

Nam Theun 2 Hydroelectric Project
FREQUENTLY ASKED QUESTIONS

March 2007

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June 2009

Section 1: Background

1. Why is the World Bank supporting this project? What benefits would this project bring to Lao PDR?
2. What kind of support and financing is the World Bank providing for the project?
3. What measures have been put in place to ensure that the revenues from the project will be managed soundly and transparently?
4. What measures have been taken to mitigate the social and environmental risks? Why should NT2 turn out differently from previous dam projects?
5. As an institution representing 184 member states, the World Bank Group needs to ensure that international conventions on social and environmental standards are not violated in projects or programs that the institution supports. What steps has the Bank taken to ensure that the NT2 projects meets the environment and social law standards enshrined in international conventions? What was the World Bank's due diligence on NT2?
6. 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?

Section 2: Implementation Progress

1. Implementation of some aspects of resettlement, compensation, and environmental management plans has apparently proceeded somewhat slower than initially hoped. What types of leverage are the Bank and Asian Development Bank (ADB) exercising to accelerate implementation?
2. How is the delay in recruitment of two of three IMAs affecting project oversight and monitoring?
3. Is construction on track? How does the construction schedule affect the social and environmental activities?
4. Have interim milestone dates been established for satisfactory completion of the yet to be completed actions, especially those sensitive to the construction schedule?
5. Is the World Bank monitoring the social and environmental impacts of the construction activities?
6. Where does the resettlement program stand? How are the villagers coping in the transition?

7. As part of the livelihood programs, villagers are expected to draw income from the cultivation and sale of cash crops. What are the potential markets for these products?

8. The downstream program was supposed to assist villagers 'well in advance of project impacts'. What progress has there been? What's the status of the downstream report?

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

10. How is the logging of the future reservoir being managed to mitigate impacts on villagers' livelihoods and the environment? How will logging activities be monitored?

11. How is the clearance of the future reservoir being managed to mitigate impacts on villagers' livelihoods, the environment, and future water quality? According to the latest progress report, no decision has been made on how much biomass will be cleared. When will the results of the ongoing review be made available and resulting clearance program be determined?

12. Will fish will be able to adapt to the new reservoir conditions or the increased water levels along the Xe Bang Fai?

13. 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?

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

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 Hydroelectric Project (NT2), 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 2010 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 6,300 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, which may be affected, to varying degrees, by the power plant operation;
- protecting more than 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;
- building the country's capacity at the national, provincial and local levels through improved human resources development, better functioning institutions, and more effective policies; and
- transfer of the project to Lao PDR at the end of 25 year concession period free of cost (typical economically useful life of a hydroelectric project is expected to be at least one hundred years.)

[Back to top](#)

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 US\$1.45 billion hydropower project. The World Bank Group's support is 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.

[Back to top](#)

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.

[Back to top](#)

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, allow better community participation in the program design and implementation, and 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](#) (99kb pdf), 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. Implementation is done by the developer which is a private sector operator with high level of technical and management capacity with full cooperation and partnership of the GOL.

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](#)

[Back to top](#)

5. As an institution representing 184 member states, the World Bank Group needs to ensure that international conventions on social and environmental standards are not violated in projects or programs that the institution supports. What steps has the Bank taken to ensure that the NT2 projects meets the environment and social law standards enshrined in international conventions? What was the World Bank's due diligence on NT2?

As mentioned in the World Bank's OP 4.01 "the Bank does not finance project activities that would contravene such country obligations [under the relevant international environmental treaties and agreements] as identified during the Environment Assessment." In the case of this project, the World Bank undertook a very thorough and comprehensive due diligence ([click here](#) to read more about World Bank due diligence on NT2) on all of these aspects and concluded that, in connection with the Nam Theun 2 Hydroelectric Project, Lao PDR does not contravene any of its obligations under international

environmental treaties and agreements. In addition, and in compliance with its Policy 7.50 on Project on International Waterways and all applicable international agreements related to the management and conservation of the Mekong River, the Bank requested the Government of Lao PDR to notify all Mekong River riparian and inform the Secretariat of the Mekong River Commission.

In fact, while conducting its due diligence, the World Bank reviewed the whole set of international conventions, agreements, laws, regulations and concession contracts related to environmental management, biological diversity conservation, the applicable legal framework to the Mekong River Basin in a tributary of which the Project was to be implemented, and the specific concession agreement between the Government of Lao PDR and the project developer. Any reference to domestic legislation includes those international treaties, conventions or agreements that have been ratified, or acceded to, by the country.

The Bank's due diligence concentrated on those laws, decrees and regulations related to protected areas, forestry, customary rights and use of forest resources, watershed management, land law, sustainable management of production forest areas, wildlife management and protection and other issues directly connected to the implementation of the NT2 project. While reviewing and assessing this legal framework, the Bank recommended additional development of the framework to make it consistent with the needs and objectives of the project. This legal framework as agreed upon for the purpose of the Project, is fully described in the various environmental and social safeguard-related documents including the Environmental Assessment and Management Plan (EAMP), the Social Development Plan (SDP), and the Social and Environmental Framework and Operational Plan (SEMFOP) all of which are publicly disclosed and were discussed by all stakeholders during a lengthy and very constructive consultation process. All these documents are available in our NT2 website, under "[NT2 Project Documents and Reports](#)." [Click here](#) for more information on World Bank due diligence on NT2. [Click here](#) to read more about the World Bank's Safeguard Policies.

[Back to top](#)

6. 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. Other investors in the project are fully in line with the WB standards and also expect full compliance as part of their own agreement with the developer.

[Back to top](#)

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.

Project Oversight and Monitoring

1. How is the delay in recruitment of two of three IMAs affecting project oversight and monitoring?

Although there have been serious delays in recruitment of the IMAs for resettlement and environment, progress is being made. GoL has been working on the selection process using World Bank guidelines, and selected specialists for the Nakai resettlement, Project Lands and environmental IMAs will be in place by the first quarter of 2007. IMA for the Downstream program is scheduled to be in place by June 2007. The heavy monitoring and supervision arrangements, including visits by the Environmental and Social Panel of Experts, Independent Advisory Group, and the Lenders Technical Advisor, together with internal monitoring efforts, have significantly compensated for the delays in the IMA recruitment.

[Back to top](#)

Construction

2. 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.

[Back to top](#)