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Report No: PAD1368

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT  
IN THE AMOUNT OF SDR 8.3 MILLION  
(USD 11.6 MILLION EQUIVALENT)  
AND RESTRUCTURING

AND A

PROPOSED ADDITIONAL GRANT FROM THE MULTI-DONOR TRUST FUND  
IN THE AMOUNT OF USD 2.4 MILLION

TO THE  
LAO PEOPLE'S DEMOCRATIC REPUBLIC  
FOR A

POVERTY REDUCTION FUND PROJECT II  
(PRFII)

June 2, 2015

*Urban, Rural and Social Development Global Practice  
East Asia and Pacific Region*

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**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective April 30, 2015)

Currency Unit	=	Lao KIP (LAK)
1 LAK	=	US\$0.000123
US\$ 1	=	LAK 8,077
SDR 1	=	US\$1.40642

**FISCAL YEAR**  
October 1 – September 30

**ABBREVIATIONS AND ACRONYMS**

AF	Additional Financing	LONG	Livelihood Opportunities for Nutrition Gains
CDD	Community Driven Development	MDTF	Multi-Donor Trust Fund
CLTS	Community-Led Total Sanitation	MoH	Ministry of Health
CPS	Country Partnership Strategy	MPI	Ministry of Planning and Investment
CRPF	Compensation and Resettlement Policy Framework	MTR	Mid-Term Review
DFAT	Department of Foreign Affairs and Trade (Government of Australia)	NCCR	Swiss National Center of Competence in Research
DO	Development Objective	NSEDP	National Socio-Economic Development Plan
EA	Environmental Assessment	NUDP	Northern Upland Development Plan
EGPF	Ethnic Group Policy Framework	O&M	Operation and Maintenance
ESMF	Environment and Social Management Framework	ODF	Open Defecation Free
GNI	Gross National Income	PDO	Project Development Objective
GoL	Government of Laos	PPM	Participatory Planning Manual
GRS	Grievance Redress Service	PRFII	Poverty Reduction Fund II Project
IEC	Information, Education, and Communication	QAS	Quality Assurance System
IDA	International Development Association	RETF	Recipient Executed Trust Fund
IFPRI	International Food Policy Research Institute	RF	Results Framework
ILO	International Labor Organization	SDC	Swiss Agency for Development Cooperation
IP	Implementation Progress	SHG	Self-Help Groups
JSDF	Japan Social Development Fund	VIT	Village Implementation Team
KDP	Kumban Development Plans	VNC	Village Nutrition Center
Lao PDR	Lao People's Democratic Republic		
LDC	Least Developed Country		

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**LAO PEOPLE’S DEMOCRATIC REPUBLIC**  
**POVERTY REDUCTION FUND PROJECT II (PFR II)**

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Project Paper

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# ADDITIONAL FINANCING DATA SHEET

*Lao People's Democratic Republic*

*LA-Poverty Reduction Fund II - AF ( P153401 )*

*EAST ASIA AND PACIFIC*

*GSURR*

Basic Information – Parent									
Parent Project ID:		P123480		Original EA Category: B - Partial Assessment					
Current Closing Date:		31-Dec-2016							
Basic Information – Additional Financing (AF)									
Project ID:		P153401		Additional Financing Type (from AUS): Scale Up					
Regional Vice President:		Axel van Trotsenburg		Proposed EA Category:					
Country Director:		Ulrich Zachau		Expected Effectiveness Date: 01-Sep-2015					
Senior Global Practice Director:		Ede Jorge Ijjasz-Vasquez		Expected Closing Date: 31-Dec-2016					
Practice Manager/Manager:		Jan Weetjens		Report No: PAD1368					
Team Leader(s):		Satoshi Ishihara							
Borrower									
Organization Name		Contact		Title		Telephone		Email	
Lao People's Democratic Republic		Mr. Angkhansada Mouangkham		Deputy Director General		+856-20-55694219		angkhansada@yahoo.com	
Project Financing Data - Parent ( LA-Poverty Reduction Fund II-P123480 ) (in USD Million)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval	Signing Date	Effectiveness	Original	Revised		

			Date		Date	Closing Date	Closing Date		
P123480	IDA-H6850	Effective	09-Jun-2011	14-Jul-2011	11-Oct-2011	31-Dec-2016	31-Dec-2016		
P123480	TF-12419	Effective	22-Jan-2013	22-Jan-2013	22-Jan-2013	31-Dec-2016	31-Dec-2016		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P123480	IDA-H6850	Effective	USD	25.00	25.00	0.00	22.08	1.72	88.33
P123480	TF-12419	Effective	USD	14.50	14.50	0.00	9.38	5.12	64.69
<b>Project Financing Data - Additional Financing LA-Poverty Reduction Fund II - AF ( P153401 )(in USD Million)</b>									
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant <input type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Guarantee <input type="checkbox"/> Other									
Total Project Cost:		14.00		Total Bank Financing:		11.60			
Financing Gap:		2.40							
<b>Financing Source – Additional Financing (AF)</b>								<b>Amount</b>	
BORROWER/RECIPIENT								0.00	
International Development Association (IDA)								11.60	
Lao PDR - Free-standing Trust Fund Program								2.40	
Total								14.00	
<b>Policy Waivers</b>									
Does the project depart from the CAS in content or in other significant respects?							No		

Explanation				
Does the project require any policy waiver(s)?				No
Explanation				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Satoshi Ishihara	Team Leader (ADM Responsible)	Senior Social Development Specialist		GSURR
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Jan Weetjens	Program Manager	Lead Social Development Specialist		GSURR
Manush A. Hristov	Counsel	Senior Counsel		LEGES
Miki Terasawa	Team Member	Social Development Specialist		GSURR
Peter Leonard	Safeguards Advisor	Regional Safeguards Adviser		OPSOR
Peter William Crawford	Safeguards Specialist	Environmental Specialist		GENDR
Sybounheung Phandanouvong	Safeguards Specialist	Senior Social Development Specialist		GSURR
<b>Extended Team</b>				
<b>Name</b>	<b>Title</b>		<b>Location</b>	

Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Lao People's Democratic Republic		Khoueng Xiangkhoang		X	
Lao People's Democratic Republic		Khoueng Savannakhet		X	
Lao People's Democratic Republic		Khoueng Salavan		X	
Lao People's Democratic Republic		Khoueng Phongsali		X	
Lao People's Democratic Republic		Khoueng Oudomxai		X	
Lao People's Democratic Republic		Khoueng Luang Prabang		X	
Lao People's Democratic Republic		Khoueng Louangnamtha		X	
Lao People's Democratic Republic		Khoueng Houaphan		X	
Lao People's Democratic Republic		Khoueng Attapu		X	
Lao People's Democratic Republic		Khoueng Xekong		X	

Institutional Data					
Parent ( LA-Poverty Reduction Fund II-P123480 )					
Practice Area (Lead)					
Social, Urban, Rural and Resilience Global Practice					
Contributing Practice Areas					
Cross Cutting Topics					
[ ] Climate Change					
[ ] Fragile, Conflict & Violence					
[ ] Gender					
[ ] Jobs					
[ ] Public Private Partnership					
Sectors / Climate Change					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation benefits %	Co-
Health and other social services	Other social services	50			
Public Administration, Law, and Justice	Public administration- Other social services	50			
Total		100			
Themes					
Theme (Maximum 5 and total % must equal 100)					
Major theme	Theme	%			
Rural development	Rural services and infrastructure	50			
Social dev/gender/inclusion	Participation and civic engagement	50			



Total		100		
<b>Additional Financing LA-Poverty Reduction Fund II - AF ( P153401 )</b>				
<b>Practice Area (Lead)</b>				
Social, Urban, Rural and Resilience Global Practice				
<b>Contributing Practice Areas</b>				
Education, Health, Nutrition & Population, Transport & ICT, Water				
<b>Cross Cutting Topics</b>				
[ ] Climate Change				
[ ] Fragile, Conflict & Violence				
[X] Gender				
[ ] Jobs				
[ ] Public Private Partnership				
<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration- Other social services	50		
Health and other social services	Other social services	50		
Total		100		
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		

Rural development	Rural services and infrastructure	50
Social dev/gender/inclusion	Other social development	50
Total		100
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>		
Consultants Required		

## **I. Introduction**

1. The approval of the Executive Directors is being sought for an additional IDA credit in the amount of SDR 8.3 million (US\$11.6 million equivalent) to the Lao People's Democratic Republic for scaling up the Poverty Reduction Fund II Project (PRF II, P123480). The Project Paper also seeks the approval of the Executive Directors to revise the Project Development Objective (PDO) of PRF II as follows: "help improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities". The PDO would be achieved through inclusive community and local development processes with emphasis on ensuring sustainability. The approval from the Regional Vice-President is also being sought for additional co-financing of US\$ 2.4 million from the Bank-administered Multi-Donor Trust Fund (MDTF), which is integral to the project.
2. The proposed additional financing (AF) would finance about 200 additional infrastructure sub-projects; continue to implement the livelihood and nutrition pilot in selected villages; and support community engagement and facilitation under the Government of Lao PDR (GoL)'s Open Defecation Free (ODF) program on a pilot basis. As part of proposed changes, the PRF II Results Framework (RF) has been updated based on the implementation experience and project indicators have also been modified to reflect changes in target values.
3. The Swiss Agency for Development Cooperation (SDC) has also expressed a commitment to provide US\$4 million of independent complementary financing to this AF in support of additional community subprojects.

## **II. Background and Rationale for Additional Financing**

4. **Strategic context.** Poverty remains high in Lao PDR despite an eight percent annual economic growth over the past several years, with a current Gross National Income (GNI) per capita (Atlas method) at US\$ 1,600 in 2014. The incidence of poverty is highest in the southeast and the central mountainous areas (along the border with Vietnam) as well as northern midlands and highlands.<sup>1</sup> There also is an increasing gap in poverty levels between urban and rural areas: the poverty level is 10 percent in urban areas, while it is 28.6 percent in rural areas. Ethnic groups and women are particularly vulnerable: 15 percent of Lao-Tai people are poor, while the poverty rates for Mon-Khmer people and Hmong people are 42.3 percent and 39.8 percent, respectively. Less than 60 percent of women in poor households can read and write, compared to over 80 percent for men. About two thirds of Mon-Khmer and Hmong ethnic groups lack formal education.

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<sup>1</sup> The 5 provinces with highest incidence of poverty are Sekong (47 percent), Attapeu (45 percent), and Savannakhet (44 percent) in the southeast, and Oudomxay (46 percent) and Huaphanh (41 percent) in the north. Epprecht, M., Minot, N., Dewina, R., Messerli, P., Heinemann, A., "The Geography of Poverty and Inequality in Lao PDR", Swiss National Center of Competence in Research (NCCR) and International Food Policy Research Institute (IFPRI), 2008

5. Access to and utilization of infrastructure and services are limited for many rural poor. Although about 80 percent of all villages have road access, 55 percent of villages in mountainous areas do not have year-round access. The net primary school enrollment of 85 percent in all villages drops to 79 percent and 82 percent respectively for girls and boys in villages without road access. Travel time to reach a nearest health dispensary is at least two-hours on foot for about 30 percent of rural villages. Among households below the poverty line, access to improved toilets and electricity is 43 percent and 59 percent respectively, compared to 85 percent and 91 percent among households whose consumption level is twice higher than the poverty line. Stunting among children is more pronounced in rural areas due to food and nutrition insecurity, among other issues, and in particular among ethnic groups in remote mountainous areas.

6. The draft 8<sup>th</sup> National Socio-Economic Development Plan (NSED) maintains the graduation from the Least Developed Country (LDC) status by 2020 as the overall policy goal, and sets out addressing rural – urban inequality as one of the key objectives. It recognizes that tailored interventions are necessary to improve access to infrastructure for the poorest groups, and puts forward various measures to lift them out of poverty, including the construction of basic education infrastructure, rural access roads and improvement in access to safe water. It also recognizes that poverty reduction must be tailored to ethnic people's specific needs and capabilities, and address gender issues among various ethnic groups.

7. **Original Project.** The Board of Executive Directors approved an IDA Grant of SDR15.8 million (equivalent to US\$25 million) for PRF II on June 9, 2011<sup>2</sup>. The Project Development Objective (PDO) is *to improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities in a sustainable manner through inclusive community and local development processes*. The original project is financed by an IDA Grant of SDR 15.8 million (US\$25 million equivalent) with co-financing from an MDTF Grant with an original expected commitment amount of US\$ 12 million according to the original PAD. The Department of Foreign Affairs and Trade (DFAT) of Australia is the sole financier of the MDTF. The MDTF Grant Agreement was eventually signed for a higher committed amount of US\$14.5 million as joint co-financing to the PRFII through a Recipient Executed Trust Fund (RETF). The Government of Lao committed US\$10 million counterpart financing to the Project. In addition, the Swiss Agency for Development Cooperation (SDC) committed an original amount of US\$ 10 million for complementary activities coordinated with the PRFII project, which was increased to approximately US\$13.6 million.

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<sup>2</sup> PRF II was prepared as a follow-on operation of the preceding PRF I, which was implemented by the PRF and closed on September 30, 2011. PRF I assisted the GoL's on-going efforts to alleviate poverty through financing community infrastructure activities, building local capacity and strengthening local institutions for participatory decision processes. The project implemented more than 3,000 subprojects in about 1,500 villages and provided direct benefits to more than 650,000 villagers. The total project cost was \$42 million including complementary financing from SDC.

8. PRF II covers 42 poor districts in ten provinces: Houaphan, Xiangkhoang, Luangnamtha, Luang Prabang, Oudomxai, Phonsali, Savannakhet, Xekong, Attapu and Salavan. It has financed about 1,000 sub-projects (including the construction of small scale water supply systems, additional classrooms and dispensaries, and the spot improvement of rural roads) and has benefited more than 450,000 rural poor in about 850 villages. Benefits include increases of: 37 percent in use of health services; 76 percent in access to safe water resources; and 30 percent in access to all weather roads in target villages. About half the direct beneficiaries are women, and ethnic groups account for 72 percent of direct beneficiaries. The quality of participation of women and ethnic groups improved significantly since the Mid-Term Review (MTR) in February 2014, by deepening community driven development (CDD) approach (detailed in Annex 2). Additional female facilitators, mostly from ethnic groups, were hired in each kumban<sup>3</sup>; additional village meetings were held in all distant settlements; and many information, education, and communication (IEC) materials developed. Sub-projects completed over two years ago are being used and maintained reasonably well, and beneficiary satisfaction levels are high at about 80 percent.

9. The Project had been rated Moderately Satisfactory (MS) since June, 2014, and then upgraded to Satisfactory (S) in January, 2015, on both IP and DO. It is expected that the Project will fully meet the objective. Disbursement of the IDA Grant currently stands at 88 percent, while that of DFAT is about 65 percent<sup>4</sup>. The Project is fully compliant with legal covenants as well as Bank fiduciary and safeguards requirements. There are no overdue audits and there are no qualifications to the audit reports.

10. The contribution of PRFII goes beyond directly financing the improvement of tertiary infrastructure. The Ministry of Planning and Investment (MPI) developed a Participatory Planning Manual (PPM), in collaboration with the PRF, based on the PRF bottom-up planning processes, which is being used for their Northern Upland Development Plan (NUDP).

11. The Kumban Development Plans (KDP), developed based on the priorities identified by villages that constitute the respective kumban, are increasingly recognized by GoL agencies and development partners as useful resources that include many high priority investments; at least one priority investment has been implemented by a financier other than the original project for 33 percent of the KDP (as of November 2014). Also, the PRF is increasingly recognized by GoL, development partners, and the private sector as a useful platform to deliver last mile services cost effectively. The PRF agreed to provide facilitation services to the National Center for Environmental Health (Nam Saat) under the Ministry of Health (MoH) for their Open Defecation Free (ODF) program, which would allow the Nam Saat to deliver ODF services at more than 50 percent lower cost.<sup>5</sup> A rural employment program supported by the International

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<sup>3</sup> The Kumban is a cluster of neighboring villages, and has its own chief appointed by the district government

<sup>4</sup> The disbursement of MDTF was delayed because of delay in its approval. The co-financing ratio between the IDA and MDTF contributions was adjusted in December, 2014 to accelerate the disbursement of MDTF.

<sup>5</sup> See the economic appraisal section.

Labor Organization (ILO) is also using PRF staff for community mobilization. The PRF platform is also used to implement the JSDF-financed *Mobilizing Ethnic Communities for Improved Livelihoods and Wellbeing* pilot.<sup>6</sup>

12. **The Rationale for Additional Financing.** GoL requested the Bank to provide additional financing to scale up the positive outcomes of the Project by financing additional sub-projects using the PRF developed bottom-up planning processes. It would cover the cost of implementing the final cycle of sub-projects (Cycle XIII) in seven provinces where the PRF would have to close its offices or significantly scale back its implementation capacity following the completion of the current cycle. The proposed AF would help the PRF maintain its well established implementation capacity in all PRF provinces and provide bridge financing for a seamless transition to the potential PRF III. Such financing would allow further improving the access to infrastructure and services among rural poor in ways that are tailored to the needs of ethnic groups and women, and help the GoL achieve the objective of the draft 8<sup>th</sup> NSEDP. The closing date of December 31, 2016 would remain unchanged.

13. The proposed AF would contribute to the World Bank Group's Lao PDR Country Partnership Strategy (CPS) for FY 12 – 16<sup>7</sup>. Specifically, the proposed AF would support Outcome 3.3 *Improved access to basic services and markets and community participation in rural areas* under the Strategic Objective 3 *Inclusive Development*. The CPS includes additional IDA support for PRF in FY 16/17.

### III. Proposed Changes.

Summary of Proposed Changes	
The proposed changes would include: clarifying PDO and adjusting RF; financing about 200 additional sub-projects; adding a new component to take over the JSDF-financed livelihood and nutrition pilot in selected villages; supporting community engagement and facilitation under GoL's Open Defecation Free (ODF) program on a pilot basis; adding non-consulting services as an eligible expenditure under the IDA financing to align it with the definition of eligible expenditures under the MDTF financing; re-adjusting the relative joint co-financing disbursement percentages between the IDA and MDTF financing to reflect the additional financing; triggering three additional safeguards policies (Natural Habitats, Safety of Dams, and Projects on International Waterways); and financing food expenditures.	
Change in Implementing Agency	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Project's Development Objectives	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]

<sup>6</sup> This JSDF pilot is also informally called "Livelihood Opportunities for Nutrition Gains (LONG)" pilot.

<sup>7</sup> The World Bank Group's Country Partnership Strategy FY12-16 (Report # 66692-LA) discussed by the Executive Directors on March 8, 2012 and the Country Partnership Strategy Progress Report (Report # 90281-LA) of September 16, 2014.

Change in Results Framework	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change in Safeguard Policies Triggered	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change of EA category	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Other Changes to Safeguards	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Legal Covenants	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Loan Closing Date(s)	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Cancellations Proposed	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Disbursement Arrangements	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Reallocation between Disbursement Categories	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Disbursement Estimates	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change to Components and Cost	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change in Institutional Arrangements	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Financial Management	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Procurement	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Implementation Schedule	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Other Change(s)	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
<b>Development Objective/Results</b>	
<b>Project's Development Objectives</b>	
<p>Original PDO</p> <p>The Project Development Objective is to improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities in a sustainable manner through inclusive community and local development processes.</p>	
<b>Change in Project's Development Objectives</b>	
<p>Explanation:</p> <p>It is proposed to clarify and simplify the PDO to focus on outcomes.</p>	
Proposed New PDO - Additional Financing (AF)	

Help improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities. The PDO would be achieved through inclusive community and local development processes with emphasis on ensuring sustainability.

### **Change in Results Framework**

#### **Explanation:**

It is proposed to refine some of the indicators, based on: additional information from the 2012 baseline survey; changes over the course of the last three years of implementation; and changes in target values to accommodate the additional financing. A supplemental PDO indicator on school enrollment was dropped, as it was deemed more appropriate to measure school facility improvements. The outcome is measured by level of satisfaction and #/type of sub-project implemented (see Annex 1). As regards to core sector indicators, while these are maintained, some cleaning up was carried out on supplemental indicators. RF has three new intermediate results indicators to measure progress in livelihood, nutrition, and health and sanitation activities. See Annex 1 for details. The Financing Agreement would also be amended to provide that the updated RF will be incorporated in the updated Project Operational Manual.

### **Compliance**

#### **Change in Safeguard Policies Triggered**

#### **Explanation:**

OP 4.04 Natural Habitats is triggered because some beneficiary communities may be within a known reserved forest or an established protected area. The ESMF provides for the screening of potential project impacts and how safeguard issues under 4.04 should be addressed during project implementation.

OP 4.37 Safety of Dams is triggered because the AF may finance the construction of small weirs that meet the definition of dams in the policy. The weirs to be built are classified as "small dams" as defined in the policy, which normally requires generic dam safety measures designed by qualified engineers. The ESMF was updated to describe standard procedures the PRF undertakes to address the safety of weirs in line with the policy.

OP 7.50 Projects on International Waterways is triggered because sub-projects involving gravity-fed water systems or small irrigation schemes may take water from rivers that are direct or indirect tributaries of the Mekong, an international waterway. At the request of the GoL, the Bank notified riparian countries/agencies (China, Myanmar, Thailand, Cambodia, Vietnam and the Mekong River Commission) prior to appraisal. No responses have been received from the riparian countries, and in the Bank's assessment the small-scale sub-project investments under the Project are unlikely to cause any adverse effects to flow, quantity and quality of the Mekong River's waters or its tributaries.

<b>Current and Proposed Safeguard Policies Triggered:</b>	<b>Current (from Parent ISDS)</b>	<b>Proposed (from Additional Financing ISDS)</b>
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	Yes



Forests (OP) (BP 4.36)	No	No				
Pest Management (OP 4.09)	Yes	Yes				
Physical Cultural Resources (OP) (BP 4.11)	No	No				
Indigenous Peoples (OP) (BP 4.10)	Yes	Yes				
Involuntary Resettlement (OP) (BP 4.12)	Yes	Yes				
Safety of Dams (OP) (BP 4.37)	No	Yes				
Projects on International Waterways (OP) (BP 7.50)	No	Yes				
Projects in Disputed Areas (OP) (BP 7.60)	No	No				
Covenants - Additional Financing ( LA-Poverty Reduction Fund II - AF - P153401 )						
Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDA	Section I, Schedule 1 to the IDA & MDTF Project Agreements	Obligation of the Recipient to make available to PRF the proceeds of the IDA and MDTF financing under a Subsidiary Grant Agreement on terms and conditions acceptable to the IDA		<input checked="" type="checkbox"/>		
IDA	Section I, Schedule 2 (IDA FA & MDTF GA), Section I, Schedule 1 (IDA & MDTF PA)	Obligation of the Recipient/PRF to ensure that the Project is carried out in accordance with the Project Operational Manual.		<input checked="" type="checkbox"/>		

IDA	Section I, Schedule 2 (IDA FA, MDTF GA), Section I, Schedule 1 (IDA & MDTF PA)	Obligation of the Recipient/PRF to ensure that the Project is carried out in accordance with the ESMF and all safeguard provisions of the legal agreement, including the preparation and implementation of all site-specific safeguard assessments and plans required under the ESMF		<input checked="" type="checkbox"/>		
IDA	Section I, Schedule 2 to the IDA FA & MDTF GA	Obligation of the Recipient to make available to PRF the proceeds of the IDA and MDTF financing under a Subsidiary Grant Agreement on terms and conditions acceptable to the IDA		<input checked="" type="checkbox"/>		
Conditions						
Source Of Fund		Name		Type		
IDA		Additional conditions of effectiveness		Effectiveness		
Description of Condition						
Cross-effectiveness condition requiring the concurrent execution and effectiveness of the amended and restated IDA Financing Agreement and Project Agreement, MDTF Grant Agreement and Project Agreement, and Subsidiary Grant Agreement.						

Risk										
Risk Category								Rating (H, S, M, L)		
1. Political and Governance								Substantial		
2. Macroeconomic								Substantial		
3. Sector Strategies and Policies								Moderate		
4. Technical Design of Project or Program								Moderate		
5. Institutional Capacity for Implementation and Sustainability								Moderate		
6. Fiduciary								Moderate		
7. Environment and Social								Substantial		
8. Stakeholders								Moderate		
9. Other										
OVERALL								Moderate		
Finance										
Loan Closing Date - Additional Financing ( LA-Poverty Reduction Fund II - AF - P153401 )										
Source of Funds				Proposed Additional Financing Loan Closing Date						
International Development Association (IDA)				31-Dec-2016						
Change in Disbursement Estimates (including all sources of Financing)										
Explanation:										
Disbursement estimates inclusive of MDTF and GoL financing have been updated to reflect implementation experience to date and the AF.										
Expected Disbursements (in USD Million)(including all Sources of Financing)										
Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual	4.20	8.10	13.10	13.20	17.10	7.80	0.00	0.00	0.00	0.00
Cumulative	4.20	12.30	25.40	38.60	55.70	63.50	63.50	0.00	0.00	0.00
Allocations - Additional Financing ( LA-Poverty Reduction Fund II - AF - P153401 )										

Source Fund	of	Curr ency	Category Expenditure	of	Allocation	Disbursement % (Type Total)
					Proposed	Proposed
IDA		USD	Goods, works, non-consulting/consultants' services, Sub-grants, Training/Workshops, and Incremental Operating Costs		11,600,000.00	73.00
			<b>Total:</b>		11,600,000.00	
MDTF <sup>8</sup>		USD	Goods, works, non-consulting/consultants' services, Sub-grants, Training/Workshops, and Incremental Operating Costs		2,400,000.00	27.00
			<b>Total:</b>		2,400,000.00	
			<b>Grand Total</b>		<b>14,000,000.00</b>	
<b>Components</b>						
<b>Change to Components and Cost</b>						
<p>Explanation:</p> <p>The following changes would be introduced to the Project under the AF<sup>9</sup>. A more detailed description of the project components is provided in the Annex 2.</p>						

<sup>8</sup> MDTF for the Lao Poverty Reduction Fund Support Facility (TF071710). An additional US\$2.4 million would be transferred from the existing balance of the MDTF to top up the Recipient Executed Trust Fund (RETF). The existing Grant Agreement of the RETF would be amended to reflect the change. The total RETF amount will become US\$16.9 million.

<sup>9</sup> The AF would not include a special Contingent Emergency Response component because the AF would have a very short implementation period which will close within less than one year and half after the effectiveness. Also, the PRF has an established mechanism to allow a rapid allocation of external resources for the reconstruction of damaged rural infrastructure in the wake of natural disasters. Under the existing PRF II mechanism, GoL receives the list of subprojects identified through the standard PRF bottom-up processes, and provides funding to cover the cost of implementation. The same mechanism can be applied when a natural disaster occurs and external resources need to be quickly disbursed to finance reconstruction works. The PRF would follow the existing Project Operational Manual in the event that IDA/MDTF funds are proposed to be used by the PRF to fund emergency reconstruction sub-projects.

**Component 1: Community Development Sub-Grants (US\$8.41 million):** About 200 community block grants would be newly provided to build or improve tertiary infrastructure identified by the beneficiary villages in the seven provinces where the PRF would otherwise complete all planned activities with the completion of the current Cycle XII. Activities to be financed under the Component and the sub-grant ceiling would be the same as under the original project. Under the AF, strengthened CDD approach would be rolled out in 10 more districts in three additional provinces.

**Component 2: Local and Community Development Capacity Building and Learning (US\$1.75 million):** In addition to the activities supported under the original project, this component would further strengthen bottom-up planning processes in seven AF provinces through enhancing the quality of Kumban Development Plans (KDP) as a planning tool for local spatial development and improving the Operation and Maintenance (O&M) of PRF investments. Under the AF, this Component would also support a pilot partnership with the rural sanitation program of the National Center for Environmental Health (Nam Saat) under the Ministry of Health (MoH) to deliver rural sanitation services.

**Component 3: Project Management (US\$2.06 million):** No change in activities.

**Component 4: Livelihood and Nutrition Pilot (US\$1.78 million):** This new component would incorporate the livelihood and nutrition pilot which was initiated under the Japan Social Development Fund (JSDF)-funded Mobilizing Ethnic Communities for Improved Livelihoods and Wellbeing Project. This pilot would continue to strengthen the Self-Help Groups (SHGs) and the Village Nutrition Centers (VNCs) in 150 villages including 64 that would be newly added, based on the experience gained and through the provision of seed funds to the SHGs and nutrition grants to VNCs. The AF is also financing food expenditures (approved by Regional Vice President during preparation).

Current Component Name	Proposed Component Name	Current Cost (US\$M)	IDA AF (US\$M)	MDTF AF (US\$M)	Proposed Cost (US\$M)	Action
Community Development Grants	Community Development Sub-Grants	35.35	6.97	1.44	43.76	Revised
Local & Community Development Capacity-Building and Learning	Local & Community Development Capacity-Building and Learning	5.4	1.45	0.30	7.15	Revised
Project Management	Project Management	8.75	1.70	0.36	10.81	Revised
	Livelihoods and Nutrition Pilot		1.48	0.30	1.78	New

	<b>Total:</b>	49.50 <sup>10</sup>	11.60	2.4	63.5	
<b>Appraisal Summary</b>						
<b>Economic and Financial Analysis</b>						
<p>Explanation:</p> <p>As is the case under the original project, the AF would continue to finance subprojects that will be identified on a demand driven basis. During the preparation of the AF, a cost benefit analysis was conducted for water supply subprojects financed under the original project in order to assess the scale of the economic benefits they created. Water supply subprojects constitute the largest investment category under the original project which accounts for about 40 percent of the subprojects funded. It found that the 40 water supply subprojects assessed, with slightly less than US\$ 1 million of investment costs, not only improved access to water for 3,800 households but also generated economic benefits of about \$ 3.85 million. The Economic Internal Rate of Return (EIRR) is 134.7 percent. Such a high return to investment can be explained by a significant time saving (on average, about 52 minutes per day) due to subproject investments, and the low unit cost of water subprojects – \$248 per household, which is an under-estimation since it does not take into account other benefits such as a reduction in water borne diseases as a result of better access to water. The PRF will soon start a more comprehensive technical and economic evaluation of various types of subprojects taking into account typical Operation and Maintenance (O&amp;M) works done by communities and their costs.</p> <p>The scale of saving from using the PRF platform to implement the Community-Led Total Sanitation (CLTS) program was also assessed by comparing the cost of achieving the Open Defecation Free (ODF) status in the same number of villages between when PRF platform is used and when the GoL's National Center for Environmental Health (Nam Saat) carries out ODF activities on their own. The assessment shows that the expected cost savings from using the PRF platform is substantial – slightly above 50 percent over two years. This is a conservative estimate because the quality of community mobilization will be higher if facilitated by experienced PRF staff, leading to a quicker achievement of ODF status. Also, the quality and frequency of the post ODF follow-up would increase, leading to a higher sustainability of impact.</p> <p>The major source of cost saving is the difference in staff cost. In order to achieve the ODF status in 300 villages over two years, Nam Saat would need to hire three more staff per district if they do not use the PRF platform, while the PRF can achieve the target with the existing staff. The scale of efficiency gains would significantly increase as the geographical coverage increases and allows more peer-to-peer learning between Kumban facilitators, Village Implementation Team (VIT) members and villagers themselves. The PRF platform could further contribute to improving rural sanitation beyond ODF through facilitating a group-based financial support to the extremely poor for sanitation investments as well as community based orders for materials/ toilet supply to reduce the cost.</p>						

<sup>10</sup> The total cost of the original project includes the MDTF joint co-financing but does not include the SDC complementary financing. During preparation of the original project, it was anticipated that the MDTF co-financing would be US\$ 12 million, as is indicated in the Project Appraisal Document (PAD), however, the Grant Agreement signed between the Bank and the GoL during implementation committed US\$14.5 million.

The result shows that the PRF platform could be used for broader purposes beyond rural sanitation, especially for those activities that require frequent engagement with villagers.

## **Technical Analysis**

### **Explanation:**

The AF will build on the strong technical foundation laid following the MTR of the original project. The detailed steps taken during the original project to improve the technical quality of subprojects, and measures that will be taken under the AF, are described in the Annex 2.

The assessment of the cost effectiveness of PRF subprojects was further refined following the MTR. It was found that, when cost variations due to subproject and location specific factors were controlled, PRF subprojects were cost effective for most infrastructure types, except for water supply and school construction. Water supply subprojects are more expensive than those financed by other sources, due to small size and increased transport costs to serve remote communities. Also, the cost of school constructions financed by the Bank funded Education Development Project (EGP) II was found to be 24 percent lower than that of similar schools built by the PRF. The large part (10 percent) of the cost differential arises from the fact that the EGP II funded school constructions are tax free while the PRF hired contractors are liable to pay tax, and about 10 percent of the remaining cost differential can be explained by the higher design standards used under the PRF, including for additional measures for disaster resilience. The recently introduced improvements in designs are expected to reduce costs without affecting technical quality or sustainability. The PRF is also promoting subproject implementation by communities using community force account, as is practiced under the EGP II project and as will further reduce costs, through developing measures to ensure technical quality of subproject implementation.

## **Social Analysis**

### **Explanation:**

The overall social impact of the proposed AF is expected to be positive. The AF triggers the same two social safeguard policies triggered by PRF II: OP 4.10 Indigenous Peoples and OP 4.12 Involuntary Resettlement. The PRF II Compensation and Resettlement Policy Framework (CRPF) and Ethnic Groups Policy Framework (EGPF) have been updated, taking into account PRF II implementation experience. In particular, protocols for voluntary land donations, implementation procedures, and principles and procedures of compensation at replacement value have been clarified, and grievance procedures strengthened. Procedures to strengthen consultations with and participation of ethnic groups in sub-project planning and implementation were significantly strengthened during PRF II implementation and will be applied under the AF. The draft CRPF and EGDP were disclosed in the project areas and the project website (<http://www.prflaos.org/library/iec-materials-and-tools/manuals>) on March 12, 2015 and on the World Bank website on April 6, 2015. The PRF adopted the updated CRPF and EGPF acceptable to the Bank and re-disclosed them on May 8, 2015.

**Gender.** Women's needs and challenges were assessed during PRF II preparation, which found that women face challenges to participate in village-level decision making processes, and that the PRF need to increase the number of female PRF staff, especially of an ethnic origin. The Gender Action Plan was developed in 2012, which included gender segregated meetings to identify and prioritize sub-projects that will meet the needs of women; more female project staff to be hired at different levels, especially at the kum bun level; and capacity development of female PRF staff and villagers. During the PRFII

implementation, the quality of women's participation in KDP planning and sub-project prioritization improved through the "Deepen CDD" approach. The JSDF funded "Mobilizing Ethnic Communities for Improved Livelihoods and Wellbeing" pilot has also increased women's participation in livelihood and nutrition activities. More than 70 percent of SHG members are women (see Annex 2 for more details). The proposed AF would continue to implement these innovations to better address women's needs. The revised RF will continue to collect gender segregated data, especially on women's participation in these innovation and their level of satisfaction (see Annex 1).

**Grievance redress mechanism.** Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Environmental Analysis

### Explanation:

Activities under the AF are not expected to have significant and irreversible negative environmental impacts. The environmental category of PRF II, i.e., Category B, remains appropriate for the AF. In addition to the environmental policies triggered by PRF II (OP 4.01 Environmental Assessment and OP 4.09 Pest Management), three additional policies (OP 4.04 Natural Habitats, OP 4.37 Safety of Dams, and OP 7.50 Projects on International Waterways) are triggered, because the AF could finance sub-projects in protected zones and/ or may draw water into weir (which may meet the definition of small dams under the OP 4.37) or small irrigation facilities from the tributaries of the Mekong river, an international waterway.

Review of environmental and social issues and implementation experience under PRF II indicated that the mitigation measures described in the PRF II ESMF required some strengthening of the screening process and updating of compliance monitoring forms. The PRF II ESMF has therefore been updated and disclosed in the project areas and the project website (<http://www.prflaos.org/library/iec-materials-and-tools/manuals>) on March 12, 2015 and on the World Bank website on April 6, 2015. The PRF adopted the updated ESMF acceptable to the Bank and re-disclosed it on May 8, 2015.

Climate and disaster risks. Lao PDR is vulnerable to natural disasters and climate change. About two third of the population experience an average of 1.5 serious floods or droughts every year. From 1970 to 2010, a total of 33 natural hazard events (mostly floods and droughts) were observed, affecting more than 9 million people and resulting in economic losses of over US\$ 400 million, including Typhoon Ketsana, Typhoon Haima and Tropical Storm Nok-Ten. The AF would be implemented in selected poor districts of seven provinces that are vulnerable to damage caused by typhoons. The Climate and Disaster Risk Screening was conducted under the support of the Climate specialist which found that the measures that have been taken under the original project to address disaster risks remain valid. Under the AF, on-site inspection will continue to be conducted for selected sub-projects to assess their disaster resilience, and technical guidance will be further expanded to make PRF investments more resilient against disasters.



<b>Risk</b>
<b>Explanation:</b> <p>The overall risk of this AF is rated moderate since the AF would mostly continue to support the same types of activities as under PRF II. Environment and Social risk continues to be rated substantial, in particular because three new environmental safeguard policies are triggered and because of the continuing risk that PRF sub-projects could be used by GoL as an opportunity for village consolidations. In the event that any villages that have benefited from PRF II sub-projects are relocated under the GoL's village consolidation program prior to the closure of the AF, the GoL would be required to pay compensation in accordance with the CRPF and provide the village with the equivalent infrastructure provided under the sub-project.</p> <p>The political and governance risk is rated substantial because of risks associated with counterpart funding, although the PRF established an internal protocol with regard to the provision of counterpart funding which resulted in the timely provision of the counterpart funding for the Cycle XI.</p>

## Annex 1: Results Framework

Project Name:	LA-Poverty Reduction Fund II - AF (P153401)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader(s) :	Satoshi Ishihara	Requesting Unit:	EACTF	Created by:	Satoshi Ishihara on 23-Mar-2015
Product Line:	IBRD/IDA	Responsible Unit:	GSURR	Modified by:	Satoshi Ishihara on 13-May-2015
Country:	Lao People's De	Approval FY: 2015			
Region:	EAST ASIA AND PACIFIC	Lending Instrument:	Investment Project Financing		
Parent Project ID:	Project P123480	Parent Project Name:	LA-Poverty Reduction Fund II (P123480)		

### Project Development Objectives

#### Original Project Development Objective - Parent:

The Project Development Objective is to improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities in a sustainable manner through inclusive community and local development processes.

#### Proposed Project Development Objective - Additional Financing (AF):

Help improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities. The PDO would be achieved through inclusive community and local development processes with emphasis on ensuring sustainability.

## Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

### Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Greater than 75% satisfaction levels reported by beneficiaries in targeted villages regarding improved services and local development planning	<input type="checkbox"/>	Percentage	Value	0.00	80.00	75.00
				Date	09-Jun-2011	31-Dec-2013	31-Dec-2016
				Comment		Capacity Building study	Original target was incorrectly set above the target value. This indicator will be assessed through the impact evaluation, and will be available by March 2016
Revised	Improved access to and utilization of basic economic and social services in kum bans supported by PRF	<input type="checkbox"/>	Text	Value	0		The supplementary school enrollment indicator has been dropped. The outcome is measured by level of satisfaction (PDO indicator

							above) and #/type of sub-project implemented (intermediate results indicator). End targets have been set for different types of sub-projects: 6% point increase in access and utilization of health services; 8% point increase in access to and use of safe water resources; 8% point increase in access to and use of roads.
				Date	31-Oct-2012	05-Dec-2014	31-Dec-2016
				Comment		End targets have been set for different types of sub-projects.	Respective sub-indicators will be assessed through the impact evaluation, and will be available by March 2016

No Change	Lowest two quintiles benefit from above services	<input type="checkbox"/>	Yes/No Sub Type Supplemental	Value	No	Yes	Yes
Marked for Deletion	% increase in school enrollment	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	89.00		6.00
Revised	% of HHs with access to and utilization of health services	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	37.00		43.00
Revised	% of HHs with improved access to and utilization of safe water resources	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	76.00		84.00
Revised	% of HHs with access to all weather roads	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	30.00		38.00
Revised	Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Value	0.00	474600.00	700000.00
				Date	09-Jun-2011	05-Dec-2014	31-Dec-2016
				Comment			Target value changed to accommodate

							the AF. The target value of female beneficiaries is modified per implementation experience
Revised	Female beneficiaries	<input checked="" type="checkbox"/>	Percentage Sub Type Supplemental	Value	0.00	49.60	50.00
New	Ethnic beneficiaries	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	0.00	72.00	70.00
Revised	Decision-making on allocation of PRF resources involve at least 40% women	<input type="checkbox"/>	Percentage	Value	0.00	53.00	40.00
				Date	09-Jun-2011	05-Dec-2014	31-Dec-2016
				Comment			Involvement of 60% of poor in decision making would be dropped due to difficulty to separate poor from non-poor participants of community meetings. The Deepen CDD

							pilot would continue to roll out under AF which allows separating poor from non poor
Intermediate Results Indicators							
Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Marked for Deletion	Sub-projects with post-project community engagement or O&M arrangements (%)	<input checked="" type="checkbox"/>	Percentage	Value	0.00	64.00	90.00
				Date	09-Jun-2011	31-Dec-2013	31-Dec-2016
				Comment		Technical and Cost Effectiveness survey. Another technical survey is under preparation to assess the impact of newly introduced steps to improve O&M arrangements.	End target of >90% of sub projects are being maintained and operational two years after sub-project completion.
Marked for Deletion	Sub-projects that are expected to have a mechanism for post-completion operation	<input checked="" type="checkbox"/>	Number Sub Type Supplemental	Value	0.00	64.00	90.00
New	Sub-projects with post-project	<input type="checkbox"/>	Percentage	Value	0.00	64.00	90.00

	community engagement or O&M arrangements (%)				Date	09-Jun-2011	31-Dec-2013	31-Dec-2016
					Comment		Technical and Cost Effectiveness survey	This indicator is re-entered as new to remove the redundant sub-indicator. Steps already taken to strengthen O&M arrangements. 6/ 12 months follow-up visits will monitor this indicator. Results will be entered into MIS
Marked Deletion	for	Grievances registered related to delivery of project benefits addressed (%)	<input checked="" type="checkbox"/>	Percentage	Value	0.00	3.40	
					Date		05-Dec-2014	31-Dec-2016
					Comment			
Marked Deletion	for	Grievances related to delivery of project benefits that are addressed-(number)	<input checked="" type="checkbox"/>	Number Sub Type Supplemental	Value	0.00	9.00	
New		Grievances registered related to delivery of project benefits addressed (%)	<input type="checkbox"/>	Percentage	Value	0.00	85.00	90.00
					Date	09-Jun-2011	05-Dec-2014	31-Dec-2016



				Comment		Semi annual report	This indicator is re-entered as new to delete the redundant sub-indicator. Target is revised to be expressed in %. Only those grievances related to the delivery of project benefits are measured.
Marked for Deletion	Community contribution in the total project costs (percentage)	<input checked="" type="checkbox"/>	Percentage	Value	0.00	11.00	
				Date		04-Dec-2014	31-Dec-2016
				Comment			
Marked for Deletion	Total community contribution (US\$)	<input checked="" type="checkbox"/>	Amount(USD) Sub Type Supplemental	Value	0.00	1640000.00	
New	Community contribution in the total project costs (%)	<input type="checkbox"/>	Percentage	Value	0.00	11.00	10.00
				Date	09-Jun-2011	04-Dec-2014	31-Dec-2016
				Comment		Semi annual report	This indicator is re-entered to remove the redundant sub-indicator. No end target was

								set. PRF will monitor through the MIS. Data on community contribution after sub-project completion for O&M will be collected under 6/ 12 months following visits.
Marked Deletion	for	Participants in consultation activities during project implementation (number)	<input checked="" type="checkbox"/>	Number	Value	0.00	315896.00	
					Date	09-Jun-2011	31-Dec-2014	31-Dec-2016
					Comment			Target to be defined by PRF
Marked Deletion	for	Participants in consultation activities during project implementation - female	<input checked="" type="checkbox"/>	Number	Value	0.00	155222.00	
				Sub Type	Date	09-Jun-2011	31-Dec-2014	31-Dec-2016
				Breakdown	Comment		Semi annual report.	No target was set, however, PRF will collect information on this indicator through the MIS
Marked Deletion	for	X studies/evaluations completed in a timely manner	<input type="checkbox"/>	Number	Value	0.00	6.00	5.00
					Date	09-Jun-2011	31-Dec-2014	31-Dec-2016
					Comment			

No Change	% PRF kum ban plans used by government and/or other development actors for planning and funding	<input type="checkbox"/>	Percentage	Value	0.00	19.00	35.00
				Date	09-Jun-2011	31-Dec-2014	31-Dec-2016
				Comment		Semi annual report	
Marked for Deletion	Progress reports prepared on time	<input type="checkbox"/>	Text	Value	0	1	1
				Date	09-Jun-2011	11-Nov-2014	31-Dec-2016
				Comment			
No Change	% of districts where district officials provide technical assistance and supervision to communities	<input type="checkbox"/>	Percentage	Value	0.00	95.00	85.00
				Date	09-Jun-2011	24-Dec-2014	31-Dec-2016
				Comment		Semi annual report	
Revised	# of communities able to plan, implement and monitor their activities	<input type="checkbox"/>	Number	Value	0.00	850.00	1300.00
				Date	09-Jun-2011	24-Dec-2014	31-Dec-2016
				Comment		Semi annual report	Target changed to accommodate the AF.
Marked for Deletion	x% of sub-projects are being maintained and are operational two years after sub-project completion	<input type="checkbox"/>	Percentage	Value	0.00	98.50	90.00
				Date	09-Jun-2011	31-Dec-2013	31-Dec-2016
				Comment		Tech effectiveness cost study	

No Change	x% of sub-project activities are of high technical quality	<input type="checkbox"/>	Percentage	Value	0.00	30.00	85.00
				Date	09-Jun-2011	31-Dec-2013	31-Dec-2016
				Comment		Tech cost effectiveness study. The low current value is because many school SPs were missing latrines. Retrofitting of latrines is under way which will increase the value	
Revised	#/type of sub-project activities implemented (school improvement, water supply, health, and road)	<input type="checkbox"/>	Number	Value	0.00	988.00	1600.00
				Date	09-Jun-2011	31-Dec-2014	31-Dec-2016
				Comment			Target changed to accommodate the AF.
New	Improvement in dietary diversity among pregnant/ lactating women and children aged 6-24months	<input type="checkbox"/>	Percentage	Value	0.00	0.00	30.00
				Date	01-Sep-2015		31-Dec-2016
				Comment	JSDF funded nutrition activities started too recently to achieve outcome yet.		Impact data to be collected through Endline survey

New	No. and type of livelihood activities supported by seed grant	<input type="checkbox"/>	Number	Value	1675.00	0.00	2400.00
				Date	01-Sep-2015		31-Dec-2016
				Comment	Current achievement under JSDF funded livelihood activities		Impact data to be collected through Endline survey
New	% of beneficiary communities that successfully achieved Open Defecation Free (ODF) status	<input type="checkbox"/>	Percentage	Value	0.00	0.00	30.00
				Date	01-Sep-2015		31-Dec-2016
				Comment			Information will be collected through MIS

## **Annex 2: Detailed Project Description, Monitoring and Evaluation (M&E) and Experience under the Original Project**

1. The AF would have the following four components: (a) community development sub-grants; (b) local and community development capacity building; (c) project management; and (d) livelihood and nutrition pilot.

### **Component 1 – Community Development Sub-Grants (US\$8.41 million)**

2. This component would finance the following activities:

- Carrying out of participatory community and local development planning processes at the village and Kum Ban levels; and
- Provision of Sub-grants for the implementation of eligible community infrastructure Sub-projects based on the Kum Ban development plans prepared under the Project.

3. Under the AF, this component would finance about 200 community block grants in seven AF provinces to newly build or improve tertiary infrastructure identified by beneficiary villagers themselves. Activities to be financed under the Component would be open except for items specifically excluded through the project's negative list. The sub-grant ceiling of US\$60,000 will continue to be used under the AF. The Component 1 would also continue to finance participatory planning processes to identify subprojects for funding. The strengthened community engagement process which the PRF started under the original project will be rolled out under the AF to 10 more districts in three additional provinces.

4. During the original project, numerous measures were taken to address challenges faced and gaps identified. Such measures would continue to be used and further enhanced under the AF. The experience gained and the measures taken during the original project include the following:

5. **Technical quality of subprojects.** The Mid-Term Review (MTR) found that the technical quality of subprojects is generally satisfactory, however, it also found that the critical works were sometimes compromised (e.g. sub-base of rural roads) and that critical facilities were dropped (e.g. toilets for schools) because costs exceeded the budget ceiling. It was also found that the standard Quality Assurance/ Quality Control system had not been rigorously enforced.

6. The PRF developed the guidance note that defines the minimum standards which guide engineers and villagers where costs could be cut when the expected costs exceeds the budget ceiling without affecting the functionality and sustainability of subprojects. Photo-standards and pictograms of proper and poor works were also developed to guide district engineers and communities properly supervise subprojects. The PRF is also developing a similar photo standards and pictograms for Operation and Maintenance (O&M) works. The Quality

Management System (QMS) with the quality checklists and the site log-book was newly developed and district engineers received training for their use. The subproject supervision plans were developed to assess if additional supervision capacity needs to be mobilized. Such measures helped improve the technical quality of subprojects, however, the PRF needs to continue to develop the capacity of its staff and improve the quality of documents during the AF so that they can deliver subprojects of higher quality.

7. **Operation and Maintenance (O&M):** Following the MTR which found the need to strengthen the O&M of subprojects, the simplified O&M manual was developed for major subproject types, tailored to the capacity of villagers, to provide detailed technical guidance on O&M works. Beneficiary villagers are now assisted to develop the five year plan with itemized and costed O&M activities, including normal wear and tear, routine/ preventive maintenance and capital repair, to provide a basis to plan O&M activities and collaborate with local government agencies for funding. Technical specifications were improved for major subproject types to complement the standard designs. The PRF will also conduct follow-up O&M inspections six and twelve months after subprojects completion.

8. The PRF updated the Memorandum of Understanding (MOU) with MOH which now explicitly provides that the PRF built dispensaries would be given a priority in the provision of necessary staff and equipment. It is expected that such an agreement would expedite the provision of staff and equipment to PRF built dispensaries. The timely provision of staff and resources will be monitored under the six and 12 months follow up visits

9. **Deepening Participation.** The PRF started the “Deepen CDD pilot” following the MTR in 196 villages of five districts in order to improve the quality of participation of ethnic groups and women. The following innovations were experimented.

- *Additional female Kumban facilitator and kumban preparatory meeting:* in addition to existing one male and one female kumban facilitators, another female kumban facilitator was hired from local ethnic groups. Village representatives reported the ethnic composition of the villages and the location of hamlets outside village centers at the kumban level meeting, and the list of distant hamlets 30 minutes of walk or further from village centers was developed.
- *The three day “village visioning meetings”:* one additional day of community meeting was held at the hamlet level in addition to two-day village-wide meetings. Many IEC tools were used in the process. Representatives of all hamlets participated in the village-wide meeting, agreed to core PRF principles and the criteria to rank hamlet level priorities into village level priorities. The situation analysis was conducted at the hamlet level including household wealth ranking and social mapping to identify distinctive needs of the poor. This hamlet level meeting was held in all distant hamlets identified at the

initial kumban level meeting. The hamlet level priorities were consolidated at the village-wide meeting where representatives of all hamlets ranked them into village level priorities, using the criteria explained at the first day meeting. The village delegates to the kumban meeting were also selected.

- *Revised Kumban Development Plan (KDP)*: village delegates discussed the results of the village level meetings, ranked villages based on the pre-agreed poverty criteria, and updated the KDP.

10. The “Deepen CDD pilot” achieved the following:

- The participation of ethnic groups and women improved from below 50% to 91% and 61%, respectively. The additional female kumban facilitators selected from local ethnic groups, small group based discussions and IEC materials helped achieve an active participation of the poor and marginalized groups, especially ethnic women.
- Household wealth ranking and social mapping conducted at the hamlet level helped isolate the specific needs of poorer villagers. For example, one community changed their priority from road to water supply subproject to supply water to both the village center and hamlets.
- Social maps developed at the hamlet level helped expand and strengthen the village and kumban level resource maps by adding more information about hamlet level details that had not been available before.
- The additional cost of Deepen CDD is only about \$223 per village per year, which accounts only for 5% of the average cost of sub-projects.

**Component 2: Local & Community Development Capacity-Building and Learning (US\$ 1.75 million)**

11. This component would finance the following activities:

- Provision of technical assistance to build the capacity of Kum Bans and villages to assess their needs and prepare Kum Ban development plans, and to plan, implement and monitor Sub-projects;
- Provision of technical assistance to build the capacity of provincial and district authorities to facilitate community and local development planning processes and to support and supervise the development and implementation of Sub-projects;
- Provision of technical assistance to NLCDRPE to promote participatory rural development in coordination with various sector ministries and other entities supporting rural development in Lao PDR;
- Provision of technical assistance to NCEH to implement its rural sanitation program; and
- Monitoring and evaluation of the activities carried out under Components 1 and 2 of the Project.



12. Under the AF, this component would continue to strengthen bottom-up processes involving villagers as well as local government officials to identify and address priority local needs in a transparent and accountable manner in all ten provinces. The PRF would also continue to strengthen the engagement with district line agencies in bottom-up planning processes, strengthen the Operation and Maintenance (O&M) of PRF investments, and improve the quality of Kumban Development Plans (KDP) as a planning tool for local spatial development, building on the experience gained since the MTR in February, 2014. GIS-based resource mapping would be used to strengthen the linkage in planning between infrastructure, livelihood, and sanitation (WASH) for greater convergence and re-optimization in resource allocation. This component would finance the cost of training and workshops, thematic studies and technical evaluation, and other activities that aim for the capacity development of PRF staff and stakeholders in bottom-up local planning and development processes.

13. **Pilot partnership with rural sanitation program.** Under the AF, the PRF would start providing implementation support to the National Center for Environmental Health (Nam Saat) under the Ministry of Health (MoH) to deliver rural sanitation services.<sup>11</sup> The limited human and financial resources available to the Nam Saat, as well as their lack of capacity in community engagement, constrain their capacity to change the behavior of rural poor and improve rural sanitation. The AF would help Nam Saat address the constraints by mobilizing kumban facilitators and the Village Implementation Team (VIT) to assist Nam Saat staff during the “triggering” events and for ODF verifications, and help villagers prepare and implement the ODF plan through follow-up counselling support. Kumban facilitators and VIT would also provide follow-up support to villagers for continuous sanitation improvement following the declaration of ODF status by Nam Saat, and encourage villagers to consider sanitation issues as part of the PRF planning processes. Specifically, the AF would finance the training and travel cost of kumban facilitators and VIT members to gain basic knowledge on rural sanitation and the Community-Led Total Sanitation (CLTS) approach, and to engage with villagers regularly to facilitate their behavioral change till and after villages achieve the ODF status. It is estimated that the Nam Saat would be able to reduce the cost of ODF delivery by more than 50 percent over two years by using the PRF platform. Also, the model of implementation support that the PRF would develop through the partnership with Nam Saat would help the PRF provide similar services to other stakeholders involved in the delivery of a broad range of rural services and help them deliver such services at a lower cost.

### **Component 3: Project Management (US\$ 2.06 million)**

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<sup>11</sup> The Water and Sanitation program of the World Bank has been providing Technical Assistance to MoH/ Nam Saat to improve the policy environment for rural sanitation, and to support demand creation and supply-side interventions. This has led to the issuance of clear operational guidelines for rural sanitation and ODF verification guidelines by the Department of Public health and Hygiene which will be used under activities that would receive PRF implementation support.

14. The AF for this component would finance provision of technical and operational assistance for the day-to-day management of the Project and the carrying out of financial audits.

**Component 4: Livelihood and Nutrition Pilot (US\$ 1.78 million)**

15. This component would finance the following activities:

- Formation of village self-help groups, with a focus on women's self-help groups in selected communities including provision of capacity building assistance to such self-help groups;
- Provision of Sub-grants for the implementation of eligible community-driven livelihood development Sub-projects;
- Provision of technical assistance and Sub-grants for the development of pro-nutrition livelihood activities, including, inter alia: (a) formation of village nutrition centers; (b) participatory development of village nutrition investment plans; (c) provision of Sub-grants for the carrying out of eligible community-driven nutrition improvement Sub-projects based on the village nutrition investment plans prepared under the Project; (d) provision of seeds to eligible villagers to develop home gardens; and (e) provision of training and technical support to self-help groups for the implementation of pro-nutrition activities; and
- Monitoring and evaluation of the activities carried out under Component 3 of the Project, including carrying out of studies on thematic or operational innovations and participatory assessments of nutrition training.

16. This component would be newly added to take over the livelihood and nutrition pilot initiated under the Mobilizing Ethnic Communities for Improved Livelihoods and Wellbeing Project funded by a grant from the Japan Social Development Fund (JSDF), by continuing to support the same activities in 150 villages including 64 that would be newly added. This pilot would continue to use the CDD platform to improve livelihoods and nutrition in selected PRF villages through strengthening Self-Help Groups (SHG) and Village Nutrition Centers (VNC). This pilot experienced a significant delay during the original project, partially because the PRF had limited experience in livelihood activities. In February, 2014, it was decided that a more focused approach would be adopted to accelerate implementation. The number of targeted villages was reduced from 130 to 85, in four districts instead of original five. The targeted numbers of SHGs and Village Nutrition Centers (VNCs) were also reduced to 260 and 15, respectively. VNCs were to focus solely on nutrition activities, while PRF district offices took over livelihoods implementation.

17. The improved focus in the scope of the pilot significantly improved implementation progress, and positive results and a potential for scale-up started to show. Self-Help Groups

(SHGs) formed based on affinity and interests successfully created a safety net for the rural poor many of whom for the first time had access to saving. SHG members received livelihood grants amounting to US\$ 560,000, or about US\$ 165 per member on average, and started various livelihood activities in livestock (poultry, piggery, fish pond, etc.), horticulture, and weaving. With the nutrition grants totaling US\$ 162,000, the pilot also offered special meals to pregnant and lactating mothers and young children, helped VNC members start home gardens, provide them with livelihood linked nutrition education, and Maternal and Child Health (MCH) clinics. The supply and the consumption of meat and vegetables in beneficiary villages reportedly started to increase as a result of the pilot. The exact scale of project impact would be assessed during the AF based on the impact evaluation.

18. Targeting criteria for beneficiary villages will be: (a) same activities in the same villages, (b) expansion into neighboring districts which will be selected based on a geographical proximity to facilitate peer-to-peer learning between PRF staff and among villagers on new activities, and (c) convergence with GoL WASH and nutrition programs. Under the AF, the following innovations would be introduced to improve the cost and development effectiveness of the pilot model.

- *The portfolio at risk* (30 days) would be used to monitor loan performance and reduce default. Currently, the project does not have a mechanism to monitor loan repayment according to a standard performance indicator and track loan recovery over a longer span of time.
- The crop/livestock sheets would be developed in partnership with the District Agriculture and Forestry Office (DAFO) and non-government actors implementing similar programs, which should contain production cycles, input requirements, production techniques, risks and management mechanisms and market information in local languages.
- The loan amount per borrower would be reduced to a maximum of USD100 from USD200. Most activities financed by current SHGs do not require more than USD100. Reduction in the maximum loan size would also help reduce the risk of over-indebtedness of borrowers with no capacity to repay.
- Financial literacy training tools adapted to local conditions – including language, culture, norms and comprehension levels – would be developed.
- Loan repayment schedules would be introduced based on the cash-flow of major activities financed.
- The role of the village level Self-Help Group Management Committee (VSMC) would be strengthened including facilitating SHG's access to financial services providers leveraging the group's collective savings. A bottom up governance structure should be established.
- Opportunities should be explored to link the relatively advanced members of the SHGs with output markets and financial service providers. As a result of savings and revolving

fund, livelihood activities and enterprises are initiated and increasing household incomes in poor communities. The AF would take a value/ supply chain approach and support organizing producers along some strategic commodities. For this purpose, a quick value chain assessment would be undertaken in different locations to identify commercially viable agricultural products/or value chains and actors within the respective value chains.

- The livelihood - VNC linkage would be strengthened through prioritizing SHG lending for the production of nutritious food identified by VNCs. The AF may support the development of framework agreements to govern the procurement of products from SHG members by VNCs. Also, nutrition education may be provided and nutrition linked livelihood training would also be conducted at SHG meetings.
- The VNC grant size would be reduced to \$2,901 from \$5,500 by reducing the frequency of meals from five to three meals per week and changing the recipe to what villagers can afford to apply at home.
- The targeting of the VNC beneficiaries would be improved through community peer-pressure to focus on vulnerable children younger than 1,000 days of age.
- Awareness of beneficiaries on water and sanitation issues would also be improved for conversion.
- Staffing size would be reduced where feasible to improve cost effectiveness. For instance, one national level post and one district level post in each district would be eliminated while more works would be shared by the broader PRF team.

19. The AF would not include a special Contingent Emergency Response component because the AF would have a very short implementation period which will close within less than one year and half after the effectiveness. Also, the PRF has an established mechanism to allow a rapid allocation of external resources for the reconstruction of damaged rural infrastructure in the wake of natural disasters. Under the existing PRF II mechanism, GoL receives the list of subprojects identified through the standard PRF bottom-up processes, and provides funding to cover the cost of implementation. The same mechanism can be applied when a natural disaster occurs and external resources need to be quickly disbursed to finance reconstruction works. The PRF would follow the existing PRF II Project Operational Manual in the event that IDA/MDTF funds are proposed to be used by the PRF to fund emergency reconstruction sub-projects.

20. **Expected outcomes.** The AF is expected to achieve the following outcomes: (i) PRF's implementation capacity preserved in all provinces to enable a seamless transition to the prospective PRF III operation following the closure of the PRF II; (ii) improved access to and utilization of basic infrastructure and services for about 200 additional poor communities; (iii) strengthened participatory local planning processes by deepening and consolidating many innovations the PRF started recently for use under the prospective PRF III and to be shared with broad stakeholders including government agencies and development partners; and (iv) an

improved model for integrated livelihood, nutrition and sanitation improvement using the Community Driven Development (CDD) platform.

21. **Coverage.** The AF would finance all ten provinces but focus on seven provinces where the original project would otherwise complete all planned activities in 2015 and the PRF would need to significantly reduce the implementation capacity in the absence of an additional financing. Those seven provinces are: Hoaphanh, Xiangkhoang, Luangnamtha, Savannakhet, Xekong, Attapu and Salavan. The same target kumbans in 27 poor districts in the seven provinces, selected during the preparation of the original project based on the GoL's poverty criteria, operational access, and absence of similar supports provided by other development partners and the GoL's village consolidations, would continue to be supported under the AF.

22. **Monitoring and Evaluation (M&E).** The PRF II initially suffered from weaknesses in its monitoring and reporting systems, however, a significant improvement has been made since the MTR. Staffing changes, additional technical assistance and increased management attention helped improve systems over the past several months. Several improvements were made based on a comprehensive review of the existing MIS, including a sharper focus on comprehensively and accurately recording the information essential for project management and project reporting to the Government and donors. All provincial and district staff received training on the key MIS data required for reporting, and simple guidelines drafted in Lao language to help all PRF staff to be able to correctly enter data.

23. *Impact evaluation:* The original project put in place a rigorous randomized impact evaluation in order to measure project impact and inform the design of potential future interventions. The baseline survey was completed prior to project implementation. The baseline was composed of two complementary components: a quantitative survey using a randomized approach which interviewed 4,393 households across 274 villages in eleven districts of four provinces, and a qualitative component conducted in 16 villages. The baseline findings demonstrate that the randomized assignment of kumban into treatment and control groups was successful and the comparison areas are balanced. The primary research questions for the evaluation were developed in coordination with the PRF which include program impact, utilization and access to basic services, community awareness, participation and satisfaction. The endline survey will be fielded at the end of 2015.

24. **Procurement:** The procurement arrangements remain substantially unchanged. The new livelihoods and nutrition component will also use the existing arrangements. Procurement for the AF would be carried out in accordance with the World Bank's Procurement and Consultant Guidelines (January 2011 as revised in July 2014), and the provisions stipulated in the Financing Agreement and in agreed Procurement Plans. At the national level, the PRF will be responsible for the procurements of goods, works, consulting services and non-consulting services through

its Procurement Unit, and the selection of individual consultant through its Human Resources Unit. For subprojects implemented in the provinces; procurements shall be carried out by the Village Implementation Team (VIT) with the assistance of the PRF District and Provincial Coordinators. The PRF has gained significant procurement experience during implementation of PRF I and II. A detailed Procurement Plan for the first 18 months of AF implementation was prepared and agreed with the Bank. This will be updated at least annually to reflect actual project implementation needs. Based on a procurement capacity assessment undertaken in preparation of the project, the overall procurement risk is considered “Moderate”. At the community level, a community procurement manual was developed and used by all targeted villages. More than 7,500 community members were trained on procurement, financial and project management, 34 percent of whom were women. During the implementation of the original project, 6 procurement related grievances were raised through the project Feedback Resolution Mechanism (FRM).<sup>12</sup> All grievances including those related to procurement have been resolved satisfactorily.

25. **Financial Management (FM):** The same FM arrangements for the original project would be used under the AF. The new component 4 will also use the existing FM arrangements. The FM capacity of the PRF is considered adequate. There are no outstanding or qualified audits or interim financial reports. The PRF significantly strengthened the planning and budgeting processes. The internal control capacity is in place. The basis for budget has become clearer and more easily traceable. The PRF is hiring a consultant to further strengthen the planning and budgeting systems. The FM capacity will be enhanced in provinces where livelihood and nutrition activities are conducted in order to strengthen the capacity of district staff and community members in delivering and managing livelihood and nutrition grants.

26. **Retroactive Financing.** To ensure continuity of the Project activities, retroactive financing of up to SDR 1,500,000 under IDA Credit and USD 480,000 under MDTF is allowed to finance payments made for eligible expenditures during the period between May 1, 2015, and the Credit and MDTF signing date.

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<sup>12</sup> PRF II has received 31 grievances since 2012 (thus, approximately 20 percent are related to procurement).