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PRESS BACKGROUNDER:

Controversial Lao Dam Not Suitable for World Bank Support

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The World Bank is poised to consider a controversial dam in Laos, despite the fact that the government's capacity to manage the project's massive economic, social, and environmental risks remains in question. On Friday, September 10 the Bank will host a "technical workshop" in Washington, D.C. as part of a series of international workshops on Nam Theun 2 being organized this month. Workshops have already been held in Bangkok, Tokyo and Paris. The workshops mark a crucial stage in the World Bank's deliberations over whether to provide political risk guarantees and other financing for the project. The project's future hinges on World Bank involvement.

Civil society organizations have no confidence that the Nam Theun 2 project will deliver its promised benefits or that the project's risks can be managed. The World Bank should not support the Nam Theun 2 project, but rather should work with the Lao government and Lao citizens to conduct a comprehensive, transparent options assessment to evaluate economic, socially and environmentally cost-effective projects that deliver direct poverty reduction benefits.

Impacts of Nam Theun 2 Project Clear and Benefits Questionable

The \$1.3 billion Nam Theun 2 Hydropower Project would forcibly displace 6,200 indigenous people and impact more than 100,000 villagers who depend on the Xe Bang Fai River for fish, agriculture and other aspects of their livelihood. The ecology of two major river systems in Laos will be permanently altered if Nam Theun 2 is built. The project is being developed by Electricité de France and two Thai companies in cooperation with the Lao government and will generate foreign exchange for Laos by selling the power to Thailand. The World Bank and other donors claim that the revenues will be used for poverty alleviation activities, but critics are skeptical based on the Lao government's track record.

Subsidizing Developers' Costs and Displacing More Direct Forms of Aid

The World Bank's loans for the project - which will have to be re-paid - would help to cover the costs of social and environmental mitigation plans. The World Bank's loan guarantee insures Nam Theun 2 developers from many of the risks associated with working in Laos. But no equivalent guarantee is being extended to the tens of thousands of Laotians whose livelihoods are at risk. The more than \$300 million of donor funds and guarantees would be better utilized on more direct poverty alleviation programs that do not carry such enormous risks.

Governance and Human Rights Concerns

A letter from North American civil society organizations raising concerns about the human rights record of the Lao government, and questioning the Government's ability to utilize project revenues for the benefit of Laos' poorest people, will be presented at the World Bank's September 10 workshop. The groups state that "the experience with other dams in Laos

indicates that much more needs to be done to ensure that the World Bank and the Asian Development Bank have effective mechanisms in place to monitor compliance with social and environmental conditions once project construction is complete."

Economic and Environmental Analyses Outstanding

After more than a decade of project development, many essential studies are still not complete. Complete analyses of the potential economic and financial risks and benefits of the project for the government and people of Laos have not been released, and many social and environmental studies are still under preparation. Despite this, the World Bank is rushing to appraise and approve the project before a May 2005 deadline for financial close expires. The deadline is specified in the Power Purchase Agreement between the developers and the Electricity Generating Authority of Thailand.

Fundamentally Flawed Consultation Process

On August 2, 2004, civil society organizations monitoring Nam Theun 2 wrote to the World Bank outlining a number of preconditions for a credible and informed consultation process. The groups called for release of all project documents at least 60 days in advance of the consultations to allow adequate time for review, a condition that has not been met. In addition, groups stated that the consultations should be an opportunity for participants to discuss whether the Nam Theun 2 project meets the World Bank's criteria for funding. Instead, the World Bank has decided to hold "technical workshops" to solicit input into the project documents, not to debate the merits of the project.

Reports from the technical workshops already conducted indicate that the workshop formats did not allow for meaningful dialogue and debate, critical questions from the floor were sometimes ignored or answered only superficially, and one moderator was biased and did not allow for views critical of the project to be fully expressed. Despite World Bank assertions that it has not yet made a decision on whether or not to support the project, the World Bank staff present at the consultations defended the project rather than acknowledging the many legitimate concerns of the participants. These workshops cannot and should not be considered credible international consultations, but rather promotional workshops for the project developers.

World Bank Gets Back into Large Dams

The World Bank has been the largest single source of funds for large dam construction worldwide. Under its stated aim of alleviating poverty, it has promoted and funded dams that have displaced more than 10 million people from their homes and land, caused severe environmental damage, and pushed borrowers further into debt. Although World Bank support for large dams decreased dramatically in the late 1990s, in 2003 the development institution announced plans to reverse that trend. The Nam Theun 2 Hydropower Project would be the first dam project supported by the World Bank since declaring its intention to "reengage" in "high risk/high reward infrastructure" projects.

- **For more information, please contact Aviva Imhof at 510-717-4745 or Shannon Lawrence at 202-572-3369. Further information is available at <http://www.irn.org/programs/mekong/namtheun.html>.**

Environmental Defense is a leading U.S.-based nonprofit organization representing more than 400,000 members. Since 1967, we have linked science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems.

International Rivers Network supports local communities working to protect their rivers and watersheds. We work to halt destructive river development projects, and to encourage equitable and sustainable methods of meeting needs for water, energy and flood management.