



# IFC Promotes Sustainability in Lao PDR's Hydropower Sector

The Lao People's Democratic Republic is one of the least developed countries in Southeast Asia and 28 percent of its people are poor, living below the national poverty line of approximately \$1.50 a day.

However, the country is rich in natural resources, such as land, forests, and rivers. That's why the Lao government has identified the development of hydropower as a key way to promote economic growth and alleviate poverty. Developing hydropower, however, puts pressure on the environment and local people's livelihoods.

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. In 2012, IFC launched an Advisory Services program – Environmental and Social Standards in the Hydropower Sector in Lao PDR – to help the country foster a sustainable hydropower sector and ensure that the environment is protected and local people have access to the water resources they depend on.

## The Hydropower Sector

The Mekong, which runs through China, Myanmar, Thailand, Cambodia, Vietnam and Lao PDR, is the longest river in Southeast Asia and its biodiversity is only surpassed by the Amazon. The river and its tributaries provide food, water for drinking, irrigation and industry, and a rich natural environment to the people of many countries.

In addition to the Mekong, Lao PDR's rivers have huge potential for hydropower development and can technically generate up to 18,000 megawatts. So far, about 20 hydropower projects with total capacity of 3,000 megawatts have been developed in the country. The Lao government expects an additional 40 to 50 projects to be operational by 2025.

Hydropower development is driven by a demand for energy from neighboring countries such as Thailand and Vietnam. The government expects that revenues generated from power exports will contribute to national economic growth and poverty alleviation. In addition, hydropower is the major source of electricity in Lao PDR.

Since 2006, Lao PDR has seen an influx of private investors and developers in the hydropower sector. Most have demonstrated limited commitment to implementing best environmental and social practices: Often, more than one hydropower project is developed on the same river, coupled with mining and irrigation schemes vying for the same water, resulting in cumulative impacts on the river basins.

During the past five years, the Lao government has taken steps to improve the management of water resources. In 2011, it established the Ministry of Natural Resources and Environment – the first time natural resources management was consolidated under a single ministry. In addition, a number of development institutions, including the World Bank and the Asian Development Bank, are helping the Lao government strengthen its capacity in managing its natural resources sustainably.

Yet, if hydropower continues to develop at a rapid pace under existing regulatory conditions, the developments may cause adverse and irreversible damage on the environment and local people's livelihoods.

Therefore, there is a pressing need to improve environmental and social standards as well as improve the skills and capacity of the hydropower sector as a whole.

## Our Approach

IFC engages a wide range of stakeholders to strengthen their knowledge, skills, and capacity in order to increase the share of new hydropower projects that are developed sustainably in Lao PDR.

- We support the improvement of policies and regulations for the hydropower sector. IFC works with the Ministry of Natural Resources and Environment and the Ministry of Energy and Mines to develop technical guidelines and strengthen key water- and hydropower-related laws, policies and regulations, such as the Water Law and National Sustainable Hydropower Policy. To ensure that authorities have the expertise to implement and monitor compliance with new and existing laws and regulations, IFC is boosting the capacity of government staff at both the national and local levels.
- In river basins with cascades of hydropower, IFC is partnering with relevant authorities, including river basin committees, local agencies, companies, to better anticipate, evaluate, and manage the cumulative impacts of hydropower development. In partnership with stakeholders, we have defined specific areas of focus – one of which is management of water flows for basic needs and environmental requirements – where there is a need to improve knowledge, skills, collaboration, and coordination.
- Financial institutions from neighboring countries are increasingly investing in hydropower projects in Lao PDR. IFC seeks to assist these banks in developing and adopting environmental and social guidelines for their hydropower investments to improve their decision-making process. We have organized workshops in partnership with The Thai Banking Association to share environmental and social risk management tools with these banks.
- IFC is supporting the Lao National Chamber of Commerce and Industry (LNCCI) in establishing a Hydropower Developers' Working Group, where hydropower developers can exchange knowledge and interact with the Lao government on key issues of the sector. IFC will advise hydropower companies on improving their sustainability practices when making hydropower investments.

Learn more at [www.ifc.org/laohydro](http://www.ifc.org/laohydro).



## IFC's Niche

The World Bank Group's joint energy sector strategy supports a range of capacity-building programs organized by the Lao government to ensure the sustainable development of hydropower. The strategy also aims to support companies investing in hydropower projects to boost domestic power supply, export electricity to neighboring countries, and improve their environmental and social practices.

About 25 percent of Lao households have no access to electricity and those that do have access are mostly concentrated in the cities – a major obstacle to rural development. In 2010, IFC provided a \$15 million loan to state-owned Electricité du Laos to expand electricity networks and substations in rural areas. As a result of IFC's support, rural households in central and southern Lao PDR will have access to reasonably priced electricity in the future.

To further strengthen domestic power supply, IFC has partnered with Korea Western Power, a wholly owned subsidiary of Korea Electric Power Corp., to jointly develop sustainable hydropower that would contribute to the government's goal of bringing electricity to 90 percent of households by 2020. IFC entered into this partnership via our early-stage project development fund, InfraVentures, which supports infrastructure projects in the world's poorest countries by assisting with financial structuring and enhancing social and environmental standards.

## IFC's Sustainable Business Advisory Services

Through IFC's sustainable business advisory services, we help companies and other stakeholders adopt environmental, social, and governance practices and technologies to transform markets and improve people's lives. We work with firms to increase their access to markets by setting, adopting, and deploying internationally-recognized standards that address environmental and social issues in different sectors. Examples of these include harmful child labor, gender-appropriate labor practices, biodiversity protection and sustainable land management. Implementing certification schemes will help actors in the supply chain improve their environmental and social performance in a cost-effective manner.

IFC has developed a Sustainability Framework, which encourages transparency and accountability and contributes to positive development impacts. IFC's Performance Standards, part of the framework, have become globally recognized as a benchmark for environmental and social risk management in the private sector. Learn more at [www.ifc.org/sustainability](http://www.ifc.org/sustainability).

In addition to sustainable businesses, IFC also offers advisory services in the areas of access to finance, investment climate, and public-private partnerships. We help developing countries achieve sustainable growth by financing investments and mobilizing capital in international financial markets.

### Resources

IFC's Environmental and Social Standards in the Hydropower Sector in Lao PDR Program emphasizes improved environmental and social risk management practices and complements and extends the activities of other development institutions, including the World Bank and the Asian Development Bank, in the sector. Partially funded by the Japanese government and the Mekong Private Sector Development Facility, the program has a total estimated budget of US\$4.91 million between 2012 and 2017.

### CONTACT

Kate Lazarus  
Advisory Services,  
Hydropower Sector  
Email: [klazarus@ifc.org](mailto:klazarus@ifc.org)  
Website: [www.ifc.org/hydro](http://www.ifc.org/hydro)