

NamTheun 2 Hydroelectric Project
FREQUENTLY ASKED QUESTIONS
October 2006

This material is provided in response to frequently asked questions raised in the course of project implementation by project-affected people, civil-society organizations, the media, and other interested parties. Updated information on implementation progress will be provided on a quarterly basis, in addition to the World Bank's semi-annual reports to its Board of Executive Directors and other monitoring and evaluation activities undertaken by the project developers, the international financial institutions, and independent experts.

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Section 1: Background

1. 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 a long-term revenue stream (US\$2 billion between 2009 and 2034) for increased investments in health, education, rural development, and other priority programs. Other benefits expected from the project include:

- improving the living standards of the 6,200 resettled people—doubling their household incomes to nearly US\$800 a year;

- enhancing livelihood opportunities for over 60,000 people living in the downstream areas of the Xe Bang Fai and Nam Theun Rivers;
- protecting the 4,000-square-kilometer Nakai Nam Theun National Protected Area, a unique biodiversity area, while also enhancing the livelihoods of the local communities living in the protected area;
- strengthening the country's public finance management system so that it can better target and account for moneys earned not only from NT2 but also from other hydropower and mining projects; and
- building the country's capacity at the national, provincial and local levels through improved human resources development, better functioning institutions, and more effective policies.

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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 \$1.45 billion hydropower project. The World Bank Group's support was provided to lower the project's risk profile for private investors, as well as to fund eligible environmental and social expenditures. Specifically, the Bank Group is providing:

- a US\$42 million IDA Partial Risk Guarantee;
- a US\$20 million IDA Grant for NTSEP (Nam Theun 2 Social and Environment Project, which finances a part of the GoL's equity in the project to be used for management of environmental and social impacts and independent monitoring and evaluation of the NT2 project); and
- US\$91 million in MIGA Guarantees.

In addition, an IDA Grant of US\$4.5 million has been provided for the Lao Environmental and Social Capacity Development (LEnS) Project for developing Lao's institutional capacity in monitoring and enforcement of its environmental and social policies.

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3. What measures have been put in place to ensure that the revenues from the project will be managed soundly and transparently?

To ensure that revenues from the NT2 project will be used transparently, accountably, and effectively to finance poverty reduction and environmental conservation, the World Bank and the Lao government have agreed on a program of public expenditure management reforms known as the Public Expenditure Management Strengthening Program (PEMSP), as well as specific revenue management arrangements for the project. These programs, including regular audits, reviews, and expenditure tracking surveys will make it possible to verify that NT2 revenues correspond to additional spending on priority poverty reduction and environmental conservation programs.

Under the [NT2-specific arrangements](#), revenues from the project will flow to a Central Treasury Account through two accounts—one for water resource user charges and taxes paid by NTPC and another for the Lao government's share of project dividends—both of which will be subject to audit, so that the flow of NT2 funds for debt service, for operating costs, and into the Lao budget can be tracked.

From the Central Treasury Account, amounts corresponding to NT2 revenues will be added to budget allocations for a set of priority poverty reduction and environmental conservation

programs, themselves subject to audits following International Organization of State Audit Institutions (INTOSAI) standards and audit peer reviews. Because the ultimate test of the NT2 revenue and expenditure management arrangements is that the additional expenditures contribute to improvements in public service performance, and thereby to poverty reduction and conservation outcomes, regular Public Expenditure Reviews and Public Expenditure Tracking Surveys will be conducted under the PEMSP by the government and its development partners to assess the impact of additional public spending on, e.g., health and education indicators.

Finally, these audits and public expenditure reviews will form the basis of annual consultations between the government, NT2 financing partners, and other stakeholders. These consultations will provide an opportunity to assess compliance with agreed revenue and expenditure management arrangements and recommend adjustments as needed.

The government's first semi-annual report is expected to be released before December 2006.

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4. What measures have been taken to mitigate the social and environmental risks? Why should NT2 turn out differently from previous dam projects?

With the benefit of lessons drawn from international experience with dam projects, a comprehensive, proactive, and consultative approach to social and environmental risk mitigation was taken in the preparation—and now implementation—of NT2. The best-practice measures applied to the project include:

- The [resettlement](#) and downstream programs were designed with a focus on livelihood restoration and community development (rather than one-off cash compensation), that are being implemented in advance of the actual impacts so that communities can adapt to the changed circumstances.
- Long-term financing and detailed provisions for the management of the [natural habitats on the Plateau](#) and the [watershed](#)—a forest nine times the size of the reservoir to be conserved as an environmental offset—were agreed.
- The environmental and social programs comprise extensive baseline studies and continuous consultations to fill knowledge gaps and allow better monitoring of impacts on fisheries, livelihoods, wildlife habitats, and adjacent river systems.
- Detailed environmental and social objectives (e.g., income targets) are among the developers' legal obligations under the Concession Agreement, with financial provisions for addressing any un-anticipated impacts and other contingencies.
- In the implementation phase, the Bank remains closely engaged with the project developers and the Government of Lao, with technical staff visiting the project site frequently to monitor implementation progress and suggest ways to address issues as they arise.

The development of such extensive mitigation, compensation, and contingency measures to address social and environmental impacts, including unforeseen ones, is unprecedented in the region, and reflects our strong concern that the project will deliver real, durable benefits to the people of Lao PDR, starting with the affected communities.

For more detail on progress in implementing social and environmental measures, [click here](#)

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5. What legal remedies would be available to the Bank if NTPC and/or the Government failed to implement their environmental and social obligations? Could the Bank suspend its assistance?

The Project Agreement and IDA Development Grant Agreement define the obligations of the Government of Lao and NTPC to carry out their obligations under the Environmental and Social Documents and Applicable Environmental and Social Safeguard Policies and Guidelines, and provide for remedies to be exercised in case of non-compliance with covenants defining such obligations. A process has been agreed upon through which any non-compliance situation must be discussed, documented and addressed. The Bank could take action, including suspension of its assistance, if it found that in light of the Bank's safeguard policies the Government and NTPC were not taking appropriate measures to remedy problems with the social and environmental aspects of the project.

Section 2: Implementation Progress

World Bank supervision missions have focused, among other things, on the following issues related to project implementation, and have discussed them with NTPC, the Lao government, and the relevant [oversight bodies](#). The Bank's technical staff are actively monitoring these impacts and activities, and offer advice on issues as they arise and where appropriate.

Construction

1. Is construction on track? How does the construction schedule affect the social and environmental activities?

To date, construction activities are on schedule and should be completed in time for the reservoir to be impounded or filled in May 2008 and for the project to begin commercial operations in December 2009. Most excavation works have now been completed, reducing the risk of costly delays. Encouragingly, construction is increasingly better-aligned with social and environmental activities, including preparations for the resettlement of villagers near the coffer dam, and there have been few accidents and grievances related to construction. The international financial institutions are monitoring these activities closely.

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2. Is the World Bank monitoring the social and environmental impacts of the construction activities?

The Lenders' Technical Advisor visits the project site on a quarterly basis to ensure that construction is proceeding according to the Environmental Assessment and Management Plan, and World Bank technical staff follow up on these visits and NTPC's own reports. There is particularly effective coordination between NTPC and the local authorities to protect physical cultural resources, implement local health programs, and prevent camp followers. Provision of catering and recreation facilities, and strong messages on hunting and fishing have been successful in controlling prohibited activities such as capture or purchase of wildlife.

Standards of construction management are generally good, although there have been some issues with erosion control, sediment run-off into a stream near the powerhouse, dust levels during the dry season, and waste management. Progress has been made in each of these areas, with the project landfill re-designed to meet international standards; improved designs for sediment ponds; re-vegetation and erosion control measures; a waste management facility to

ensure sorting and recycling of waste materials from all the construction sites and camps; and road pavement and increased frequency of road watering to control dust.

To anticipate construction-related risks, Bank staff have urged stronger coordination of the construction schedule and the preparation of site-specific environmental plans—which NTPC has done, with regular reviews undertaken jointly with the Head Contractor. Compliance with these documents is essential to mitigate the impacts of construction activities such as vegetation clearance, erosion control and waste disposal.

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Nakai Plateau Resettlement and Livelihoods

3. Where does the resettlement program stand? How are the villagers coping in the transition?

The Nakai resettlement program experienced delays in the early start-up phase due to a number of reasons, including excessive flooding during the 2005 wet season and slow mobilization of staff. To overcome the delay, an accelerated resettlement program was put in place. So far, 597 households from eight villages have moved into their final resettlement sites. Temporary housing and basic infrastructure have been provided at their resettlement sites. Permanent housing is now under construction in these villages. A transitional support package has been provided to all resettler households including rice allowance and protein sources. Those households who have moved are benefiting from the better housing, infrastructure and other transitional assistance, which have helped them cope better with the difficulties after the wet season. Two villages among the first group have not yet made up their minds as to their final resettlement sites. GOL and NTPC have been working with these two villages to reach agreement on acceptable and feasible resettlement options. Resettlement site preparation is ready to start for the rest of the villages, and they are scheduled to move by July 2007.

Livelihood development programs are the core and most critical component of the resettlement program. It has begun for the plateau villages, with village resources mapping and village boundary demarcation well in progress. Efforts have also begun, following resources mapping, for livelihood potential assessment and village livelihood activities planning. Some livelihood activities have already started, with extension centres established, staffed and already providing services to the villages. Nevertheless, the program is still at the start-up phase and there are further tasks and challenges ahead for the detailed program to be fully developed and implemented. There is keen awareness of this among all parties. The IFIs will continue to advise, support and monitor the development and implementation of the livelihood programs.

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Downstream

4. The downstream program was supposed to assist villagers ‘well in advance of project impacts’. What progress has there been?

Work on the downstream program—designed to provide investment activities to compensate for fishery losses—has begun, with 21 pilot villages participating in alternative livelihood development, surveys ongoing in the rest of the downstream villages, and strong involvement at the provincial, district, and village levels. Villages have started testing the use of revolving funds

to provide micro-credit for different types of income-generating activities (e.g., horticulture including vegetables and fruits, aquaculture, irrigated rice, animal husbandry, and cottage industries).

Approximately half of the downstream program is scheduled to be completed in advance of the dam's commercial operation date (COD) of December 2009. Villagers' incentive to engage in alternative livelihood development activities is expected to rise then, once project impacts are fully realized and the construction activities—in which members of affected households are currently employed—are completed. Because water quality is expected to decline in the first three years after COD—eventually improving to support fish and aquatic life—villagers will receive payment, as direct compensation for their fishery losses during that period, for their time and labour as they participate in completing the remainder of the alternative livelihood development program in the downstream area. Such provisional compensation for shortfalls in household income after COD is under discussion with NTPC, with an independent consultant engaged by the World Bank to assess local consultations on downstream compensation issues. It will also require the establishment of fisheries baseline data and subsequent monitoring.

The wider downstream program includes a plan to improve water supply, sanitation and health; mitigate impacts during the dry season on transport across the Xe Bang Fai and its tributaries; replace riverbank gardens; improve livestock health and survival, and adjustments to supply piping of existing irrigation pumping. In addition, to mitigate incremental flooding in the lower Xe Bang Fai and along backwater areas farther upstream during the wet and dry seasons, respectively, a system of strategically placed polders has been designed. To date, coordination with NTPC staff has effectively served to anticipate risks and monitor potential impacts, especially of project-induced flooding on rice paddies in the Xe Bang Fai area.

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Project Lands

5. What is the status of the compensation payment and livelihood restoration programme in the so-called 'Project Lands'?

NTPC is currently in the process of paying final compensation, with progress varying according to the different areas of project activities. At the same time, provisional compensation has been paid for the loss of income from crops, gardens, timber, and non-timber forest products acquired for the project. Provisional compensation is being paid to 579 land owners' households for crop losses, 390 of which are seriously affected (loss of 10 percent or more of income) and receive livelihood restoration. The remainder will receive final cash compensation, which has commenced in some areas, with progress varying for different land parcels.

NTPC is updating six Resettlement Action Plans for the Project Lands, based on socio-economic surveys, including a ranking of problems and preferences for livelihood options and review comments from the international financial institutions. NTPC and GOL have also mobilized a team of various experts to start working with villages on livelihood programs. Various livelihood programs have already begun, particularly in the Gnommalat District, where major land acquisitions have taken place. The international financial institutions will be monitoring implementation of these plans

In response to a number of complaints related to compensation in the Gnommalat area, NTPC and GOL are reviewing their compensation payment process in these villages for possible mistakes and grievances. To date, the screening process has found that all these complaints have largely been due to misunderstandings about project resettlement policies and entitlements.

This has been confirmed by World Bank and ADB staff following up on these complaints. The international financial institutions have recommended more proactive communications and consultations by NTPC and GOL to ensure that villagers understand the project resettlement and entitlement policies.

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Salvage Logging and Reservoir Clearance

6. How are the logging and clearance of the future reservoir being managed to mitigate impacts on villagers' livelihoods, the environment, and future water quality?

The government has been advised to treat salvage logging—which would provide an additional source of revenue for Lao PDR—and reservoir clearance as distinct operations, and to proceed with logging whilst continuing to assess the need for further removal of vegetation or biomass to improve water quality and navigation in the future reservoir. On this advice, the Lao government is reviewing options for managing these clearance activities, based on an inventory of timber resources and on consideration of potential social and environmental impacts. While most of the villagers have already moved to new sites, and are in any case little dependent on the reservoir area for their incomes, clarifying rights and regulations with respect to forest resources would allow local activities—such as firewood collection and charcoal production—to proceed in a safe and orderly manner, with minimal disruption, influx of outsiders, and adverse environmental impacts on the future reservoir and surrounding forest.

Logging authorized by the Lao government is expected to start at the beginning of the 2006-2007 dry season, and to be completed before impoundment or filling of the reservoir in May 2008. To ensure prudent management of the operations, the government has appointed a coordinator for salvage logging, and identified a contractor to harvest and deliver the logs to landings, where buyers will collect them.

The need for a broader program to remove vegetation or biomass from the inundated area in order to manage water quality or to improve reservoir navigation is being discussed with the Lao government, and will depend on the expected severity and duration of effects on water quality, given the particular characteristics of the future reservoir. Two rounds of water quality modelling and assessment of biomass in the reservoir suggested that water quality will be largely acceptable, although assessments are being reviewed for specific clearance options that will be developed.

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Wildlife and Watershed Management

7. How is the construction activity on the Nakai Plateau affecting the elephants? What is the status of the elephant study, and when will the report be released to the public?

As elephants are known to adapt their habits to circumstances, changes in the elephants' existing distribution and movement patterns in response to human activity and land use may already be underway. Physically capable of crossing much larger water bodies than the future reservoir, elephants have recently been reported, for the first time in a decade, to have moved back into the watershed area, which now receives increased protection through the project.

The project developers have commissioned the Wildlife Conservation Society to study the size, distribution and movements of the elephant population in the area, and thus to understand the potential impacts of NT2 on the elephants. The first phase of this elephant study—which will lay the basis for development and implementation of a program to manage impacts on the elephant population—has been carried out, but the full results will not be available until genetic analysis of dung samples has been completed in October 2006. WCS and NTPC are discussing contractual arrangements for the second phase, focused on management of impacts and human-elephant conflict, with an interim arrangement allowing fieldwork to continue.

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8. What measures are being taken to protect other wildlife on the Plateau?

On the World Bank's advice, NTPC has carried out updated aquatic wildlife surveys and recruited a team of consultants, including top field biologists with experience in Lao PDR, to undertake terrestrial and wetland surveys as an urgent priority, as well as the preparation of transitional wildlife management and wetland conversion strategies.

Meanwhile, regular supervision missions undertaken by the Bank have found that direct wildlife trade threats from the project are being addressed effectively, with action taken against workers found to be breaking wildlife rules, and increased patrolling in and around the watershed area. To consolidate these measures, the Bank and the Panel of Experts have urged the preparation of an overall strategy against wildlife trade in the project area. An action plan is expected in September 2006.

For more background on measures to protect wildlife and natural habitats in the NT2 project areas, click [here](#) and [here](#).

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