

Questioning the “Poverty Reduction and Sustainable Development Model” Recommendations on the Nam Theun 2 Hydroelectric Project in Laos

27 June 2017
Mekong Watch

Introduction

The Nam Theun 2 (NT2) Dam, which began commercial operation in 2010, is a hydropower dam constructed in central Laos with support from the World Bank (WB) and Asian Development Bank (ADB). Of the electricity generated, 95% is exported to Thailand and it is said that the aim to reduce poverty through the sale of the electricity generated will become a “poverty reduction” and “sustainable development” model. At the same time, while an international debate arose over the pros and cons of the dam construction due to the destruction of rare species’ habitats, such as that of the endangered Asian elephant¹; the forced relocation of around 6,200 people, mainly ethnic minorities; severe damage to fisheries and environmental impacts downstream due to alternative uses of water from the dam; and doubts about the governance capabilities of the Lao government to carry out appropriate management of large-scale infrastructure developments that give rise to these huge environmental and societal impacts, WB and ADB decided to go ahead with support in 2005.

However, as of July 11, 2016, progress towards achieving Project Development Objectives was rated as “moderately satisfactory,” overall implementation progress was “moderately unsatisfactory,” and overall risk was “high.” Furthermore, the Resettlement Implementation Period (RIP) that was supposed to have been completed in December 2015 was extended for a further two years to December 2017 as the restoration of sustainable livelihoods had not been achieved.

Nam Theun 2 Hydroelectric Project

Capacity: 1,070 megawatt **Height:** 39 meters

Project site: Khammouane and Bolikhamxay Provinces in central Lao PDR.

Total operating costs: 14.5 hundred million dollars

Reservoir: 450 km³

Operator: Nam Theun 2 Power Company

→ **Shareholders:** Electricite de France (40%)
Lao Holding State Enterprise (25%) and
Thailand’s Electricity Generating Public Company Ltd. (35%)

History:

- > 3 March 2005: The World Bank decided to support the project, followed by ADB on 4 April.
- > July 2005: Full-scale construction
- > April 2008: Relocation of inhabitants completed, and reservoir impoundment starts.
- > December 2009: Trial operation
- > March 2010: Full operation
- > December 2015: Expected date for end of livelihood recovery program (Resettlement Implementation Period) → Extended for two years (until December 2017).

¹ <http://www.iucnredlist.org/details/7140/0>

From the mid-1990s, due to the great scale of the predicted environmental and societal impacts of the project, Mekong Watch opposed support by the WB and ADB, and continued to monitor the progress of the project even after the decision by the two banks to support the project and the inception of the project. Since 1997, 25 consultations have been held on the project at regular meetings between the Multilateral Development Banks Division of Japan's Ministry of Finance, the contact point for WB and ADB, and NGOs. Mekong Watch also prepared an information kit titled "Questioning the 'Poverty Reduction and Sustainable Development Model' – The Asian Development Bank and Japan's Involvement in the Lao Nam Theun 2 Dam"² for the 50th ADB Annual Meeting held in Yokohama on 4-7 May 2017, and on May 2 held a study meeting entitled "'Poverty' and 'Development' in Laos? What's happening in the land of forests and rivers?" and a seminar entitled "'Poverty' created by development assistance? The shadow of the international financial organization, the Asian Development Bank (ADB)." This briefing paper is based on the discussions at the study meeting and seminar, and puts forward recommendations for WB, ADB and the Japanese government, who have supported the project.

"Poverty reduction and sustainable development model"

The poverty reduction and conservation scenario of NT2 consists of goals at two different levels, the regional-level goal of supporting rises in income of the affected people to pull the household income above the poverty line, and the state-level goal of poverty reduction and environmental conservation throughout the state by allocating revenue from the sale of electricity to the education, healthcare and environment sectors. Various programs have been implemented at both levels. Proponents of NT2, especially WB, issued a report titled "Doing a Dam Better"³ immediately after the start of operation of NT2 and is now promoting hydropower construction to spread the "NT2 model" to countries other than Laos. However, as we explain below, the contributions of NT2 to poverty reduction and environmental management are doubtful.

(1) Has NT2 Benefitted Affected Communities?

The NT2 Annual Update for 2013, issued by ADB and WB, highlights the fact that the livelihoods of the people had improved after the relocation, demonstrating that over 97 percent of sampled resettled households were above the household income target of the rural poverty line. However, reports issued by NGOs, independent researchers and also the International Environmental and Social Panel of Experts (POE), mandated to provide independent reviews based on a concession agreement with NT2, pointed out that it is hard to say that livelihood recovery of the affected communities has been realized in the long term.

- POE, in its 23rd report dated December 2014, states that, "The unlikelihood of being able to illustrate the sustainability of NT2 livelihoods in the immediate future has become apparent over the past year or two to nearly all stakeholders." POE later proposed the extension of the RIP for two years. As of February 2017, action plans for terminating RIP had not been finalized and released.⁴

² http://www.mekongwatch.org/PDF/NT2andADB_Eng_April2017.pdf

³ Porter, Ian C.; Shivakumar, Jayasankar. 2010. *Doing a dam better: the Lao People's Democratic Republic and the story of Nam Theun 2 (NT2)*. The World Bank.

⁴ The minutes of the 64th MOF-NGO Regular Meeting.

- In January 2014, three independent researchers visited villages along the Xe Ban Fai River, located downstream of the dam.⁵ Many of the villagers interviewed stated that they were impoverished by NT2 and measures taken had also been inappropriate and insufficient. This research points out that the impacts on indigenous group women and households in poverty have been particularly severe.
- In January 2017, Mekong Watch visited six relocated villages on the Nakai Plateau and two villages along the Xe Ban Fai River. It was found that the sustainability of fish cultivation in ponds, which is at the moment an important income generator supporting villagers' livelihoods, is questionable and other livelihood recovery means (the main sectors of which are farming, stockbreeding, forestry, and off-farm business) being insecure, the pathway toward long-term livelihood recovery is unforeseeable. Furthermore, villagers downstream on the Xe Ban Fai have incurred serious fishery damage, with many households also falling onto debt because of the financing they received from the Village Restoration Fund, which was intended for the recovery of livelihoods. It was found that to repay debts, villagers have sold their paddy or livestock and borrowed money from friends or relatives.

(2) Has NT2 Helped Reduce Poverty in Laos?

NT2's principal benefit for Laos is the \$1.95 billion in revenue that the project is expected to generate over the 25-year concession period from 2009 to 2034. Given persistent corruption and governance challenges in Laos,⁶ the World Bank and ADB helped the Lao government create a Revenue and Expenditure Management Program to track NT2 revenues and ensure expenditures on relevant development programs. As key monitoring tools, annual revenue management reports, public expenditure tracking surveys (every 2 years), public expenditure reviews (every 2 years), and audit peer reviews (every 3 years) were to be submitted to the financing partners at annual consultations after the commissioning of NT2.⁷ However, the public still has no way to know if and to what extent NT2's revenues have been used to reduce poverty and improve the education, health, and environment sectors in Laos.

- The ADB-World Bank joint mission in 2013 reported that *“Although the World Bank has received reports on the allocation and expenditure of NT2 revenues by sector and by some projects including for activities such as teacher training, provision of school text books, rural health services, and electrification of rural villages, the IFIs [international financial institutions] have yet to receive a formal report on the use of revenues and an audit thereof. These reporting delays are not compliant with the relevant provisions of the Financing Agreements between the GoL and the IFIs. (underline added)”. The World Bank's Country Partnership Strategy Progress Report in 2014 also mentions the NT2 revenue*

⁵ Shoemaker, Bruce, Ian Baird, and Kanokwan Manorom. “NT2: World Bank's Narrative of Success Falls Apart.” *International Rivers Reviews*. December 2014.

⁶ When Transparency International first included Lao PDR in its Corruption Perceptions Index in 2005, the country ranked in the top half of the 159 surveyed countries. It then fell to the 27th lowest ranking in 2015. See International Federation for Human Rights (FIDH). *International Indexes Show Lack of Progress on Democracy and Human Rights*. August 2016.

⁷ Page 12 in Fozzard, Adrian. *Technical Brief: Revenue and Expenditure Management, NT2 Hydroelectric Project*. March 16, 2005.

<http://documents.worldbank.org/curated/en/272761468299206275/pdf/665910WP0P07640f0revenue0management.pdf>

management, pointing out⁸ “For the revenue management, tax and dividend components (in addition to royalty) of the revenues still need to be allocated to the priority programs and the timeliness of reporting and audits needs to be improved”.

- The ADB and World Bank’s response dated December 16, 2016⁹ to Mekong Watch’s August 2016 inquiry¹⁰ says, “obligations for public disclosure of NT2-related revenue management, expenditure and audit reports have not yet been met.”

(3) Has NT2 Contributed to Environmental Management in Laos?

NT2 is supposed to benefit people in Laos beyond the project site in the areas of environmental protection and natural resource management. It is true that both the World Bank and ADB have used NT2 as an opportunity to help the Lao government improve policies and procedures to better protect the country’s environment and people. For instance, through ADB’s loan Environment and Social Program,¹¹ the Lao government was able to issue *National Public Involvement Guidelines*¹² in 2003 and *Prime Minister’s Decree 192 on Resettlement and Compensation for Development Project* in 2005. These rules could be used to improve Laos’ environmental and social protection standards. Far from being implemented, however, some of them have since been overridden or nullified.

- The National Public Involvement Guidelines define principles and procedures on information disclosure and public participation, directing government officials in facilitating Lao people’s participation in decision-making processes on development, including large-scale projects in agriculture, mining, and hydropower, as well as rural infrastructure and biodiversity conservation. The guidelines, however, are very poorly implemented. For instance, Section 5.9.2 states that draft environmental impact assessment (EIA) and social impact assessment (SIA) reports are to be disclosed in Public Information Centers at national, provincial, and district levels and that project-related consultations are open to the general public and NGOs. Very few projects, however, have set up information centers. Draft EIAs and SIAs are rarely disclosed, especially prior to decision-making. In some cases, final EIA and SIA reports are not disclosed at all.
- Prime Minister’s Decree 192 on Resettlement and Compensation for Development Projects was issued in July 2005 and was followed by Rules 2432 on Implementation of Prime Minister’s Decree 192 in November the same year. As stressed by ADB,¹³ the two rules were positive outcomes of ADB’s Environment and Social Program. In April 2016, however, the Lao government issued the new *Prime Minister’s Decree 84 on Resettlement and Compensation for Development Projects*, which nullified Decree 192.

⁸ World Bank. *Country Partnership Strategy Progress Report for Lao PDR for the Period FY12-FY16*. September 16, 2014.

<http://documents.worldbank.org/curated/en/644931468088478994/pdf/902810CASPO14060Box385331B00OU090.pdf>

⁹ World Bank and ADB Response to Mekong Watch dated December 16, 2016.

<http://www.mekongwatch.org/PDF/NT2response16Dec2016.pdf>

¹⁰ Mekong Watch Letter to the World Bank and ADB dated August 23, 2016.

<http://www.mekongwatch.org/PDF/NT2letter23Aug2016.pdf>

¹¹ ADB. *Report and Recommendation of the President on the Environment and Social Program*.

November 2001. <https://www.adb.org/sites/default/files/project-document/71375/rrp-34543.pdf>

¹² Science, Technology, and Environment Agency and ADB. *National Public Involvement Guidelines: Summary*. 2003.

¹³ Page 32 in ADB. *Completion Report: Lao PDR Environment and Social Program*. June 2007.

<https://www.adb.org/projects/documents/environment-and-social-program>

Recommendations: A sincere examination of the “NT2 model” by WB, ADB and the Japanese government

Following the decision by WB and ADB to support NT2, a special session of the Ministry of Finance-NGO regular consultations was held on April 12, 2005. This was the first Ministry of Finance-NGO regular consultation to be held as an *ad hoc* meeting and was convened at the request of Mekong Watch to the Ministry of Finance to disclose the stance that the Japanese government had taken at the WB board of directors meeting and what conditions they had specified.

During the meeting, the counselor for the International Bureau of the Ministry of Finance at the time explained that WB had been carrying out preparations over a long period of time, and that the Japanese government had decided to support the project as WB secretariat had made a firm pledge that revenue from the dam would be utilized for poverty reduction, and appropriate environmental and societal considerations would be made. He also stated that NT2 was an important challenge for Laos and that supporting the project was the mission of international organizations.

At the time, the Mekong Watch staff, having heard the explanations given at the meeting, wrote, “What must not be forgotten here is that the risks that occur if this challenge fails will not affect WB, ADB or the Japanese government, but will be borne by the people of Laos. Further, the WB staff and person in charge at the Ministry of Finance may now have a sense of “mission” regarding this project, but in a few years’ time they will be in positions that have nothing to do with NT2. When that happens, it is doubtful that WB and ADB, who decided to support NT2, and the Japanese government that supported that decision, will still hold to that same sense of “mission” while continuing to fulfil their responsibilities as international organizations and as a donor country.”¹⁴

Now, 12 years later, it is our perception that the situation with regard to restoration of the livelihoods of the affected people, poverty reduction in Laos, and improvements in the environmental management capabilities of the Lao government are, as seen above, all far from achieving the original goals, and we have little option but to say that our fears at the time have become reality.

Nevertheless, neither WB nor ADB have admitted the failure of the project and continue to claim that NT2 can be replicated as a “model” for hydropower projects in countries other than Laos. In 2014, ADB made the decision to support the Nam Ngiep 1 Hydropower Project (NNHP1) in Laos. Concerning this NNHP1, the Independent Advisory Panel’s Report Number 8 lists serious environmental and societal misgivings, some of which are very similar to those that occurred at NT2.

During the seminar on May 2, 2017, Mr. Bruce Shoemaker, who has been observing the project as an independent investigator for more than 20 years, had the following to say about ADB and NT2.

“I think the first step toward a resolution of the problem is that ADB itself recognize that what they have done has been a failure and that there are problems. The continual denial by ADB of the failure of Nam Theun 2 will signify that ADB has not yet learned the real lessons of the

¹⁴ Mekong Watch. 2005. “Why did the Japanese government support the Nam Theun 2 Plan?” *Forum Mekong Vol. 7 No. 1* (March 31, 2005)

project. Further, I think what is crucial for the direction ADB will take in the future is that ADB itself fully learn and recognize the lessons of the Nam Theun 2 failure.”

The completion of the extended RIP is scheduled for the end of 2017. We believe WB and ADB should not withdraw from this relocation program until the path to the long-term restoration of livelihoods of the affected people has been fully secured, but, whatever should happen, the project will reach an important milestone when the RIP comes to an end in the near future. As we move toward that point, WB, ADB, and the Japanese government that supported their decision, bear the responsibility to examine the benefits and issues of the project and clarify the effectiveness and limits of the “model” that WB and ADB have acclaimed.