

Lao People's Democratic Republic
Nam Theun 2 Hydroelectric Project
International Advisory Group
Terms of Reference - Implementation Phase
March 2006

Background

1. On March 31, 2005, the Board of Executive Directors of the World Bank Group (WBG) approved financing for the Nam Theun 2 Hydroelectric Project (NT2 Project) through: (a) an International Development Association (IDA) Partial Risk Guarantee for a Syndicated Commercial Loan and a Multilateral Investment Guarantee Agency (MIGA) Guarantee for a Syndicated Commercial Loan to the Nam Theun 2 Power Company (NTPC) and a portion of foreign equity; and (b) an IDA Grant to the Lao PDR for the Nam Theun 2 Social and Environment Project (NTSEP). These are complemented by an IDA Credit and Grant to the Lao PDR for the First Poverty Reduction Support Operation (PRSO-1), approved in March 2005, and by an IDA Grant to the Lao PDR for the Lao Environment and Social Project (LEnS), approved in June 2005.

2. Support has also been provided to the NT2 Project by the Asian Development Bank (ADB), Agence Française du Développement (AFD), European Investment Bank (EIB), Nordic Investment Bank (NIB), export credit agencies and commercial banks. NTPC includes the participation of Electricité de France/EdF International of France (EdF/EdFI), Electricity Generating Public Company Limited (EGCO) of Thailand, Italian-Thai Development Public Company Limited of Thailand (ITD) and the Government of Lao PDR (GOL).

Supervision and Monitoring

3. A comprehensive mechanism has been established for the supervision and monitoring of the NT2 Project. This includes supervision by the ADB, AFD and WBG, and monitoring of Project activities by the GOL and the NTPC with inputs from civil society. The monitoring framework for the NT2 Project involves three complementary levels:

- *Internal Monitoring.* Internal monitoring will be undertaken by NTPC and relevant GOL structures, including the Environmental Management Unit (EMU) and Resettlement Management Unit (RMU).
- *External Monitoring.* External monitoring of the overall project will be undertaken by the Lenders' Engineer and the Government's Engineer, and specialized external monitoring will be conducted by the respective Independent Monitoring Agencies (IMAs) contracted by the Government for the EMU,

Resettlement Committee, and the Watershed Management and Protection Authority.

- *Independent Monitoring.* Independent monitoring will continue to be undertaken by already established bodies, including the Government's Panel of Environmental and Social Experts (POE), Government's Dam Safety Review Panel (DSRP) and the World Bank's International Advisory Group (IAG).

Purpose of the IAG

4. The WBG has used the IAG mechanism in support of two complex projects: the Chad Cameroon Pipeline in Chad and Cameroon; and the NT2 Project in Lao PDR. The use of an IAG is not mandated by WBG policy or administrative procedures. The President of the WBG may decide to use an IAG for a project for which the WBG is considering or has already approved financing. IAG members are individuals of broad experience and high integrity who can provide independent advice to the President and senior management of the WBG concerning various dimensions of a project during the preparation and implementation phases. The IAG members have freedom to obtain information from all relevant sources.

5. The IAG for the NT2 Project was established by the WBG in 1997. The role of the IAG during the Project preparation period focused on environmental and social dimensions. It prepared five reports during the Project preparation period, all of which have been posted on the World Bank's website. During the implementation phase, the purpose of the IAG will be to advise the WBG with respect to overall progress in construction, commissioning and operation of the NT2 Project and in achievement of its poverty alleviation, national and local development, capacity building, and environmental and social objectives.

6. The IAG's specific responsibilities will be to: (a) identify potential issues and problems, as they arise, concerning environmental management and social impacts of the Project, civil society participation in Project implementation, progress in building institutional capacity within relevant GOL agencies, management of revenues originating from the sales of electricity generated by the Project, and other issues of governance; and (b) recommend to the WBG practical and cost-effective actions that it needs to undertake and/or take-up with GOL and NTPC to address the problems identified. Emphasis will be given by the IAG to issues concerning capacity building and institutional strengthening, given their importance to the success of the Project. The IAG will also review the scope and quality of WBG supervision of the Project. The IAG would be available to meet and to share its views on issues concerning the Project with other organizations funding the NT2 Project, at their request.

7. During the implementation phase, the IAG will continue to conduct field visits to the site and will issue reports based on its review missions. The duration of the IAG's work program will be determined by the President of the WBG. In addition, the IAG for NT2 will establish its own website. The website will provide detailed information on the IAG's work program and reports, including the TOR of the IAG, profiles of the IAG members, information on how to contact the IAG, and links to relevant NT2 and WBG

websites. This will provide a means for expanded communication on the work of the IAG with all interested stakeholders.

Scope of Work

8. As an independent advisory body to the President of the WBG, the IAG will have purview over all activities related to the NT2 Project to achieve its purpose as described, notably in Paragraphs 5 and 6 above, and will directly observe progress in Project implementation, although it is not expected to duplicate the monitoring activities to be carried out by the Lenders' Engineer, GOL, NTPC, WBG or other parties. The IAG will visit Lao PDR at least once a year or more often depending on the IAG's assessment. The IAG will consult with the Bank before undertaking visits to Lao PDR, and advance notice of visits will be given to the GOL and NTPC. All reports prepared by the GOL, NTPC and WBG or on their behalf, including any other documents having a bearing on the implementation of the Project, will be made available to the IAG for the purpose of undertaking its responsibilities. The field visits of the IAG will be planned with reference to the activities of the POE to facilitate effective coordination and collaboration between these complementary groups.

9. The IAG will carry out its work in consultation with the full range of stakeholders: government staff responsible for monitoring Project progress, and planning for and managing revenues for poverty-focused development; affected populations; and donors, community organizations and civil society organizations operating in Lao PDR. The IAG is expected to serve as a vehicle to assess independently the concerns of the affected populations and other citizens about the social, environmental and poverty-related impacts of the NT2 Project. The IAG will advise the GOL, NTPC and WBG of these concerns and suggest actions that need to be taken to ensure that they are appropriately addressed.

10. One member of the IAG is named by the President of the WBG as the Convenor. The IAG appoints a consultant to serve as the Secretary. The Secretary supports coordination of the IAG's work, preparation of its reports and operation of its website. The work of the IAG is coordinated with the WBG, which is represented by the Vice Presidency for Environmentally and Socially Sustainable Development. The IAG develops an annual work plan. After review with the WBG, the annual work plan will be placed on the website of the IAG.

11. The IAG may, at its discretion, meet with the WBG President, senior management, regional management and the Project team. It will also have regular meetings with senior representatives of the GOL and NTPC to collect information and exchange views. The IAG will meet with local communities affected by the Project, without interference from any GOL, NTPC or WBG staff. The views and opinions of all stakeholders will continue to be actively solicited through the IAG process, and the IAG will prepare and make available to the public its plan and agenda for future visits to Lao PDR and the Project area. The IAG may, at its discretion, invite GOL, NTPC or WBG staff members to accompany it during selected portions of field visits.

Composition of the IAG

12. The task of assessing whether Project objectives are achieved, impacts and risks are appropriately dealt with, and revenues from the sale of electricity generated by the NT2 Project are properly channeled into poverty-alleviation programs is challenging and will require not only political, economic, environmental, social, financial, and technical skills, but also the ability to listen to and understand the concerns of people in the Project area, representing all levels of society and diverse cultural backgrounds. The IAG's independence is crucial to its effectiveness. IAG members must, therefore, be of international stature and impeccable personal integrity, able to resist any pressure that might be brought to bear on their conclusions.

13. The IAG will consist of three to five persons, including one who serves as Convenor. The IAG members should have knowledge of conditions in developing countries (preferably in the Asia and Pacific Region) and experience with large investments in infrastructure and/or water resources management. Their collective professional experience and knowledge should allow them to address the following broad areas of importance to the Project:

- *Governance and Management of Public Finance.* Knowledge of governance issues with special focus on national planning and programming of public resources and the use of these resources for effective poverty alleviation;
- *Environmental and Social Aspects of Development.* Knowledge of: (a) environmental and social impacts and risks; (b) approaches to their mitigation and compensation; (c) monitoring implementation progress and outcomes, in the context of large infrastructure projects, with special focus on poverty-related aspects; and (d) institutions and processes involved in Project implementation;
- *Public Participation and Community Development.* Knowledge of public participation and community development issues, including experience working with the types of communities that may be affected by the Project.

14. The IAG will be able to call upon the services of specialists to examine specific issues as needed within the budget provided for this specialized support. It will also be able to hire translators/interpreters to assist it in undertaking its work and to ensure that its findings and recommendations are widely disseminated in local languages.

Selection Criteria and Process

15. To ensure the complete independence of the IAG, in addition to satisfying the requirements of high integrity, substantive knowledge and broad experience, its members should:

- not be nationals of Lao PDR;
- not be current or former staff members of WBG; and

- not have been engaged in positions/consultancies with the Project sponsors or the GOL for a period of at least two years.

16. The final decision on the membership of the IAG will be made by the President of the WBG, who may decide to appoint additional members as necessary to fulfill the responsibilities of the IAG.

Reporting and Disclosure

17. The IAG will report periodically to the President of the WBG on its findings and recommendations. All reports of the IAG, without modifications or amendments, will be shared with the WBG Board of Executive Directors, GOL and NTPC, for information, and will be posted on the IAG and Bank websites. The WBG, in turn, will report on the actions taken to address the issues identified by the IAG, as an element of its periodic updates to the Board of Directors.

18. The IAG, as a group of experts, may, at its discretion, hold discussions with civil society about its findings and recommendations, prior to submitting its reports to the President of the WBG. The IAG will also advise on the status of dissemination of its reports and the implementation of its recommendations. The reports of the IAG will be made available in both English and Lao. The English version will serve as the official version of the report, and will be issued in advance of the Lao version.

Budget

19. The WBG has agreed to make available the resources needed for the effective functioning of the IAG. It is also seeking potential donors to provide financial support for the IAG. Funds provided to support the work of the IAG will be placed in a Multi-Donor Trust Fund dedicated to this task.