

Annex 1: Government Letter of Implementation Policy (GLIP)

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Nam Theun 2 Hydroelectric Project and Nam Theun 2 Social and Environment Project



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

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Committee for Planning and Investment

No: 198/CPI

Date: 7 March 2005

To: Mr. James D. Wolfensohn
President
The World Bank
1818 H Street
Washington, DC 20433
United States of America

Subject: Nam Theun 2 Hydroelectric Project: Implementation Policy Framework

Dear Mr. Wolfensohn

1. The Nam Theun 2 Hydropower Project is an important milestone in the development history of Lao PDR. The project has been strongly endorsed by our National Assembly. It symbolizes the hopes and aspirations of the people of our country.
2. The contribution of the project to poverty reduction and improvement of the country's human development indicators is sizeable and the project will also make a significant contribution to our country's other development goals. The preparation of the project has been an enormous learning exercise in terms of building capacity to plan and manage complex multi-sector programs, foster stakeholder participation and strengthen donor coordination. The project will serve as a model for natural resources conservation, trans-boundary cooperation in the Mekong region, and international private-public partnerships. In addition, the project has helped focus attention on building capacity for improving public financial systems, targeting revenues to poverty reduction programs, and strengthening environmental and social safeguard management. The lessons learned will help the preparation of future projects and will be applied whenever opportunities arise to improve existing projects.
3. The main purpose of my writing to you is to reiterate the government's determination to build upon the gains already achieved through our cooperation and to sustain them by adopting an Implementation Policy Framework for the project.
4. In this regard, I invite your attention to the earlier Decision Framework, which we mutually adopted to guide the preparation of the project. You may recall that this framework is founded on three pillars: (i) implementing a development policy framework characterized by concrete performance that aims at poverty reduction and environmental protection; (ii) ensuring

that the technical, financial and economic aspects of the project and the design and implementation of safeguard policies are of a standard acceptable to the donor community; and (iii) obtaining broad support from international donors and civil society for the country's development strategy and the Nam Theun 2 Project itself.

5. In order to achieve the full benefits of the project, the government proposes an Implementation Policy Framework that will build further on these pillars and asserts its commitment to:

- continue to build a viable development policy framework and programs for poverty reduction and for social development and environmental protection, using the National Growth and Poverty Eradication Strategy and the Social and Economic Development Plans as drivers;
- focus on effective implementation of the technical, financial and economic aspects of the project, as well as of the environmental and social safeguards activities; and
- further strengthen support from the international donor community and global and local civil society for poverty reduction programs and associated development plans, and facilitate their involvement during the implementation of Nam Theun 2 Project itself.

6. As the centerpiece of our development framework, I wish to reiterate the government's strong commitment to our National Growth and Poverty Eradication Strategy (NGPES). We have set ourselves the goal of reducing poverty by half by 2015 and achieving the other Millennium Development Goals in our country.

7. We recognize the critical role of macroeconomic stability in this effort and value the advisory role of the multilateral institutions. The continued support of the donor community for the NGPES and the Social and Economic Development Plans is imperative for the achievement of our growth and poverty reduction objectives. We look forward to a series of projects in support of our efforts and will also work closely with all donors to restructure the current portfolio as needed to align it better with the NGPES.

8. In this context, I wish to express my appreciation for World Bank support to the first Poverty Reduction Support Credit that is being prepared in parallel with the Nam Theun 2 Project and ADB's comprehensive program of strengthening the State Audit Organization for enhancing the independent audit capacity of the Lao PDR's supreme audit institution. We would like to draw attention to the Letter of Development Policy sent by my colleague, the Finance Minister, to the World Bank wherein the government's plans relating to the strengthening of the development framework are set out. I do not wish to cover the same ground again in this letter but will deal with five critical project-related issues.

9. The important issues I would like to focus in this letter are (i) revenue management, (ii) ensuring adequate environmental and social performance and outcomes, (iii) consultation and participation, (iv) monitoring and evaluation, and (v) activities complementary to the Nam Theun 2 Project.

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Revenue Management

10. Improvements in public financial management, especially the effectiveness of public expenditures, will be essential if Lao PDR is to achieve its ambitious development and poverty reduction objectives. In this context, the government has recently approved a Public Expenditure Management Strengthening Program (PEMSP), which aims to improve policy consistency, efficiency, transparency and accountability in public expenditure management by strengthening institutional systems and making progress towards appropriate international financial management standards. The PEMSP encompasses improvements in expenditure planning and budgeting, budget execution, accounting and reporting at both the central and provincial levels in the period to end of FY2009. Implementation of the PEMSP will require technical support from long-term and short-term advisors, as well as extensive training for financial management personnel. The government is seeking the support of external partners for technical assistance and training under PEMSP, complementing on-going projects financed by the World Bank and the Asian Development Bank. The PEMSP will provide a framework for coordinating such external assistance. In order to make an early start on PEMSP implementation, we will draw monies from the ongoing Financial Management Capacity Building Credit of the World Bank to fund program technical assistance requirements until the Ministry of Finance secures grant financing.

11. The revenue management arrangements described in an attachment to this letter describe the arrangements the government will adopt to utilize revenues derived from the Nam Theun 2 project. These arrangements will complement and support implementation of the Public Expenditure Management Strengthening Program. The government is committed to ensuring that *all* Nam Theun 2 revenues, net of the costs of the NT2 shareholding and overseeing the implementation of the NT2 project, are used to finance incremental spending on eligible poverty reduction and environmental protection programs, reflecting the priorities identified in the NGPES and its successors. Nam Theun 2 revenues will be channeled through a dedicated "NT2 Revenue Account" and released to the Central Treasury Account for the purposes of budget execution. Nam Theun 2 revenues will be used to finance: the repayment of debt incurred by the Government for the purpose of acquiring equity in NTPC; expenditures related to the exercise of its rights and the performance of its obligations under the Concession Agreement and the Project Documents; and eligible poverty reduction and environmental management programs that meet required financial management, financial reporting and performance monitoring standards.

12. Publication of estimates and allocations of Nam Theun 2 revenues to eligible programs in the annual budget, as well as quarterly budget execution reports, annual financial statements, summaries of inspection reports and audit reports, will ensure high standards of transparency in resource allocation. A program of public expenditure reviews and public expenditure tracking surveys, undertaken in collaboration with the World Bank, the Asian Development Bank and other development partners, will monitor progress in the development of financial management systems and the impact of eligible programs' spending at the field level. An annual report will be prepared on the implementation of the Nam Theun 2 revenue management arrangements and serve as the basis for consultations with external partners.

13. In order to manage the Government's shareholdings in the NTPC project efficiently and transparently, we have established a special purpose company, the Lao Holding State Enterprise

(LHSE). While LHSE may play an important role in the future of development of other independent power producers in Lao PDR, its primary function in the medium-term will be to support implementation of the NT2 project. In this context, LHSE's operating budget, financed from NT2 related income, will cover only costs directly related to its obligations as an NTPC shareholder, NT2 project oversight and implementation costs. The Government of Lao PDR will also ensure that LHSE's shareholding in NTPC is fully protected from any risks associated with LHSE's broader development activities.

Ensuring Environmental and Social Performance and Outcomes

14. We have worked closely with the World Bank, the Asian Development Bank and other partners to ensure that the decision making process, detailed project design, and implementation program have adopted measures to adequately manage potential environmental and social impacts and risks. The Nam Theun 2 Project has been prepared to adhere to the environmental and social policies of Lao PDR, the World Bank, the Asian Development Bank and other partners.

15. We fully subscribe to the vision developed for addressing environmental and social aspects of the project through the Environmental Assessment and Management Plan (EAMP), Social Development Plan (SDP) and the Social and Environmental Management Framework and First Operational Plan (SEMFOP). We will spare no effort, in cooperating with our project partners, the Nam Theun 2 Project Company (NTPC), to anticipate, monitor and effectively mitigate environmental and social impacts and risks, on the plateau and in the watershed and downstream areas of the project. We commit to ensuring the integrity of the project's watershed (Nakai Nam Theun National Protected Area and its two corridors) and will strictly promote and abide by the guiding principles for its medium-to-long-term development set forth in the SEMFOP. Specifically, we will ensure that there is no commercial development (including roads, logging, mining and other resource extractive activities) in the Nakai Nam Theun National Protected Area and the two corridors which together comprise the NT2 watershed, and that all land use within the watershed is fully consistent with the community-based forest and land use planning and management (FLUPAM) process described in the SEMFOP.

16. We will also monitor and regulate in-migration into the watershed and reservoir areas, resolve the legacy of resettlement of affected ethnic groups in the watershed, and ensure adequate management of cumulative impacts downstream of the Theun Hinboun dam. We have addressed the above-referenced resettlement issues in a letter directed to the World Bank by my colleague, the Minister of Agriculture and Forests in November 2004. As for the impacts downstream of the Theun Hinboun, we intend taking a long-term, strategic and integrated approach to the management of the Nam Theun/Nam Kading river basin, to address and mitigate cumulative impacts caused by different development projects, including the suite of planned hydropower and other development projects. This will serve as a pilot for river basin management that will be extended over time to other basins within Lao PDR. We will be seeking donor support to implement such an initiative, including the establishment of an appropriate institutional structure.

17. The government will ensure that capable and qualified staff are assigned to work on a permanent basis in the Watershed Management and Protection Authority, the Resettlement

Management Unit and the Environmental Management Unit, to achieve the outcomes specified in the EAMP, SDP, SEMFOP and Project Implementation Plan, in partnership with NTPC. As indicated in these documents, we have designed, in collaboration with the World Bank, the Asian Development Bank and other partners, detailed mechanisms for grievance resolution, as stated in the SDP, and arrangements for continued consultations with project-affected persons throughout implementation. We will mobilize the resources and accord the priority needed to successfully implement these arrangements.

Consultation and Participation

18. We will build on the lessons learned from the local consultations in the preparatory phase of the Nam Theun 2 Project. In this context, may I reiterate that the government will conduct direct consultations with communities and individuals in the project area during the implementation and operation phase to seek their views on a diversity of issues, covering impacts, mitigation measures and outcomes of the project. These consultations and the associated disclosure of information will be used to make adjustments to project design and to refine mitigation and monitoring programs.

19. Let me also stress the government's continued strong commitment to seeking support for the project from the international donor community and from civil society. We value their involvement in our poverty reduction programs and development plans and will continue to facilitate their access to information and participation in discussions on the project in the future. We will support the use of the Government-led and UNDP-supported Roundtable Mechanism for monitoring the NGPES and progress on the Nam Theun 2 Project. We will convene periodic meetings of co-financiers for review of: (i) the physical progress in implementation of project investments, (ii) results of monitoring and evaluation of social and environmental impacts and outcomes, (iii) measures taken to address unforeseen events, and (iv) other dimensions of the project. The government has definite plans to further improve its capacity in the area of public communications and media relations in respect of the project and will continuously update its website.

Monitoring and Evaluation

20. To support effective implementation of the Nam Theun 2 Project, we will implement the project monitoring and evaluation (M&E) framework, described in an attachment to this letter, comprised of five complementary components:

- supervision and systematic monitoring of physical implementation of the hydropower project, including the environmental and social safeguard programs;
- monitoring of conditions and outcomes on the Nakai plateau (reservoir and resettlement areas) and in the downstream and watershed areas as defined in the EAMP, SDP and SEMFOP;
- monitoring of revenue management arrangements;
- maintaining a Panel of Environment and Social Experts to advise the government on implementation of the project; and
- maintaining a Dam Safety Review Panel.

21. We welcome the fact that these efforts will be complemented by several other M&E measures financed by the NTPC and the financing partners:

- systematic monitoring of the technical and safeguards components of the project and its impacts by one or more professional firms on behalf of the private and public sector financial institutions;
- regular supervision by staff of the World Bank, the Asian Development Bank and other development partners; and
- visits from the International Advisory Group that advises the senior management of the World Bank.

22. Let me also assure you that the government will continue to ensure that staff of the financial institutions involved in the project and their advisors and consultants will have full access to the project area and to information about the project and its numerous activities throughout the implementation period.

Activities Complementary to the Nam Theun 2 Project

23. The Government's commitment to conservation goals, to better managing the environmental and social aspects of development programs, and to improving rural livelihoods goes well beyond the scope of the Nam Theun 2 Project. We recognize the importance of strengthening our policies and institutional capacity in these areas and will be taking several measures in this regard during the project implementation period. We are working with the Asian Development Bank on the establishment of a Lao Environment and Conservation Fund by June 2005. We will use this Fund to apply part of Nam Theun 2 revenues to support priority environmental protection and conservation programs. In the intervening period, we will ensure that the fund follows financial management and reporting practices that are consistent with the Government's public expenditure management system. We are also seeking support from the World Bank, for two other projects. The first is a nation-wide Environmental and Social (LEnS) Project, addressing the need to mainstream environmental and social safeguards in infrastructure development, strengthen biodiversity conservation in Central Lao, and increase the public's knowledge of and support for environmental management. The second is the Rural Livelihoods Project, for the vicinity of the Nam Theun 2 Project, that would address resource management and rural development challenges at the community level. Both will place strong emphasis on broader and longer-term capacity building.

24. We will also work on plans for the further development of the Lao power sector, including measures to promote energy conservation. We will continue our cooperation with other riparian countries directly and through the Mekong River Commission to optimize decisions on water resources management and hydropower development, taking into account trans-boundary benefits and costs, including environmental and social aspects. In addition, we will work with the World Bank, the Asian Development Bank and other partners to improve the governance and management of hydropower planning and development within Lao PDR. Through the LEnS Project and other instruments we will seek support to improve our capacity to conduct and apply the findings of environmental assessments, resettlement action plans, ethnic minority development plans and other related instruments in the hydropower sector.

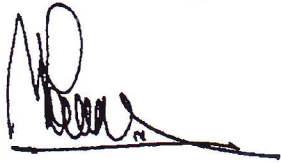


25. In closing, let me reiterate that the government is fully committed to the implementation of the Nam Theun 2 project so as to meet Lao PDR's development aspirations and international standards on project procurement, technical aspects and safeguards. We will not hesitate to mobilize technical expertise to achieve this end, both by strengthening our own professional cadres, and by tapping the capacity of consultants and non-government organizations with the required experience and demonstrated record of commitment, where needed to address our own capacity constraints. We will extend our full cooperation to the donor community by working in partnership, as we have in the past.

26. Please be assured of the government's deep appreciation of the role of the World Bank and the Asian Development Bank and other donors in mobilizing financial resources and support for the Nam Theun 2 Project. Because of their interest in the project, we are copying this letter to the other co-financiers. Also, an identical letter has been addressed to the President of the ADB.

With best regards.

Yours Sincerely, 



Dr. Thongloun Sisoulith
Deputy Prime Minister
Government of Lao PDR

Attachments:

1. Nam Theun 2 Revenue Management Arrangements
2. Nam Theun 2 Environmental and Social Issues
3. Nam Theun 2 Monitoring and Evaluation Arrangements