

**The Asian Development Bank – a Promoter of Good Governance?  
Case Study Theun Hinboun Hydropower Project in Lao PDR**

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**1. Introduction**

Hydropower development is and will continue to play a dominant role in any discussions about natural resource management in the Mekong Basin. Among the Lower Basin countries, Lao PDR has the largest hydroelectric potential; an outcome of its abundant watersheds and steep topography (Cheong, 1998, 7). Hydropower is considered by the Lao PDR Government to represent the most promising prospect for development of its water resources. The impact of the export hydro projects on the Lao economy derives principally from an increase in foreign currency earnings for the Government of Laos (GoL) and its subsidiary Electricité du Laos (EdL), which will then transform into an economic development for the country (ADB, 2001a). Currently the average GDP per capita is about US\$300 with only two main growth options, export of hydropower and tropical timbers (*ibid*).

It has been the traditional role of the government to plan, finance, build and manage hydropower projects with the help of multilateral development banks (MDBs) and international aid agencies. Despite the fact that the hydropower sector has played a pivotal role in the economic development of Lao PDR over the last thirty years, planning, selection and implementation processes for hydropower projects have tended to be ad hoc in character. Hydropower investment decisions by the public and private sectors alike have been made on an individual project basis without reference to any plan to ensure that the priority and scope of projects are consistent with optimal development objectives. As a consequence, development has often been sub-optimal, economic benefits have not been maximized, avoidable social and environmental damage has been incurred and risks have not been fairly distributed. (Hydropower Development Strategy Study (HDSS), 2000, 1, 15)

This situation has been changing. The Government now tries to maximize the benefits and minimize the negative impacts of future hydropower development by taking into account national and regional planning criteria, optimum basin development constraints and wider financial, economic, institutional, legal, political, social and environmental issues (ibid,1). Additionally, there has been a shift toward a greater role of private capital instead of public funds to finance, build and manage various forms of what used to be termed public goods or public infrastructure, of which hydropower dams (like the Theun Hinboun project) are one such example.

Controversies over big dams in Asia have exposed the lack of effective governance mechanisms through which to take all stakeholder interests into account in resource management decision-making. Due in part to its scale of construction and impact, hydropower development is a far more public process than other types of resource exploitation. Simultaneously, however, it is a far less transparent process for local communities and individual countries, due to the degree of expertise involved, the complexity of the bureaucracies funding, assessing, and building dams, and the tendency to employ foreign consultants from a handful of OECD countries (Bakker, 1998, 211). The ‘public transcript’ of hydropower development is thus heavily weighted towards international discourses of development in which good governance is increasingly recognized as central to development.

The paper will explore the role and challenges related to the role of Asian Development Bank in environmental governance, with a particular focus on hydropower project management, case-study Theun Hinboun Hydroelectric Power Project in Lao PDR. The aim of the paper is to provide an assessment of how well the Bank has implemented its various safeguard policies and explore whether policy development at the Asian Development Bank signals such an evolutionary process that the Bank argues committing in the area of water policy and specially in the case of much criticized Theun Hinboun hydropower project in Lao PDR with regard to good governance, public participation and poverty reduction. One of the key research questions of this paper is how ADB can translate the rhetoric and the aspirations of sustainable human development, poverty reduction, environmental protection and participation into action through Bank's hydropower projects?

The preparation of this paper has involved analyses of reports related to the Theun Hinboun hydropower project, national plans and documents of Lao PDR, ADB-documents, interviews of representatives of key stakeholders at all levels in Laos and Thailand, and analyses of secondary literature of the subject to unpack the research dilemma. This paper aims to contribute to the broader debate on the role of multinational funding agencies in the development of natural resources in developing countries.

## **2. Background and Context**

During the 1990's, good governance is increasingly recognized as central to development in official development agencies, and civil society actors have been calling on authorities to adhere to particular norms of good governance in their institutional operations (Dore, 2002, 3). Accountable, transparent, and efficient systems of governance are seen to be essential for achieving sustained economic and social development. Good environmental and natural resources governance can likewise be seen as facilitating for participatory and associative decision-making processes. Environmental and natural resources management need to find ways to accommodate the multiple claims, perspectives, institutional arrangements and rights that mould the ways in which people use resources and make their livelihoods in everyday settings (Mehta, 2000, 20). Good governance and associative developmental planning arising from the needs of communities is recognized also in Lao PDR. Participatory processes are included in the development interventions supported and financed by international donors, multilateral development banks and international NGOs.

The development of Laos' hydropower potential has been at the centre of its development strategy and a pillar of the country's economic development drive since market reforms began in the late eighties, following advice from the World Bank, the Asian Development Bank, UN agencies and private sector (ADB, 2003; Freeman, 2001). The positive energy demand projections for Thailand have given the primary justification for hydropower development of major institutional players – donors, lenders, and national electricity authorities (Bakker, 1999, 216). Six large and medium hydropower plants and about 30 small and mini hydropower plants provide a total capacity of 600 MW, less than 4 % of the potential in Lao PDR (ADB & UNEP, 2004, 19). But even though the country is developing its hydropower, only 20 per cent of all

villages and 34 per cent of households have access to electricity (Lao PDR, National Poverty Eradication Programme, 2003, 104).

Major hydropower projects are becoming utterly complex, caught between “development” and modernization imperatives on the one hand, and environmental, livelihood, and human rights limitations on the other (Mathur, Sitirith & Öjendal, 2001, 1). The Theun Hinboun project and the proposed Nam Theun 2 dam clearly show these many pressures that can influence large scale dam developments. Large-scale and centralist water management, which has previously been the guideline of MDBs, has been criticized on a number of points; question of profitability, administrative sustainability, resettlement, ecological sustainability, social or ethnics conflicts, and lack of local ownership and public participation (see for example Öjendal, 2000, 92-94; Oxfam Community Aid Abroad, 1999).

### **2.1. Institutional Framework for Natural Resource Management**

Developmental planning takes place in multi-actor environment with a wide range of interests. The main actors in the field of hydropower development in Lao PDR are group of actors representing local communities, industries, governmental and regional agencies<sup>1</sup>, external development planners like bilateral aid agencies and donors. There are also several foreign NGOs working on the environment and resource management in Laos. The Government of Lao PDR does not allow the formation of local NGOs.

Institutional framework for the natural resource management of Lao PDR is characterized by the lack of effective institutions, human and technical resources, laws and processes to manage its natural resources in a sustainable way, all of which were highlighted in almost every interview held with different actors in Laos. Achieving efficient coordination among the various ministries and agencies in environmental management presents a major challenge for the GoL (Dethrasavong, 2003, 61).

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<sup>1</sup> Main actors in the governance sector are the Ministry of Industry and Handicraft (MIH), Science Technology and Environment Agency (STEA), Lao National Mekong Committee (LNMC). Regional actors include Mekong River Commission (MRC). In MIH, Department of Electricity (DOE) has the overall responsibility for all types of electricity projects and is assigned lead responsibility in implementing the environmental assessment (EA) and mitigation processes for electricity projects (Lao PDR, 2000, 1).

ADB continues to play a significant role in the Greater Mekong Sub-region<sup>2</sup> where it is one of the largest financiers of large-scale infrastructure including hydroelectric dams, cross-border electricity transmission systems, and major roads. A part of ADB's Greater Mekong Subregion Program (GMS) is to support hydropower via the creation of a regional power interconnection and trade arrangements between the Mekong region countries. The development of infrastructure aims at promoting economic growth, reducing poverty, and easing local communities' access to services and markets. (ADB, 2002a, 1, 2).

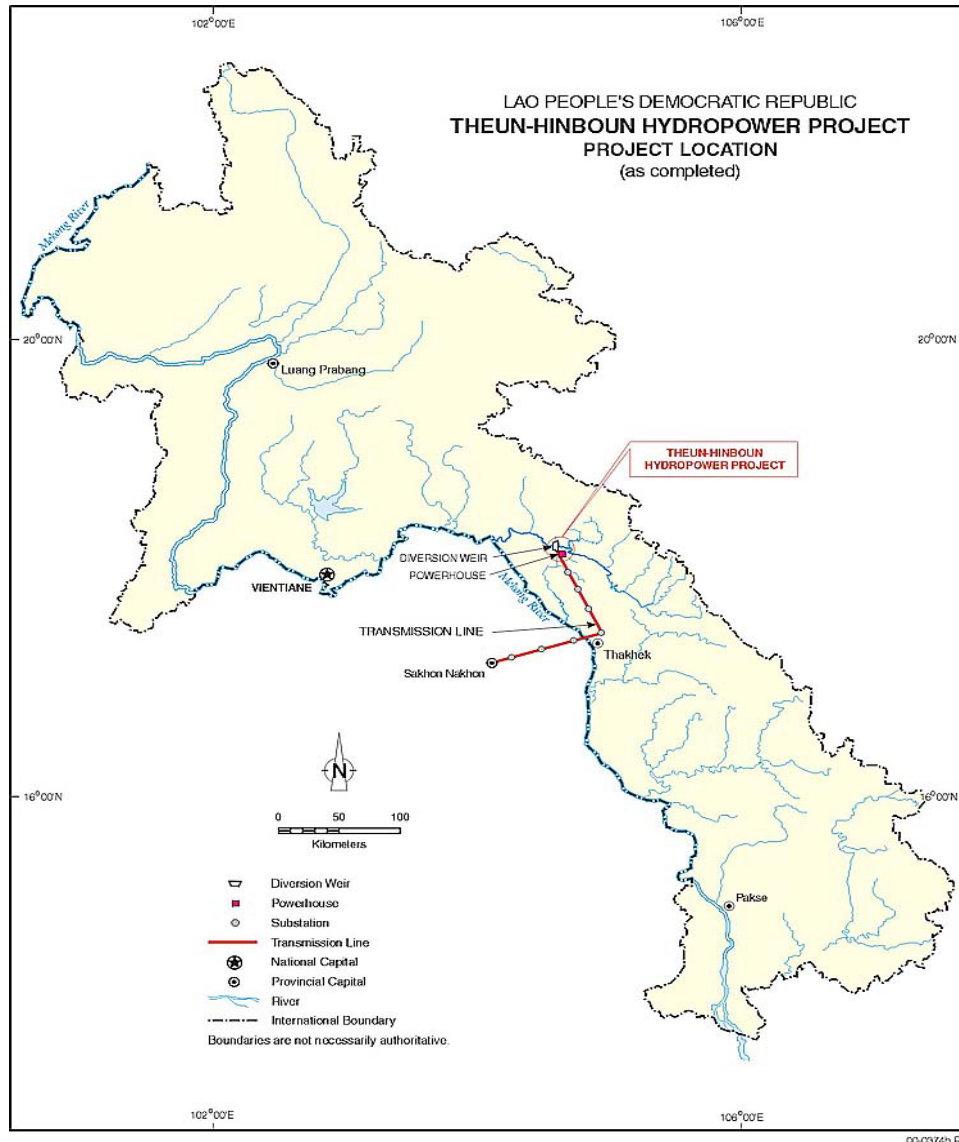
### **3. Description of the Theun Hinboun Hydropower Project**

The Theun-Hinboun Hydropower Project is a 210 MW trans-basin water diversion project which costs \$260 million to construct and is currently the largest foreign exchange source in the Lao PDR. The Project is located about 100 km upstream of the confluence with the Mekong on the border between Bolikhamxay and Khammouane Provinces. Its economic purpose is given as earning money for the Lao government, through export power sales to Electricity Generating Authority of Thailand (EGAT), to use for national development. (ADB, 2002b, 1; ADB, 2000b, 5).

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<sup>2</sup> The GMS includes Thailand, Cambodia, Lao PDR, Vietnam, Burma, and the Yunnan Province of China.

Figure 1. The Theun-Hinboun Project Location (ADB, 2000b).



ADB loaned \$60 million from the Asian Development Fund (ADF) for the Lao People's Democratic Republic to implement the first joint-venture hydropower project with foreign investors (ADB, 2000b, 1). The project is operated by the Theun-Hinboun Power Company (THPC) under a 30-year BOT – “build – operate – transfer” agreement (Shoemaker, 2000). Electricité du Laos<sup>3</sup> (EdL) contributed 60 % of the share capital, and two foreign investors,

<sup>3</sup> EdL is a state-owned corporation under the Ministry for Industry and Handicraft and it owns and operates the country's main generation, transmission and distribution assets in Lao PDR, and manages electricity imports into its grids and exports from its stations (EdL Annual Report, 2002; Hydropower Strategy Final Report, 2001).

MDX Lao Public Company Limited and Nordic Hydropower AB, 20 % each (ADB, 2002b, 1). The project was completed on time and below expected cost. An important consequence of the ADB involvement was the subjection of the project at each stage to scrutiny that ensured that it was soundly formulated, appraised and financed, thereby reducing the investment risks. The involvement of the Bank had also a positive impact on capacity build-up in Lao PDR in terms of exposure to new concepts and skill building (ADB, 2000b).

Even though the project has been described as privately financed, most of the financing is either public or publicly guaranteed. Consequently, the Government of Laos (GoL) is exposed to a significant proportion of the commercial risk, while also being required to serve additional debt (Cornford & Simon, 2001, 35, see also Bakker, 1999, 225). While ADB is advocating the private sector, it is only able to get the private sector to risk their capital for projects like the Theun Hinboun if the Bank provides subsidies, guarantees and other forms of safety nets for the private sector (Pahlman, 2000).

### **3.1. Project Impacts - Issues and Analysis**

Many of the dams currently proposed and in construction are large with similarly far reaching environmental and social impacts, like the Theun Hinboun and the proposed Nam Theun 2 in Laos. Despite the successful implementation of the Theun-Hinboun Hydropower Project, it has been plagued with controversy and problems from its inception. Concerns were raised by several international NGOs<sup>4</sup> during the project approval process, over its poor decision-making process, inadequate environmental impact assessment (EIA) processes, conflicts of interest, and potential for severe environmental and socio-economic impacts, which were downplayed or ignored by the project sponsors (see for example World Commission on Dams (WCD), 2000; Shoemaker, 1998, 2000; Australian Mekong Resource Centre; FIVAS<sup>5</sup>, Probe International).

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<sup>4</sup> For example International Rivers Network (IRN), International Union for Conservation of Nature and Natural Resources (IUCN) and Towards Ecological Recovery & Regional Alliances (TERRA) have been criticized the Theun Hinboun Project.

<sup>5</sup> The Association for International Water and Forest Studies (FIVAS) is an independent organization working to obtain and disseminate information about the consequences of large dams and hydropower projects in the Third World, and to prevent Norwegian participation in projects with significant social or environmental impacts (<http://www.fivas.org/english/dumbdams.htm>)

The environmental and social costs of the Theun Hinboun were vaguely studied and downplayed by the promoters including ADB. No substantial fisheries studies were prepared prior to the approval of the project. Studies were often carried out by consultants with potential conflict of interests. At the time of the Theun-Hinboun's completion, ADB was promoting it as environmentally friendly and a model for future hydropower development in the region (Shoemaker, 2002). The project has caused various socio-economic and environmental physical impacts. The socio-economic impacts include loss of dry season river bank garden areas, loss of reduction of common property resources such as fishery and ease access to water supplies, and loss of land to project construction. The environmental physical impacts comprise increased erosion and sediment loads in the Hinboun River which causes loss of farmland, fishery habitats and the quality of water supplies; reduced downstream flows on the Kading River which affects on fishery and water supplies; and formation of the headpond reservoir which has an impact on fishery and vehicle transportation. (Shoemaker, 1998, 2000; THPC, 2002; Australian Mekong Resource Centre).

The project is in clear violation of the ADB lending guidelines which state that local citizens should be left no worse off by their projects. The Bank (personal communication<sup>6</sup>) has excused the poor implementation of the project stating that the project was funded and constructed before ADB had fully developed its policies on environmental and social issues. Secondly, no baseline data were available in the Lao PDR during the elaboration of the environmental impact assessment and the environmental investigation was left to local personnel with limited experience (ADB, 2000b).

The Theun Hinboun shows a lack of local community engagement, and the promotion of large-scale engineering developments to the neglect of ecologically sustainable traditional and alternative water resources development and management. If an infrastructure project, such as Theun Hinboun, built as an instrument of national development, is beneficial, it should be so for all affected parties. That is, project returns should not only exceed full economic costs, they should be mobilized for mitigation and compensation that leave no stakeholder worse off than

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<sup>6</sup> Interview with a representative of ADB Lao PDR Resident Mission, 10.2.2004, Vientiane.



before. But often costs including mitigation and compensation are minimized to maximize the rate of return on investment (Bakker, 1999, 218).

Project affected communities are entitled to receive full direct compensation for all of their livelihood losses including those from the loss of fisheries, other aquatic resources, and agricultural land. To remedy environmental and social impacts, a 10-year Mitigation and Compensation Program<sup>7</sup> was agreed in 2000, and a new Environmental Management Division was formed within THPC in 2001 to implement it (ADB, 2000a, 5; THPC, 2002, 1). The Plan includes various activities to develop the social and physical environment of the affected villages by improving agricultural management, providing water supply, savings and credit funds and health and sanitation services. Currently, a major issue of contention is whether the Mitigation and Compensation Program of the THPC will adequately compensate local communities for their losses (see Shoemaker, 2000).

Despite international campaigns and pressure put on ADB by the civil society to resolve issues of compensation, it has been a long battle to obtain adequate compensation for the affected people. Moreover, IRN and THPC signed a cooperation agreement to jointly develop a 3<sup>rd</sup> party review to examine the effectiveness of the company's mitigation and compensation program and to issue recommendations for improvement. But the THPC ended cooperation three weeks after the month-long review began, based on concerns that the agreement did not follow standard corporate practices. (IRN, 2004). This whole evaluation process again raise questions about openness, transparency, and the spending of the project revenues.

One of the big outstanding problems of large scale dams is also resettlement and rehabilitation of the affected people, who often represent poor and vulnerable ethnic minority groups. Resettlement typically involves not just physical relocation, but massive changes in social context, lifestyle and agricultural practices, like in the case of the Theun Hinboun project. Local communities are often ill-equipped to deal with the social and environmental 'externalities'

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<sup>7</sup> According to Article 4 of the Regulation on Implementing Environmental Assessment for Electricity Projects in Lao PDR (2000), for electricity projects that were approved and/or completed before the effective date of the Regulation in question, the project owner shall prepare and implement an environmental management plan (EMP) to prevent or mitigate any further damage caused by the project. According to this, the THPC will be responsible for the EMP.

which may arise due to hydropower development. Many international NGOs in Laos have criticized the resettlement policy of the Government of being badly designed and implemented (personal communication<sup>8</sup>; Oxfam Community Aid Abroad, 1999). Involuntary relocation of peoples from the sites of hydropower projects in Laos seems to be occurring in an ad hoc and shoddy manner. Resettled groups especially have suffered from declining nutritional intake, rising sickness and mortality rates, and loss of traditional cultural practices (personal communication<sup>9</sup>).

#### **4. Compliance of Theun Hinboun with the ADB Policies**

The World Commission on Dams (2000, 182) has noted, "Social and environmental issues have historically been among the least addressed concerns in dam-related decision-making....they are two of the key issues that determine whether a dam proves to be an effective development project that enjoys general acceptance by the public." The Theun Hinboun hydropower project makes no exception to this. The implementation of the project points to the great problems with accountability, transparency and environmental sustainability in implementing large-scale infrastructure projects in Laos. These experiences call into question the Lao government's institutional capacity and political will to ensure that infrastructure projects are adequately monitored, that compensation is fairly and fully distributed and that environmental issues are properly addressed. Nevertheless, ADB continues to encourage the Lao Government to pursue hydropower projects well beyond its capacity to manage their social consequences (Oxfam Community Aid Abroad, 1999).

ADB requires that the social and environmental aspects are included in its projects via several policies, strategies and procedures<sup>10</sup> to ensure good governance, transparency, and accountability within the institution and its operations. However, economic reasoning is inevitably embedded in the decision-making processes concerning infrastructure or natural resources utilization projects. The promotion of economic growth remains central to the Asian Development Banks' development philosophy as well to the World Bank even though ADB has recently highlighted

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<sup>8</sup> Interview with International NGOs in Vientiane, February 2004.

<sup>9</sup> Ibid

<sup>10</sup> Governance: Sound Development Management (1999b); the Poverty Reduction Strategy (1999a); the Policy on Gender and Development (1998), Policy on Indigenous Peoples (1999); Cooperation with NGOs (1988); and Involuntary Resettlement (1998) are some of the most important ADB's policies, guidelines and instructions.

the poverty reduction objectives. Economic growth is considered not only complementary to social and environmental objectives, but the key strategy for their achievement.

Good governance should be ensured on project ownership, transparency and accountability. Governance is defined by the Asian Development Bank as “the manner in which power is exercised in the management of a country’s economic and social resources for development (ADB, 1998, 16; ADB, 1999b, 3). But if governance is considered in a wider sense, in ADB understanding governance focuses almost entirely on effective and efficient management. Critically, governance can be seen as a tool that can facilitate adequate returns and the efficacy of the programs and projects financed by the Bank (Bøas, 1998).

At the time of the Theun Hinboun project implementation many of the Bank’s guidelines were not effectively applied and implemented. The inadequacies of the project implementation calls into question the accountability and legitimacy of ADB. The Bank has promoted the project through a poor process of development, violating its own safeguard policies on energy, water, and indigenous peoples, and contravening its poverty reduction strategy. While boosting the profits and protecting the interests of consulting companies and dam builders, it can be asked whether ADB is accountable to the people it claims to work for. The ADB has implemented the Theun Hinboun project despite uncertainties regarding project data, without consultation with local communities in the project area and without adequate analysis of its social and environmental impacts. Ethnic minorities have not been engaged in development process. The Bank’s policy on Indigenous Peoples (1999c, 20) states that in development efforts that affect indigenous peoples, it is necessary that the Bank integrate concern for indigenous peoples into each step of programming, project processing, and policy development cycles.

The ADB’s resettlement policy (ADB 1995; 1998; 2003) and their policy dialogue with governments strive to ensure that those who must be resettled receive adequate compensation, and are at least as well off as before. Clearly, this policy has been neglected and violated in the case of Theun Hinboun. The ADB has not been able to identify and involve people affected by the Theun Hinboun dam project in the consultation and participation process. The ADB’s policy on fisheries (1997, 18) states that the impacts of Bank project on fisheries must be thoroughly

assessed and eliminated or mitigated. The Bank has not assessed the impacts of the Theun Hinboun on fisheries although the project has had a considerable impact on fisheries and subsequently on the livelihoods of people who depend on them. A study on fisheries is now finally under preparation and it will shed some light on the impacts caused to the fish population by the project.

Above issues will certainly not facilitate a process which leads to a well-informed and transparent decision making. Identification of stakeholders and planning effective public consultation and participation activities is a key aspect of project evaluation and implementation and it is increasingly a condition of support by leading international development agencies. Although the Asian Development Bank has emphasized the importance of the participation of civil society in formulating strategies and managing natural resources is stressed throughout the Bank's water and energy policies, the Bank has not promoted the participation of affected communities around the Theun Hinboun project area. Recently, on an interim review of the Bank's Water policy<sup>11</sup>, ADB's Water Sector Committee recommended a revision on the policy provision for large water resources projects by narrowing the scope of implementation of stakeholder justification agreement requirements which may diminish the voice of local people even more. A serious commitment to participation seeks and achieves diverse stakeholder representation and involvement via genuine participatory processes that are safe, non-threatening, non-coercive, predictable, and maintained over time (Dore, 2003, 26).

The principle of participation is problematic for Lao Government who has one-party system of governance which hinders participation and does not allow public debate on development. In Lao PDR there is a need to keep pace with international standards for public consultation and to institute guidelines that meet such standards (Hydropower Development Strategy Study, 2000, 6), but there are many constraints identified by the entire spectrum of stakeholders, like international NGOs, government agencies and MDBs facing the Lao governance agencies in respect to public

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<sup>11</sup> The review noted that while ADB should continue to pursue a cautious approach to projects involving dams, it is impractical to expect all stakeholders to agree on the justification for such projects. In the context of ADB's new accountability mechanism, the proposed revision thus reads: "All such projects will need to be justified in the public interest, and stakeholders must be provided the opportunity to comment regarding the justification with their views considered. The ADB will promote the participation of government, civil society and other stakeholders towards this end." (ADB, 2004)

participation. The capacity and experience of staff in charge of public involvement is limited; there is a lack of regulations on public involvement; lack of data and information related to public involvement; and financial constraints in respect to public participation. And certainly villagers themselves in the Theun and Hinboun river basins have limited power to dispute with or oppose the government in its decision to expropriate the river for the production of hydro power (Usher & Ryder, 1997, 98). This calls for greater and more systematic efforts by government actors to strengthen dialogue and negotiation, and develop participatory and consultative policies and programs.

#### **4.1. The Impact to Poverty Reduction**

Hydropower development has been seen as a major factor alleviating poverty in Laos. 26.3 per cent of Lao population lived below \$ 1 per day in 2001 (UNDP, 2003) and 39 per cent of the people live under the poverty line based on food consumption of less than 2,100 kilo calories per person per day (National Statistical Centre, 2000). Poverty in Laos is ‘new poverty’ not an endemic condition. Poverty is the result of events of external to the villagers over which they have no control, especially, weather, war, resettlement, and poorly implemented development programs (ADB, Participatory Poverty Assessment, 2001c, 6). But the forms of development, like hydropower commonly identified and pursued for economic growth at the national level are often quite different to those that are needed for quality growth at the local community level. Indeed rapid national growth often leads to the undermining of real and sustainable development of communities. In particular, transition to a modernized market-based economy will increasingly marginalize the position of ethnic minorities and women within the economy, as market approach undermine the value of their roles and livelihood practices (Oxfam Community Aid Abroad, 1999).

International relations and cooperation can play supportive role in national development and poverty reduction objectives in Lao PDR (Phomvihanh, 2003, 11). Since the Poverty Reduction Strategy was adopted in November 1999, ADB has trumpeted its overarching goal of poverty reduction in the region (ADB, 1999a). But have these guidelines and policies of ‘poverty reduction’ and ‘sustainable development’ really been implemented at the project level itself?

The Theun Hinboun hydropower project has been considered a commercial success from the outset and will yield annual Government revenues up to US\$30 million or more over the first decade of the new century (HDSS, 2000, 5). Earnings from the project would accrue to the Lao national budget, seen as the "main vehicle for the Government to deliver social services and redistribute income" (ADB, 1994, 24). The proposed 1,080 megawatt Nam Theun 2 (NT2) has raised concerns about economic viability of the Theun Hinboun and thus poverty reduction objectives, because it would divert water from the Theun before it reaches the Theun Hinboun facility and thus it would undercut the function and productivity<sup>12</sup> of Theun Hinboun by denying it water (White, 2001).

There were no earmarked revenues from Theun Hinboun to the poverty reduction and the link between poverty alleviation and project revenues is a bit ambiguous as well as the way how the revenues have actually been used. According to the representatives of the ADB's Mekong Department<sup>13</sup> *"...and indirect this [the revenues from Theun Hinboun] will help the Government to spend more for social sector interventions, education, health and maybe some poverty reduction program. There was no one-to-one linkage between Theun Hinboun revenue and poverty reduction activities. In the case of Nam Theun 2 that is now being planned is that certain amount of the revenues is earmarked for poverty reduction activities"*. For example, international NGO TERRA (personal communication<sup>14</sup>) has criticized this issue by saying *"They [investor, ADB] claim the poverty reduction as their legitimation, and that is they take a lot of public subsidy through that. So this is what I... I mean the question is how they can prove that, or why they don't try to prove that to the public"*.

Multilateral development banks and most of the donors and NGOs agree that there is a need for more transparent system of deciding on how to use the revenue from the energy sector. The way of spending the revenues subsidizing the tariff for electricity consumers has been questioned (personal communication<sup>15</sup>). The most likely beneficiaries of the subsidy will be the richest part of the population, which is a big distortion for government's poverty eradication strategy and ADB's poverty reduction aims.

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<sup>12</sup> According to the ADB (2002) in 2009 when the Nam Theun 2 project is expected to become operational, it was originally assumed that there will be a 275 GWh drop in the electricity generated in Theun Hinboun. But now the capacity of NT2 has increased almost by double which will have more extensive impacts on water flow and environment.

<sup>13</sup> Interview with representatives of the ADB's Mekong Department, 24.3.2004, Manila.

<sup>14</sup> Interview with representatives of TERRA, 2.3.2004, Bangkok.

<sup>15</sup> A representative of the Lao's Resident Mission of the World Bank was interviewed 11.2.2004 in Vientiane.

On the other hand, doesn't the emphasis on large-scale hydropower development again show the trend of the concentration of public investment on the development of those areas that the poor cannot afford and which they don't benefit from? The basic needs, like food security, access to health services, education, housing, clean water and sanitation needs to get satisfied first, then the access to modern forms of energy can become important due to the beneficial direct and indirect impacts (ADB, 2000a, 16). What the poor people need to survive are increased investments in upland agriculture, livestock, and agroforestry/non-timber forest products, mitigations where investment is currently negligible and which are not reaching the poor (Participatory Poverty Assessment, 2001, 11). THPC's mitigation and compensation plan may facilitate the project affected villagers to some degree, but still it is highly questionable whether large hydropower development projects are the most appropriate way to alleviate poverty in Laos.

## **5. Lessons Learned**

Attention and criticism of large scale infrastructure projects is often focused on the execution of environmental assessments, the consideration of externalities, the financial and political structures behind dam funding and the role of the multilateral development banks and private companies. (Hirsch & Cheong, 1996; FIVAS, 1996). The implementation of the Then Hinboun project shows that the same traditional "economic growth-based" development model continues to be the foundation of the ADB's policies and operations by downgrading social and environmental aspects.

ADB has been deficient in quantifying and recognizing the impacts of Theun Hinboun Project on local communities. Despite the fact that early Environmental Impact Assessments (EIAs) for the project were publicly discredited, ADB chose to approve the loan anyway, allowing the project to proceed. The Theun Hinboun was implemented without prior informed consent of affected persons, and failed to assign responsibility or funds for full mitigation of social and environmental effects. Lack of consultation with affected communities means that many villagers are suffering from unexpected impacts and are unaware of any procedures in place to deal with these impacts. EIA procedures should form an essential and integrated part of the planning procedures for a project and should consider social as well as environmental impacts including aspects of public participation. The ADB itself admits that in terms of environmental

and social impacts of the Theun Hinboun, implementation should not proceed without developing adequate baseline data and designing a comprehensive mitigation plan (ADB, 2002b, 5-6).

Generally, the different Departments of Lao Government and other stakeholders feel that if the project is funded by ADB or WB, environmental and social management of development interventions will be more effective and the rules and social/environmental guidelines will be followed (personal communication<sup>16</sup>). And as ADB (personal communication<sup>17</sup>) stated *“But what we’ve seen if we are not involved in the projects many of the safeguard provisions are not build into a project. So the best cause for the action for these countries is to do it through ADB or WB to be sure the best protection for the poor is to be sure that the ADB or WB or both are involved in the project.”* Nowadays, the Government and the MDBs are coming closer together on safeguard issues. Both the World Bank and the Asian Development Bank have pushed Laos for sector specific regulation in environmental and social issues of large-scale interventions in the energy sector (personal communication<sup>18</sup>).

Disclosure and dissemination of Theun Hinboun project related information by ADB was not well implemented and this problem is related to many Bank’s projects. Like a representative of the Mekong Department of ADB (personal communication<sup>19</sup>) said *“One area where they think ADB is not doing enough is disclosure for information during project implementation. Before approval of the project a lot of information is now made available but once implementation has started it is very hard to find information about what is happening”*. Clear information has not been made available to communities as a whole and individuals are at the bottom of a very top down process of decision making. ADB and THPC must commit to a vastly improved process of information sharing and transparency regarding Theun Hinboun project and to developing mechanisms for input from local people and concerned citizen groups within and outside of the country (Shoemaker, 2001). Improved standards for regular and timely information sharing, external independent monitoring of compensation implementation processes, and provision of local input are needed.

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<sup>16</sup> Interview with a representative of the STEA’s Department of Environment, 23.2.2004, General Manager of the THPC, 9.2.2004.

<sup>17</sup> Interview with representatives of the ADB’s Mekong Department, 24.3.2004, Manila.

<sup>18</sup> Representatives of Department of Electricity were interviewed 20.2.2004 in Vientiane.

<sup>19</sup> Interview with representatives of the ADB’s Mekong Department, 24.3.2004, Manila.



The objective of the Theun Hinboun hydropower project was to support economic growth by enhancing foreign exchange earnings and to reduce poverty. The project's macroeconomic impact itself has been substantial and it has enabled the Lao Government to improve capacity building and technology transfer in the sector (ADB, 2002b; personal communication<sup>20</sup>). But reviewing the Theun Hinboun project for consistency with ADB's poverty reduction strategy shows that there is a blur link between the project revenues and poverty reduction activities. There needs to be more clear evidence that the project revenues should be used to social expenditure allocation in the national budget and poverty reduction activities (ADB, 2002b, 18).

In addition to the Bank's guidelines and safeguards, ADB has recently created cumulative impact assessment study (CIA) procedure to manage and respond to difficulties encountered in large scale infrastructure projects. CIA study includes spatial and temporal considerations, potential development scenarios, key issues and questions, and study of sector plans of different levels (ADB, 2003, 4; personal communication<sup>21</sup>). CIA will be prepared for the proposed Nam Theun 2 in Laos partly based on lessons learned from previous dam projects considering social and environmental issues more carefully and extensively during the whole project process period. Still, some NGOs have criticized the new CIA policy of the ADB stating that it is only another procedure of the Bank to hide its true agenda - the pursuit of economic growth (personal communication<sup>22</sup>).

There is no question whether there will be a need to continued foreign assistance in the short to medium term to achieve a sustainable and equitable regime of natural resource management in Lao PDR. Assistance will, importantly, be in the area of human resource development in planning and implementation of natural resource management programs. While there are strong pressures to develop large scale projects such as in current proposed dam schemes, aid money should instead look towards more environmentally benign and socially more equitable small to medium scale projects. (Cheong, 1998, 44) In the case of Theun Hinboun, several interviews with stakeholders including representatives of GoL, THPC, MDBs, and international NGOs in Lao PDR emphasized that more consideration needs to be put on social and environmental

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<sup>20</sup> Interview with General Manager of the THPC, 9.2.2004.

<sup>21</sup> Interview with representatives of Nordplan, 20.2.2004, Vientiane.

<sup>22</sup> Interview with International NGO, 25.2.2004. Vientiane.

impacts, and the project developer should use more money to mitigation of the project impacts in the beginning of the project. The importance of developing a comprehensive hydropower development plan, collaboration and co-ordination with different sectors, sharing of experience and learning together were also highlighted.

## **6. Conclusions**

Development of infrastructure is one of the major requirements for the expansive economic development plans for the Lao PDR as proposed by the Multilateral Development Banks as well as the Lao National Government. Until recently dominant views have tended to favor large-scale interventions and large dams but the negative social and environmental impacts have called into question of the effectiveness and profitability of a large-scale development interventions. The implementation of the hydropower projects addresses the great problems with transparency, accountability, and environmental sustainability in implementing large-scale infrastructure projects. Because of the mistakes done in hydropower development projects previously, it is highly relevant to analyze the decision-making process in relation to various stakeholder interests, environmental and social impacts in order to avoid similar mistakes.

Good governance has become the key word for most processes within international dialogue and development interventions both in official development agencies and non-governmental development communities. Because the development strategies and policies of MDBs have significant impacts on the management of the environment and natural resources, the governance and decision-making system of the financial organizations needs to be more open and transparent, and their policies and decisions should be more openly and carefully reviewed.

Despite the fact the many large infrastructure project like the Theun Hinboun hydropower project has shown that it is possible to achieve levels of economic growth through large-scale hydropower development, this growth is neither equitable, nor sustainable in the longer term. Economic benefits have usually not trickled down in the expected manner to the local communities of project affected area. The impact of large infrastructure projects to poverty reduction is often blur, therefore in-depth assessments would be required to establish the effectiveness with which project earnings are being put to use for national development and

poverty reduction. Development means economic growth and free markets to multilateral development banks, but to indigenous and rural people it can mean totally different things. The ADB's approaches to development are bureaucratic and top-down, and decisions often made at the governmental level without meaningful input from local actors. It can be questioned, whether members of civil society and local communities who are affected by the development projects are true actors in the decision-making process and true beneficiaries of a development project.

The point here is not that growth in and as itself is bad or not needed, but rather, how can growth be translated into real and concrete enhancement in the quality of lives of people who are poor, socially vulnerable and marginalized from decision-making? And what kind of growth justifies the massive redirection of public resources? Recent experiences show that in order to yield long term, sustainable and wide spread benefits, economic growth must be driven by social and human development priorities, and not vice versa. If growth is to contribute to equity, it must be redefined to favor equality and genuine distribution of both opportunities and gains. Generally, the ADB's programs in the Mekong Region show that the livelihoods of local communities, the environment and democracy are considered mostly within the context of "economic development". In the GSM framework, the rights of investors are protected, but the rights of local people and communities are quite faint; the issue here is larger issue of development vision promoted in the GSM Program and not just compensation of violated rights.

While the Asian Development Bank is increasingly emphasizing the importance of good governance, public participation, community development, and environmental sustainability in its policies and strategies, there is not so deep correlation between these and the vast bulk of Bank's projects and operations, like the Theun Hinboun project shows. But undeniably, the social and environmental safeguards of the Banks will enhance the implementation processes of developmental projects in developing countries which lack of human, technical and financial resources. The challenge ahead for ADB will be to reconcile this new language with its institutional framework and its work in the field. Additionally, institutions like WB and ADB must embrace greater transparency and participation both at the project level and in their internal decision-making practices, which are to some degree hidden from public. Cooperation between the Banks and NGOs can offer an invaluable combination of experiences and perspectives,

especially concerning the poor and most vulnerable social groups. Additionally, the Multilateral Development Banks should take cognizance of the WCD recommendations more carefully to follow current international best practice standards for water and energy development planning.

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## Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
BOT	build – operate – transfer agreement
EdL	Electricité du Laos
EGAT	Electricity Generating Authority of Thailand
EIA	Environmental Impact Assessment
EMP	Environment Management Plan
FIVAS	Association for International Water and Forest Studies
GMS	Greater Mekong Sub-Region
GoL	Government of Laos
IRN	International River Networks
IUCN	International Union for Conservation of Nature and Natural Resources
Lao PDR	Lao People’s Democratic Republic
MDB	Multilateral Development Bank
NGO	Non-governmental Organization
NT2	Nam Theun 2
OECD	Organization for Economic Co-operation and Development
TERRA	Towards Ecological Recovery & Regional Alliances
THPC	Theun Hinboun Power Company Limited
WB	World Bank
WCD	World Commission on Dams

## Measures

GWh (gigawatt-hour) 1,000,000,000 watt-hours

MW (megawatt) 1,000,000 watts