

Response of the World Bank and Asian Development Bank to the Nam Theun 2 Trip Report and Project Update (May 2007) of the International Rivers Network

The World Bank and Asian Development Bank have read the recent Trip Report and Project Update issued by the International Rivers Network (IRN) on the Nam Theun 2 (NT2) project in Lao PDR. The report is the result of an eight-day visit by IRN staff in March 2007.

At the outset, the Banks would like to recognize IRN's interest in ensuring the success of the NT2 project. However, factual errors and omissions in the information and analysis underpinning the report have led to inaccurate conclusions. The following paragraphs respond to the four major concerns expressed in the report.

1. *Livelihood restoration/development activities are in no way jeopardized.* Livelihood restoration/development is a lengthy and adaptive process that should evolve over time, reflecting experience gained and lessons learned. The project's livelihood activities are at different stages of development, and are being designed and progressively implemented to respond to specific realities in each of the four project areas: the *Nakai Plateau*, the *Project Lands*, the *Downstream Areas*, and the *Nam Theun 2 Watershed*. While there were some delays in commencement of livelihood activities, this is not unusual in a project of this complexity. Over the past eighteen months implementation has gathered momentum. The situation on the ground is described below.

- ***Nakai Plateau*** – *The livelihood program is expected to meet income targets at the beginning of the fifth year after relocation (2011/2012), as stipulated in the Concession Agreement.* The 6,200 affected people being resettled are already benefiting from improved housing, infrastructure and transitional packages. Building on experience from the pilot village, livelihood activities are being scaled up in other villages, with the participation of the affected people. Contrary to IRN's claim, implementation of the livelihood program – comprising agriculture, livestock, fishery, forestry and community development activities -- are already in progress, although at different stages of implementation. Agriculture plots are being cleared and mushroom-growing and other initiatives are already taking place. A reservoir fishery management program is also being developed. The Village Forestry Association (VFA) has been focusing on the mobilization of its various teams, establishment of operational facilities and the provision of wood supply for construction of the resettlers' new houses. The Government is removing some of the remaining timber from the resettlement clearance areas after VFA has taken the first cut. IRN's description of the logging situation in the Plateau is inaccurate and its allegations that large trees are currently being removed from the VFA forests is not supported by credible field evidence.
- ***Vietic Households*** – *Thirteen Vietic households in Ban Sop Hia will stay in their spiritual territory and live according to their preferences.* The Government and NTPC will implement the options chosen by the Ban Sop Hia households as ascertained by the independent facilitator who worked with the households. A two-stage approach is being followed. In the first stage, they will move further up within their spiritual territory, and NTPC will provide them with a complete transitional package; later, they will move to a final location of their preference, which could include a site in their traditional territory. Nine other Vietic households in Ban Sop Hia have preferred to move to Area 7 (on the Nakai Plateau). All the Vietic households, regardless of chosen relocation site, are eligible to receive the complete resettlement package.

- ***Project Lands*** – *Problems in the provision of livelihood activities and payment of compensation to those affected in Project Lands are being resolved.* The Project Lands program covers an estimated 1,000 households where villagers losing land (but not being physically displaced) due to construction activities are receiving cash compensation. For those villagers whose land losses represent more than 10 percent of their income, livelihood restoration activities are also being implemented, including land replacement and crop intensification. Following a careful review of the situation by supervision missions of the two Banks, the Government and NTPC are implementing several actions to rectify the situation. Such actions include paying additional compensation where previously paid amounts were inadequate, and providing further clarifications to affected people regarding their entitlements.
- ***Downstream Area*** – *Livelihood activities are ongoing in 21 villages in the Downstream Area (along the Xe Bang Fai river), which are providing encouraging results for scale-up.* The Downstream program has been designed to offset livelihood losses caused by a decline in fish catch, which will begin with the start of commercial operation in December 2009. The range of losses has been estimated to be between 0 and 60 percent, the latter representing a worst-case scenario. The US\$16 million program was designed following careful assessment and appraisal by several experts and, although proposing an adaptive implementation approach, assumes the worst-case scenario. Implementation commenced in 2006, and will span an eight year period until 2014. Approximately 70,000 people-- not 120,000 as claimed in the IRN report -- may be affected. Furthermore, the impact on downstream villages is not uniform -- it will be greater for the riparian villages than for those in the hinterland. Thus the compensation program was not developed on a per capita basis. It is misleading, therefore, to divide the US\$16 million allocated to the mitigation and compensation of downstream impacts by the estimated number of affected people and, on that basis, draw conclusions as to the adequacy of the budget, as IRN does in its report. Activities proposed and now being piloted include agriculture development, micro-credit schemes and handicrafts. The program will be scaled up from the initial villages to a total of 223 villages over the course of the program but will vary across villages in accordance with the extent and nature of impacts and conditions on the ground. Scale-up scheduling will focus first on the villages that will be most affected – the 86 villages along the Xe Bang Fai.
- ***NT2 Watershed*** – *Livelihood activities consistent with conservation practices are being implemented in the NT2 Watershed.* The WMPA-managed Nakai Nam Theun National Protected Area, or NT2 Watershed, is one of the most important areas of its kind in the world for biological diversity. An estimated 5,800 people live in 31 villages in the area, and the WMPA sustainable livelihood development activities have commenced, comprising participatory planning and piloting of options to reconcile biodiversity conservation and development objectives. The IRN report makes no mention of these activities.

2. *There is no evidence of either the Government or NTPC failing to fulfill its commitments.* The Government and NTPC are working closely on NT2 project implementation, and have frequent interactions with a range of independent monitors and financing institutions, including the Banks. Their commitment to this project, as laid out in the Concession Agreement and all relevant legal agreements, remains strong and there is no evidence to the contrary. Some delays have been experienced, but this is due to operational and implementation complexities, rather than lack of commitment. In most instances these delays have been, or are being, dealt with adequately. Below are clarifications on incorrect assertions found in the IRN report:

- *The NT2 Project design did not envision or include in its environmental and social-related documentation any discussion of large-scale irrigation facilities to be developed in the Gnommalat area.* As planned, NTPC is making available water off-take points in the downstream channel for future irrigation development opportunities in the Gnommalat area. The Government is exploring cost-effective options for potential irrigation schemes in the area as part of its overall national strategy, and has commissioned an expert to undertake relevant studies.
- *The villagers living in the Nakai Plateau have the rights to their forest resources, and these will be managed by the VFA.* This has not changed in any way. The IRN report misrepresents issues pertaining to the functioning of the VFA. The VFA is just over one year old, and is still evolving as a community organization. Understandably, community capacity to fully manage the VFA by itself is still lacking. Thus, an experienced professional from the Government has been seconded to the VFA for a two-year period to assist in its formation. As noted above, the VFA has made good progress in designing its organizational structure, developing its plans, establishing its facilities, and starting full-fledged operations.
- *The integrity of the NT2 Watershed is being protected, and the WMPA is making commendable progress* through increased monitoring and patrolling efforts which are documented in numerous reports issued by independent monitoring bodies. The size of the area, and the pressures to which it is subject, pose a significant challenge to this new agency. Capacity building will be a long-term effort. The recent report of the Environmental and Social Panel of Experts commends the work of the WMPA, including its efforts to control rosewood poaching. The WMPA is also responding to the Panel's suggestions on how to address gold mining in a six-hectare block in Ban Nakadok.

3. *Biomass clearance is determined by the requirements for an optimal and environmentally sound operating regime for the future reservoir, and there has never been a commitment by the Government or NTPC to clear all the biomass.* Biomass clearance activities are underway, including salvage logging operations and clearing of areas in the drawdown zone for swidden agriculture as recommended by the Panel of Experts. What is still under review is the advisability of further biomass removal. This is a complex issue and it is not clear that further removal would have a positive net impact. Given the large surface area and drawdown zone of the reservoir, water quality issues are not expected to be as severe as might be the case with other, smaller and deeper reservoirs. In addition, retaining some biomass could actually benefit lake fish populations by providing nutrients and shelter. Further, a large-scale biomass clearance program could create its own environmental problems and risks. Finally, water quality impacts have already been taken into account in the design of livelihoods restoration programs in the downstream area. A detailed review is being carried out by a consultant contracted by NTPC with the main consideration being to arrive at an optimal operating regime for the reservoir. It should be noted that while the Environmental Assessment and Management Plan made commitments to encourage the extraction of components of biomass that have commercial value — i.e., timber, fuelwood, and charcoal — it did not refer to complete vegetation clearance.

4. *Document disclosure is consistent with the policies of the World Bank and Asian Development Bank.* Throughout NT2 project preparation and implementation, the Government, NTPC and the financing institutions have worked to ensure that the project is transparent and participatory. Consultations have been taking place with villagers with respect to the design of villages, relocation schedules, housing options, and livelihoods programs, in full compliance with the policies of the Asian Development Bank and the World Bank. The delays in the international disclosure of the revised resettlement action plans for Project Lands should have

been avoided but the matter has now been remedied; NTPC will shortly post the reports on its website. A range of other documents (including technical studies relating to wildlife management) have been disclosed, locally and internationally, since project preparation and throughout implementation as they become available, in compliance with the respective disclosure policies of the Asian Development Bank and the World Bank. In addition, the project site is open to all interested stakeholders and a number of representatives from the media, academia and NGOs have visited it. An Annual Stakeholder Forum provides an update of progress and a chance to visit the area. The first forum was held in May 2006 and was attended by over 200 people; the next forum is scheduled to take place on June 27 and 28, 2007.