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Why Nam Theun 2 Will Not Help the Poor in Laos

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World Bank support for Nam Theun 2 is justified only if the project will help to reduce poverty in Laos. Yet there are no guarantees that the revenue from Nam Theun 2 will be used for poverty alleviation, nor that the project's significant impacts on local communities and on the environment can be successfully managed. The negative track record of other dam projects in Laos and the government's failure to transparently manage its revenues and respect the rights of its people provide a strong indication that the costs of Nam Theun 2 will dramatically outweigh any potential benefits.

World Bank approval of the Nam Theun 2 project in such a poor governance environment, combined with inadequate due diligence and non-compliance with Bank policies, would set a dangerous precedent just as the Bank is preparing to dramatically increase lending for high-risk infrastructure projects.

Myth #1: Nam Theun 2 revenues will be sufficient to “jumpstart development” in Laos.

Reality: Laos is poor and in desperate need of poverty reduction options, but Nam Theun 2 is no panacea for the country's development woes. Between 2009, when project revenues come online, and 2020, net revenues for the Government of Laos will total only \$20 to \$29 million per year, or approximately 3% of total projected government revenue. Throughout the 25-year concession period ending in 2034, “revenues are expected to amount to around 5 percent of projected [Lao Government] revenues.”¹ The World Bank's December 2004 *Country Economic Memorandum* for Laos notes that the direct contribution of natural resources (such as hydropower) to GDP growth is relatively small.²

Myth #2: The Government of Laos will use Nam Theun 2 revenues to alleviate poverty.

Reality: The proposed framework for managing the revenues from Nam Theun 2 is woefully inadequate. The World Bank's December 2004 *Country Economic Memorandum* points to the weak governance environment in Laos and notes that without significant governance improvements upfront, hydropower revenues will not result in good development outcomes.³ Laos rates far below most low-income countries on control of corruption and on voice and accountability, according to the World Bank.

The World Bank's revenue management proposal for Nam Theun 2 provides no assurances that these constraints will be overcome. Instead, “NT2 revenues will be co-mingled with other public resources and managed following standard budget execution procedures.”⁴ Revenue allocation, monitoring and reporting will be primarily left to the Lao Ministry of Finance and the fledgling State Audit Organization. The revenue management arrangements specifically reject the use of an independent oversight body or external independent auditing of Nam Theun 2 revenues.

¹ World Bank, *Project Information Document, Nam Theun 2 Hydroelectric Project*, December 2004, p. 2.

² World Bank, *Lao PDR Country Economic Memorandum: Realizing the Development Potential of Lao PDR*, December 2004, p. 46. Available at: www.worldbank.org/laont2.

³ *Ibid.*, p. 72.

⁴ World Bank, *Revenue and Expenditure Management Technical Brief, Nam Theun 2 Hydroelectric Project*, March 2005. Available at: www.worldbank.org/laont2.

Myth #3: Nam Theun 2 will help improve the Lao Government's capacity.

Reality: The World Bank says that Nam Theun 2 will give the Bank an opportunity to work with the Lao government to improve its capacity and public expenditure management before Nam Theun 2 comes online. But what leverage will the World Bank, Asian Development Bank (ADB) and other donors have to enforce compliance once guarantees are provided, construction has been completed, and revenues are generated? Experience from World Bank, ADB and IMF programs in Laos over the past decade shows the Lao Government has failed to sustain reforms.⁵ There is no evidence the record would be any different with Nam Theun 2.

Myth #4: Affected people will be better off after Nam Theun 2.

Reality: Nam Theun 2 will displace 6,200 indigenous people living on the Nakai Plateau and will affect another 100,000 people living downstream of the project along the Xe Bang Fai and Nam Theun who rely on these rivers for fish, drinking water and agriculture. Most of these people are subsistence farmers dependent upon natural resources for their livelihoods. Experience from other hydropower projects in Laos shows that replacing subsistence livelihoods is extremely difficult. Independent reviews of the mitigation and compensation plans reveal that these plans are overly ambitious and have a high likelihood of failure.⁶

On the Nakai Plateau, villagers will be given small plots of land with soil that is poorly suited to crop production as it is "heavily leached and infertile," according to project documents. High inputs of organic and inorganic fertilizer will be required to grow anything, but the company plans to help pay for fertilizer for only five years. There will not be sufficient land for grazing villagers' livestock, particularly their prized herds of buffalo. Villagers are also supposed to derive some income from logging in a community forestry area. However, the profitability of this operation is not ensured as most of the high quality timber has already been logged.

For downstream communities, the project plans to replace freshwater fisheries with aquaculture. However, experiences in Laos to date suggest that adoption of aquaculture is a slow and gradual process, and that the poorest people often lack the necessary land and capital resources. Even if villagers did decide to take up aquaculture in any significant numbers, there is unlikely to be the human resources or supporting infrastructure present in the area to provide sufficient fish seed or offer training and extension services for years to come.

Myth #5: Laos has no alternatives to Nam Theun 2.

Reality: As Nam Theun 2 will provide a small share of total government revenues, there are likely alternative development options for Laos. First, broadening the tax base and improving revenue administration nationally has far greater potential to raise government revenues than Nam Theun 2.⁷ In addition, the World Bank itself notes that "agriculture is the most critical sector for improving social and development outcomes in Lao PDR."⁸ Investing in agriculture would have a more direct impact on poverty reduction than a natural resources project like Nam Theun 2, and would avoid Nam Theun 2's massive risks to tens of thousands of Laotian villagers.

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See the following websites: www.environmentaldefense.org; www.irn.org; www.worldbank.org/laont2

⁵ See, for example, World Bank Operations Evaluations Department, *Project Performance Re-Assessment Report, Lao PDR, Second Structural Adjustment Credit*, June 24, 2004.

⁶ Environmental Defense and International Rivers Network commissioned a series of technical reviews of Nam Theun 2 project documents. These reviews are available at www.irn.org.

⁷ *Review of Nam Theun 2 Hydroelectric Dam, Lao PDR*, Final Report to AusAID, 21 February 2005. Available at www.ausaid.gov.au.

⁸ The World Bank, *Lao PDR Country Economic Memorandum: Realizing the Development Potential of Lao PDR*, December 2004, p. 17.