



THE PROPOSED NAM THEUN 2 HYDROELECTRIC POWER PROJECT An Update

The World Bank is considering providing support for the proposed Nam Theun 2 (NT2) hydroelectric power project, a US\$ 1.2 billion, 1,070 megawatt, private sector hydro-electric project in Lao PDR, because of the project's potential for helping Lao PDR obtain revenues to reduce poverty and improve environmental protection. Despite more than a decade of strong growth and progress on poverty reduction, Lao PDR remains one of the poorest countries in the world. The country's per-capita income is US\$320, and many of its social indicators are the worst in East Asia. Lao PDR has few options to earn the money it needs to invest in basic health, education and infrastructure.

Background: The Government of Lao PDR has asked the Bank to consider supporting the Nam Theun 2 hydroelectric power project. This project has been under consideration by the Lao government and various developers since the late 1980s. The proposed project would generate electricity mainly for export to Thailand, with most of the revenues used in Laos for poverty reduction and environmental protection activities.

The signing of the Power Purchase Agreement between the Electricity Generating Authority of Thailand (EGAT) and the Nam Theun 2 Power Company Limited (NTPC) on November 8, 2003 committed NTPC to securing project financing within 18 months (May 2005). The developers and the Lao Government are seeking a partial risk guarantee from the World Bank. This would lower the cost of finance for the project, making it more financially attractive to the investors and the Government. They also seek an associated project to support social and environmental mitigation activities.

The World Bank's interest in NT2 is based on the project's potential — if properly prepared and managed — to benefit the Lao people. The Bank is currently working with the Government on the remaining due diligence work that is mandated to comply with the Bank's safeguards policies on environmental and social issues and due diligence requirements.

Where is NT2 in the World Bank Project Cycle? NT2 is in the preparation stage, and no decision has been made yet on whether the World Bank will provide financial support to the project. That decision, and the timing of a decision, will be determined by the performance of the Government and the developers on a number of critical issues which have been laid out in the World Bank's Decision Framework on the project made public on July 3, 2002. This document makes it clear that Bank support would depend on three factors:

1. The project must be embedded in a development framework, characterized by concrete performance, that aims at poverty reduction and environmental protection.
2. The project must be technically, economically and financially sound and adhere to the Bank's safeguard policies.
3. The project and the Lao PDR's overall development framework must have greater understanding and wider support within the international donor community and global and local civil society.

The Bank would take the operation to its Board for consideration only after being fully satisfied with results in these three areas. The Bank's Board of Directors makes the ultimate decision on whether or not to offer financial support to the project. The World Bank is committed to do all it can to assist Lao PDR, including in the areas of social and human development and environmental protection, as well as in broader areas of policy advice and support, to help the country's development and to reduce poverty.

Update: Assessments of the proposed project's likely environmental and social impacts, mitigation plans to address these, and the financial and economic analysis of the project are now well-advanced. In May 2004, drafts of the main safeguards documents began to be made available for public consultation on the project website: <http://www.namtheun2.com>. These are the Environmental Assessment and Management Plan (EAMP), the Social Development Plan (SDP), the Social and Environment Management Framework and First Operational Plan (SEMFOF—the plan for the watershed area), and the Summary Environmental and Social Impact Assessment (SESIA). Local consultations on these studies are now underway; international stakeholder workshops are scheduled for late August and September. Both the local consultations and the international workshops are part of an ongoing process to seek the views and address the concerns of stakeholders; follow-up meetings will be organized as needed.

Local Consultations. While consultation on this project in Lao PDR is the responsibility of the Government, measures have been taken to bring external expertise to the process and ensure transparency, balance, and meaningfulness. Each safeguard document has been summarized, translated, and rendered by an independent facilitator into a format and language that project-affected people can understand. Village and district facilitators have been trained to present the content of the documents accurately and in a neutral fashion; conduct inclusive and participatory discussions involving all households in each village; lead follow-up activities; and prepare village-reports for the public domain, summaries of which will be posted on the NT2 website, which is managed by NTPC, as well as on the Government's website.

At the end of consultations in each geographical area, a wrap-up session is held to review villagers' concerns and proposals, and reach agreement on major design changes. Such changes have included the incorporation into the Resettlement Action Plan of villagers' requests for vocational training relating to the livelihood options presented to them, and for special relocation assistance for widows and the elderly.

An independent monitor has been engaged to observe and evaluate the quality of the consultations, and to advise on improving the feedback process.

International Stakeholder Workshops. In addition to the local consultations, a series of international stakeholder workshops are being facilitated in Bangkok, Tokyo, Paris, and Washington in late August and September 2004—followed by a wrap-up workshop to be organized by the Government of Laos in Vientiane—to ensure that the project's objectives, potential benefits and impacts are shared, discussed, and well-understood not only within Lao PDR, but also more broadly among international civil society. These workshops are intended to provide information about the proposed project and to hear about the concerns, views and ideas of those interested in the project, as well as to provide feedback to the Government of Laos and NTPC before they finalize the safeguards documents, and to inform the international financial institutions as they consider whether to support the proposed project. To ensure that the process is transparent, balanced, and meaningful, an independent moderator will facilitate discussions and prepare a summary of the discussions that the organizers will share with all participants and publicly disclose.

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Information on the project can be requested from Dr. Maydom Chanthanasinh, Project Director, NT2 Project Office, Ministry of Industry and Handicrafts, Vientiane, Lao PDR. His contact information is: telephone number: 856 21 415 422; fax number: 856 21 415 268 and email address for the Government: goInt2@loxinfo.co.th.

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More information can also be found on NTPC's website at: <http://www.namtheun2.com>.