

October 20, 2010

Mrs. Ikuko Matsumoto
Lao Program Director
International Rivers

Mr. Toshiyuki Doi
Representative Director
Mekong Watch

Dear Ms. Matsumoto and Mr. Doi,

Re: NT2 Dam and Hydropower Project - Your letter dated September 24, 2010

Thank you for your letter regarding the implementation of the Nam Theun 2 (NT2) project. We will pass on the various suggestions you make to the implementers of the project, the Nam Theun 2 Power Company (NTPC) and the Government, for their consideration.

There are a number of observations that you make in the letter where we are all in broad agreement: the environmental and social commitments of the project are not over, and it is premature to reach final judgements on their success; resettled villagers are better off in their new environment, but the sustainability of their livelihoods should remain a priority for the project; and reservoir water quality and downstream impacts need to be closely monitored. However, there are also a number of areas where we provide additional facts that clarify matters. In particular, the project is not operating in violation of its legal agreements or the World Bank or Asian Development Bank (ADB) safeguard policies.

With respect to ***Nakai resettlement***, the livelihood development program is not intended to replicate the circumstances and income opportunities of villagers prior to the project. Given the challenges that most of them faced with respect to severe poverty, insufficient food security, and few opportunities for advancement, our focus is not reinstating their former lifestyle, but on promoting and supporting new and better livelihoods. The facts available to date show that resettled people are significantly better off following resettlement, but we all agree that considerable effort is needed by all concerned to translate early progress into sustainable livelihoods.

- With respect to the provision of **irrigation systems**, the final infrastructure is being put in place. From our perspective the more important challenge is how to help villagers create effective water user groups to manage their systems, and how to assist and encourage people to use them in such a way that will maximally benefit

their livelihoods. We fully agree on the importance of villagers being able to participate in **markets**, and we are encouraged by some of the entrepreneurial activity that can now be seen on the plateau. In our view the project should be facilitating connections between people and traders, encouraging the development of village groups and the supply of credit and knowledge, and demonstrating viable ideas – and it is our understanding that this is where the marketing effort is going.

- We agree that there is an ongoing need to strengthen the enforcement of **fisheries** regulations on the reservoir, involving both affected communities and local government. This is normal for new reservoirs, and new institutions. We continue to expect some volatility in fish catch on the plateau, related to the diversity of resettlers' livelihoods, the evolving ecosystem of a new reservoir, as well as the intensity of fishing effort.
- **Additional compensation** for the specific individual households that previously had paddy or fruit trees is underway, and moving from village to village in a systematic process. The compensation money has already been deposited in bank accounts belonging to villagers, and bank books are being handed over as the process of consultation and education (to encourage planning for the productive investment of this additional money) is completed, household by household. This compensation is additional to the large package of compensation, including temporary support, that was provided to all villagers early in the resettlement process, as per the World Bank and ADB safeguard requirements, and as provided for in the Concession Agreement.
- With respect to **reservoir water quality**, we have passed on your observations about iron to NTPC. This is one of the parameters that is closely monitored both in the reservoir as well as in the downstream areas, and is currently within applicable standards. We should also note that independent monitors already review the water quality monitoring data.

With respect to the **Xe Bang Fai** downstream program, the World Bank and ADB continue to monitor impacts and the implementation of the project related activities closely. As the actual impacts unfold we will take stock of the overall adequacy of the downstream program to meeting project objectives. With respect to some of the detailed issues you raise:

- Alternative **water supply** was supplied to all Xe Bang Fai riparian villages potentially impacted by the project prior to Commercial Operations Date. There is an operations and maintenance process in place to identify, monitor and fix borehole related problems as they arise. To address some natural groundwater quality problems, sand filters are being put in place where they are required. We note your continued concerns about Beungxe Village, where you state that none of the eight boreholes are functioning adequately. Project records suggest that: a) 7 of the 8 project supplied boreholes are functioning; b) the community water supply system, installed by district authorities years ago, is still functioning, and not affected by the project; c) people in this village have been buying bottled water for years (a common practice in Lao PDR). Finally, we should note that Xe Bang Fai water quality is still within all national water quality parameters.
- On **fisheries impacts**, you appear to be concerned that actual impacts to date have not been as bad as the potential impacts that were originally anticipated and planned

for. While the World Bank and ADB did consider the possibility of significant fisheries impacts during our project appraisal process – as disclosed in our preparation documents and the social development plan – we believe it more appropriate to focus now on actual impacts. At the same time the exact extent and nature of impacts on fisheries – both positive and negative – will continue to unfold for some time as the natural ecosystem adapts to different water flows during the dry season in particular. We will therefore continue to monitor this issue over time.

- With respect to **project-induced erosion** in the Xe Bang Fai, the approach is laid out in the Downstream Implementation Plan, which was publically disclosed some years ago. A community consultation and technical review process has identified some vulnerable infrastructure that has already been moved at the project's expense. Monitoring of erosion to date suggests minimal impacts so far, but monitoring will continue.
- Compensation for **riverbank gardens** is almost complete. Consultations to finalize individual amounts of compensation with over 3,100 households are over, and around 90% of payments have already been made. All villagers will be compensated prior to the start of the next dry season.
- Incidence of **skin irritation** has declined significantly during the rainy season from a peak of 4-5% of residents at the end of May. Investigations, supported by Government and international health experts continue, although they are somewhat constrained by a lack of cases at the moment. We are aware, as you note, that this skin irritation also exists in areas where it is clearly unrelated to the NT2 project.

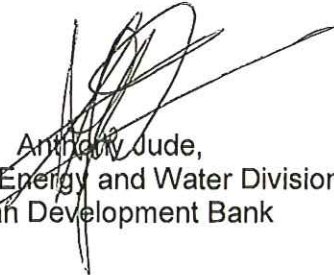
The **monitoring, oversight and public disclosure system** for the NT2 project is a particularly strong one, and all parties to the project agreed to this system at the time of project approval. The system is designed to ensure that internal monitoring of the project is robust, and that there is expert external oversight to help advise NTPC and Government during the implementation of the project, as well as to ensure the integrity of the process. In addition, the system outlines specific responsibilities for internal reporting as well as reporting to the public. The World Bank and ADB will continue to make information on project implementation public through our regular Board Updates, as well as through our websites. We will also continue to encourage project implementers to communicate with the public about the success and challenges of the project during the operations phase.

The **NT2 revenue management arrangements** provide for Government to use NT2 revenues for priority poverty reduction and environmental protection activities, in line with its broader socioeconomic development plans. As we described in the Board Update, communities around the country are already starting to feel the benefits from the use of these revenues. As with other areas of the country, the Government continues to fund its own range of services in the project area, and will doubtless continue to do over the long term. However, there are many communities around the country that are considerably worse off than those in the vicinity of the NT2 project, particularly now given the broadly positive economic effects that the NT2 project has had on surrounding communities.

The NT2 project is large and complex, and there will undoubtedly be many implementation challenges in the future. Although some short-term impacts are to be expected, the project will deliver sustained poverty reduction and development benefits over the long-term. The World Bank and ADB therefore remain committed to working closely with Government,

NTPC and communities to ensure that safety nets are in place, project obligations are met and that resettlers and other project affected people continue to benefit. We will continue close supervision and monitoring of the project, as well as active communication with key stakeholders, in order to promote effective implementation and transparency in the years to come.

Sincerely yours,



Anthony Jude,
Director, Energy and Water Division
Asian Development Bank



Keiko Miwa
Country Manager Lao PDR
The World Bank

Copies:

Robert B. Zoellick, President, The World Bank

Haruhiko Kuroda, President, Asian Development Bank

Executive Directors of The World Bank

Executive Directors of The Asian Development Bank

U.S Department of the Treasury

Japanese Ministry of Finance

H.E. Soulivong Daravong, Minister of Energy and Mines, Government of Lao PDR

Jean-Pierre Katz, Chief Executive Officer, Nam Theun 2 Power Company

Mr. Laurent Margoloff, Director, BNP Paribas (Inter Creditor Agent)

Guy Francois, Country Representative, AFD

Jean-Baptiste Sabatie, Project Manager, PROPARCO

Nigel Hall, Technical Adviser, European Investment Bank

Tarja Kylanpaa, Nordic Investment Bank

Cam Truong, COFACE