for these initiatives. When and if funding is obtained, these plans are to be implemented through the Khammouane and Bolikhamxai Provincial Rural Development Committees and various provincial and district government offices.

The THPC maintains that the initiatives proposed in these plans are merely complementary development assistance activities for the people in the area rather than being compensatory and that they have no obligation to fund these initiatives. The view is full of contradictions, however, as at times project staff and consultants do acknowledge that some of these initiatives, particularly those relating to fisheries, are essentially compensatory in nature.

Some villagers still have hopes for these plans as they have been told they will receive many benefits such as access roads into their villages, electrification, and schools. They do see such benefits as something that would in part make up for the difficulties caused to them by the project. However, others doubt whether the future rural development activities proposed for the area will actually benefit them in the near future or make up for the losses the project has caused them. Many other project affected villagers--located further downstream in the Hinboun and Kading river basins--are beyond the area of proposed implementation and so have no prospect of receiving any benefits that might emerge from these initiatives anyway. In any case, many villagers feel these initiatives would be a grossly inadequate substitute for the provision of direct compensation for their losses—something the project has so far refused to consider.

A preliminary review of the proposed Rural Development and Fishery Management plans also raises many questions as to how effective they would be even if funding is found. The plans appear to be based on inadequate data about past and present fishing patterns and questionable assumptions about the likelihood of success with many initiatives, particularly reservoir fish raising. Many of the plans reflect a traditional top down style of development based on strengthening governmental departments. Similar initiatives have been of very limited effectiveness in improving villager livelihoods in a sustainable manner elsewhere in Laos. The overall rationale of the Fishery Management Plan seems to be to blame villagers for over-fishing and to try to control their activities. It is far from certain that the objectives for reservoir fish raising can actually be met. Past experience with similar initiatives in Thailand, in Laos at the Nam Ngum dam, and elsewhere – including Norway – have been mixed at best.

Rural development activities are to be limited to a defined area of “direct impact” close to the project site and will not include villages farther downstream in the Nam Kading and Nam Hinboun basins—villages already suffering severe impacts from the project as documented above. Large sums in both plans are allocated for consultants, government infrastructure, vehicles, and other items that are tangential to the immediate livelihood concerns of villagers affected by the project. The links between the initiatives and project affected villagers are weak and unclear. For instance, it is not at all certain whether those most affected by the project would have priority for being allocated the newly irrigated land to be developed. Whether or not some of these initiatives would prove useful to project-affected people in the long term is debatable. In any case, it is clear that they would be a poor substitute for directly compensating villagers for the harm the project is causing them right now.

### **Comparison with the Pak Mun Dam**

The Pak Mun Dam, a somewhat smaller “run-of-river” project funded by the World Bank on a Mekong tributary in Thailand was completed in 1994, the same year that Theun-Hinboun was approved. As at Theun-Hinboun, the central social/environmental issues at Pak Mun have focused on fishing and related economic livelihood losses. As of 1994, 1,567 households were identified as affected, six times the number of families EGAT and the World Bank had initially claimed would be affected. In July 1995 an additional 2,506 families filed claims for compensation.<sup>7</sup> Eventually an agreement was reached in which households adversely affected by the Pak Mun dam were given 30,000 baht (\$1,200) in direct cash compensation. An additional 60,000 baht per household went into a government-managed fund for income-generating schemes in the area.

Compensation was provided only after a long struggle by the affected people to gain recognition of their plight. Village leaders remain dissatisfied with the agreement as the amounts provided do not come close to reimbursing them for the actual costs they have incurred due to the project. While compensation is still inadequate and an uncounted number of affected people still have not received any compensation, the agreements at Pak Mun did in the end recognize the principle of direct financial compensation for villagers whose livelihoods are affected by a large infrastructure project.

By July 1995, the cost of Pak Mun resettlement and compensation had reached \$39 million and was still growing. The bulk of this, \$34.3 million, was for compensation costs.<sup>8</sup> While there are certainly socio-economic and other differences between the Pak Mun and Theun-Hinboun areas, the Pak Mun experience shows that the true costs of compensating Lao citizens for the losses caused to them by Theun-Hinboun has been grossly underestimated. If, for instance, it was determined that 3,000 people in the Theun-Hinboun area each required initial compensation of \$1,200--an extremely conservative figure--this would already require \$3.6 million. If this is too much for the THPC to bear, it would call into question whether the Theun-Hinboun hydropower project, as currently structured, is in reality a truly sustainable venture being operated in the best interests of the Lao people.

However, at present, rather than addressing these issues, the ADB and THPC are trumpeting the project's success and refusing to acknowledge that these negative impacts on people's livelihoods are even occurring. No independent verification of whether even the small amounts of compensation now being provided are in fact reaching those affected has been made. No systems are in place to properly document the economic losses caused to local people. The THPC does not appear to even be making a sincere effort to discover what the real situation is in villages affected by the project. Many villagers said that they do not feel comfortable discussing their problems in front of project and government officials.

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<sup>7</sup> “Pak Mun: The lessons are clear, but is anyone listening?” *Watershed* Vol. 1, No 3, TERRA, Thailand. Page 21.

<sup>8</sup> TERRA, 1996, Page 23.

## IV. CONCLUSION

This field report has found that, contrary to claims by the ADB and the project developers, people in a wide area are suffering harmful effects from the operation of the Theun-Hinboun hydropower project. Existing compensation measures are inadequate to reimburse affected villagers for the very real and serious impacts to their livelihoods. Those who can least afford it, rural villagers living on the economic margin with few resources in reserve, are being made to suffer and in effect subsidize the shareholders of the THPC, which include the governments of Norway and Sweden, two of the wealthiest countries in the world.

At this point, the Lao government, should it want to respond to the needs of those impacted by the project, is in a difficult situation. The THPC argues that any additional compensation should come from the Lao government's share of the project profits and royalties. This argument ignores some important points concerning the past process of how this project came about. It would also absolve the outside shareholders from taking responsibility for their share of the true costs of the project, costs that were ignored or downplayed by a consultant company, Norconsult, owned by one of the shareholders, Statkraft, during the project formulation period. The Lao government signed the concession agreement on the basis of this misleading information and the ADB, in its haste to get the project started, quickly accepted this poor process rather than providing professionally responsible advice to the Lao government. Given this past process, there may well be a legitimate legal argument that the concession agreement should be re-negotiated so that all of the project shareholders share the true costs of mitigating the projects' harmful effects on the local population.

A first step in addressing the concerns mentioned above might be for the project's public financiers--NORAD and the ADB--to sponsor an extensive and comprehensive independent examination of the points that have been raised in this field report. Such an examination could be the first step in providing redress to those Lao citizens currently being harmed by the project. As these harmful impacts are being experienced right now to people with extremely limited economic reserves or alternatives, this process should occur as quickly as possible.

The ADB also bears responsibility for assisting in resolving these problems as it has firm policies in place stating that people should not be allowed to be left worse off than before due to the impacts of an ADB financed project.<sup>9</sup> The researcher is hopeful that the responsible Lao government authorities, when they fully understand the serious negative impacts occurring to many of their country's citizens, also will want to move quickly to solve these problems and bring justice to the affected people.

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<sup>9</sup> The ADB's Handbook for Incorporation of Social Dimensions in Projects states that the Bank must "identify and assess options for avoiding, mitigating, or compensating groups which may be adversely affected" by a Bank project. It also requires project staff to "consult with the affected groups...concerning the proposed solutions."

## ANNEX 1: Project Description and Background

Nam Theun-Hinboun is the first of several large hydropower projects planned or under development in the Theun-Kading River basin. The construction, which began in 1994, is now complete and the official project opening is scheduled for April 4, 1998. The project diverts water from the Nam Theun, one of the largest Mekong tributaries, down a 5.5 km headrace tunnel shaft under a mountain range to a power plant located at the base of the mountain within the Hai/Hinboun river basin. The water flows on through a 3.5 km tailrace canal and re-regulating pond into the Nam Hai stream, which then flows into the Nam Hinboun, another Mekong tributary. If Nam Theun 2, to be located further upstream, does go ahead, it will have a major impact on Theun-Hinboun by diverting water out of the Theun River resulting in a diminished downstream flow and a reduced power generation capacity.

The Theun-Hinboun is a "BOOT" (Build, Own, Operate, Transfer) project run by the Theun Hinboun Power Company (THPC) with a 30 year license. The THPC is a joint venture between EdL (60%), MDX/GMS-Thailand (20%), and Nordic Hydropower (20%). Nordic Hydropower's ownership is equally split between Swedish Vattenfall and Norwegian Statkraft both of which are state owned utility companies. The Asian Development Bank loaned \$60 million out of a total cost of \$260 million to the Lao Government for its equity share of the project and the Nordic Development Fund loaned another 7.3 million. NORAD (Norwegian bilateral grant aid) contributed 7 million dollars and UNDP provided a small grant. Financing was also provided in part by a consortium of commercial banks and loans through Scandinavian public export credit agencies. The project will more than double the electrical generating capacity of Laos and is expected by the government and project proponents to be a major foreign exchange earner. Public interest groups in Norway, Thailand, and many other countries have expressed concerns about the project and the process by which it has been implemented, ever since it was first proposed. Detailed descriptions of those concerns are available in other public documents and will not be repeated here.

### **Financing Structure**

The ADB and THPC have been describing the project as privately financed: "*The first privately financed infrastructure in Lao PDR, Theun-Hinboun will serve as a model for future hydro power development.*"<sup>10</sup> This is misleading as in reality, most of the financing is either public or publicly guaranteed. Well less than half of the total investment in the project involves non-publicly guaranteed private financing.

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<sup>10</sup> Theun Hinboun Power Project, A Contribution to Development, Page 3, Theun-Hinboun Power Company Ltd., Vientiane, 1997.



## **ANNEX 2: ABBREVIATIONS, ACRONYMS AND GLOSSARY**

### **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
EdL	Electricite du Laos
EIA	Environmental Impact Assessment
EMCO	Environmental Management Committee Office
Km	Kilometer
Lao PDR	Lao People's Democratic Republic
NORAD	Norwegian Agency for Development
STENO	Science, Technology and Environment Organization
THPC	Theun-Hinboun Power Company

### **GLOSSARY**

Ban	Lao word for village
Kip	Lao currency. US\$1.00 equals approximately 2500 kip
Nam	Lao word for river.

All dollar figures are in US dollars unless otherwise noted.