

**Lao PDR**  
**World Bank Mission on the Nam Theun 2 Project and Related Matters**  
**AIDE MEMOIRE**  
*October 28 and 29, 2002*

**Introduction**

A World Bank mission on the proposed Nam Theun 2 project and related issues led by Mr. Ian Porter, Country Director, and comprising of Messrs. Shivakumar, Matin, Illangovan and Ms. Fossberg, visited Vientiane on October 28 and 29, 2002. The mission held discussions with H.E. Thongloun Sisoulith, President of the CPC and Deputy Prime Minister, H.E. Soukhanh Mahalath, Minister of Finance, H.E. Soulivong Daravong, Minister of Industry and Handicrafts, H.E. Chansy Phosikham, Governor of the Bank of Lao PDR, H.E. Madame Khempheng Pholsena, Vice President of the CPC, and other Government officials, the UNDP Representative and Country Coordinator, as well as the developers working on the project. The mission wishes to thank the Government of the Lao PDR for the excellent arrangements made for its visit and for the frank and cordial manner in which the discussions have been conducted.

**Purpose of mission**

The purpose of the mission was to take stock of the progress since the April 2002 mission, using the Bank's decision-making framework as the backdrop, and to identify the targets and the tasks that need to be accomplished in order to complete preparation of the project.

**Decision Framework for NT2**

It is recalled that the parameters for the further processing of the proposed NT2 project were set out in the Aide Memoire of the August 2001 mission and reaffirmed in the April 2002 mission -- both led by the Country Director, Mr. Ian Porter.

The Aide Memoires stressed that adequate progress must continue to be made in addressing three critical areas before a Bank decision on support to the proposed project can be considered: (i) establishing and implementing a viable development policy framework and program for poverty reduction and for environmental protection; (ii) ensuring that the technical, financial, implementation, and economic aspects of the proposed project, as well as the design and implementation of safeguards policies, are sound; and, (iii) obtaining broad support from the international donor community and global and local civil society for Lao PDR's poverty reduction program and the proposed project.

A paper entitled "Bank Decision Framework for the NT2 Project", which describes the three elements of the framework, was shared with the Government (Attachment I) and made available to the public. This framework, *inter alia*, reflects the contents of the August 2001 and April 2002 Aide Memoires and is a useful document for the purpose of monitoring progress.

## **Recent progress on NT2-related activities**

Significant progress has been made during the past year. In particular, the mission wishes to express its appreciation of the efforts taken by the Government in completing preparation of three IDA operations -- the Financial Management Adjustment Credit (FMAC), the companion Financial Management Capacity Building Credit (FMCBC), and the Poverty Reduction Fund Project (PRFP) – which were approved by the Board in June 2002, and by the Government and the developer with regard to activities relating to NT2 project preparation.

### Review of progress on Decision Framework for NT2

The rest of this Aide Memoire is devoted to important issues relating to the Decision Framework on NT2 that require urgent resolution. Attachment II to this Aide Memoire covers other important areas that need to be addressed in order to comply with the elements of this framework. The issues are shown under the heading of three critical areas of the framework, viz (A) Strengthening the development framework; (B) Improving project standards; and (C) Building greater international and local understanding and support.

#### A. Strengthening the development framework

##### *Completing the National Poverty Eradication Plan (NPEP)*

The mission complimented the Government for the strong ownership of the NPEP process and for taking recent measures to ensure a high-quality poverty eradication plan. It also endorsed the proposed timetable wherein a preliminary draft would be completed by end-December 2002 and a final document by May 2003.

However, to minimize surprises for stakeholders and consequent risk of delay in finalizing the NPEP, the mission requested the Government to consider some consultation with donors between now and end-December, including with the World Bank staff. In response, the Government suggested the use of technical consultants for the next two months in four key sectoral areas – agriculture, transport, health and education – and in one cross-sectoral area, environment. The mission agreed to provide as many of these consultants as possible in a short time, and to obtain support from others if necessary. In addition, the mission confirmed that November and December Bank missions in these sectors will be instructed to work closely with the ministerial teams and with the key donors, including JICA in health and agriculture and SIDA in education and transport. Both government and the mission appreciated the role of UNDP in providing support to the NPEP process and providing the Donor Round Table as a venue for donor consultations on NPEP.

The Government indicated that they would like the technical consultants to assist the ministerial teams and the NPEP Committee in operationalizing the I-PRSP and the existing sector strategies; i.e., help to formulate specific policy measures and specific public expenditure interventions that would be taken each year over the medium-term. These would be done in the four key sectoral areas (i.e, health, education, agriculture and transport) and in the key cross-sectoral areas (i.e., FMAC areas of macroeconomic stability, public financial management, banking, state-enterprises, forestry, plus private sector and trade, targeted poverty-interventions, gender and environment).

The mission reconfirmed its intention to financially support an agreed matrix of specific policy measures, drawn and developed from NPEP, which would include the areas cited in the Government's Letter of Development Policy for FMAC as well as the areas of health, education, and agriculture, through a Poverty Reduction Support Credit (PRSC).

### *Implementing the FMAC*

The mission congratulated the Government for implementing reforms successfully in public expenditure management, banking and state-enterprises prior to the signing of FMAC, and for the progress achieved since in implementing the second tranche actions.

However, the mission highlighted the risks of significant slippage, especially in respect of banking and state-enterprise restructuring, unless a decision to use the capacity building credit (FMCBC) for hiring external technical advisors is taken immediately. The Government has agreed to use FMCBC proceeds for hiring technical advisors/consultants to do the following: international standard audits of SCBs, IT support to SCBs, development of restructuring plans for state-enterprises and design as well as implementation of a system for monitoring state-enterprise performance. Expedient implementation of this decision is now key to ensuring that the slippage beyond March 2003 is kept to a minimum.

### *Launching Poverty Reduction Fund activities*

The mission, while appreciating that progress had been made on activities that would lead to project launch, pointed out that the conditions of effectiveness on the IDA credit had yet to be met, particularly the signing of the Grant Fund Agreement between MOF and the PRF. The Government has agreed to speed up the process so that the Fund, a significant poverty reduction initiative, could be launched without further delay.

### *Impact of inflation on level of electricity tariffs*

The mission, while recognizing the measures so far taken by the Government on electricity tariff revision, pointed out that unless inflation was controlled, further upward revisions may be unavoidable. The government took note of this risk and explained the priority that was being accorded to inflation control, particularly in the context of the IMF's PRGF.

## *B. Improving Project Standards*

### *The Concession Agreement and the Power Purchase Agreement*

The Concession Agreement (CA) was signed on October 3, 2002 and the developer expects to sign the Power Purchase Agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) in late December of this year. The Government and the developer have informed the Bank that they are open to considering possible amendments to the CA and PPA that might be needed as a consequence of the Bank's review. The Bank has had a preliminary exchange of views on October 22-24, 2002 at Washington with the Government and the developer on the CA and its linkage to the

Social Development Plan (SDP) for the project area. It has yet to receive the Environmental Assessment and Management Plan (EAMP) and has just received the Social and Environment Management Framework and Operational Plan (SEMFOP). A similar exchange of views on these documents will be held shortly. An exchange of views is also planned for the PPA. Comprehensive Bank comments on the CA and PPA will be ready only after ongoing due diligence is completed.

#### *Project procurement issues and financing*

The mission highlighted potential issues relating to single-source procurement under the project. Such procurement is planned for part of the civil works and for the Head Contract, which includes management fees and a risk premium. The Government agreed to focus on these issues early. The mission also drew attention to the need for the Government to continue legal and financial services to assist them with the formulation of the financing plan for the project, since this work would intensify after January 2003, when the lead arranger would start work.

#### *Certain project studies*

The mission drew attention to the importance of securing funding and executing the following studies without further delay: updating of the 1997 *Study of Alternatives of NT2* and the *Power Development Plan*, which could guide further donor investments in the sector, including a new IDA power project; updating the earlier assessment of project economic impacts; studying the social and environmental impacts on a regional basis as distinct from the project basis adopted in previous studies; and, a study on how EdL should handle its ownership of equity in NT2 to allow the Government access to dividends to be applied to poverty programs. The Government agreed to give priority to this matter and finalize arrangements with the concerned Bank technical staff.

#### *Safeguard Documentation and Consultation*

The Bank has conveyed preliminary views on the SDP and expects to do so on the SEMFOP that has been just received and the EAMP which the developer expects to deliver in late November. It is evident that considerable further work, at both the field and desk level, is required on the safeguard documents. The developer has been requested to focus strong attention on remedying defects and strengthening documentation, and detailed comments have been or are being furnished to the developer in order to make sure that the changes needed are clearly articulated. The mission requested the Government to monitor the situation closely as compliance with all Bank requirements and standards was critical to Bank's acceptance of the safeguard measures proposed. Past experience has revealed some shortcomings in this regard. The Government agreed to monitor progress by the developer closely and provide the required guidance and support.

## *NTSEP*

The mission pointed out that NTSEP is expected to contribute to the strengthening of the Government's capacity to handle potential environmental and social project impacts of the NT2 project. It is likely to fund four major areas, with IDA financing linked to the extent possible (subject to the resolution of any legal issues that may arise) to items that would constitute the Government's equity in the NT2 project:

1. measures to manage the catchment area of the reservoir, linked to the SEMFOP;
2. support to resettlement under the project, linked to the SDP;
3. implementation measures on environmental protection, linked to the EAMP; and,
4. improving the lives of Xe Bang Fai people and protecting them from negative impacts.

A possible fifth component could be support to an Environment Fund, patterned on the IDA supported Poverty Reduction Fund.

The Government agreed that preparation of this project (which requires prior completion of the EAMP, SDP and the SEMFOP) could be accelerated in November, 2002, once the documents were finalized by the developer. Project preparation completion would be targeted for June 2003.

The mission pointed out that in addition to providing a source of funding for the Government's equity in the NT2 project, the components of which the Government needs to firm up, the NTSEP operation would also be designed to support non-NT2-equity activities, such as support to the people residing on the banks of the Xe Bang Fai river and the Environment Fund. This could be established to support conservation akin to the manner in which the Poverty Reduction Fund supports community poverty reduction measures. The mission agreed with the Government that tripartite discussions between ADB, which spearheads such a fund, the Bank and the Government should take place at the earliest opportunity. Quick action to identify other possible sources of co-financing is also critical.

### *C. Building greater international and local understanding and support*

#### *Strengthening international Dialogue on project*

The Government updated the mission on progress to build broader support for the development framework and the project both inside and outside the country.

On the donor side, the Government has been holding bilateral discussions to brief diplomats and aid agencies about the progress thus far. It led a field trip to the Nakai Plateau with a group of diplomats recently and also held an information meeting with the donor community this week.

The Government website is operational at <http://www.lao-energy.com>; however, the Government acknowledged that staff are doing this part time and requested speedy external assistance to improve the site.

#### *Improving government communications*

The terms of reference for an international communications firm, which would assist the Government in strengthening its ability to communicate with various stakeholders ( *inter alia*, through the website); to share information more effectively; and, to promote transparency around the project, were ready. The Government indicated that the assistance from such an international communications firm was held up for want of funding and asked the Bank to help resolve the funding issue soonest. It was noted that funding for this effort is likely to be obtained in the next few months, and work is expected to begin in the first quarter of the upcoming year. In the meantime, the Bank agreed to provide comments on the Government's website, to provide recommendations on ways to facilitate increased access to the project site, and also to provide guidance on the types of information that could be conveyed to the villagers themselves, who obviously do not have access to the website, to ensure that they have a more complete understanding of the potential benefits and risks of the project.

### *Local Consultations*

The mission pointed out that once the safeguard documents were ready, it would be necessary to organize intensive consultation with affected persons and the local population. For this, a detailed plan was required upfront. The mission agreed that once the consultation and participation plan is submitted by Government, Bank communications staff will work closely with safeguards staff to recommend measures to strengthen the plan for information sharing beyond the actual consultations, including information on suggested materials to be made available or ways to communicate the issues raised in the safeguard documents.

### **Other issues raised by the government**

#### Project Timeline

In response to a Government query regarding when Bank's support for the project would be decided upon, the mission clarified that Bank support is subject to the Bank's Board approval of the project. The project would be taken to the Bank's Board only after adequate progress had been demonstrated in regard to the three areas dealt with above. Given that the resolution of issues in these areas is well within the Government's control, the speed with which the Bank could move ahead was, therefore, determined by the pace and the extent to which the Government was able to resolve pending issues and deliver on the unfinished agenda. The Government and the developer have assured the Bank mission that they are committed to completing the unfinished agenda within the time line facing them, in order to fulfill the obligations undertaken by the Government and the developer in the PPA and CA.

## **ATTACHMENTS**

Attachment I is the Decision Framework on Nam Theun 2, which has been endorsed by the Government and made public.

Attachment II presents detailed comments and recommendations -- addressing work still to be accomplished -- regarding specific areas and issues relating to the three elements of the decision framework, beginning with the Development Framework.

**ATTACHMENT I**  
Aide Memoire of October 28-29, 2002

**Decision Framework for Processing the Proposed NT2 Project**

**Proposed NT2 Project**

1. The proposed private sector investment project includes the development, construction, and operation of a thousand Megawatt trans-basin diversion power plant on the Nam Theun river, a tributary of the Mekong, in the central region of the country, about 250 kilometers east of Vientiane. The main features of the project are a 48-meter high gravity dam on the Nam Theun river, a 450 sq. km. reservoir, the powerhouse, and a 130 km long double-circuit 500 kV transmission line to deliver the electricity produced to the Thai grid. A 70 km. long single-circuit 115 kV transmission line will also be included to carry the small portion of total electrical output that will be dedicated to domestic uses.
2. The project is structured as a BOOT (Build-Own-Operate-Transfer) arrangement. The Government asked a foreign consortium, Nam Theun 2 Electricity Consortium (NTEC), comprised of EdF (France) in a head-contractor partnership with Montgomery Watson Harza of USA (35 percent), EGCO of Thailand (25 percent) and Ital-Thai Development also of Thailand (15 percent), to assist in constructing and operating the project. NTEC, currently representing the private sector interests, will shortly be incorporated with the Lao Government's investment entity (Electricité du Laos, with 25 percent of equity) to form the operating company, Nam Theun 2 Electricity Company (NTECO), for a concession period of 25 years. The developer has informed the Bank that it expects to sign, by September 2002, a Power Purchase Agreement (PPA) with EGAT (the Thai public-sector power entity) for export of over 90 percent of the energy generated by NT2 and also sign a Concession Agreement (CA) with the Government of Lao PDR in the same month.
3. Estimated project cost (excluding contingencies) is US\$1.075 billion (about 65 percent of GDP in Lao PDR) and is expected to be funded using loan facilities of \$752 million and shareholders' equity of \$323 million. Export credits to the tune of \$270 million, commercial loans from Thai banks amounting to \$375 million and commercial loans from developed countries' banks to the extent of \$107 million, make up the loan financing (\$752 million) for the project.

**Decision Framework for Processing the NT2 Project**

4. A broad decision framework was shared with the Government of the Lao PDR during a Management mission led by the Country Director in August 2001. Project processing would be linked to progress shown by the Government on: (a) implementation of a development framework characterized by concrete performance that aims at poverty reduction and environmental protection; (b) ensuring that the technical, financial and economic aspects of the project and the design and implementation of safeguard policies were of a standard acceptable to the Bank; and, (c) obtaining broad support from international donors and civil society for the country's development strategy and the NT2 project itself. The three elements of the decision framework are elaborated upon below.
5. ***Policy and Institutional Reforms.*** Less than ten percent of the power produced by NT2 will be used in Lao PDR; the rest is to be sold to Thailand. Therefore, the major benefit from the NT2

project would be sizable incremental revenues (through royalties, taxes and return on equity) flowing to the Government of the Lao PDR for several decades starting from 2008 -- not the direct benefits of power production. Global experience has clearly shown that such additional revenues can be put to the most productive uses when governance improvements and human capital development go hand in hand with project initiatives. Currently, the policy and governance framework in Lao PDR is flawed and capacity in the public sector is woefully weak. Substantial sustainable improvements to these policy and institutional areas are needed to achieve macro-economic stability and pave the way for sustainable broad-based growth. While it is appreciated that such reforms take time to complete, a serious start and demonstrated progress is necessary before sufficient confidence can be gained that these reforms will indeed be accomplished. Such demonstration is all the more important to assuage lingering doubts in the community of international financial institutions and donors, dating back to the macroeconomic missteps taken in 1997-1999 that exacerbated the effects of the regional crisis.

6. The IMF-backed Poverty Reduction and Growth Facility (PRGF) and the government-driven Interim Poverty Reduction Strategy Paper (I-PRSP) lay the foundations of such policy and institutional reforms. An overall poverty reduction framework (PRSP) is needed to lay out the strategy for the sustainable and environmentally responsible use of revenues derived from natural resources such as hydropower, forestry, and mining. The full PRSP, that is expected to be discussed at the Bank Board in FY 2003, is expected to set the agenda for further Bank support through a series of Poverty Reduction Support Credits (PRSCs) to strengthen governance and promote human development in Lao PDR. Furthermore, expected annual budgetary revenues from NT2 would be, in part, channeled directly to initiatives aimed at poverty reduction and a portion of the proceeds would also partially fund long-term conservation efforts (for several decades) in designated conservation areas.

7. Meanwhile, building on the efforts of the past SACs and the recently-completed Public Expenditure Review (PER), the Financial Management Adjustment Credit (FMAC) and its companion Financial Management Capacity Building Credit (FMCBC) seek to strengthen GOL's capabilities through financial and public sector reforms. Key areas being addressed include: i) *financial sector* -- stabilize financial condition of the banks (SCBs), strengthen banks to support broad-based economic growth, and launch micro/rural finance for poverty reduction; ii) *public sector* -- improve budget planning, streamline budget execution and control, make the budget process more transparent and launch participatory forestry framework which has significant budgetary implications; and, iii) *SOEs* -- strengthen oversight of financial and operational performance of SOEs, restructure enterprises, rationalize the regulatory framework (*power sector* SOEs are addressed here as well -- especially EdL, the entity that would carry GOL's equity share in the NT2 project). A Poverty Reduction Fund (PRF) Project would complement these efforts through direct targeting of funds for poverty-reducing investments at the village level. A separate forestry operation will also address improvements in forestry management at the regional level. Improvements in public expenditure management would lead to better poverty targeting.

8. The health of the overall IDA portfolio in Lao PDR must also be addressed. There are nine active IDA projects in the portfolio at this time. In recent years, performance of the portfolio has been mixed, but with an improving trend.

9. Success on the policy and institutional reform front will be measured through progress on the development and implementation of a comprehensive government-driven reform program, articulated in the PRSP and other policy statements and supported by the Bank, IMF and other donors through instruments such as the PRGF, FMAC, PRSCs and various investment operations as well as maintenance of good standing on the overall project portfolio. Therefore, a *sine qua non* for Bank support to the project is an agreement upfront on a set of policy and institutional reforms and demonstrated progress on the implementation of these reforms. Progress on all these operations will be guided and measured by a set of performance benchmarks. This pre-requisite for Bank support for NT2 has been accepted by the Lao PDR Government.

10. ***Project Standards and Safeguards.*** The NT2 project is being designed and will be implemented by NTEC (or NTECO). The head contractor -- EDF/Montgomery Watson Harza -- is strong and each is highly rated as a leader in the field. Therefore, unlike public sector energy projects, cost overruns or completion delays are not serious risks. The project sponsors have amassed substantial analysis affirming that NT2 is technically sound in terms of hydrology and dam design and also economically and financially viable. The Bank is in the process of re-confirming these findings through ongoing due diligence. The project is well-managed to date and the Developer is capable and responsive to Bank suggestions. NT2 is a priority for the Government while also being financially attractive to the Developer. This provides incentive for all parties to find workable solutions when problems arise. With this said, the Bank must still, *inter alia*, perform due diligence on the PPA and other legal agreements covering the project, the case for additional power purchase by Thailand, the design of the dam and associated construction (a Bank supported Dam Safety Panel is operating) and the detailed implementation arrangements. The satisfactory completion of due diligence -- and any remedial actions that the Bank may propose -- is an integral component of the Bank's decision-making framework for processing the project and this has been recognized by the Lao PDR Government.

11. The NT2 project involves application of all ten Bank safeguard policies. The project demands effective conservation and management of the watershed areas due to possible negative environmental and social impacts. These relate to the construction of the dam and flooding of land to fill the reservoir. Other impacts include resettlement of nearly 5000 persons, flooding of dry season cultivation zones on the Xe Bang Fai river, ecological impacts relating to changes in water quality and flow on the Xe Bang Fai and Nam Theun rivers, possible endangerment of certain rare fish and animal species, changes in the stock and migration of fish, and loss of habitat in the reservoir area from inundation. Unless these negative impacts are carefully mitigated, the net benefits flowing from the project may not be attractive enough to justify it.

12. Project preparation has focused on mitigating these negative impacts by ensuring that the design and implementation of plans pertaining to all of the Bank's safeguard policies are carried out so as to meet or exceed Bank standards. Furthermore, the proposed Nam Theun Environmental and Social Project (NTSEP) supports, *inter alia*, resettlement and community development, environmental capacity-strengthening, watershed area management and environmental mitigation, and poverty reduction in the project area. Through these efforts, the Government seeks to ensure that the livelihoods of all who live in the project area are enhanced and that the environment -- in the project area and possibly beyond -- is conserved for the long-term. Potential conservation benefits warrant special mention, as NT2 would help to preserve one of the few remaining pristine rainforest

regions in the world. Without NT2, it is not clear if or how such conservation could be ensured. An independent International Advisory Group and a Panel of Environmental and Social experts advise the Bank and Government, respectively, on these critical issues.

13. The design of risk mitigation measures is contained in three document packages (which are governed by the Bank's disclosure policy): the Environmental Assessment and Management Plan (EAMP), the Resettlement Action Plan (RAP) including an Ethnic Minorities Development Plan (EMDP), and the Watershed Conservation and Management Plan -- also including an EMDP. The preparation of these plans has been carried out by experts working for the Government and the Developer, with substantial input from Bank staff (including the provision of detailed comments and discussions on application of Bank safeguards policies). Implementation arrangements are included in these documents and completion of this work, to the satisfaction of the Bank, would be a pre-requisite for Bank consideration of the NT2 project.

14. A strong dialogue is in progress with both the Developer and the Government on project quality and safeguard issues and there is a clear understanding by all parties on the what must be done to comply with the Bank's guidelines and standards in this regard.

15. ***Broad-based Support for the Government's Development Strategy and the NT2 Project.*** Burden-sharing with other international donors is a critical element of the Bank's decision-making framework because of two factors. First, it is critical to the success of the project that sustained progress on reforms be maintained over the long-run. The Government would receive revenues for several decades and most of the policy and institutional reforms would also take several years to complete. The reforms are more likely to be fully carried out if major donors are also deeply committed to the policy and institutional reform package while also supporting the implementation of NT2-related conditionality. Second, the NT2 project requires substantial external support, through grants (to finance the Government's contribution to equity in the project), export credits, financial transfers, and technical assistance from donors other than the Bank.

16. These requirements put the international donor community in a crucial role going forward. The Government will need to develop a detailed program (building on *ad hoc* measures taken so far) for systematic consultations with key international stakeholders to keep them informed. For bilateral donors and the multilaterals, this will need to include briefing missions to important donor capitals as well as informal meetings in Vientiane. The UNDP supported round table mechanism would also be used to keep donors informed and engaged. This paper is therefore being distributed to the Round Table meeting being held in Vientiane on July 3, 2002.

17. International civil society has a legitimate and strong interest in the project as well -- particularly since local civil society is not developed and there are no local NGOs. Local consultations have been remarkable in the Lao context, but fall short of the expectations of the international community. Broad support from international NGOs, particularly those involved with environmental and social issues, provides much-needed comfort that the environmental and social issues relating to the project will be successfully managed in the event. It is, however, highly unlikely that anti-dam NGOs would cease to attack this project. They likely will continue to launch focused campaigns against NT2 -- including website appeals reaching large audiences.

18. A series of seminars on NT2 led by the Lao PDR Government would be proposed to engage international NGOs on the project. The tone of these seminars is likely to be set by the on-going debate on the World Commission on Dams report. The expertise of the International Advisory Group of the Bank and the Panel of Environmental and Social experts, engaged by the Government, would be made available at these seminars.

19. The importance of broad-based international support is well understood by the Government but their capacity to network is severely limited. The Government is seeking Bank advice on its communications plan.

20. Project preparation continues within the framework described above. Emphasis going forward will be on further development by the Government of specifics relating to safeguards, fiduciary elements, use of revenues, a strong communications plan, and monitorable benchmarks for determining Lao PDR's policy and institutional readiness for the NT2 project.

**ATTACHMENT II**  
*Aide Memoire of October 28-29, 2002*

**Progress on the Three Elements of the Decision Framework**

*A. Strengthening the development framework*

- *Strengthening the Macro Framework:* This area is critical to the establishment of a development framework that would justify support to NT2. Of immediate importance is the need to control inflation and continue with reforms to improve public sector management. Progress / Next Steps: The Government is implementing structural reforms in public expenditure management, state-enterprise monitoring and restructuring, as well as financial sector strengthening, though the overall pace requires acceleration. Budget transparency has been improved and steps have been taken to enhance the institutional framework for better public expenditure management. Steps have also been taken to put in place an information and reporting system to monitor performance of state-owned enterprises (SOEs) on a regular basis. For selected large SOEs, several restructuring actions, like tariff-increases and sale of some non-core assets, have been taken, but a lot more work remains to be done to complete comprehensive restructuring plans and implement them.

Similarly, international banking advisors are being recruited for supporting restructuring the state-owned banks (SCBs), though actual restructuring of SCBs still remains slow. This reform program is supported by the IMF, the World Bank, and the Asian Development Bank. The IMF-PRGF will be a critical tool in monitoring progress in this area and in establishing a track record during the coming twelve months. While the second review of the program was successfully completed in August 2002, it was completed behind schedule. The next review is planned for January 2003 (tentative) and efforts need to be made to ensure that the program remains on track and that the review is completed on schedule.

- *Improving financial management.* The Financial Management Adjustment Credit (FMAC) and its companion Financial Management Capacity Building Credit (FMCBC) are critical instruments in the advancement of financial management reforms. Building capacity is critical to enabling the Government to carry out reforms such as the financial management improvements outlined in the FMAC program. Progress / Next Steps: The Aide Memoire of an IDA mission dated September 24 lays out the actions that the Government needs to take to make progress under these two operations. The first set of actions relate to fulfillment of conditions of effectiveness, where progress has been slow. The Government provided assurances that needed actions would be taken quickly. The Bank mission noted that there had been delay in setting into motion the hiring of technical services to assist on the agenda relating to conditions of the second tranche of FMAC. This activity has been set back by the effort underway to find alternate sources of grant financing.

The conditions relating to SCBs and SOEs require considerable analytical support and the cost of delaying this work is high. Given the adverse signals that would result from delays in meeting second tranche conditions, the mission sought and received confirmation from the Government for the use, without further delay, of IDA funds from FMCBC where grant financing was not immediately available. For the capacity building activities to start under the FMCBC, the PIU -- as the implementing unit for the FMCBC -- has to be fully staffed and functional. The process of appointment of key external personnel has just begun. The Government has agreed to speed actions in this area.

- *Completing and implementing the National Poverty Eradication Plan (NPEP).* The Government indicated its plans to complete a high-quality NPEP through a participatory and consultative process by May 2003 (i.e., preliminary draft by end-December 2002; comments and revised draft for mini-RTM discussion in January 2003, consultations and revised draft for discussion at National Assembly in March; and, further consultations and revised draft for main RTM discussion in early May).  
Progress / Next Steps: Several actions have been taken in preparing the NPEP -- steering Committee expanded, technical working group established, guidelines to sectors for their strategies issued, and preliminary inputs of sector ministries provided. Nevertheless, much more work is needed between now and end-December, as well as between January and May of 2003, to ensure that both the content and process of the NPEP are of high quality.

*Content.* The mission informed the Government of the substantive work agenda that remains to be completed to develop a NPEP that meets the needs of Lao PDR and can be strongly supported by the donors and other partners. The Government indicated to the mission that the following will be included in the NPEP:

- Explicit medium-term goals for Lao PDR, which will involve, among others, adapting to Lao PDR the Millennium Development Goals (MDGs) to which the Government is committed;
- Broad directions of policy changes and public expenditure allocation changes in all areas that will be needed to achieve those goals;
- Specific operational policy measures, in the form of a matrix, in four key sectoral areas and seven cross-sectoral areas; i.e., it will operationalize the changes in broad direction (e.g. instead of just saying “support the SME sector” as was said in the I-PRSP, NPEP will indicate the specific policy measures that will help to support the SME sector);
- The four sectoral areas will be: health, education, transport, and agriculture, and the seven cross-sectoral areas will be public financial management, state-enterprise restructuring, banking restructuring, private sector and trade, targeted poverty-interventions, gender and environment (including forestry);
- Estimates of costs of key public expenditure interventions in order to indicate changes in budgetary allocations that may be required across sectors and between capital and recurrent, so as to achieve the goals of NPEP; and,

- A monitoring and evaluation system that can monitor and regularly publicizes the progress achieved in respect of the NPEP goals, and seeks technical assistance to strengthen the monitoring capacity.

The mission indicated that according to the decision framework, the Bank will support financially, through a Poverty Reduction Support Credit (PRSC) in CY03, an agreed matrix of specific policy measures (a sub-set developed or drawn from NPEP) for implementation. This would cover the FMAC areas of public finance, state-enterprises, banking, forestry (as cited in the Letter of Development Policy) as well as those of health, education and agriculture.

*Process.* The mission requested the Government to consider the following:

- Strengthening the teams in each sector ministry, especially in education, health, agriculture, and transport, if they are to operationalize the I-PRSP as indicated by the Government;
- Developing a detailed plan for consultation and participation with internal and external stakeholders.

The Government indicated that they would like the technical consultants to assist the ministerial teams and the NPEP Committee in operationalizing the I-PRSP and the existing sector strategies; i.e., help to formulate specific policy measures and specific public expenditure interventions that would be taken each year over the medium-term. These would be done in the four key sectoral areas (i.e. health, education, agriculture and transport), and in the key cross-sectoral areas (i.e., FMAC areas of macroeconomic stability, public financial management, banking, state-enterprises, forestry, plus private sector and trade, targeted poverty-interventions, gender and environment).

- *Targeting expenditures on poverty reduction.* The Poverty Reduction Fund Project (PRFP) places funds for development at the disposal of rural communities and is critical in establishing that there are ways of contributing to poverty reduction through involvement of rural communities. It provides a credible vehicle for deployment of some of the revenues from NT2. Progress / Next Steps: Good progress is being made in meeting some of the conditions of effectiveness (e.g., establishment of MIS, hiring qualified accounting staff, finalizing the operations and finance manuals, and selection of districts); however, the Bank is concerned about the delays in signing the Fund Grant Agreement (between MOF and PRF) as well as when the legal opinions for each of the legal agreements will be furnished to the Bank. The Government has agreed to speed up these internal actions. The next mission will take place in November and the expected date of effectiveness is November 18, 2002.
- *Reforming the energy sector.* The Lao energy sector is in the process of adjusting to impacts and changes, many stemming from the 1997 Asian financial crisis, which have retarded the development of the sector -- especially power generation. Signs of recovery are visible, but there is a need to formulate a power system development plan that should aim at an optimal allocation of resources in the long term and guide future donor investments in the sector. Progress / Next Steps: The latest mission confirmed that all components of the EdL Financial

Restructuring Plan have been implemented except for the revaluation of EdL's fixed assets and the revision of EdL's investment plan (PDP). Measures completed include the amendment of subsidiary loan agreements and debt to equity conversion, undertaking an electricity tariffs study and subsequently implement new tariffs, and signing of a performance agreement between the GOL and EdL. A report on the revaluation of EdL's fixed assets has been prepared by consultants and discussed in a workshop last September, and a GOL decision is expected shortly. Furthermore, a workshop on power sector reform is scheduled for early November.

The Bank mission pointed out that EdL's PDP needed updating and review. It was agreed that the question of mobilizing some grant funding to supplement IDA funding for this purpose will be further explored by Bank staff in consultation with the MOIH. The Bank mission highlighted that the recent depreciation of the Kip with respect to the US\$, and its impact on the effectiveness of the above mentioned measures, is a serious concern, particularly since the tariff increases being implemented since May 2002 are being eroded by higher depreciation and inflation rates. The Government took note of this concern.

- *Forestry policy.* The Bank Forestry mission has drawn attention to reports that recent analyses have shown significant loss of forest cover over the last decade -- in excess of 6.5% of total land area. Deforestation across all forest types in Lao PDR is therefore a serious concern and underscores the need for fundamental and urgent reforms across the forestry sector. The control of illegal logging, the management of the Northern Extension, and the promotion of village forestry also continue to be priority areas.  
Progress / Next Steps: While the mission did not discuss in detail forestry issues, previous missions on Forestry have observed that the Government continues to lay the groundwork for sustainable management of the forest resource. The Ministry of Agriculture and Forestry has ratified "Principles for Villager Participation and Other Key Principles in Sustainable, Participatory Management of Production Forests" and in June, the Prime Minister Order directed implementation of key elements of a participatory forestry regime including recognition of the importance of village participation as co-managers.

Progress has continued with work on drafting of an Implementing Regulation on Sustainable Management of Production Forest Areas, which is expected to be finalized in November in accordance with the agreed FMAC timetable. Based on drafts supplied to the Bank for review, the work is advancing well, but needs to be strengthened to incorporate clear provisions for establishment of National Production Forest Areas and for establishing the role of provincial and local entities in management planning and control. The Bank anticipates receiving a consolidated version of the next draft prior to finalization.

Substantial progress has also been made in the design of the Sustainable Forestry for Rural Development Project for possible World Bank-financing. The proposed project, which is now ready for World Bank Appraisal, will mobilize resources for the realization of the forest management program envisioned in the FMAC-related program, including especially the formal establishment of National Production Forest Areas nationwide and the introduction of participatory and scientific management over about 528,000 hectares in central and southern provinces. Grant financing for technical assistance valued at Euro 5.8 million is anticipated

from a bilateral source.

Work needs to accelerate on revisions to the Implementing Regulation on National Biodiversity Conservation Areas.

- *Elevating portfolio performance.* A healthy country portfolio is essential to achieve the development objectives of donors' assistance and to ensure the sustainability of this effort. Progress / Next Steps: The latest mission was pleased to find that, after a period of weak portfolio performance, the quality of the portfolio of IDA projects has improved considerably in recent months. However, the portfolio remains fragile with generic issues of implementation, procurement, financial management, and disbursements. The Quarterly Country Portfolio Performance Review (held on September 19) confirmed that there are no longer any projects at risk and encouraged all project directors and teams to keep this higher level of performance to ensure increased access to IDA resources and strengthen the case for the NT2 project. It was agreed in that review meeting that during the next quarter, efforts should focus on achieving the effectiveness of the three new projects (FMAC, FMCB and Poverty Reduction Fund) and improving further the financial management of projects, including the completion of audits, in a timely fashion. The Government expressed appreciation for the Bank's cooperation with regard to measures to improve the portfolio and reaffirmed the importance they attach to maintaining the progress in this area.

#### B. Improving project standards

The Bank is carrying out due diligence on the financial, economic, technical and legal aspects of the private sector investment project, with the cooperation of the developers and the Government. The unfinished agenda is substantial and due diligence work will continue as developments on the project, such as the signing of the PPA, arrangements for procurement and financing, responses on procurement bids, etc. unfold.

- The Concession Agreement (CA) and the Power Purchase Agreement (PPA): As part of the due diligence on legal aspects of the project, the Bank is in the process of reviewing these two key legal agreements.  
Progress / Next Steps:
  - a) CA: The CA was signed on October 3, 2002. The Bank exchanged views on the CA with the Government and the developer during informal project discussions in DC on October 22-24, 2002. The Bank will convey detailed comments on the CA as soon as it completes its review and looks forward to a further exchange of views at that time. The Bank has been informed that the Government and the developer are open to considering possible amendments to the CA that might be needed as a consequence of the Bank's review.
  - b) PPA: The (draft) PPA for sale of power to EGAT (Thailand) was re-initialed on June 27, 2002 and is expected to be signed at the end of the calendar year. The Bank is undertaking a detailed commercial, risk allocation, and technical review of the (EGAT) PPA with the help of consultants and a further legal review would be undertaken if required. The consultants are expected to be appointed shortly and their work is expected to be completed

within six months. The Bank would consult with the developer as the work progresses. The Bank has been informed that the developer is open to considering possible amendments to the PPA that might be needed as a consequence of the Bank's review.

- *Dam Safety.* The Bank needs a consolidated report summarizing all the work that has been undertaken by the Dam Safety Panel, explaining how this work has contributed to the project design, providing the panel's endorsement of the final design and bid documents, and outlining the scope of the panel's further activities. The Government has agreed to make this available.
- *Thai case for buying NT2 power.* A Thai power scenario study is being undertaken to seek confirmation that NT2 is indeed a least-cost option for meeting the power needs of Thailand, considering the current over-capacity situation in the Thai grid, and uncertainty about demand growth as well as about the coming on line of two major coal-fired plants.  
Progress / Next Steps: The study commenced on October 1, 2002. Preliminary findings are expected by December 2002 and the Final Report in February 2003. The Government pointed out the strong support and encouragement that was being extended by EGAT to the NT2 project.
- *Efficiency and economy of procurement.* The developer is in the process of arranging for three civil works and two electro-mechanical contracts as well as Head Contractor (HC) contract. Most of the contracts will be awarded based on competitive bidding, but the HC and one of the civil works packages (CW1) are proposed as sole source arrangements.  
Progress / Next Steps: The Bank has been exchanging views with the developer on the economy and efficiency of the procurement process and its compatibility with Bank guidelines. The Bank has recently indicated to the developer that it is concerned regarding the following two areas: a) justification for the sole source arrangements and b) justification for the high cost of the HC involving both the management fees and the risk premium that is proposed. The Bank wishes to emphasize that satisfactory justification of the HC contract cost will be needed. Furthermore, the Bank would appreciate being informed regularly on procurement matters (and the project's overall cost -- which underpins its viability) through brief quarterly progress reports highlighting status and issues. The Government agreed to follow developments closely.
- *Justification for hydropower exports.* The Bank is embarking on a study of sources of growth in the Lao PDR economy and will be working closely with the Government counterparts in this work. This study is expected to build further on the analytical work already available justifying the priority given to hydropower as a source of growth and is also expected to focus on the policy framework that would optimize the contribution of hydropower to economic growth. This study would, *inter alia*, also deal with Lao PDR contingent liabilities, arising from hydropower deals, and measures to manage them on a sound basis. The Government indicated its interest in such a study which had important policy implications.
- *Justification for NT2.* It was agreed with the MIH that the Study of Alternatives for NT2 (completed in 1997) needs to be updated incorporating more recent data on the Thai and Lao power markets and on the supply options available. This update will assess the viability of

NT2 as an option to supply energy to the Thai market, taking into account a multi-attribute analytical framework and the high degree of integration between the Lao and Thai power systems. In this respect, the proposed update will encompass a review of the Lao Power Development Plan (PDP).

Progress / Next Steps: Terms of Reference for the study have been drafted and discussed upon, and are being amended in order to scale down the scope of work and shorten the study duration. It was agreed that the recruitment of consultants should be done as soon as possible. The study would be executed by MIH and funded partly through the ongoing IDA power credit. The Government has requested that the Bank assist in raising grant financing to lower the IDA project contribution to this study. The Bank staff agreed to explore such a possibility.

- *Assessment of project economic impacts.* As part of its due diligence assessment of the NT2 project, the Bank will undertake a new study on the Economic Impact of NT2 on the Lao economy. This study is essential to confirm the economic viability of the project from the Lao point of view, and to assess the impact that such a large investment would have on the Lao economy.

Progress / Next Steps: The study would start once estimates of project costs are made available from the ongoing bidding process. The Government's interest in such a study was reconfirmed.

- *Social and environmental impacts in the regional context.* Recent World Bank Inspection Panel cases have indicated that the panel now considers it mandatory for all environmentally and socially sensitive projects to carry out comprehensive regional and sectoral environmental reviews. Regional and Sectoral EAs are intended to address issues of broader scope than what is normally covered in a project-specific EIA. The regional and sectoral approach will be required in order to develop a full understanding of the cumulative and induced effects of the project and how the project affects the long term environmental concerns in the project's area of influence. It is likely that many of the issues that would be typically covered in a regional or sectoral review have already been addressed, but the documentation is scattered throughout numerous reports and will need to be consolidated.

Progress / Next Steps: The Bank team is finalizing a TOR for what should be covered under this supplementary environmental assessment. The draft TOR will be sent to the Government for review and a schedule for completing the proposed work program will need to be agreed upon. Financial resources for carrying out this work will need to be secured. The Bank and the Government would approach suitable donors.

- *GOL legal and financial advisors.* Currently, the Government benefits from expert legal and financial advisory services. As current contracts are due to expire in the coming months, the Government may wish to begin its efforts to line up sources of funding to facilitate continuation of such services, without interruption, to carry them through completion of NT2 actions relating to legal and financial matters. At this point in time, it is envisioned that such services would be needed through September 2004. The Bank stands ready to help the Government find sources of funding for these critical advisory activities, should the Government request such assistance. The Bank expressed that it had no objection to the use of funds from the IDA credit that had previously financed these advisers since the funds were needed to complete a job that had already been supported.

- *GOL representation in the project -- EdL's participation.* For the purposes of the project, the Government has indicated that EdL would be the shareholder in the project because its involvement in NT2 would provide exposure to EdL staff, thereby enhancing EdL's technical, operational and management expertise. As currently structured EdL, on behalf of the Government of the Lao PDR, will receive its share of the dividends that are generated from the NT2 project on an ongoing basis until the expiration of the concession. The dividends from this investment in NT2 would show up in EdL's balance sheet as revenues. These revenues should be available for poverty reduction activities, which is a critical aspect of the project from the World Bank perspective.

The mission understood that both the Government and EdL are committed to the use of the dividends from NT2 for poverty reduction activities, and have agreed to further explore this issue to arrive at an acceptable structure such that dividend-related revenues can be segregated from EdL's balance sheet. Unless these revenues are segregated and paid to the Government directly, these could distort EdL's financial position and could act as a cash subsidy to EdL by the Government indirectly subsidizing the domestic tariff structure. In this context, the World Bank is hiring a Consultant (PWC Laos) to suggest possible alternatives to the current arrangement with an objective of isolating NT2 dividends from EdL's revenues.

- *Progress on financing arrangements.* The developer has initiated discussions with ADB and EIB (European Investment Bank). The developer will also be approaching MIGA shortly. Information regarding ECA financing would be available once the construction bids have been received by the developer. At that stage, the financing plan would be clearer and the Bank would discuss the nature and size of its possible support as the plan crystallizes. Sources for a portion of Government (EdL) equity have been identified. Further steps would need to be taken to identify the sources for the remaining equity.
- *Safeguards documentation.* Commendable progress by the Government and the developers continues, but much remains to be done to complete the necessary documentation.
 

Progress / Next Steps: It is expected that the Bank will continue to emphasize ongoing areas of concern raised in previous missions such as the need for: a clearer assignment of responsibilities between the developer and the Government regarding management of safeguard issues; arrangements for the management of the Northern Extension to be further developed and explained; fishery and livelihood issues relating to Xe Bang Fai to be expanded upon; preparation of an IPDP (now termed an Ethnic Minorities Development Plan, or EMDP); deeper treatment to be given in explaining the public consultation process and its effectiveness; and, riparian issues to be given further treatment.

  - ◆ *Environmental Assessment and Management Plan (EAMP) for the Nakai Plateau.*

Progress / Next Steps: The Bank provided comments (April 2002) and is awaiting the revised version of the EAMP from the developer (expected in November). The Bank has informally reviewed the environmental and social obligations described in the Concession Agreement. While broadly consistent, the CA environmental obligations appear to be more exact in language and the CA provides additional details not found in the draft EAMP. The Bank will expect full consistency between commitments made in

public documents such as the EAMP and the provisions of the CA. The Bank will also now require a regional / sectoral assessment as described earlier.

- ◆ *Social Development Plan (SDP) for the Nakai Plateau*, comprised of Resettlement Action Plan (RAP) and Ethnic Minorities Development Plan (EMDP).  
Progress / Next Steps: In July 2002, the Bank received, from the developer, the SDP document for review. It incorporates a revised RAP and a first draft of the EMDP. The Bank has reviewed both documents and discussed key issues with the project delegation (NTEC/Government) and the technical details with the project specialists.  
Progress / Next Steps: During recent informal discussions at Washington between the developer, GoL and the Bank, it became obvious that both the RAP and the EMDP would need to be further improved and that further field work was required. The revised RAP has incorporated some of the early comments from the Bank, but has not addressed all concerns raised -- some of them critical, such as feasibility of the livelihood options -- division of resettlement responsibility, and capacity build-up programs. It needs to be further revised, based on additional field work, to be in full compliance with World Bank requirements. The Bank has also reviewed the draft EMDP. While the EMDP is strong in many aspects, it needs to be further strengthened in terms of background information, analysis and necessary actions, particularly regarding Bank policy application to the ethnic minority communities in the downstream areas and required actions.
  
- ◆ *“Watershed Plan” – Nakai Nam Theun Watershed Management and Protection Authority (WMPA) Social and Environment Management Framework and Operational Plan (SEMFOP)*.  
Progress / Next Steps: An Inception Report on the “Watershed Plan” was received by the Bank in April 2002. The first draft of the full Plan was just delivered to the Bank so it can now begin its review. An exchange of views on this is expected shortly with the developer and Government.
  
- *Mitigation measures*. The project-affected persons in the Plateau have been aware of the project for many years through public consultation efforts. It has been observed that this long period of awareness has led to a “holding pattern” in their activities as they awaited action on the project. The case can be made that this has resulted in negative livelihood impacts because they were reluctant to “invest” in maintaining and improving their livelihood pending possible changes they thought would happen in the near future. There is a need to design and implement measures to address these negative impacts to restore livelihood. The mission requested the Government to investigate this issue and propose measures that could benefit affected persons.
  
- *Consultation and disclosure*. As part of the Bank’s comments to Government in April 2002, the Bank has requested that a detailed program of public consultation to review the draft safeguard documents be included in the revised documents package. The Bank is awaiting a proposed plan for consultations on revised as well as new/forthcoming documents. The Bank mission noted that these consultations are likely to be held in the second quarter of the next calendar year. (Please also see comments under Local Consultations elsewhere in this Aide Memoire.)

- *Nam Theun Social and Environmental Project (NTSEP)*. NTSEP will address the Government's capacity to handle potential environmental and social project impacts. It is likely to fund four major areas, with IDA financing linked -- to the maximum extent -- to items that would constitute the Government's equity in the NT2 project:

1. measures to manage the catchment area of the reservoir, linked to the SEMFOP;
2. support to resettlement under the project, linked to the SDP;
3. implementation measures on environmental protection, linked to the EAMP; and,
4. improving the lives of Xe Bang Fai people and protecting them from negative impacts.

A possible fifth component could be support to an Environment Fund, patterned on the supported IDA Poverty Reduction Fund.

The mission agreed with the Government that preparation of this project (which requires prior completion of the EAMP, SDP and the SEMFOP) could be accelerated in November 2002, once the documents were finalized by the developer. Project preparation completion would be targeted for June 2003.

In addition to providing a source of funding for the Government equity in the NT2 project, the components of which the Government needs to firm up, the NTSEP operation would also be designed to support non-NT2-equity activities, such as support to the people residing on the banks on the Xe Bang Fai river and an Environment Fund. This could be established to support conservation akin to the manner in which the Poverty Reduction Fund supports community poverty alleviation measures. The mission agreed with the Government that tripartite discussions between ADB, which spearheads such a fund, the Bank and the Government should take place at the earliest opportunity. Quick action to identify other possible sources of co-financing is also critical.

### C. Building greater international and local understanding and support

In addition to securing broad support among international donor agencies and the Bank's own shareholders as well as enlarging the scope for direct financial support for the project -- particularly from MIGA, ADB and bilaterals, the August 2001 mission pointed to the need "to develop greater understanding and wider support for the project among the international donor community and global and local civil society." An effective communications approach covering donors, the international private sector, civil society (both local and global -- including the affected people), and the media is required to ensure transparency and make readily available accurate information regarding the project.

- *Improving communications around the project and building the Government's capacity to support this effort*. In order to improve understanding of the Government's development framework and the NT2 project itself, it is important to build capacity in the Government's Communications Team to communicate effectively and to conduct further communications activities with a broad range of stakeholders inside and outside of the country as well as the ability to feed back issues that arise directly to high levels of the Government. Important to this effort is increasing access of interested parties, both inside and outside, to information

about the project and to the dam site itself.

Progress / Next Steps: Members of the Communications Committee have been holding bilateral discussions and a site visit for local diplomats. The Bank is working to secure funding to hire an international communications firm to help build capacity in the Government and to help design and implement a communications and outreach effort for internal and external audiences. The firm should be on board in the first quarter of 2003. The Bank has agreed to make recommendations on ways to promote access to the site and to ensure that unfettered visits to the site are not overly burdensome to the villagers themselves.

- *Local consultations and access to information.* It is critical that consultations and efforts to make information available to local people take place within the country, and especially among affected persons, in such a manner(s) that the people have easy access to balanced -- in terms of the potential risks and benefits -- and accurate information in a form they can understand (because of low literacy levels, this means either pictorial, oral, or recorded information) and that people are able to express their views freely – and even anonymously – (e.g., without fear of losing out on benefits). This is necessary to meet Bank standards and to contribute to informed decision-making on project parameters, but can also help to improve project design, project ownership among local beneficiaries, and ultimately contribute to improving the development impact of the project.

Progress / Next Steps: Considerable efforts have already been made in this area but more needs to be done to ensure adequate and meaningful consultations on the substance of the safeguard documents, including the EAMP, SDP and SEMFOP. These documents, now under finalization, will embody details of the consultation program that would have to be carried out in the coming six months. The mission emphasized that this was a high priority task, as successful design and implementation of safeguard measures depends on meaningful consultations. The Mission agreed to work closely with Bank staff working on safeguards issues to recommend ways to improve access to the information both through the face-to-face consultations and beyond through making more information accessible to the affected populations.

- *Government's website development.* It is important that information on the Government's reform measures, along with performance milestones, as well as reports, documents, and timely updates related to Nam Theun 2, are made public by the Government and shared through its website so the international community has access to the information and a medium for submitting inquiries. This is important in building broader international understanding.  
Progress / Next Steps: The Government's website (<http://www.lao-energy.com>) is up and running. The World Bank agreed to provide comments on ways to improve the site and make it more effective and interactive. The website must remain a priority, as the website is one critical element of The Government's communication effort regarding NT2 and the overall development framework. The Communications Firm will be essential in building capacity locally to improve and manage the site and to help develop a system for interacting with visitors to the site. Interactions via the site will provide guidance on potential face-to-face interactions with key stakeholders.
- *International donor consultations.* Improved understanding and broader support for the project and the overall development framework among the international donor community is

critical.

Progress / Next Steps: The Government has been holding bilateral discussions to brief diplomats and aid agencies about the progress thus far as well as informal consultations on NT2 in July 2002. It led a field trip to the Nakai Plateau with a group of diplomats recently and also held an information meeting with the donor community this week. The Government is planning Round Table discussions around the NPEP in May 2003. A series of well-structured consultations led by the Government, timed to benefit from further progress on the NPEP, will lead to improved understanding of the project and the country which, in turn, could lead to increased support through co-financing (including grant financing).