

## Clarifying the facts about the proposed Nam Theun 2 project

*On September 10, 2004, a public workshop in Washington, DC, was held to discuss the proposed Nam Theun 2 Hydropower Project (NT2) in Lao PDR. At that meeting, several anti-dam NGOs issued a statement, which we believe misstates the World Bank's position and several key facts. We hope this note will clarify the facts.*

*World Bank management and staff are still studying the economic, financial, social and environmental viability of the project, and thus any decision on whether or not to recommend World Bank support for the project is still months away.*

**Lao PDR is one of the poorest countries in the world.** 70 percent of the Lao people live on less than US\$2 a day; 40 percent of villages practice slash-and-burn agriculture; 70 percent of the labor force has no education or did not finish primary school; 40 percent of children are malnourished and 1 in 10 will die before the age of 5; half the population doesn't have access to clean water. 1 in 4 adults will die by age 40 – and the average life expectancy is 59 years.

**What are the options for such a poor country to earn the money it needs to invest in basic health, education and infrastructure to improve the lives of people?** At this point in its development, Lao PDR has few good options. The World Bank has recently completed a updated analysis on the potential options for Lao PDR (available at: <http://www.worldbank.org/laont2>) and has concluded that hydropower, done in an environmentally, socially, and economically sustainable way, is an important part of Lao's growth strategy.

### **On the proposed project and its impacts**

**The proposed Nam Theun 2 project is of course large and complex, and involves highly sensitive issues such as resettlement, conservation of forests, protection of community access to fish, and ensuring the revenues are used for the purposes intended.** This is why the World Bank is still reviewing the project very carefully. It is not reasonable to expect perfection, but it is reasonable to expect the project to comply with stringent tests and safeguards to make sure that it has the best possible chance of success – and that there are effective mechanisms in place to solve problems that may arise.

**About 6,000 people would be resettled due to inundation of parts of the Nakai Plateau.** Villagers have expressed desires to remain on the Nakai Plateau rather than being relocated to more fertile areas in the lowlands. These people are among the poorest in Laos – 80 percent of the families cannot grow enough rice for the year; most households have no electricity; 60 percent of the population use rivers and streams as their only water source; and over 60 percent of the people have no schooling at all.

**The proposed resettlement program aims to not just restore but to improve people's livelihoods.** 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. All villagers would be resettled short distances from their present homes, and most, if not all, will remain within their spiritual boundaries.

**Villagers would be provided with improved housing, infrastructure and services, in locations they have helped choose,** 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.

**To offset the partial flooding of the Nakai Plateau, the proposed project would protect a forest nine times larger**, the Nakai Nam Theun (NNT) National Protected Area (NPA), regarded as one of the dozen most biologically diverse hotspots left in the world. The project would provide a long term income stream of \$30 million (many times the current spending for conservation in Laos) for the management and protection of this forest.

### **On the potential downstream impacts**

**The project developers have been studying the downstream impacts of NT2, particularly for those living in the Xe Bang Fai area**, recognizing that about 40,000 people living along the river (and an additional 11,000 inland who also use the river) will be affected by the proposed project's effect on water quantity and quality – with potential impacts on fisheries, water use, river bank gardens, and access across the river due to higher water levels. A mitigation program is being designed for livelihood activities to make up for the estimated loss in income and access to fish and other aquatic resources for affected households, including integrated rice-fish culture in existing irrigated fields, fish ponds, and expansion of the irrigated area for dry-season rice farming. These issues are still being discussed.

**Local consultations are an integral part of the design of these mitigation activities**, with preliminary 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. These plans are in the final stage of preparation and will be completed in coming weeks, as the output from the consultations is fed back through the draft Social Development Plan (SDP). 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.

**Baseline monitoring of the downstream impacts has been under way for about two years.** Information from the study is being used to revise the mitigation program, to improve the accuracy of the proposed mitigation measures, and to ensure that future discussions of impacts take place on the basis of a factual assessment of the situation. The monitoring program will be continued through the construction period and for at least five years after the dam begins operation, to allow for adjustments. Therefore, there will be five to six years of pre-impact data against which the effects of the dam (on water volume, water quality, fish stocks, etc.) can be accurately measured. This baseline data will also allow for evaluation of climatic differences from year-to-year.

A study on downstream impacts on the Nam Theun below the proposed dam to the Theun Hinboun dam head pond is under way. Although there are fewer inhabitants in this stretch of river, its results will be handled in the same manner as the Xe Bang Fai.

### **On revenue management**

**Management of the revenues from the proposed project is one of the most critical issues.** The World Bank has been working with the Lao Government to strengthen the management of their economy. The World Bank has also supported reforms to better manage public financial resources. The Government has committed itself to continue with the reforms. Taken together

these efforts will significantly strengthen the financial and accounting systems necessary to manage the revenues from the proposed project – which would not start flowing until 2009 at the earliest – or from any other activity.

**It is precisely because the Lao Government is not yet able to consistently manage its economy or implement and manage major infrastructure projects on its own that organizations like the World Bank are asked to be involved with Nam Theun 2.** This is a problem for many developing economies. The World Bank's desire in considering this project is that this process strengthen the Government's capacity to manage the economy and manage projects. If this happens, then quite apart from the direct economic benefits of the project, Lao PDR will have taken significant steps towards attracting new investment from the private sector, and using existing resources more effectively and efficiently.

### **On the Bank's consideration of support for the project**

**The World Bank Group is considering providing an IDA (International Development Association) partial risk guarantee, a MIGA (Multilateral Investment Guarantee Agency) debt guarantee, and an IDA credit to help provide the Government's equity investment in the project.** The IDA partial risk guarantee and MIGA debt guarantee are designed 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 guarantees would lower the risk profile of the project, and thus allow the government and the developers to attract commercial financing for the project at better rates. The proposed IDA credit (Nam Theun Social and Environmental Project – or NTSEP) is a companion project to the proposed NT2 Partial Risk Guarantee. Its objective is to finance a portion of Government's equity in the project company to fund eligible environmental and social expenditures. As currently proposed, these funds (amounting to nearly US\$20 million) would cover specific environmental and social mitigation activities set forth in the three safeguards documents (EAMP, SDP and SEMFOP), as well as support for independent project monitoring.

### **On the process of disclosure, consultation, and the international workshops**

**The proposed Nam Theun 2 hydroelectric project is perhaps one of the world's most studied and debated proposed dams, having been under consideration by the Government of Lao PDR, investors and developers for more than a decade.** Therefore, it is incorrect to say that anyone is "rushing" into this. The 10 years of studying has resulted in improvements to project design, analysis of impacts, and design of mitigation and compensation measures. Advance copies of the draft safeguard documents – required by both World Bank and Asian Development Bank policies – have been available since May-June 2004, and have built successively upon earlier studies. These documents remain in draft form as the current phase of consultations within Lao is not complete in some areas – such as finalizing the compensation and mitigation plans for the Xe Bang Fai area – and to allow adequate time to incorporate suggestions from the period of local consultations, international workshops and submission of written comments. Additional background documents such as economic cost analyses – which are not required to be disclosed under World Bank policies – have been made available since August 2004 and are in draft to allow further discussion and refinement. Additional discussions around these documents will be held as needed.

**These international workshops were defined very clearly from the outset** – in press releases, letters, and a terms of reference, which were widely shared with the public – as an opportunity "to allow an open and well-informed discussion that can in turn inform decision

making related to the project and capture specific comments and ideas related to the safeguard and other project documents which are currently in draft. Thus, these workshops are intended to hear about the concerns and views of interested stakeholders, with a view to providing feedback to the Government of Lao PDR and the Nam Theun 2 Power Company (NTPC) as they complete the project documentation covering environmental and social safeguards, economic analysis and revenue management arrangements of the proposed project in order to comply with the policies of the World Bank, the ADB, and other international financial institutions.”

**Independent moderators were enlisted in each of the cities to ensure balanced discussions.** We see these workshops as the latest step in what has been – for the World Bank at least – an unprecedented process of research, consultation, discussion and disclosure of information on a single project. Once the workshops conclude in Vientiane on September 24, the next step will be reviewing the feedback, ideas, criticisms and incorporate them into the safeguard documentation, and arrange for any additional discussions.

**These workshops have been undertaken to complement the on-going local consultations in Lao PDR.** Consistent with the policies and procedures of the World Bank, consultations with project-affected communities are being undertaken by independent consultants in the watershed, the Nakai Plateau and the Xe Bang Fai. These consultations are being undertaken giving special attention to communication with local communities using materials in local languages and posters that show key issues in a pictorial manner accessible to the largely illiterate audience. These consultations provide information on both the positive and negative aspects of the project, proposed mitigation measures and information on planned grievance procedures.

### **The World Bank’s support for large infrastructure projects**

**The World Bank selectively funds dam projects in a number of regions.** We were never “out of the dam business”. While it is true that overall infrastructure investment lending fell in the 1990’s, part of this was the desire that the private sector take a more direct financing role in the energy and water sectors and part of this was the fall-off in demand from client governments, brought on in East Asia, at least, by the Asian financial crisis in the mid-1990s. The Bank recognizes the reality of development – that responsible growth and poverty reduction requires 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.

**The Infrastructure Action Plan recognizes that the Bank’s safeguards are “a critical asset for ensuring development effectiveness and impact.”** In this context, the Infrastructure Action Plan notes the importance of supporting infrastructure investments that factor environmental and social safeguards into their design and operation to facilitate responsible growth and increase the economic and social value of these investments. A greater emphasis on infrastructure requires scaling-up of Bank and borrower skills to integrate safeguards into the

planning, design, appraisal and implementation of programs and projects. Nam Theun 2 is an important case for Bank application of its safeguard policies.

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