

NT2 FREQUENTLY ASKED QUESTIONS – June 2005

1.1 Has the World Bank made a decision to support the Nam Theun 2 project? What criteria has the Bank used to inform its decision-making about the project?

The Executive Directors of the International Development Association (IDA) and the Board of Directors of the Multilateral Investment Guarantee Agency (MIGA) approved World Bank Group support for Nam Theun 2 on March 31, 2005. In accordance with the Bank's "Decision Framework" -- agreed to with the Lao government -- the project was presented to the World Bank's Board of Executive Directors only after an extensive due-diligence process, when Bank staff were satisfied that sufficient progress had been made to ensure that the project:

1. Is embedded in a development framework, characterized by concrete performance, that aims to reduce poverty and protect the environment.
2. Is technically, economically, and financially sound and adhere to the Bank's safeguard policies.
3. Has greater understanding and wider support within the international donor community and global and local civil society.

1.2 What kind of support and financing is the World Bank providing for the project?

Private companies, several public institutions, and the Lao government are financing the \$1.2 billion hydropower project. The Lao government has received a 'partial risk guarantee' from the World Bank to lower the project's risk profile for private investors as well as a modest credit for eligible environmental and social expenditures. Specifically, the Bank is providing:

An IDA partial risk guarantee (of about \$50 million) and a MIGA debt guarantee (of about \$50 million) to assure commercial lenders that loans they make for the project will be repaid in case the government (or any of the state entities) fails to carry out one or more of its project commitments. The guarantee lowers the risk profile of the project, and thus has allowed the government and the developers to attract commercial financing for the project at better rates.

An IDA credit (the Nam Theun Social and Environmental Project—or NTSEP) to finance a portion of the Lao government's equity in the project company to fund eligible environmental and social expenditures. These funds (amounting to nearly US\$20 million) should cover specific environmental and social mitigation activities outlined in the three safeguards documents (EAMP, SDP and SEMFOP), as well as support for independent project monitoring.

1.3 Why is the World Bank supporting this project? What benefits would this project bring to Lao PDR?

The Bank is supporting the project because it believes that Nam Theun 2, if properly managed and implemented, could significantly benefit the Lao people—among the poorest in Asia, with some of the lowest social indicators in the region—by generating

revenues that could be used for priority poverty reduction programs. Specifically, the project seeks to:

Generate incremental revenues through environmentally and socially sustainable use of NT2's hydropower potential to use for priority poverty reduction and conservation programs in Lao PDR;

Implement basic governance reforms, particularly in the area of public expenditure management and the delivery of key social services in order to make sure that NT2 revenues are applied in a transparent and prudent manner for poverty reduction—as outlined in the government's broader National Growth and Poverty Eradication Strategy (NGPES);

Improve natural resource management and biodiversity conservation, mitigating the environmental and social impacts caused by the project and protecting the NT2 watershed so that the project's hydropower facilities have an effective life far beyond the 25-year concession period and a framework has been established, with special emphasis on biodiversity conservation, for broader application within Lao PDR.

1.4 This is a complex project. How has the Bank reviewed the various aspects of NT2?

The World Bank applied a stringent due-diligence process on NT2, investigating the details of the risk-mitigation, compensation and management plans, reviewing institutional arrangements, and verifying material facts to ensure that Bank operational policies and other institutional requirements were met. The due-diligence technical, social, and environmental safeguard documents prepared for NT2 are available on the website or at the World Bank's InfoShop, which is accessible at www.worldbank.org.

These risk-mitigation, compensation and management plans were informed by extensive analytical work undertaken by the Lao government and the project developers—the Nam Theun 2 Power Company (NTPC)—as well as local consultations that have been ongoing with the project-affected communities since 1997, with an enhanced round of local consultations launched in early 2004. A series of international workshops in Bangkok, Tokyo, Paris, Washington, DC, and Vientiane also provided a forum for further discussion of issues related to the draft safeguard documents, as well as fundamental policy issues.

1.5 Why is this project important for Lao PDR?

The Nam Theun 2 project could significantly boost Lao PDR's development if the resources that it will generate are soundly managed and directed to priority poverty reduction and conservation programs. It would help to reduce the country's dependence on development assistance and build institutional capacity for the sustainable development of its natural resources. For these benefits to be realized, the government has committed to implementing a transparent and clearly defined revenue-management framework.

1.6 How is the country doing in terms of economic growth and reducing poverty?

In spite of good progress over the last decade in boosting growth and reducing poverty, Lao PDR is still a very poor country. Poverty in Lao PDR dropped from 46% in 1992/1993 to an estimated 32% in 2002. Still, 80% of the people live in rural areas; 40% of villages practice slash-and-burn agriculture; 70% of the labor force has no education or did not finish primary school; life expectancy is 59 years; one in 10 children dies by the age of five; and one in four adults dies by age 40.

1.7 What are Lao PDR's options for expanding its economy?

The Bank's Country Economic Memorandum (CEM) for Lao PDR includes an analysis (Chapter 2) of the sectors that represent major potential sources of growth for Lao PDR, as well as the risks associated with each and measures to ensure that these sectors are developed in a way that will substantively support poverty reduction. These potential sources of growth include the hydropower sector. A number of independent studies done over the past 10 years highlight the priority of the hydropower sector in Lao's overall development strategy. This conclusion has been reconfirmed by the CEM, given Lao's strong natural resource base and proximity to neighboring markets, provided that hydropower is developed in a technically, socially, and environmentally sustainable manner, and that the revenues are used to stimulate growth and reduce poverty.

1.8 Is the Lao government improving the way it manages its economy -- to be able to manage the influx of NT2 revenues? Is it committed to using the revenues for poverty reduction?

The World Bank is working with the Government to strengthen its macro-economic framework and implement its reform program with respect to its public expenditure management, state-owned enterprises (SOEs), banking, trade, and private sector development. It is important to recognize the progress that has been achieved. In early 2004, growth picked up and is projected to reach 5.8 percent. Exports are performing strongly; the current-account deficit remains at around six percent. Inflation has been falling over the last six months.

Reforms to improve management of public resources -- including restructuring of SOEs, increasing transparency of the national budget, tackling banking and financial sector reform -- have been implemented through the support of the Financial Management Adjustment Credit (FMAC). All 17 specific reform actions for the release of the second tranche of the FMAC were completed, albeit after a year's delay; the second tranche was released at the end of May.

The Government remains committed to the continuation of reforms. Its Letter of Development Policy (LDP) for the FMAC and the recently completed NGPES commit the Government to continued reforms in the areas of macroeconomic management, public expenditure management, SOEs, the financial sector, private-sector development, international and regional integration, as well as delivery of public services and targeted

poverty reduction. The Government is already envisaging the implementation of specific measures in some of these areas, and is actively formulating measures in other areas.

1.9 How can you ensure the revenues from the project will be spent in the manner they are intended, ie, for poverty reduction and environment conservation activities?

Management of the revenues from the proposed project is one of the most critical issues—as outlined in the first element of the Decision Framework. Accordingly, the World Bank is working with the Lao government to develop a process to ensure that the revenues generated by the project are used to increase expenditures on poverty reduction and environmental management programs, such as primary education, basic health care, rural roads, locally identified development initiatives, and biodiversity conservation.

More specifically, in order to develop mechanisms for the transparent application of revenues over the long term, the World Bank and the ADB are assisting the Lao Government in the design of a Public Expenditure Management Strengthening Program (PEMSP). This program seeks to achieve measurable progress in improving budgeting and expenditure planning, accounting and financial reporting, treasury operations and cash management, and internal control and audit. The PEMSP builds on and supports the Lao government's ongoing reform programs, but will focus on capacity-building initiatives, at both the central and provincial levels. Implementation of the program would be supported by the World Bank through its Financial Management Capacity Building project and the proposed sequence of Poverty Reduction Strategy Credits, in collaboration with the ADB, the UNDP, and several bilateral partners.

1.10 Does this project signal that the World Bank is back in the dam business?

We were never out of the dam business. It is true that in recent years, the Bank has lent less for large infrastructure projects, due in part to the desire that the private sector take a more direct financing role in the energy and water sectors and in part due to a decline in demand from client governments, brought on in East Asia, at least, by the Asian financial crisis in the mid-1990s. Since then, demand for infrastructure support has risen in the region.

The Bank recognizes the reality of development -- that responsible growth and poverty reduction require access to infrastructure of a variety of types and scales in both urban and rural areas. The Infrastructure Action Plan provides a framework for expanded support through a variety of approaches at the sector, program and project level, and complements the Water Resources Strategy issued in fiscal year 2003. Both these documents -- discussed and approved the World Bank's Board -- recognize the need for complementary actions to strengthen the policy framework and institutional capacity at the sectoral level along with investments to be determined in the specific context of the cooperating country. In each case, World Bank safeguard policies apply to help ensure that projects are carried out in an environmentally and socially sustainable manner.

1.11 Does Thailand really need this power? Aren't there alternatives?

In studying the economics of the project, the Bank commissioned a detailed analysis of power sector demand, to answer three main questions: first, whether there is a market for the energy that the project will offer; second, whether the project is part of a least-cost expansion plan for the Thai and Lao power systems; and third, whether it offers sufficient value-added impact.

The interim economic analysis concludes that the Thai power system is a reliable market for Nam Theun 2. Given that the additional energy Nam Theun 2 would provide is only half of the growth of the Thai market in 2009 (expected to grow at 6.5 percent per annum), and only 6% of the growth between 2009 and 2016, the interim study concludes that although Nam Theun 2 would be a very large project for Lao PDR, it is in fact very small compared to the Thai market, which would be able to absorb its additional input within a period as short as six months.

Compared to alternative sources of power, especially combined cycle gas turbines (CCGT) in neighboring countries—the cost of which is currently competitive but relatively unstable—Nam Theun 2 emerges decisively as a least-cost source of supply.

Finally, the project's returns (economic rate of return) are also satisfactory, especially for Lao PDR, which would have a 24% equity stake but a much larger share of the returns (46 percent). Furthermore, if the dam is well-managed and maintained throughout the Concession Agreement period, it should remain a productive power-generating facility for decades after the dam becomes the property of Lao PDR, and could generate \$6 billion to \$7 billion profit for the government (this is after the \$1.8 billion over the first 25 years of the project.)

2.1 What are the expected impacts of the project on the Nakai Plateau and on the people who now live there?

The project would affect three different areas in central Lao PDR: the Nakai Plateau, the downstream areas along the Xe Bang Fai River, and the downstream areas along the Nam Theun River. Significant project resources would also be dedicated to establishing and maintaining effective management for the Nakai Nam Theun National Protected Area.

The Nakai Plateau will be partially flooded to create a 450 sq. km. reservoir behind the NT 2 dam. About 6,200 people will have to be resettled. Terrestrial and aquatic habitats and associated biodiversity will be affected as a result of the flooding of the plateau and changes in water quality in the reservoir. To mitigate the expected environmental impacts, an Environmental Assessment and Management Plan (EAMP) has been developed which systematically accounts for all habitat loss on the Plateau. The management plan addresses habitat management needs for species of high conservation value on the Plateau. In collaboration with the Nakai-Nam Theun Watershed Management Authority (WMPA), the EMP will also support new wildlife studies,

surveys, and community awareness programs for habitat and species management concerns (see detailed response below).

The resettlement program, as outlined in the Social Development Plan, aims not only at restoring but also at improving livelihoods of the affected people. The proposed resettlement sites were chosen to meet villagers' expressed desires to be near the future reservoir, near all-weather roads, near their present locations, near the forest and near land that can be used for growing rice and other cash crops. All villagers would be resettled short distances from their present homes, and most, if not all, will remain within their spiritual boundaries. Because these communities are among the poorest in Laos—80% of the families cannot grow enough rice for the year—the aim of the resettlement program is not only to restore their incomes but rather to improve their livelihoods.

Villagers would be provided with improved housing, infrastructure and services, in locations chosen with their active participation, with training and financial support to start their farms and other livelihood activities—such as forestry, fishery, livestock, small-scale business and non-farm employment, and gathering of non-timber forest products, as well as education and medical facilities. These activities would be monitored and supported through the completion of construction.

2.2 What about logging on the Nakai Plateau? When did the World Bank require that logging on the plateau stop?

Logging on the plateau goes back to 1973, increased in 1994 when the Government and the Nam Theun Electricity Consortium signed a memorandum of understanding. The World Bank has, on a number of occasions since our involvement began in 1995 taken steps to have illegal logging on the plateau stopped. As part of our decision to consider the project, we insisted that the Government strictly limit logging activities to the reservoir inundation zone only. Since 2002 all Government authorized logging has ended on the plateau. Bank commissioned logging surveys have shown that virtually all logging in the project area has ceased. This has been further confirmed through periodic site visits and through eyewitness accounts of the Nam Theun Power Company (NTPC) and the Government, and also through independent logging missions undertaken by the Bank.

More specifically:

- Logging outside of the reservoir area has essentially been stopped since 1997. At that time the inundation zone was demarcated on the ground and agreement was reached that any logging on the plateau would be restricted to the inundation zone;
- To our knowledge logging stopped altogether on the plateau in 2002. The first logging survey mission was 2000 and found problems, since then (i.e. 2002) we aren't aware of problems.
- The Bank has conducted 2 logging survey missions to confirm whether logging was occurring outside of the reservoir area (2000 and 2002). We will conduct a third survey in February 2005.

- The 2002 logging survey mission concluded that "There is now no evidence of significant illegal logging in the project area" (p. 01). The report further confirmed that the Government has responded to the recommendations of the 2000 survey. The results of the logging surveys can be found at www.worldbank.org/laont2

2.3 Has the World Bank, the Lao government or the project developers, produced a report of the logging associated with the proposed dam project?

At the Bank's request, the Environmental Assessment and Management Plan (EAMP) (p. 102) for the NT 2 project includes a summary of the chronology of logging on the Nakai Plateau based on a detailed historical analysis of logging using time series of satellite imagery dating back to 1973. This analysis was conducted by an independent consulting firm (Aruna). It is in the report "Chronology of Deforestation and Evaluation of the Current Biomass on the Nakai Plateau for the Nam Theun 2 Hydroelectric Project" (February 2004). The Aruna report clearly documents the extent and timing of logging and vegetation clearing in the reservoir area as well as in the dividing hills of the NBCA.

This report provides an independent third party verification of what we understood to be the situation on the ground since our engagement in 1995. At this time, we feel an appropriate analysis of the logging chronology has been completed. Other than the completion of the third logging survey study, we are not asking for any additional analytical work at this time. Further, if the project proceeds, the Government will prepare a Salvage Logging Plan (including monitoring arrangements) for the remaining commercially valuable timber in the area to be inundated, before logging occurs. This plan has to be satisfactory to the Bank.

2.4 In 1996, Margules, Groome and Pöyry wrote a "Forestry Report" for the Nam Theun 2 project. In this report they described the development of timber industry (sawmills etc), largely fed by logging from the reservoir area of the proposed dam. Does this timber industry still exist, and if so from where does it currently source its timber?

We do not know the details of processing associated with logs that may have their origin in the project site, but we are aware of the GP report -- the general concerns it raises have been addressed by the Bank in its forest policy dialogue with Lao PDR. We did look at the GP report in the context of preparing the Forest Policy study in 2000/1 (see link below - pages 15-16) and raised in our report the risk that investors would "pressure the Government of Lao PDR" for wood at the expense of sustainable management. Elsewhere in our report, the Bank addressed generally the problems of revenue mobilization from forestry (pp 23-28). This has been followed up in the Sustainable Forestry for Rural Development (SUFORD) Project by including a sector monitoring component which is intended to establish business-like processes regarding timber sales. [Download the Forest Policy Study](#)

2.5 What about impacts on the plateau's natural habitats and wildlife?

We are concerned about possible effects on the natural habitats of the Nakai Plateau and throughout the wider project area—which is why the private sector developers, the Lao government, the international financial institutions, and international NGOs have been actively involved in studying the possible impacts and developing programs to offset any negative effects of the reservoir construction.

The Asian elephant has been recognized by all parties as requiring special attention.

To better understand the potential impacts of the project on the elephant populations, the government and the private-sector project developer—the Nam Theun Power Company (NTPC)—are working directly with a leading international conservation NGO, the Wildlife Conservation Society (WCS), on a study that involves direct observations of the elephant families, tracking their daily lives and seasonal movements, documenting location of migration routes, location of mineral licks in order to move away from conjecture towards formulation of a science-based management plan for the elephants. The Lao government and the project sponsors will use the results of this study to develop and implement a program to manage impacts of Nam Theun 2 on the elephant population.

With respect to other wildlife in the project area, all indications are that the part of the Nakai Plateau that will be inundated is not a critical natural habitat as defined under World Bank policy. During fish surveys conducted for the project (probably the most thorough in Lao PDR's history), it was found that only one species of fish, the Nam Theun stiff-jaw Scaphognathops theunensis, might have been restricted to the inundation area. It was first recorded in 1996 from the NT2 project area, but in 2002 it was demonstrated that it lived outside the project area in the Nam Gnouang above the Theun-Hinboun dam.

The other main species of concern, the White-winged duck, which has not been seen on the Nakai Plateau for over five years, while certainly losing some of the habitat where it was previously found, could actually benefit from the forest-fringed embayments that would be formed on the north of the reservoir. The developers have allocated considerable sum in the environmental management plan that would allow the necessary surveys on this bird to be conducted.

To ensure the mitigation of all potential environmental risks, detailed environmental and social impact assessments and development action plans for all aspects of the project are being finalized. These assessments and action plans have been developed in close collaboration with concerned stakeholders and affected communities. The advanced drafts are posted for public review on www.namtheun2.com and are available at the World Bank's InfoShop.

2.6 What are the expected impacts of the project on the Nakai Nam Theun National Protected Area and the NT 2 Watershed area?

It is important to note that while part of the Nakai Plateau would be flooded by the creation of the NT2 reservoir, the adjacent Nakai-Nam Theun National Protected Area (NNT-NPA) and two forest corridors linking it to adjacent NPAs—together nine times the size of the reservoir—would be conserved as an offset for the inundation of natural habitats on the plateau. The protected forests have globally significant biodiversity value and are among the most important in southeast Asia for conservation.

The project would provide about \$1 million per year for 31 years for the management and protection of this forest. This should be viewed against the approximately \$15,000 the government of Lao PDR is currently able to allocate to its entire protected area system annually. A conservation management plan (which includes detailed arrangements for livelihood development and for appropriate approaches for the ethnic minorities in the project area) has been developed for the NNT-NPA.. The execution of this conservation plan will be subject to external monitoring.

Successful long-term management of these areas and the corresponding critical natural habitats they will protect will ensure continued existence of habitat that all wildlife dependent on these areas need for survival. The success of this offset and compensation scheme depends on the Government's ability to protect the biodiversity of the NPA and its corridors. The Government has demonstrated a commitment to conservation of the NPA by eliminating logging in the protected area (since 2001) and establishing the corridors and the Watershed Management Protection Authority, the government body set up to protect the area, as outlined in the safeguard document known as the SEMFOP -- the Social and Environmental Management Framework and Operational Plan.

In addition to securing the financing to manage the watershed through the Concession Agreement, a number of measures are being undertaken to help ensure protection of this area as part of the SEMFOP, including agreement on a shared vision for conservation and protection of the NNT-NPA that prohibits commercial activities in the NPA and implementing livelihood models that are environmentally compatible for the 31 enclave villages. The SEMFOP document has been developed directly with GoL and will be endorsed by GoL with a supporting legal framework. Activities such as physical demarcation of the area, baseline surveys of biodiversity, and strengthened patrolling with a focus on cross-border wildlife trade have already begun--and a program to build capacity within the WMPA will also begin shortly.

2.7 What are the expected downstream impacts?

Because the project involves the inter-basin transfer of water from the Nam Theun River into the Xe Bang Fai River, it will affect two distinct downstream areas. The area downstream of the dam along the Nam Theun River will have both environmental and socio-economical impacts. Approximately 35 villages are expected to experience moderate levels of disruption to fishing livelihoods. An additional 35 villages could experience minor adverse effects. A proposed compensation framework has been

discussed with a representative sample of villagers and detailed compensation programs will be agreed with affected villages during implementation.

The biological impacts along the Nam Theun River have been estimated in the EAMP and are considered to be important. Environmental mitigation is proposed through guaranteed minimum riparian releases and supplemental spillage during the wet season. NTPC will take an adaptive management approach to riparian release which will provide some opportunity to refine riparian flows through dam operations.

Based on systematic studies, surveys, and consultations, NTPC estimates that approximately 70,000 people -- including those living along the Xe Bang Fai, the Nam Phit and the Nam Kathang Rivers and other Xe Bang Fai tributaries -- use the river for fishing and will likely be negatively impacted by the project. Impacts would include mainly river bank erosion, changes in water quality, effects on fisheries, and restrictions on crossing the river. There would also be some benefits such as more irrigation potential and improved navigation. The biggest impact is likely to be on fisheries, to the extent that fish populations will be changed and likely reduced in numbers and predominance in the adversely affected areas. In some areas, such as upstream of the confluence of the Nam Phit and Xe Bang Fai Rivers, the impacts upon some fish species may be beneficial (as was the case with the Nam Hinboun above the confluence of the Nam Hai). It is uncertain whether any species would completely disappear from the Xe Bang Fai River. However, the Xe Bang Fai does not provide a unique habitat for any species. The World Bank is reviewing these studies and verifying material facts as part of its due-diligence work for Nam Theun 2.

2.8 How will the people impacted by the changing water levels—especially possible fisheries loss—be compensated?

To establish a basis for monitoring the project's impacts and to ensure that livelihoods are not adversely affected by the impacts on fisheries, baseline data is being collected in a systematic manner. A fisheries monitoring program has been initiated that would continue through construction into operational phases. The surveys are expected to further quantify the impacts to fisheries in reference to pre-project estimates; this should allow for any adjustments to the compensation program, as required, to meet the actual loss as determined through fish production assessments before and after project impacts. To mitigate the potential adverse impacts of losses in assets and fisheries, a "proactive development program" has been proposed by the developers. This program will commence soon after financial closure of the project is achieved, rather than waiting until the potential impacts are felt by the people after the dam is commissioned in 2009. This program will support:

The implementation of a participatory program through the development of alternative income activities, including aquaculture (e.g., pond fish culture, integrated fish farming with animal husbandry, and integrated rice-fish production in paddies, and animal husbandry) in the Xe Bang Fai, Nam Theun, Nam Phit, and Nam Kathang rivers; Compensation for other impacts, such as losses to riverbank gardens, physical assets due

to increased riverbank erosion, drinking water quality, dry-season transport across tributaries, irrigation infrastructure, and incremental flooding in the lower Xe Bang Fai area.

A significant part of the program would be completed in advance of the actual impacts so that, if and when they do occur, the affected communities would be better prepared in terms of their nutrition and livelihoods. In addition, opportunities to offset any short-term reduction in livelihood could be provided via employment for civil works needs for the investments in compensation activities.

The design of the mitigation activities—as outlined in the revised Social Development Plan—has relied heavily on a series of local consultations ongoing in the Xe Bang Fai and Nam Theun areas, with feedback from residents asking that mitigation measures be done at a district level, so that people can directly participate in improving and refining the menu of options. The use of consultations will be a continuous process under the project and will provide a mechanism to adjust mitigation actions during the course of project implementation to meet the specific needs of affected villages.

Further detail on downstream issues is included in the newly revised Social Development Plan and the Compensation Framework, available for public review on www.namtheun2.com

2.9 What about broader impacts, such as those on the Mekong, or regional water basin?

The Asian Development Bank commissioned and completed a study, the Cumulative Impacts Assessment, to address this issue. The study evaluated the combined effects of the NT 2 project with other development projects taking into account likely development scenarios in both 5 year and 20 year planning periods. The analysis, which has been discussed with key stakeholders including some of the riparian countries and the Mekong River Commission, concludes that the impact of NT2 alone on fisheries and water levels downstream of the Xe Bang Fai confluence with the Mekong would be insignificant. The study has been released and is on the World Bank's website, www.worldbank.org/laont2.

2.10 Are the people aware of the potential negative impacts of this project? How can you verify that those being resettled are fully informed and participating in the process, given the cultural and linguistic barriers to information gathering?

An unprecedented process of local consultations has been conducted to ensure that the proposed project, its likely positive benefits and potential negative impacts, and compensation, mitigation, and resettlement schemes are understood and discussed by project-affected communities. While previous rounds of consultations were led by the government and the developers, in the most recent round of consultations the World Bank and the ADB have involved independent external experts in the process to ensure transparency, balance, and meaningfulness.

This ongoing process, led by an independent facilitator from the Thai NGO community, Mr. Anek Nakabuttra, who has knowledge of local languages and customs, has relied on the translation and rendering of documents and issues into easily understood materials; a three-day program per village to train district-level resource persons and village facilitators (selected to reflect the ethnic and gender balance of each community), discussion of issues in a village forum, small breakout groups to allow villagers to discuss their views and concerns openly, and village recommendations. At the end of consultations in each geographical area, a wrap-up session is held to review villagers' concerns and proposals, and to reach agreement on major design changes. Such changes have included the incorporation of vocational training and provisions for special relocation assistance for widows and the elderly into the Resettlement Action Plan.

This process has been observed and evaluated by an independent monitor, Dr. James Chamberlain, a Lao expert with extensive knowledge of local languages and practices, to determine whether the local consultations are transparent, balanced, and meaningful. His observations and findings are documented in an initial summary report, Proposed Nam Theun 2 Hydroelectric Project: Assessing Quality of the Local Consultations Interim Draft Report; reports from each of the wrap-up sessions have been collected and are being translated into English and summarized into an accompanying matrix of issues and responses—and changes in the safeguard documents and project design as a result of the consultations.

Looking ahead, the government is looking at ways to build upon the network of trained district officials and villagers in participatory processes, as well as finding ways to increase civil society monitoring in the project's preparation and implementation, should it go forward.

3.1 How has the Bank applied the lessons from Pak Mun Dam in Thailand and other dams to Nam Theun 2?

The World Bank has learned from past experiences with dam projects, both in Asia and internationally, and is applying a more comprehensive approach in the NT2 project preparation process. The intensity of this effort reflects the strong concern that the project deliver real, durable benefits for the people of Lao PDR. Specifically, the preparation for Nam Theun 2 has incorporated lessons learned from past projects, and has resulted in:

- Thorough baseline surveys and mitigation actions being better defined and handled more proactively with an adaptive implementation plan to ensure that adverse impacts to fisheries and the communities dependent upon them are minimized;
- A broader range of stakeholders identified through the consultation process; and
- Contractual and financial obligations to mitigate known and unknown impacts.

With regard to fisheries more specifically, the following measures have been taken in preparing the Nam Theun 2 project:

- Baseline data on fisheries is being collected in a systematic manner through a fisheries monitoring program that would continue through construction into

- operational phases, to quantify the impacts to fisheries in reference to pre-project estimates; this should allow for any adjustments to the compensation program, as required, to meet the actual loss as determined through fish production assessments before and after project impacts;
- Pre-project estimates of losses to fisheries are being calculated by using and applying, with some modification in consideration of differing conditions, experience from the impact on the Nam Hinboun river of a similar inter-basin, water-transfer hydroelectric project;
 - To mitigate the potential adverse impacts of losses in assets and fisheries, a "proactive development program" has been proposed by the developers. This program will commence soon after financial closure of the project is achieved, rather than waiting until the potential impacts are felt by the people after the dam is commissioned in 2009. This program will support:
 - The implementation of a participatory program through the development of alternative income activities, including aquaculture (e.g., pond fish culture, integrated fish farming with animal husbandry, and integrated rice-fish production in paddies, and animal husbandry) in the Xe Bang Fai, Nam Theun, Nam Phit, and Nam Kathang Rivers; and
 - Compensation for other impacts, such as losses to riverbank gardens, physical assets due to increased riverbank erosion, drinking water quality, dry-season transport across tributaries, irrigation infrastructure, and incremental flooding in the lower Xe Bang Fai area.

3.2 What lessons has NT2 taken from the World Commission on Dams (WCD) process?

In common with virtually all those consulted in the WCD process, the World Bank shares the WCD core values and concurs with the need to promote its seven strategic priorities. In addition, the lessons presented in the WCD Report provide a valuable base for us to draw from when we consider development of hydropower projects. The focus of the World Bank, in the case of Nam Theun 2 as well as in other projects, is to ensure the environmental and social soundness of the proposed project, in both the preparation and implementation phases, through effective implementation of our Board-approved safeguard policies.

3.3 NTPC awarded the head construction contract to Electricité de France (EdF) and the main dam construction contract to the Ital-Thai Development Ltd., both of which are members of NTPC, with no competitive bidding involved. Isn't this in breach of World Bank guidelines?

The contracts for Nam Theun 2 will be financed by commercial banks and not by World Bank funds. The Bank's involvement in the project financing would be limited to the extension of a partial loan guarantee.

Thus, the relevant provisions of the World Bank's procurement guidelines are those which apply to guarantee operations (paragraphs 1.5 and 3.16 of the Guidelines for

Procurement under IBRD Loans and IDA Credits, May 2004), and not those which apply to Bank loans or credits. The Bank's procurement guidelines for guarantee operations require that the goods and works are procured with due attention to economy and efficiency, that they are of satisfactory quality and compatible with the balance of the project, that they are delivered or completed in a timely fashion, and that they are priced so as not to affect adversely the economic and financial viability of the project. The Bank has satisfied itself through a detailed procurement review conducted by an independent consultancy that the Nam Theun 2 Project meets these requirements of our procurement guidelines.

In the case of the proposed IDA grant, which has been requested to fund environmental and social aspects of the project as part of the Government's equity contribution, World Bank procurement and consultant guidelines for credits would be applicable and the Bank will undertake its customary supervision of this grant, to ascertain that our guidelines are followed.