

# CREATING POVERTY IN LAOS: THE ASIAN DEVELOPMENT BANK AND INDUSTRIAL TREE PLANTATIONS

A World Rainforest Movement briefing paper  
By Chris Lang and Bruce Shoemaker<sup>1</sup>  
April 2006

**A**ccording to its own internal reports and a formal evaluation, the ADB's Industrial Tree Plantation Project in Laos was a disaster. It created and increased poverty and indebtedness. It replaced forests important to the livelihoods of local communities with eucalyptus plantations that then failed. Loan funds went missing and the Bank is investing allegations of corruption.



Village lands being cleared for Oji Paper's industrial tree plantations, Pakkading, Bolikhamsay province, March, 2006.

But in November 2005, even though they were already well aware of these failures, ADB staff recommended to their board that a new six-year Forest Plantations Development Project for Laos be approved. Only after that occurred, in December, did the ADB's Operations Evaluation Department (OED) release an evaluation of ADB lending to the Natural Resources Sector in Laos, which included a very critical section on the ADB's plantations project.<sup>2</sup> The very next month the Bank's board approved this new plantations project for Laos. Rather than helping to 'alleviate poverty' as Bank documents claim, this new project is set-up to repeat the mistakes of the first project. It will help facilitate and subsidise private foreign plantations companies in taking over even more forest land in Laos while further impoverishing local communities.

## Background: Forests and Rural Communities in Laos

Forests and common lands are a key component of the livelihood systems of rural Lao communities. Villagers supplement their rice and other agricultural production and fishery resources with a rich variety of forest resources. One observer describes how villagers

collect "resin, firewood, mushrooms, insects and frogs in the wet season and grasses for roofs," from "fairly heavily disturbed dry dipterocarp forests." It is often the poorest villagers, those with the least land, who are the most dependent on forests for their livelihoods.

<sup>1</sup> **Chris Lang** (chrislang@t-online.de) works with the World Rainforest Movement, researching and campaigning on the impacts of industrial tree plantations and the pulp and paper industry. He is based in Frankfurt, Germany.

**Bruce Shoemaker** (bshoe@bitstream.net) is an independent researcher based in Minneapolis, USA, who has worked in Laos for more than eight years and studied development issues there since 1989.

<sup>2</sup> "Sector Assistance Program Evaluation for the Agriculture and Natural Resources Sector in the Lao People's Democratic Republic", SAP: LAO 2005-17, Operations Evaluation Department Asian Development Bank, December 2005. <http://www.adb.org/Documents/Reports/SAPE/LAO/2005-17-LAO-SAP.pdf>

Many villagers also use common lands to graze cattle, another key source of income and food security.

Throughout its involvement in promoting industrial plantations in Laos, the ADB has consistently downplayed or ignored the importance of forests and common lands to rural Lao communities. Its entire plantations initiative has been formulated on a false premise – that there are large areas of unused or underused ‘degraded’ forests in Laos of little or no current value to local communities and that replacing these ‘degraded’ forests with industrial plantations would be an improvement. As recently as November 2003, Grant Curtis, an NGO Specialist at the ADB, stated that “The plantations contribute to enhancement of the environmental landscape through reforestation of degraded forestlands and making more productive use of marginal agricultural soils.”<sup>3</sup>



05-50346 HR

## The Failure of the ADB's First Plantation Project in Laos

The ADB's Industrial Tree Plantations Project started in 1993 and was completed in 2003. According to the ADB's Project Completion Report, the US\$11.2 million project was “unsuccessful” and the ADB's performance in the project was “unsatisfactory”.<sup>4</sup> Among its many failings:

**Increased Poverty:** The OED's December 2005 report concludes that the project “failed to improve the socioeconomic conditions of intended beneficiaries, as people were driven further into poverty by having to repay loans that financed failed plantations.”<sup>5</sup>

As part of the project, the Lao state-run Agricultural Promotion Bank handed out a total of US\$7 million in loans to farmers, individuals and companies to set up plantations. Many of these plantations failed. “Plantations (comprising *Eucalyptus camaldulensis*) established and managed by the majority of farmers and individuals were unproductive or had low yields,” states the OED's evaluation report. “Thousands of inexperienced farmers and individuals were misled by prospects of unattainable gains, leaving the majority of farmers with onerous debts, with no prospect of repaying their loans, and with failing plantations.” Repayments on more than 82 per cent of the loans are overdue by more than one year.<sup>6</sup>

<sup>3</sup> E-mail from Grant Curtis, ADB, to Chris Lang, 14 November 2003.

<sup>4</sup> Project Completion Report, “LAO: Industrial Tree Plantation Project”, Project Number: 20067, Loan Number: 1295, Asian Development Bank, November 2005. [www.adb.org/Documents/PCRs/LAO/20067-LAO-PCR.pdf](http://www.adb.org/Documents/PCRs/LAO/20067-LAO-PCR.pdf)

<sup>5</sup> OED, “Sector Assistance Program Evaluation”, page 37.

<sup>6</sup> OED, “Sector Assistance Program Evaluation”, pages 36-37.

**Corruption:** The Bank's Project Completion Report uses the word "fraud" to describe how the Agricultural Promotion Bank misreported the areas planted.<sup>7</sup> The OED found enough evidence of corruption to report the allegations to the Integrity Division of the Office of the Auditor General of the ADB. "There were allegations of ghost borrowers, misuse of credit funds, inflated development costs, and overdisbursements of loan funds," states the OED's report.<sup>8</sup>

**Weak Monitoring:** Bank missions included few trips outside Vientiane. Between 1996 and 2003 there was no forestry specialist on any of the Bank's project review missions. Between July 2000 and February 2002 there were no ADB review missions at all.<sup>9</sup>

**Poor Environmental Practices:** "Plantation establishment has not always been consistent with environmental care," according to a project preparation document for the Bank's new project. The October 2003 report, produced by consultants MIDAS, SCC Natura, CIRAD and Champa Lao, lists many problems, including the conversion of "healthy forest" into tree plantations; the failure to retain protection strips of forest around streams, lakes, ponds and rice paddies; harvesting or removal of nesting- or fruit bearing trees of value to fauna; and the destruction of trees or plants of significance for non-timber products use by villagers.<sup>10</sup>

**Loss of Access to Land:** Lands traditionally used by villagers for their basic livelihood activities were defined by the project as 'degraded'. This laid the foundation for their transformation into plantations. The ADB's own reports and evaluations make clear that there has been an ongoing fundamental difference in

perception of how land is used and valued between outsiders (the ADB project staff and central government officials) versus local villagers. According to a project preparation report for the new plantations project, "Most villages expressed the opinion that they have no degraded forest land." The report adds, "Most farmers use forest land for harvesting logs and bamboo, collecting fire wood and non-timber forest products. Together with rice production and livestock breeding this use of forest is one of the three important main sources of income."<sup>11</sup>

The OED's December 2005 report confirms the concern that much of the land that the Bank's experts consider "degraded" is in fact in use by farmers: "in many cases, such lands were reported by farmers to be areas traditionally used for shifting cultivation."<sup>12</sup>

## **The ADB's New Plantations Project in Laos: Repeating the Same Mistakes?**

In January, 2006, only one month after releasing the OED evaluation of the previous project, the ADB approved a new Forest Plantations Development Project for Laos. The Bank will give a US\$7 million loan and a US\$3 million grant<sup>13</sup> towards the total project costs of US\$ \$15.35 million.<sup>14</sup> The project will set up a Lao Plantations Authority and establish about 9,500 hectares of "small livelihood plantations".

That the ADB approved a new plantations sector loan and grant to Laos immediately after the release of such a critical report, and while investigations of corruption in the first project are ongoing, stunned many observers inside and outside of Laos. In promoting this new loan,

<sup>7</sup> Project Completion Report, Appendix 9, page 40.

<sup>8</sup> OED, "Sector Assistance Program Evaluation", page 37.

<sup>9</sup> OED, "Sector Assistance Program Evaluation", page 37.

<sup>10</sup> "Tree Plantation for Livelihood Improvement Project: Final Report" TA No. 3794-LAO, MIDAS Agronomics, Champa Lao Consulting, Scandiaconsult Natura, CIRAD Foret, October 2003, page 45.

Tree Plantation for Livelihood Improvement Project was the name of the project during planning stages. Some time during 2005, the name was changed to Forest Plantations Development Project.

<sup>11</sup> "Tree Plantation for Livelihood Improvement Project: Final Report", pages 42-43.

<sup>12</sup> OED, "Sector Assistance Program Evaluation", page 36.

<sup>13</sup> "ADB to Support Forest Plantations Development in Lao PDR", Asian Development Bank press release, 7 February 2006. [http://www.adb.org/Media/Articles/2006/9270\\_Lao\\_PDR\\_forest\\_plantations/default.asp](http://www.adb.org/Media/Articles/2006/9270_Lao_PDR_forest_plantations/default.asp)

<sup>14</sup> "Report and Recommendation of the President to the Board of Directors, Proposed Loan and Asian Development Fund Grant Lao People's Democratic Republic: Forest Plantations Development Project", Project Number: 31344, Asian Development Bank, November 2005, page 13.

<http://www.adb.org/Documents/RRPs/LAO/31344-LAO-RRP.pdf>

the ADB appears to have completely ignored the conclusions of its own evaluation of the first project. The ADB's Principal Project Economist, Akmal Siddiq, maintains that the new project is about poverty alleviation. "The development of livelihood plantations is an effective way to reduce poverty," he said in a press release announcing the project.<sup>15</sup> However, this new project is set to repeat the same mistakes as the first.

**Ignoring the Villagers:** Of greatest concern is the ADB's continued failure to acknowledge the reality of current land use in the country. The fact that villagers do not recognise their forests as "degraded" has not filtered through to the ADB's headquarters in Manila. Under the new project, according to a Bank project report, "Plantations will be established on degraded forestlands that have little or no alternative economic value."<sup>16</sup>

The "small livelihood plantations" part of the project is set to repeat at least some of the mistakes of the Industrial Tree Plantations Project – providing villagers with tree plantations they don't want. The Bank is already well aware of this: During project preparation, ADB's consultants carried out a rapid rural appraisal in six of the villages where the Bank plans to establish fast growing tree plantations. The ADB's consultants reported that "discussions with farmers (women and men) in the 6 villages revealed that their priorities in livelihood improvement do not include tree plantations of the kind offered by the proposed project."<sup>17</sup> Another project preparation report refers to an earlier ADB "Participatory Poverty Assessment" conducted in 2001 in Laos. "The message from the villagers," states the report, "to the PPA study team was: 'Please, start the development process by building upon what we already know - swidden fields, livestock and forest.'"<sup>18</sup>

**Listening to Corporations:** While the ADB is ignoring the voices of Lao villagers, it is being very responsive to the needs of the international pulp and plantations industry. The purpose of the Lao Plantation Authority is to attract multinational corporations to invest in the pulp, paper and plantations sector in Laos. Akmal Siddiq, ADB's Principal Project Economist, describes the Lao Plantation Authority as "a one-stop window for private investment in plantations". The Bank views Laos as the pulp producer for the region, and would like to see 500,000 hectares of industrial tree plantations in Laos by 2015.<sup>19</sup>

In August 2004, during the preparation of the new project, the ADB supported a Private Sector Consultation Workshop in Vientiane. The aim of the workshop was "to present the investment opportunities to multinational pulp and paper companies".

Oji Paper was among the corporations present at the workshop. An ADB project report comments that "Oji Paper Company Ltd of Japan, introduced to such opportunities in Lao PDR for the first time, was so convinced that it acquired BGA Plantation Company Ltd within months."<sup>20</sup> Oji Paper took over BGA's 154,000 hectares concession. One-third of the area is to be planted with industrial tree plantations.

In March 2006, the Indian Aditya Birla Group announced that it will invest US\$350 million in industrial tree plantations and a 200,000 tons-a-year dissolving pulp mill in Laos. The Lao government has leased 50,000 hectares to the Group for 75 years. The pulp mill is planned to be built seven years after the first eucalyptus trees are planted. The pulp will be exported to Aditya Birla's rayon fibre manufacturing operations in Thailand, India, and Indonesia.<sup>21</sup>

<sup>15</sup> "ADB to Support Forest Plantations", ADB PR, February 2006.

<sup>16</sup> "Report and Recommendation of the President", page 8.

<sup>17</sup> "Livelihood Conditions Report", Eva Lindskog and Chansamone Phengkay, Appendix I, page 143 in "Tree Plantation for Livelihood Improvement Project: Appendices - Final Report Volume I".

<sup>18</sup> "Gender, Social, Ethnic Development Plans", Annex 2 in "Tree Plantation for Livelihood Improvement Project: Appendices - Final Report Volume I".

<sup>19</sup> Siddiq made these comments during the Forest Plantations Sector Project Private Sector Consultation Workshop, which took place on 30 August 2004, Vientiane, Lao PDR.

<sup>20</sup> "Report and Recommendation of the President", Appendix 1, Chronology of Project Processing, page 21.

<sup>21</sup> The Aditya Birla Group to invest US\$ 350 million for plantations and pulp plant in Laos", Aditya Birla Group press release 17 March 2006. [www.grasim.com/media/press\\_releases/200603mar/abg\\_invest.htm](http://www.grasim.com/media/press_releases/200603mar/abg_invest.htm)



## **The impacts of industrial tree plantations are being increasingly felt by rural communities. Eyewitness reports describe some of these impacts.<sup>22</sup>**

“It is now patently obvious driving along Route 13, that what was healthy lowland forest just five to ten years ago is now being converted into eucalyptus plantations, including former flooded forest in the Nam Hinboun and Nam Pakan floodplains,” writes an observer.

Oji Paper is clearing large areas of forest in areas close to the ADB-funded Theun Hinboun dam, between Route 13 and the Hinboun River. “It is a real disaster there,” comments another observer. “Many people, who have already suffered from catching less fish in the Hinboun River from the dam problem, are now getting the double problem with plantations. The company is getting all kind of forest now. The [Lao government’s] Land and Forest Allocation process has completely failed in this aspect, because the process cannot keep or give forest to people, but is helping companies to clear forest and help them to grab all the land from the people. People simply have no space to breathe right now. ADB is really shameless to claim that they are helping the poor and the forest.”

The ADB and the Lao government claim that the plantations are only being planted on degraded forest. But, “degraded forest is often another word for healthy, recovering forest with wide utility value to villagers and biodiverse in flora and fauna,” a writer points out.

“People conclude that the plantations are not for their benefit, but are for the benefit of business,” notes an observer. “Villagers have lost their land. Eucalyptus plantations are supposed to be reforestation and are supposed to be planted in degraded forests. But villagers say that eucalyptus plantations are very different to forest.”

## **Conclusion**

The ADB’s approval of this new plantations project in Laos demonstrates its continued failure to acknowledge the importance of forests and common lands to rural communities in Laos and its unwillingness to listen to the voices of those they are supposedly assisting. Using the rhetoric of ‘poverty alleviation’ the ADB is in reality providing subsidies to the international pulp and paper industry. The result will be the further impoverishment and marginalisation of local communities impacted by these plantation projects. The ADB should take three steps to respond to these concerns and avoid creating even more poverty in Laos:

1. Conduct a comprehensive independent audit of the first project (The ADB has so far resisted this despite the serious allegations of corruption raised by its own consultants).
2. Immediately suspend its new Forest Plantations Development Project in Laos and arrange for a truly independent assessment of its entire plantations strategy. Such an assessment is unlikely to conclude that further support to the plantations sector in Laos is an appropriate strategy for either alleviating poverty or preserving the environment.
3. Provide reparations for those Lao families and communities indebted and impoverished from the ADB’s past support for industrial tree plantations in Laos.

<sup>22</sup> These reports are anonymous to protect the identity of those who wrote them.