

**MANAGEMENT RESPONSE ON THE PROJECT PERFORMANCE AUDIT REPORT (PPAR)
ON THE NAM LEUK HYDROPOWER PROJECT IN THE
LAO PEOPLE'S DEMOCRATIC REPUBLIC (LOAN 1456-LAO[SF])**

On 4 October 2004, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. The 10 September 2004 OED memo on the above mentioned report requested Management's response. We have reviewed the report with great interest and found it very well written. The report highlights some important lessons learned from the hydropower development initiatives in Lao PDR, which would be very valuable for future endeavors.
2. The Operations Evaluation Mission (OEM) has been in contact with MKRD during the preparation of the report and provided opportunities to review and comment on the earlier draft report. We appreciate that our comments have been appropriately reflected in the report. The Mission's consultative approach in preparing the report is commendable. The findings and follow-up actions recommended in the report are supported. In fact, they are in line of the follow-up actions that the Bank has been taking since the completion of the Project.
3. One of the most important lessons learned from the Nam Leuk Project is that *"environmental and social impacts and their mitigation measures do not end when the power plant begins operation and the project loan closes. In fact, additional impacts often begin at this stage"* (para. 85 of the report). In this context, the Environmental and Social Management Program Loan (Loan No. 1867-LAO)¹ has been instrumental in providing an effective vehicle to dialogue with the Government in addressing the existing hydropower development projects such as the Nam Leuk Project. The Program covers five closely linked priority areas for policy action: (i) strengthening national policy and regulatory framework for environmental management and social safeguards; (ii) enhancing policy implementation measures and capacity at sectoral and provincial levels; (iii) improving compliance and enforcement; (iv) promoting river basin management as a multisectoral and integrated planning framework for energy and transport development; and (v) establishing sustainable financing mechanisms.
4. Under the aegis of the Environmental and Social Management Program Loan, MKRD has been in discussion with the relevant Government agencies including the Science Technology and Environment Agency, Électricité du Laos, and the Ministry of Industry and Handicraft to assess the issues arising from the existing hydropower development projects and recommend appropriate actions. Since May 2002, MKRD staff have been visiting the project sites and discussing with the Government authorities to assess the magnitude of social and environmental impacts and identifying areas for follow-up action. Most recently in June 2004, a Mission was fielded to work with the Government to agree on concrete steps to address the remaining issues in the Nam Leuk Project. The Government has agreed to prepare an action plan, which will be reviewed and followed-up by MKRD. Regarding the specific follow-up actions recommended in the report, we will work closely with the Government to ensure that these recommendations are duly reflected in the action plan and properly implemented.
5. Finally, there are several important lessons learned from implementation of past hydropower development projects, including the Nam Leuk Project. Specifically, it is important to (i) thoroughly assess and prepare mitigation measures for downstream impacts; (ii) secure

¹ Loan No. 1867-LAO: *Environmental and Social Program Loan*, for \$20 million, approved on 6 December 2001.

financing of the social and environmental mitigation and conservation measures as part of the project cost; and (iii) design realistic and effective implementation arrangements including those addressing social and environmental mitigation and conservation measures. We would like to emphasize that these lessons learned are being incorporated in the design of new hydropower development projects in the region.