



28 October 2008

Mr. Mohinder Gulati
Task Manager
Nam Theun 2 Hydropower Project
World Bank
1818 H Street
Washington, D.C. 20433, U.S.A.

Mr. Anthony Jude
Director, Infrastructure Division
Southeast Asia Department
Asian Development Bank
PO Box 789
Manila, 0980, the Philippines

Dear Mr. Mohinder Gulati and Mr. Anthony Jude:

RE: Field Report and Questions regarding the Nam Theun 2 Hydroelectric Project

We are writing to convey our serious concerns and to ask questions regarding the Nam Theun 2 Hydroelectric Project (hereafter the "Project"), funded by the World Bank and the Asian Development Bank (ADB) and implemented by the Nam Theun 2 Power Company (NTPC). These concerns are primarily based on our field visit to the project site between 29 August to 5 September 2008¹, and the information gathered through interviews undertaken with relevant officials and resettled communities during this period. At the time of our visit, reservoir impoundment had already begun in April 2008, and the resettlement of Nakai Plateau communities was almost complete. While the Project is moving forward at a rapid pace, we continue to have serious concerns that the Project's social and environmental impacts have not been adequately addressed. Our concerns regarding the project comprise four broad areas; 1) The Livelihood Resettlement Program; 2) Food Aid; 3) The Grievance Mechanism; and 4) Biomass Clearance. We have briefly summarized our concerns below and have a number of questions relating to each of these 4 topics that we hope you can address in a timely manner.

Please refer to the attached *Field Report regarding Nam Theun 2 Hydroelectric Project* for details of our findings and recommendations.

¹ Field visits and interviews were conducted during the study tour organized by Mekong Watch. Tour participants were Japanese students and researchers. Sites visited include: 3 resettlement villages in Nakai Plateau, NTPC Thakhek office, Resettlement Management Unit of Nakai district, and the World Bank and ADB Offices in Vientiane.

1) Livelihoods Restoration Programs

The Social Development Plan (SDP), prepared for the Project, states that livelihoods of resettled communities are to be restored through 5 programs, each focusing on agriculture, forestry, fishery, livestock rearing, and small-scale business. However, our field visit and interviews found that all of the 5 programs are neither appropriately implemented nor so far successful.

- Agriculture

The agricultural livelihood restoration program aims to improve the communities' income through growing and selling cash crops. Resettled communities received 0.66 ha of agricultural land per household as part of the agricultural livelihood program, however, the farmland provided is of poor soil quality. Furthermore, according to the World Bank and ADB staff, a market for cash crops to be produced by the resettled communities is yet to be found. Considering that it has been about 6 years since cash crop cultivation first began in the pilot village in 2002, and that the SDP proposed the initial sale of produce to NTPC as part of produce needed to feed project laborers, it would appear to be highly questionable as to whether a market actually exists for the crops. According to Resettlement Management Unit (RMU) of Nakai District Office, the number of workers employed for the NT2 Project is now expected to decrease after reaching its peak at 12,000 in 2008. This would suggest that the overall produce market demand in Nakai will also reduce in the future.

Given the failure of cash cropping it would appear that resettled families have by and large begun upland rice cultivation on their farm plots in an attempt to provide for their own food security (a point which is not helped by threats of the removal of rice support – see below). For most families, however, 0.66 ha is too small to produce enough upland rice for their family members. It must be highlighted that the plan to construct irrigation system and terraced rice fields to enable rice cultivation, proposed in SDP (12.5.1), has not been implemented. The RMU of Nakai District Office explained that this plan was dropped because a study showed that the Nakai Plateau is not suitable for paddy cultivation, as the acidity level of soil is as high as pH4.8. At the time the SDP was being developed however, land in the Nakai Plateau was already known to be highly acidic. The soil study described in the SDP found high levels of acidity (pH KCl 4.1 and pH H₂O 4.9) at the pilot village in Nakai Plateau (Table 12-2). Hence it remains unclear as to why the original plans from the SDP to develop terraced rice paddy have been dropped. In addition, the SDP states that large inputs of agricultural lime, organic and inorganic fertilizer will be required for productive agriculture on these largely infertile soils (section 12.6 and Footnote [a] Table 12.16), yet under the ad hoc manner of the upland rice cultivation presently being conducted by villagers in the resettlement areas, it would appear that these inputs have yet to be made.

While it would appear that rice cultivation in terraces is no longer being pursued under the project livelihoods program, the NT2 update from the WB/ADB in July of 2008 states that the drawdown areas are being surveyed with the anticipation of conducting recession agriculture in the dry season. It is possible that these drawdown zones could be used to replace the terraced rice systems, however, the SDP states that it is difficult to predict the use of such drawdown zones and that the nature of these zones “will only be known after some years of operation of the reservoir”. Given the statements made in the SDP it would appear that the possibility for the

effective use of drawdown zones for agriculture remains largely unknown and therefore experimental.

Questions:

1. One of the major flaws of the agricultural livelihoods restoration program is that market for cash crop still has not been found, even though resettlement is already near completion and demand from construction work is set to decrease. Will the program continue to focus on cash cropping to restore livelihoods or is there any plan to seek different way of livelihood restoration? If the program will continue to focus on cash cropping in the future, please describe the prospect for finding market for cash crops, and/or plans for creating market opportunities.
2. Have agricultural lime, inorganic and organic fertilizer inputs been made on farmers agricultural plots? If these have already been made, have assessments been made as to the effectiveness of these inputs on agricultural plots? If these inputs have not been made, please advice why this has not been done in line with SDP recommendations?
3. What are the reasons, as understood by the World Bank and ADB, to abandon the plan to construct irrigation systems and terraced rice fields?
4. Is there any plan to develop paddy rice crops under the agricultural livelihood program? If so, please explain a detailed plan of how this is to be carried out.
5. If there are no plans to provide wet rice paddy, please explain how villagers will be able to secure their rice needs.

● **NTFP collection and Forestry**

Traditionally, NTFP has served as an important source of food and cash income for local communities in Nakai plateau. According to resettled communities, however, the forests in which they used to collect NTFP are now flooded as part of the reservoir. Areas around the production forest are not suitable for NTFP collection, a point born out by villagers own comments as well as NTPC's own documents². Nevertheless, new NTFP collection sites have not been allocated to villagers near the resettlement villages. Moreover, some of the remaining forests that are rich in NTFP have been designated as the project watershed area, yet NTFP collection in that area is prohibited. It should be noted that the need to find new places to gather NTFP was already recognized during the planning stage for the Project. The SDP states: "Current NTFP collection sites include those that would be flooded, and once resettled, villages would need to relocate their NTFP collection sites" (14.4.5). However, despite this issue also being raised by independent reviews of the Forestry Development Program in 2005, it appears that there has not been any support to the resettled communities to address the issue. Instead, villagers are now forced into conducting NTFP collection in the watershed area to meet their dietary needs, a practice that is regarded as illegal by the project when conducted in the Nakai Nam Theun NBCA.

According to RMU, the rights to use a total of 20,800 ha of forest will be granted to 15 resettled villages for the period of 70 years, as a form of compensation. The plan is to use these forest areas for a program to restore

² *The use of non timber forest products on the Nakai Plateau; Report on a short mission from 26/2 to 30/3 1997, Department of Forestry, Vientiane, 1997:Chapter 7.3*

livelihoods through sustainable forestry. However, in the SDP it was stated that there was a total of 18,106 ha of forest area in the production forest zone, yet only 5,590 ha was suitable for actual production forestry purposes (14.1.2). Furthermore, during our meetings World Bank staff suggested that areas of forest land may be converted into farmland in the future in order to resolve the shortage of farmland.

Questions:

4. If there is a plan to address the difficulties that the resettled communities are facing to collect NTFP, please describe the plan in detail.
5. From the 20,800 ha of production forest, approximately how many hectares of forest land are considered suitable for production forest purposes? Please include a detailed explanation of how the present production forestry plan stands, particularly with providing dividends to village households.
6. If forest is converted into farmland in order to compensate for flaws in the agricultural livelihoods restoration program, benefits from forest, to which affected communities are entitled, will be lost. Please describe the views of the World Bank and ADB on the conversion of the forest into farmland in this particular case. If the forest must be converted into farmland in the future, would the affected communities be provided with a different form of compensation/benefits?

● Fishery

NTPC supports fishery in the reservoir as one of the livelihood restoration programs. However, resettled villagers reported that the wake created by one of NTPC's speed boats capsized a fishing boat of a man from Nakai Neua village. As a result of this incident, the villager drowned to death in the reservoir. According to the villagers, the fact that the man was neither experienced in swimming nor accustomed to fishing in the reservoir where water is deep may have contributed to his death. Our interviews found that some villagers are avoiding fishing in the reservoir for fear of similar accidents. Neither the World Bank nor ADB in Vientiane had any knowledge of this accident until Mekong Watch provided the information about 1 month after the accident.

Questions:

7. It has been 2 months since Mekong Watch informed the World Bank and ADB about the boat accident. Has there been any investigation into the accident by the World Bank and/or ADB? If so, please provide us the findings of the investigation. If the fault lies on NTPC as villagers reported, we believe that the family of the deceased should be compensated appropriately. Please describe the views of the World Bank and ADB on this issue.
8. In your views, what kind of measures should be in place to prevent similar accidents in the future?

● Livestock Rearing

For local communities in Nakai Plateau, livestock rearing is important for both economic and social reasons,

however, according to RMU, villagers' cows and buffalos are to be reduced from 4,500 in year 2007 to 2,500 by year 2010. In fact, according to the resettled communities, many villagers had to give up major portions of their livestock upon resettlement.

Even with the reduced number of livestock, resettled communities report that they are facing severe difficulties rearing livestock because there is not enough land for grazing or growing pasture in the resettlement area. An NTPC official also admitted that the pasture that can be produced on 0.66 hectare of compensation farmland can sustain only few buffalos, if any. He suggested that as it was not possible for villagers to farm rice year after year, they should plant grass for livestock fodder to improve soil fertility. His comments suggested that villagers would only grow grass fodder for one in every three years.

During our field visit, we observed that the resettled villagers were keeping their livestock at a section of the compensation farmland, or inside the villages. According to the resettled villagers, there are cases where it is difficult to sell their cows and buffalos because the animals' health conditions deteriorated after not having enough food.

Questions:

9. The preference for villagers to grow rice competes with areas for fodder production, how will these conflicting production systems be reconciled under village agriculture systems?
10. What measures will be taken to address the difficulties that resettled communities are facing to raise livestock in the resettlement area?

● Small-Scale Business

According to our interview with resettled villagers who engage in small-scale businesses, such as textile production and small-scale retail, they are having difficulties finding customers and market opportunities. As the construction workers for the Project are leaving the area, and there are no concrete plans for tourism promotion, the path to establishing livelihoods through small-scale business also seems uncertain.

Question:

11. What measures are planned in order to secure customers and markets, so that livelihoods of the resettled communities can be restored through small-scale business?

2) Food Aid

During the transition period after the resettlement, NTPC is to provide food aid to resettled communities, including rice, meat, and fish. However, resettled villagers reported that they have heard that food aid will be terminated in October or November this year. As their livelihoods have not been restored, villagers voiced

grave concerns about their future.

Questions:

12. According to resettled communities, they are neither able to produce sufficient amount of rice to feed themselves, nor make enough income to purchase rice. Under such circumstances, NTPC must not stop food aid. Please describe the views of the World Bank and ADB on this issue.

3) Grievance Mechanism

As mentioned earlier, resettled communities are facing severe difficulties sustaining their families, and are concerned that the food aid may be stopped soon. However, communities reported that they have no means to raise their concerns to NTPC. According to our interviews, villagers believed that it would be a political mistake to complain directly to the company, and that complaints must be made through the village chief. At the same time, they assume that village the chief would not complain to the company on their behalf because the village chief, as with other influential people in the village, enjoys benefits from the Project. Thus, considering the political situation in Laos, the grievance mechanism in its current form may not serve to resolve the issues and concerns of the resettled communities.

Question:

13. Our field visit found that there are resettled villagers who have strong concerns but not able to use the grievance mechanism. Voices of the politically disadvantaged should not be ignored. In your view, what measures necessary to ensure that such voices are heard and addressed?

4) Biomass Clearing from Reservoir and Water Quality Issues

According to SDP (24.5.1.1) and Environmental Assessment and Management Plan (EAMP) (Chapter 3, p. 92) states that vegetation must be removed from the reservoir area as much as possible before the reservoir was filled. However, RMU admitted that biomass was not cleared sufficiently and, as a result, quality of reservoir water may be degraded.

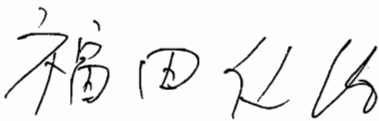
According to RMU, a set of measures are planned to improve the water quality in the reservoir. The plan is to leave the vegetation under water to degrade until the beginning of year 2009, flush the water from the reservoir, and then fill the reservoir again with fresh water. However, if degraded water is drained from the reservoir, it is possible that aquatic organisms, fisheries, and domestic water use in the downstream area will be adversely affected. Since the original plan was to clear biomass to prevent water quality degradation, there are no studies on the downstream impacts from flushing the degraded water. Mitigation and compensation measures to address the potential downstream impacts are also not prepared.

Questions:

14. Please explain why biomass was not cleared as stated in SDP and EAMP.
15. If degraded water from the reservoir will be flushed, how will the environmental and social impacts in the downstream area will be assessed beforehand, and avoided or mitigated?

We appreciate your response to our questions, as well as your views and concrete measures to address the issues described in this letter. If there is any further information we could provide, please do not hesitate to contact us. We look forward to your prompt response.

Sincerely,



Kenji Fukuda
Acting Representative Director
Mekong Watch

Endorsed by:

Grainne Ryder
Probe International, CANADA

Sebastien Godinot
Friends of the Earth France, FRANCE

Noriko Shimizu
Friends of the Earth Japan, JAPAN

Yuki Tanabe
Japan Center for a Sustainable Environment and Society, JAPAN

Masayoshi Tsutagawa
Research Association for Water and Environmental Problems of Chikugo River, JAPAN

Yasuo Endoh and Teruyuki Shimazu
Suigen-ren (National Dam Opposition Network-Japan), JAPAN

Montree Chantawong
Thai People's Network for Mekong, THAILAND

Attachment: *Field Report regarding Nam Theun 2 Hydroelectric Project (September 2008)*

Cc:

Mr. Bernard Tribollet, Chief Executive Officer, Nam Theun 2 Power Company

Ms. Nanda Gasparini, Communications Specialist, World Bank

Mr. Patchamuthu Illangovan, Lao Country Director, World Bank

Mr. Kim Gil-Hong, Country Director, Lao Resident Mission, Asian Development Bank

Mr. Stefan Ekeland, Deputy Country Director, Lao Resident Mission, Asian Development Bank

Mr. Toshinori Doi, Director of the International Organizations Division, International Bureau, Ministry of Finance Japan

Mr. David McDowell, the Environment and Social Panel of Experts

Dr. Lee Talbot, the Environment and Social Panel of Experts

Prof. Thayer Scudder, the Environment and Social Panel of Experts

Executive Directors, World Bank

Executive Directors, Asian Development Bank