

Contribution of Corporate Social Investment to Livelihoods of Lao People after Relocation

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This paper explores the impacts of multinational companies' (MNCs') social investment on the livelihoods of local people in the Lao People's Democratic Republic (Lao PDR) and explores the drivers that influence these impacts. The study advances an argument that MNCs' social investment produced two distinct types of families after being relocated to new villages: poor and well-off families. The well-off families received the fewest direct benefits from the MNCs' social investments, but with a greater degree of self-resilience than the poor families, they were able to adapt to their new environments and availed of the MNCs' social investment to improve their livelihoods. This study concludes that the impacts of the MNCs' social investment on the livelihoods of the affected families depend not only on the behavior and commitment of the MNCs, but also on the economic and cultural capability of the affected families to adjust to the new environment and on the commitment of the host country's government.

Developing countries are attracting foreign direct investment (FDI) from Multinational Companies (MNCs) for reasons including, but not limited to, the increasing global demand of the consumer market, the potential for lower cost of production, and the vast amount of unexplored natural resources in developing countries.¹ Nevertheless, the role of MNCs' FDI in accelerating or undermining host developing countries' progress has been a subject of intense debate within development and corporate social responsibility studies.²

The Lao People's Democratic Republic (Lao PDR) is a land-locked country

¹ Titus Moser, "MNCs and Sustainable Business Practice: The Case of the Colombian and Peruvian Petroleum Industries," *World Development* 29, no. 2 (2001): 291-309.

² Peter Newell and Jędrzej George Frynas, "Beyond CSR? Business, poverty and social justice: an introduction," *Third World Quarterly* 28, no. 4 (2007): 669-81; Judy Muthuri, Jeremy Moon, and Uwafokun Idemudia, "Corporate Innovation and Sustainable Community Development in Developing Countries," *Business & Society* 51, no. 3 (2012): 355-81; Karen Paul and Robert Barbato, "The Multinational Corporation in the Less Developed Country: The Economic Development Model Versus the North-South Model," *Academy of Management Review* 10, no. 1 (1985): 8-14.

in Southeast Asia with a total population of 6,288,037. Lao PDR's per capita gross domestic product (GDP) was \$1,130 in 2011, with 27.6 percent of the population living below the national poverty line.³ Lao PDR has attracted a large inflow of FDI, particularly from its neighboring countries. Between 2008 and 2011, annual FDI inflows increased from \$921 million to \$1,071 million. FDI reached \$1,374 million in 2012 and is anticipated to rise to \$2,085 million by 2015. Most of these investments are in mining, extraction of natural resources, and hydropower.⁴ Mining and hydropower's contribution to GDP increased considerably—from 2.6 percent of GDP in 2008 to 2.9 percent in 2012, and 0.7 percent of GDP in 2008 to 1.0 percent in 2012, respectively. Hence, GDP per capita rose rapidly from \$856 in 2008 to \$1,202 in 2012, and it is expected to rise to \$1,653 in 2015, and \$1,770 in 2016.⁵ Thus, FDI has contributed significantly to Lao PDR's economic growth.⁶ As a result, the Government of Lao PDR (GoL) expects to advance from least developed country status by 2020, and to simultaneously become the “battery” of Asia by utilizing Lao PDR's high potential for hydropower development.

Although the contribution of FDI to national economic growth is convincing, the impact of investment, particularly hydropower investment, on local people's livelihoods remains contentious among academics, development practitioners, and civil society. For instance, Delang and Toro (2011) claim that local people who were relocated from dam construction areas, including Houay Ho and Xe Katam dam, have not improved their living standards.⁷ Virtanen (2006) asserts that the impacts of the Theun-Hinboun hydropower project on poverty reduction and social issues remain contentious.⁸ However, Souksavath and Maekawa (2012) and

³ World Bank, “Lao PDR,” in World Development Indicators (2011), accessed February 10, 2013, http://data.worldbank.org/country/lao-pdr#cp_wdi.

⁴ Pemasiri J. Gunawardana and Sisombat Sommala, “Trends and Patterns of Foreign Direct Investment in Lao PDR,” *International Journal of Business and Management* 3, no. 1 (2009): 34-41; Steven Neuman and Young Sokphea, “Key Assessment Areas of Agriculture Sector for Eligibility to EU Sector Budget Support,” (paper presented in Vientiane: European Union Delegate to Lao PDR, 2012).

⁵ International Monetary Fund, “Lao People's Democratic Republic-Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lao PDR, Under Article IV of the IMF's Articles of Agreement” (Vientiane: IMF, 2011).

⁶ Pemasiri J. Gunawardana and Sisombat Sommala, “Trends and Patterns of Foreign Direct Investment in Lao PDR,” *International Journal of Business and Management* 3, no. 1 (2008): 41-57.

⁷ Claudio O. Delang and Matthew Toro, “Hydropower-induced displacement and resettlement in the Lao PDR,” *South East Asia Research* 19, no.3 (2011): 567-94.

⁸ Maarit Virtanen, “Foreign direct investment and hydropower in Lao PDR: the Theun-Hinboun hydro-power project,” *Corporate Social Responsibility and Environmental Management* 13, no. 4 (2006):183-93.

Souksavath and Nakayama (2012) assert that both Nam Ngum 1 and Nam Theun 2 positively impacted the livelihoods of local people.⁹ Based on the aforementioned scholars' conclusions, the impacts of FDI in hydropower on the livelihoods of local people in Lao PDR remain controversial. On the one hand, scholars argue that there are positive impacts, while on the other hand, some assert negative impacts. Meanwhile, drivers that determine the impacts of these hydropower investments remain unexplored. As a contribution to this, this paper studies the impacts of MNCs' FDI in hydropower development on the affected families' livelihoods, and explores the drivers that influence these impacts. The paper draws on conclusions from the study of the MNC-built Nam Ngum 2 (NN2) hydropower development project in Lao PDR.

The remainder of this paper is organized as follows. The next section elaborates on the methodological approach and wealth assessment criteria. The third section discusses the results from the research. Lastly, the concluding section argues that the project divides local people into two socioeconomic tiers (poor and well off) after relocation. The paper finds the main driving forces that worsen the livelihoods of affected families are: (a) the lack of effective regulatory enforcement, (b) the lack of transparency and accountability of the Government, (c) the poor quality of participation of stakeholders and affected families, (d) the ineffectiveness of MNCs' social investment, and (e) the low degree of self-resilience of the affected families.

Methodology

This research is based on a case study of a resettlement area—Muang Feung District, Vientiane Province, Lao PDR—where 1,053 affected families were involuntarily relocated from the NN2 hydropower development reservoir in the Vientiane Province. The study utilized both primary and secondary data. To collect primary data, a participatory wealth assessment was conducted among 1,053 directly affected families. Additionally, the researcher noted observations at the resettlement site between 2010 and 2012. Thirty key informant interviews were conducted to explore

⁹ Bounsouk Souksavath and Miko Maekawa, "The livelihood reconstruction of resettlers from the Nam Ngum 1 hydropower project in Laos," *International Journal of Water Resources Development* 29, no.1 (2012): 59-70; Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers from the Nam Theun 2 hydropower project in Laos," *International Journal of Water Resources Development* 29, no.1 (2012):71-86.

the drivers that influence the impact of the MNCs' social investment on the livelihood of the affected families. Secondary data, including baseline livelihood data conducted by the consultancy TEAM Group in 2005 and the project's progress reports, were also scrutinized and compared with the prevailing livelihoods of the affected families. The study also compared and contrasted several discussions of other scholars' findings.

A criteria for assessment was developed based on a participatory approach in order to conduct the participatory wealth assessment. The criteria consisted of (i) housing improvement, (ii) occupation and income, (iii) food security, (iv) family dependents and labour force, and (v) assets. Several stakeholders, including Buddhist monks, village heads, Christian leaders, group leaders, affected families, youth leaders, and the female leaders' union, were invited to discuss and formulate the assessment criteria (see the detailed criteria in Table 1). Then, assessments were made based on participatory group meetings in sixteen villages in which the majority of the affected families were invited to participate.

Results and Discussions

This section begins by highlighting the background and impacts of NN2 project on local people. Following a discussion of social investment and the project's mitigation plan, this section assesses the livelihoods of affected local people after relocation. Lastly, this section explores drivers that positively and negatively influence livelihoods of affected local people in their new environments.

The NN2 Hydroelectric Development Project and Its Impacts

The Nam Ngum 2 Dam is one of the major hydroelectric power development projects in Lao PDR. It is situated about ninety km to the North of the capital Vientiane, and about thirty-five km northeast and upstream of the existing Nam Ngum 1 dam. The dam is a concrete face, rock-fill dam, 181 meters high, with about 6,774 million cubic meters reservoir storage capacity and an inundation area of about 122 km² at full supply level of 375 meter above sea level. The construction was completed in March 2010. The dam produces an annual energy output of 2,218 GWh

Table 1. Criteria for Wealth Assessment

Types	Assets	Food Security	Occupation	Labor Force/Dependents	Income
Above well-off	<ul style="list-style-type: none"> • Tile roof (expanded house) • Excellent tile • Mini-truck/pick-up truck • Small tractor • Motorbike/Bicycle • Refrigerator • Modern entertainment equipment 	<ul style="list-style-type: none"> • Surplus food throughout the year (ability to purchase or cultivate) • Farmland (cash crop plantation) • Home garden 	<ul style="list-style-type: none"> • Outside trader • Shop (grocery/food shop, repair) at home or elsewhere • Officials • Skilled workers 	<ul style="list-style-type: none"> • Many working family members • A few dependents • Tertiary education 	<ul style="list-style-type: none"> • Money lender • Savings of \$2,510 or more
Well-off	<ul style="list-style-type: none"> • Tile roof (expanded house) • Good tile (ground floor and wall) • Mini-truck/small tractor • Three-wheeled motorbike/bicycle • Refrigerator • Good entertainment equipment 	<ul style="list-style-type: none"> • Surplus food throughout the year (ability to purchase or cultivate) • Farmland (in/outside project areas) • Home garden 	<ul style="list-style-type: none"> • In/Outside trader • Small shop (grocery, food, repair) at home • Officials • Skilled workers • Poultry raising 	<ul style="list-style-type: none"> • A few working family members • A few children and dependents • Tertiary education 	<ul style="list-style-type: none"> • Money lender • Savings of \$1,630-2,500
Poor	<ul style="list-style-type: none"> • Zinc roof • No house expansion • Equivalent to resettlement project housing • Old motorbike or bicycle • Old entertainment equipment 	<ul style="list-style-type: none"> • Food shortage (3-6 months) • Farmland of insufficient yield 	<ul style="list-style-type: none"> • Unskilled workers • Seasonal workers 	<ul style="list-style-type: none"> • Many dependents • Head of household works • Secondary education 	<ul style="list-style-type: none"> • In debt • Savings of \$875-1,625
Very Poor	<ul style="list-style-type: none"> • Equivalent to resettlement project housing 	<ul style="list-style-type: none"> • Food shortage (6-9 months) • Work for daily food intake • Farmland of insufficient yield 	<ul style="list-style-type: none"> • No occupation • Stay at home 	<ul style="list-style-type: none"> • Elderly/many dependents • No working family members • Elementary education 	<ul style="list-style-type: none"> • In debt • Savings of \$56-874

Note: Very poor and poor families earn less than \$1 per day per person (about six persons per household).

Source: Author, 2012.

(615MW capacity), which is sold to Thailand.¹⁰ NN2 is developed under a thirty-year (2007–2037) concession agreement between the GoL and concessionaires (MNCs). This construction required the resettlement of 1,107 households (about 6,500 people) from sixteen villages that resided below the dam’s full supply level. Of the 1,107 households, fifty-four voluntarily relocated elsewhere, while the remaining 1,053 households were relocated to the Feung district resettlement site in Vientiane province. The resettlement site is about 90 km from Vientiane, and about 80 km from the previous villages and dam reservoir. The relocation was fully completed in early 2010.

According to TEAM’s 2005 survey, the affected local population consists of three ethnic groups: 62.4 percent are Lao Theong (midlanders), 35.9 percent are

¹⁰ TEAM, *Resettlement Action Plan (RAP) Nam Ngum 2 Hydroelectric Power Project* (Bangkok: TEAM 2005).

Lao Loum (lowlanders), and 1.7 percent are Lao Soung (highlanders). The average household contains six persons and lives with poor access to public infrastructure and social facilities. Their livelihoods are based on cultivating crops, including rice, shifting cultivation and tree crops, as well as raising livestock, timbering, fishing, hunting, and other non-farm activities. The household annual income in 2005 stood between \$58 and \$107, while the expenditures cost between \$25 and \$51. Thus, these households can save from \$33 to \$56 per annum.¹¹ Consequently, although members of these households lived with poor infrastructure conditions, they were observed to enjoy sustainable livelihoods before the relocation and construction of the dam.

Social Investment and Impact Mitigation Efforts of NN2

To obtain permission for construction, ownership, operation, and transfer for a period of thirty years, all hydroelectric power projects are required to conduct a Social Impact Assessment (SIA) and an Environmental Impact Assessment (EIA). In addition, the projects are required to prepare a social mitigation plan, including a Resettlement Action Plan (RAP). NN2's social mitigation plan (including RAP) was developed in compliance with the GoL's sub-decrees and regulations.¹² The result of NN2's social mitigation plan can be summarized as follows:

1. Infrastructure and public facilities

As compensation for the adverse impacts of the hydropower construction, the company constructed several ready-to-use infrastructure projects to provide services to the 1,053 households and the host villagers. These projects include a main access road of about 6.2 km, village roads totaling about 1.2 km, a water supply system with main and household distribution systems, an electricity distribution system to all houses, a health center, a cemetery, a resettlement administration office, a public hall for consultation and public meetings and activities, three village offices, a Buddhist temple, a market place, a bus station, three primary schools, a secondary

¹¹ TEAM, *Resettlement Action Plan*. These income figures include only cash income and do not include non-cash activities such as the gathering of forest products and subsistence agriculture, which in many cases make up the majority of people's livelihoods.

¹² Government of Lao [GoL], "Prime Minister Decree 192/2005 on the Compensation and Resettlement of the Development Project," (Vientiane: GoL 2005); Government of Lao, "Technical Guidelines on Compensation and Resettlement in Development Projects," (Vientiane: GoL 2005a).

school, a nursery school, a cultural center, and a solid waste landfill site. Furthermore, 1,053 move-in-ready houses were constructed before relocation took place. The project provided free electricity, water supply, and rice allowances during the first year's transition period.

2. Relocation

Relocation was successfully completed in early 2010. Relocation was based on three criteria: (i) relocation of local people from sixteen villages had to be organized in one continuous period; (ii) that period had to avoid the rice harvesting season, the school year, and the heavy rain period; and (iii) construction of all infrastructure, supporting facilities and houses for local people were required to be completed before relocation began. A caravan of soldiers supported the transportation of all kinds of household equipment from previous villages. More than 70 percent of respondents indicated that the relocation was carried out successfully and that almost all of the affected families were satisfied.

3. Public Health

Along with the provision of a health center, a monthly incentive was awarded to a doctor who moved from an urban area to be stationed at the resettlement site's health center. The doctor led a team of about eight nurses and health officers. In accordance with national health center standards, the resettlement project supported the health center's equipment with many medical instruments and facilities, including an ambulance. Key person trainings in each village were conducted, as were events to raise public awareness of dengue fever, malaria, public sanitation, vaccination, HIV/AIDs, youth health issues, early motherhood follow-up, and home-based care. The health center has been administered by the GoL's public health system, and serves both resettlers and host villagers. As a result, the use of traditional healing and medication has declined, and basic health knowledge and sanitation have improved. The public health service in this new center is thus far better than that in the old villages as described in the 2005 TEAM baseline report.¹³ A majority of key informants and those who participated in focus group discussions were

¹³ TEAM, *Resettlement Action Plan*.

satisfied with the current health center's services and activities.

4. Education

As the schools were newly constructed, additional teachers were deployed from the provincial center and provided with homestay. School facilities were equipped and maintained regularly. Other educational assistance included teacher training, merit- and need-based scholarships, sports activities, school libraries, and mobile libraries. These programs were designed and implemented from the nursery level to the secondary (high) school level. The education program serves not only resettled households' children, but also children from the host villages. Resettled villagers were satisfied with these services as compared to the old villages.

5. Livelihood Restoration

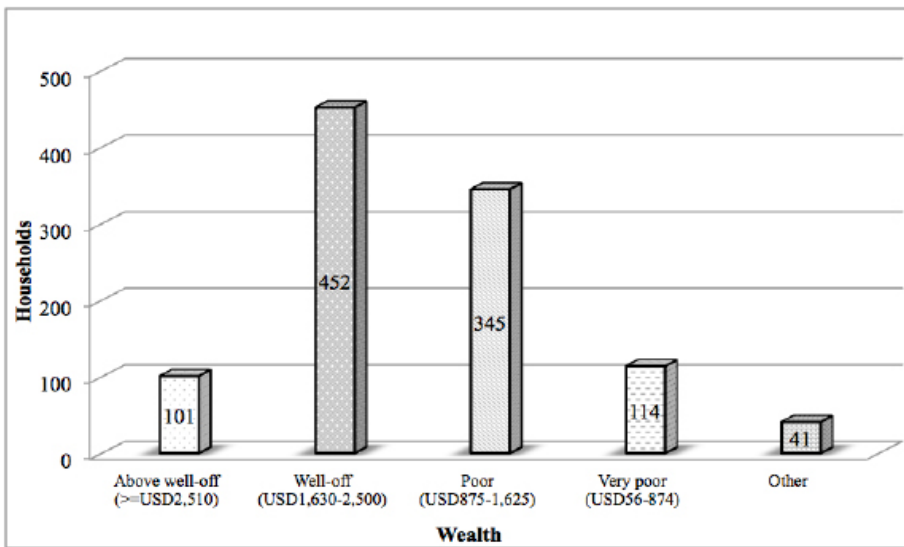
The livelihood restoration program commenced immediately upon villagers' arrival at the resettlement site. The project delivered several short-term livelihood trainings, including off-farm activities (vocational training, weaving, handicraft works, small business) and farm activities (raising livestock and aquaculture, farming, breeding, fishing), to restore the livelihoods of the local people. To support these activities, the project established a village savings and lending group (a self-help group). Simultaneously, initial funding of about \$50 on average was provided to each of the participants in order to start each occupation. As a part of the livelihood improvement scheme, farmland of 0.5 hectare was also provided to each household, regardless of the size of the previous farmland. The livelihood restoration program aims to restore the affected families' livelihoods in general, and in particular, to increase the income per household per annum to \$1,800 by 2015 and \$2,200 by 2020 (See the next section to compare these goals to the current actual income).

In summary, with the implementation of social investment, local people received better public facilities, infrastructure, and services than existed in the old villages. However, the extent to which these activities contribute to affected families' livelihoods is unclear. The following assessment of livelihoods of resettled people was based on the criteria set enumerated in the methodology section.

Livelihoods of the Affected Families at the Resettlement Site

In general, slightly greater than 50 percent of the affected families had better livelihoods in terms of both income and living conditions (9.60 percent considered above well-off and 42.92 percent considered well-off compared to the situation before the relocation). The remaining affected families (10.83 percent very poor and 32.76 percent poor), were unable to restore their livelihoods (Figure 1). The rest of the families (about 4 percent) moved out from the resettlement site to live in other places by themselves. Therefore, the MNCs’ social investment created the least impact on the livelihoods of affected families, and instead created two types (poor and well-off) after relocation. The attributions and facts that lie behind the difference in wealth can be elaborated as follows:

Figure 1. Wealth of Local People after Relocation



Note: The baseline income of each wealth category before the relocation is not available.

A small proportion of the affected families (101 families, or 9.60 percent) earned within the highest income bracket of greater than \$2,510 per annum. These families earned their livelihoods from trading inside and outside the resettlement site. Occupations included copper and mine traders in Attapeu province, and owners

of grocery, repair, and construction materials shops at the resettlement site or elsewhere. Thus, the families have shown significant progress toward livelihood restoration. However, the project did not contribute to their livelihood because it did not support the capital that they invested for their livelihood. To a certain extent, the new resettlement's location near the capital city and other provincial centers increased individuals' opportunities to engage in trading activities in which they were already involved prior to relocation. Overall, these families exhibited a high degree of self-resilience (the ability to restore their livelihoods without extensive assistance from the project) compared to the rest of the local people.

About 42.92 percent (452 families) of the total families in the resettlement site were well-off, earning between \$1,630 and \$2,500 annually. They received little or no assistance from the livelihood restoration program, as the majority of them were engaged in inside and outside trading in various industries (groceries, restaurants, construction materials, butchers, etc.). Members of these families have higher qualifications and received well-paid jobs outside the resettlement village, including as skilled workers in copper and mining projects, and as government officials in other provinces or in Vientiane. These families have shown significant progress toward the livelihood restoration program's target incomes of \$1,800 by 2015 and \$2,200 by 2020. However, the program's contributions were not a major factor in their success.

The poor families totaled 32.76 percent (345 families) of the total affected population. They earned between \$875 and \$1,625 per annum, or less than \$1 daily per person for a six-person family. These low incomes were due to a low level of education, as they had no ability to survive and to restore their livelihoods in the new villages. The unfamiliar living environment, coupled with a new livelihood based on urban resources rather than natural resources and agriculture, resulted in adverse impacts on these families, despite an increase in income. Many struggled to survive. Although significant development assistance was provided, the assistance had minimal impact. For instance, 0.50 ha (upland) was provided per family, which yields only two to three months of rice per year. Their homes in some ways looked like those of the well-off families because they spent resettlement program compensation cash on home improvement and modern luxuries, including televisions, musical instruments, and means of transport. These investments produced no long-term benefit to their livelihood restoration. As a result, they became trapped in a

poverty cycle of a type which did not exist in their previous villages. Moreover, the majority of these families are from ethnic groups whose livelihoods depend on natural resources, especially non-timber forest products (NTFPs). Thus, the lack of access to natural resources in the new villages worsened their livelihoods. These families were unable to recover from the aforementioned adverse impacts—not only because they lacked access to natural resources, but also because they lacked the ability to find new means of subsistence.

The very poor families accounted for about 10.83 percent (114 families). They earned annually between \$56 and \$874 per family. These were the most vulnerable people in the resettled group. They had little capacity to survive after resettlement because they relied heavily on cultivation and natural resources, especially NTFPs. In the old villages, they collected NTFPs for subsistence purposes, and they earned a few dollars per month by selling the remaining products. These families tended to live as they lived prior to resettlement. However, since the resettlement site was located close to the district center, natural resources were limited. Although the implementers of the project introduced activities such as livestock raising, handicraft, small business, and vocational trainings to restore their livelihoods, the new living environment discouraged the restoration process. For instance, they previously cultivated several hectares of paddy field but were provided with only a plot of 0.50 ha in the new villages' upland area. Adapting to the new peri-urban environment remained a challenge for them, and their livelihoods suffered despite the MNCs' social investment. The other forty-one affected families were not available to participate in the survey as they sold or rented their houses to host families, choosing to live in other places.

Drivers Influencing Affected Families' Livelihoods

According to the wealth assessment results, slightly more than 50 percent of affected families were able to restore or improve their livelihoods after relocation, while less than 50 percent were adversely affected. These varying impacts reflect several influential drivers, which can be elaborated as follows:

1. Self-resilience

Families' ability to maintain their livelihoods in the new villages relied heavily on their degree of self-resilience, or the ability to restore their livelihoods without extensive assistance from the project. Families who previously engaged in urban-style economic activities such as trading and doing small business were able to adapt quickly and even improve their economic situations. This may be due to wealth and human capital gained before relocation as well as their strong self-resilience. However, the poor and very poor families with less self-resilience encountered economic difficulties. These families follow ethnic lifestyles transferred from generation to generation. These lifestyles entail dependence on natural resources to earn a living. In the new villages, which were located in peri-urban areas, the majority of resources were already privately owned by the host villagers. Conflicts over natural resource ownership between the host and affected families were common. Although farmland was provided for the affected families, the rain-fed farmland was located in an unfavorable area due to rocky outcrops and high elevation (about 1,200 meters above sea level). Furthermore, the plots of land were very small (0.5 ha). The lower, more cultivable land, which was slashed and burned before affected families arrived, belonged to the host villagers. The affected families who followed ethnic lifestyles were more likely to depend on the social investment assistance of the MNCs, which insufficiently aided their livelihoods. The self-resilience of the affected families proved to be more important to their livelihoods than the MNCs' social investment activities.

2. Geographical Constraint

Other than self-resilience, the geographical area of Lao PDR is very complex, which impedes the livelihood restoration of those who are involuntarily relocated by the MNCs' investment. Geography has a direct bearing on food security and is a major influential driver of livelihood restoration (or lack thereof). Several hydropower projects are being constructed throughout the country, and resettlement of affected families is a recurring issue.¹⁴ Farmland for farmland compensation is a controversial issue. Arable land (about 3 percent of the entire country), particularly lower land with the potential for agricultural use, is hard to find for the affected families.

¹⁴ Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers."

Though the population density in Lao PDR is low, agricultural land is already scarce.¹⁵ In this study, relocating the affected families, especially those whose living conditions depended on farmland and paddy, to locations without abundant arable land or paddies impaired the affected families' livelihoods. In the Feung resettlement site, farmland or paddy became a major issue, resulting in increasingly frequent disputes between resettled families and the host villagers. Consequently, affected families were compelled to carry out contour (upland) cultivation, which produced insufficient yields to serve annual families' rice demands and resulted in a several-month rice shortage.

3. Corporate Responsibility and Effectiveness of Social Investment of the MNCs

In addition to the above two drivers, cost-ineffectiveness and corporate irresponsibility on the part of the MNCs were major drivers of adverse impacts on the livelihoods of the affected families after relocation. First, the MNCs pledged to invest \$22 million to restore the social and economic situations of those affected by the hydropower project via a thirty-year long resettlement action plan of social investment. Yet, a profit-making firm was contracted to implement the resettlement action plan, which brings the cost-effectiveness of MNCs' social investment into question. The affected families claimed that they received insufficient initial support to start up off-farm and on-farm activities. For example, the contractor did not provide enough funding to start small businesses or purchase livestock, or enough farmland to engage in farming. On average, most key informants claimed that each family received about 20 percent (about \$50) of the fund offered by the MNCs and endorsed by the government. The contractor did not follow through on its initial commitments, and the government failed to force them to do otherwise. As a result, the affected families, particularly the poor and very poor families who depended on the MNCs' social investment, experienced hardship. This is different from the Nam Theun 2 dam project, which was driven by development agencies such as the World Bank and likely generated more positive than negative impacts.¹⁶

Second, the MNCs' corporate irresponsibility worsened the situations of the marginalized affected families. Profit from selling electricity to neighboring

¹⁵ Claudio O. Delang and Matthew Toro, "Hydropower-induced displacement."

¹⁶ See Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers."

countries takes priority over socio-economic and environmental issues for the MNCs. As a result, MNCs did not appear to regard restoration of livelihoods as important. The affected families, especially the poor and very poor families, faced several livelihood constraints due to the MNCs' inattentiveness. The GoL PDR did not effectively enforce the commitment to corporate social responsibility (CSR) of the newly-emerged, wholly foreign-owned company involved in the NN 2 project. Nattavud Pimpa's study (2013) on CSR in Laos finds that it is rare for the wholly-owned foreign companies or joint venture companies to have self-implemented CSR.¹⁷ This reflects a government strategy to attract foreign investors to invest in Laos and to become Asia's electricity-exporting "battery."

It is apparent that CSR was not well incorporated in either the newly registered firm in Lao PDR or in the home country of the MNCs. This pattern did not help, and sometimes hurt, the affected families' livelihoods. The new firm's commitment to social responsibility lagged behind that of development agencies and development banks, as was seen in the case of the development-bank-financed Nam Theun 2 hydropower project.¹⁸

4. Regulatory Enforcement, Transparency, and Accountability of the Government

In addition to the above drivers, the impacts of MNC investment on the livelihoods of the affected families depended on the host government's enforcement of regulations and its level of accountability and transparency during the implementation of MNC-funded social investment. To a certain degree, GoL has enforced related sub-decrees and regulations, including the EIA, SIA, RAP, and the social mitigation plan, to regulate MNCs' handling of social and environmental issues caused by the NN2 project. Nonetheless, despite these procedures being followed, proper regulatory enforcement was not observed and social investment quality remained a concern.¹⁹ To a certain degree, the socio-economic impacts of NN2 were not properly studied, but the project was accepted by GoL nonetheless. It appears that

¹⁷ Nattavud Pimpa, "Comparing corporate social responsibilities in Lao PDR and Thailand: International Business and Poverty Allievation," *International Journal of Studies in Thai Business, Society & Culture* 2, no. 1 (2013): 47.

¹⁸ Marrite Virtanen, "Foreign direct investment and hydropower."

¹⁹ International River, "The Xayabouri Dam: Looming Threat to the Mekong River," http://www.internationalrivers.org/files/The%20Xayabouri%20Dam_Eng.pdf; and Maarite Virtanen, "Foreign direct investment and hydropower."

GoL was less focused on the livelihoods of the affected families than on attracting foreign capital to develop the hydropower sector and achieve the government's goal of graduating from a least developed country by 2020. In this sense, economic growth is a priority area for policymakers and political leaders, but local socio-economic and environmental issues are left behind.²⁰ This results in wide income inequality between the rural and urban areas (a Gini index of 32.6).²¹ GoL is adopting a race-to-the-bottom strategy to attract FDI for economic and financial benefit.²² This led the government to not adequately enforce their regulations and eventually exacerbated the poor economic situations of the affected families after investment, as was the case in this study.

The transparency and accountability of the host government in managing the social investment fund provided by the MNCs is another influential driver. This caused considerable adverse impacts on the livelihoods of the affected families. As mentioned earlier, a budget of \$22 million had been reserved to improve affected people's livelihoods. However, livelihood restoration expenses were not made transparent to civil society or the affected families. Compared with the Nam Theun 2 case, RAP did not work as effectively with regards to financial management and livelihood restoration monitoring.²³ It is likely that government officials as well as the contractor took advantage of MNCs' social investment fund, according to key informants. Explicitly, neither the government nor the MNC's conducted financial auditing. Most of the key informants confirmed that there was no transparency regarding selection of the contractor to carry out the social investment program. Awarding the contract to implement the social investment fund could possibly have been made through social connections, rather than through cost-effectiveness, efficiency, and fair competition. So, the lack of government transparency in managing the social investment fund caused considerable adverse effects on the livelihoods of the affected families in the new villages.

²⁰ Richard Cronin and Timothy Hamlin, *Mekong Tipping Point: Hydropower Dams, Human Security and Regional Stability* (Washington DC: The Henry L. Stimson Center, 2010).

²¹ World Bank, "Lao PDR"

²² See Catherine Benson, "Conservation NGOs in Madang, Papua New Guinea: Understanding Community and Donor Expectations," *Society & Natural Resources* 25, no.1 (2011): 71-86; and Ozay Mehmet and Akbar Tavakoli, "Does Foreign Direct Investment Cause a Race to the Bottom? Evidence from Four Asian Countries," *Journal of the Asia Pacific Economy* 8, no. 2 (2003): 133-56.

²³ Duke Center for International Development, "Some Cross-Cutting Lessons," in *Doing a Dam Better: The Lao People's Democratic Republic and the Story of Nam Theun 2*, ed. Ian C. Porter and Jayasankar Shivakumar (Washington DC: World Bank, 2011).

Besides the transparency issue, the government was also not properly held accountable to the affected families regarding livelihood restoration as prescribed in the related regulations. The sub-decree on compensation and resettlement of the development project defines the rights of affected persons in relocation, livelihood development, local culture and traditional matters, grievance procedures, and budgetary consideration.²⁴ In addition, the national resettlement policy and guidelines indicate that resettlement should result in improved living conditions and standards.²⁵ Yet, the host government was likely not held accountable for the affected families' livelihoods in accordance with these regulations. In comparison, according to Souksavath and Nakayama (2012), the Nam Theun 2 Dam's resettlement project mostly complied with these regulations.²⁶ In this regard, the lack of accountability of GoL did to a certain degree impair the livelihoods of the affected families in the new villages.

5. Participation of Stakeholders

Stakeholders' participation in all processes (EIA, SIA, and RAP preparation) of hydropower project development significantly influenced affected families' livelihoods. However, some of the affected people were not aware of dam construction or the EIA and SIA studies, even prior to relocation, and local people had no chance to participate in the process.²⁷ In Lao PDR, the main constraint of affected communities' participation was the absence of popular political participation and representative government.²⁸ In the NN2 case, although affected families were invited to participate in SIA and RAP preparation, the affected families were not satisfied with the quality of the RAP. Key informants alleged that items proposed in the social mitigation plan, including RAP, were not fully complied with by the MNCs (NN2). As a result, the participation of the affected families was low; the NGOs who empowered local people's voices were not involved in all processes, including the SIA, EIA, and preparation of the social mitigation plan of NN2.²⁹

²⁴ Government of Lao, "Prime Minister Decree 192/2005 on the Compensation and Resettlement."

²⁵ Government of Lao, "Technical Guidelines on Compensation and Resettlement."

²⁶ Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers."

²⁷ Claudio O. Delang and Matthew Toro, "Hydropower-induced displacement."

²⁸ Richard Cronin and Timothy Hamlin, "Mekong Tipping Point."

²⁹ *Ibid.*, 28.

The lack of effective participation, including stakeholders and the affected families, worsened the livelihoods of affected families in the new villages. Projects such as the Nam Theun 2 Dam, which was co-funded by the World Bank and Asian Development Bank, involved civil society and local people in RAP, SIA, and EIA preparation, and local livelihoods benefited as a result.³⁰ Unfortunately, the NN2 project did not follow this precedent.

Conclusion

This paper discusses the impacts of MNCs' FDI on national economic development in Lao PDR. MNCs' FDI may contribute to national economic growth in general, but FDI's contribution to local livelihoods is debatable and remains particularly tenuous in the hydroelectric sector. Previous scholars have taken both optimistic and pessimistic views of the impact of hydropower FDI on livelihoods, but have not substantially analyzed the drivers behind such impacts.

This study empirically shows that in the case of the NN2 hydropower development plant, the contribution of MNCs' FDI to physical infrastructure development was significant. The project provided a number of higher-quality infrastructure items, facilities, and public services compared to the old villages. However, the contribution of this project to the livelihoods of the affected families was not borne out in the participatory wealth assessment, at least not in the relatively short period of time that has so far elapsed since relocation. Only 52.52 percent of the affected families were able to recover their livelihoods above the poverty line, while 43.58 percent of affected families were left below the poverty line. Though 52.52 percent of affected families' livelihoods were significantly improved, these families received minimal benefits from the project's social investment, although they did benefit from basic infrastructure services at the new villages. Moreover, their livelihoods were better because the majority of these families were engaged in small businesses or other activities such as employment (skilled workers, government officials, etc.)

³⁰ Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers"; Patchamuthu Illangovan, "TN2: Transformative Endeavor," in *Doing a Dam Better: The Lao People's Democratic Republic and the Story of Nam Theun 2*, ed. Ian C. Porter and Jayasankar Shivakumar (Washington, DC: World Bank, 2011).

in Vientiane or elsewhere before relocation to the new villages. Thus, the project brought them closer to their business partners and centers, which created further opportunities. This type of livelihood was made possible due to their self-resilience.

Unfortunately, 43.58 percent of local families remained below the poverty line. Several drivers influenced these families' situations, including weak self-resilience, the ineffectiveness of MNCs' social investment, the lack of government transparency and accountability, the lack of stakeholder participation, and geographical constraint. First, a majority of these families prefer livelihoods based on natural resources, specifically collecting NTFPs for daily food consumption and rice cultivation, rather than other off-farm activities. The new villages are located in urban areas without an abundance of natural resources. Moreover, resources are a subject of dispute between the host villages and resettlers (affected families). The provided half-hectare of farmland was located in non-arable areas characterized by high elevations and rocky outcrops. Though cash compensation was provided, the affected families spent the cash on modern household materials, such as TVs, DVD players, and fridges, which generated no return to long-term livelihood restoration. Low levels of self-resilience and education were harmful to these families. Second, MNCs' FDI in hydropower focused mainly on financial benefits. Social investment to mitigate adverse impacts was not a priority of the MNCs, and many affected families were left in vulnerable conditions. Third, the government did not care for affected families' livelihoods as implied in several regulations and guidelines. This was due to the host government's weak regulatory enforcement, lack of accountability to the affected families, and lack of transparency in managing social investments. Fourth, although the affected families were involved during public consultations, the majority of livelihood issues were not addressed by the MNCs' social investment. Furthermore, powerful civil society actors, such as advocacy and development NGOs, were not involved. In this instance, the voice of affected families was limited. Lastly, Lao PDR's geographical conditions constrained the relocation of affected families to places where paddy fields and arable land were not available, resulting in severe negative impacts on livelihoods. These driving forces together worsened the livelihoods of the affected families, especially the very poor, after relocation.

Above all, this study concludes that the MNCs' FDI in the NN2 hydropower project created a noticeable gap between the poor and the well-off.

This conclusion differs from that of Virtanen (2006), Souksavath and Maekawa (2012), and Souksavath and Nakayama (2012), who highlight the positive impacts of hydropower development projects in Lao PDR.³¹ The well-off families received fewer direct benefits from MNCs' social investment, but they gained improved access to social services and infrastructure. In addition, the well-off families availed themselves of the economic benefits of being relocated to a site closer to major urban areas. At least in the short term, the new village's physical infrastructure, including education and health facilities, roads, and access to markets, has not yet economically benefited poor families. This was due to several influential drivers as discussed in section 3.4. As a contribution to the aforementioned literature, this study affirms that the impacts of MNCs' FDI on affected families' livelihoods depends heavily on the ability of the affected families to adjust to their new living environments, the commitment of MNCs to livelihood restoration of the affected families, and the behavior of the host government. These findings are worth considering in future studies and policy debates surrounding MNCs' FDI in hydropower development and corporate social responsibility in developing countries.

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³¹ Maarite Virtanen, "Foreign direct investment and hydropower in Lao PDR"; Bounsouk Souksavath and Mikiyasu Nakayama, "Reconstruction of the livelihood of resettlers"; Bounsouk Souksavath, and Miko Maekawa, "The livelihood reconstruction of resettlers."

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