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Report No.: PAD1755

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR21.3 MILLION

(US\$30 MILLION EQUIVALENT)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR A

POVERTY REDUCTION FUND PROJECT III

(May 3, 2016)

Social, Urban, Rural and Resilience Global Practice  
East Asia and Pacific Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2016)

Currency Unit = Lao Kip (LAK)  
US\$1 = LAK 8095  
SDR 1 = 1.40882

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AFP	Access to Finance Project
ASTAE	Asia Sustainable and Alternative Energy
AWPB	Annual Work Plan and Budget
CDD	Community-Driven Development
CLTS	Community-Led Total Sanitation
CPS	Country Partnership Strategy
CRPF	Compensation and Resettlement Policy Framework
DCDD	Deepen Community-Driven Development
ECOP	Environmental Code of Practice
DDF	District Development Fund
DSEDP	District Socioeconomic Development Plan
EGPF	Ethnic Group Policy Framework
EIRR	Economic Internal Rate of Return
ESMAP	Energy Sector Management Assistance Program
ESMF	Environmental and Social Management Framework
FAM	Finance and Administration Manual
FM	Financial Management
FMG	Financial Management Guidelines
FRM	Feedback and Resolution Mechanism
GESI	Gender Equality and Social Inclusion
GIZ	Gesellschaft fuer Internationale Zusammenarbeit
GAFFSP	Global Agriculture and Food Security Program
GoL	Government of the Lao PDR
HGNPD	Health Governance and Nutrition Development Project
DSEDP	District Socioeconomic Development Plan
HH	Household
IAU	Internal Audit Unit
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEC	Information Education Communication
IFR	Interim Financial Report

ILO	International Labour Organization
KDP	Kum Ban Development Plan
KBF	Kum Ban Facilitator
LAP	Land Acquisition Plan
LWU	Lao Women's Union
MAF	Ministry of Agriculture and Forestry
M&E	Monitoring and Evaluation
MIS	Management Information System
MOF	Ministry of Finance
MoH	Ministry of Health
MEM	Ministry of Energy and Mines
MOU	Memorandum of Understanding
MPI	Ministry of Planning and Investment
NCB	National Competitive Bidding
NCRDPE	National Committee for Rural Development and Poverty Eradication
NGPAR	National Governance and Public Administration Reform Programme
NPV	Net Present Value
NSEDPP	National Socioeconomic Development Plan
NPL	Non-Performing Loan
O&M	Operations and Maintenance
ODF	Open Defecation Free
POM	Project Operations Manual
PRF	Poverty Reduction Fund
PRF I	Poverty Reduction Fund Project I (2003–2011)
PRF II	Poverty Reduction Fund Project II (2011–2016)
PRF III	Poverty Reduction Fund Project II (2016–2019)
SA	Social Assessment
RMG	Road Maintenance Group
SDC	Swiss Agency for Development and Cooperation
SBCC	Social and Behavior Change Communication
SDR	Special Drawing Rights
SHG	Self-Help Group
VDP	Village Development Plan
VNC	Village Nutrition Center
VIT	Village Implementation Team
WSP	Water and Sanitation Program

Regional Vice President:	Victoria Kwakwa
Country Director:	Ulrich Zachau
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Bassam Ramadan
Task Team Leader:	Satoshi Ishihara



**Lao PEOPLE’S DEMOCRATIC REPUBLIC**  
**POVERTY REDUCTION FUND PROJECT III**

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**PAD DATA SHEET***Lao People's Democratic Republic**Poverty Reduction Fund III (P157963)***PROJECT APPRAISAL DOCUMENT***EAST ASIA AND PACIFIC**Social, Urban, Rural and Resilience Global Practice*

Report No.: PAD1755

<b>Basic Information</b>			
Project ID P157963	EA Category B - Partial Assessment	Team Leader(s) Satoshi Ishihara	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints		
	Financial Intermediaries		
	Series of Projects		
Project Implementation Start Date 24 May, 2016	Project Implementation End Date 31 December, 2019		
Expected Effectiveness Date 15 September, 2016	Expected Closing Date 30 June, 2020		
Joint IFC No			
Practice Manager/Manager Bassam Ramadan	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Ulrich Zachau	Regional Vice President Victoria Kwakwa
Borrower: Lao People's Democratic Republic			
Responsible Agency: Lao Poverty Reduction Fund			
Contact: Telephone No.:	Bounkouang Souvannaphanh (856-21) 261-480	Title: Email:	Executive Director pmt@prflaos.org
<b>Project Financing Data(in USD Million)</b>			
<input type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
Total Project Cost:	36.00	Total Bank Financing:	30.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>

BORROWER/RECIPIENT	6.00
International Development Association (IDA)	30.00
Total	36.00

**Expected Disbursements (in USD Million)**

Fiscal Year	2016	2017	2018	2019	2020	0000	0000	0000	0000	0000
Annual	0.00	6.00	8.00	8.00	8.00	0.00	0.00	0.00	0.00	0.00
Cumulative	0.00	6.00	14.00	22.00	30.00	0.00	0.00	0.00	0.00	0.00

**Institutional Data**

**Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

**Contributing Practice Areas**

Education, Transport & ICT, Water, Health

**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 Co-benefits %
Health and other social services	Other social services	75		
Public Administration, Law, and Justice	Public administration-Other social services	15		
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	10		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

**Themes**

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
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Rural development	Rural services and infrastructure	40
Social dev/gender/inclusion	Participation and civic engagement	40
Human development	Nutrition and food security	10
Social dev/gender/inclusion	Other social development	10
Total		100

### Proposed Development Objective(s)

The Project Development Objective is to improve access to basic 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.

### Components

Component Name	Cost (USD Millions)
Component 1 – Community Development Sub-Grants	26.40
Component 2 – Local and Community Development Capacity Building	3.30
Component 3 – Project Management	5.40
Component 4 – Nutrition Enhancing Livelihood Development	0.90

### Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
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	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Low
<b>OVERALL</b>	Moderate

### Compliance

#### Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
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Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ ]	
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
<b>Safeguard Policies Triggered by the Project</b>			
	<b>Yes</b>	<b>No</b>	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04	X		
Forests OP/BP 4.36	X		
Pest Management OP 4.09	X		
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10	X		
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37	X		
Projects on International Waterways OP/BP 7.50	X		
Projects in Disputed Areas OP/BP 7.60		X	
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements (Section I.A, Schedule of Project Agreement)	X		CONTINUOUS
<b>Description of Covenant</b>			
Obligation of PRF to maintain, throughout the Project implementation period, a Project implementation team with a mandate, functions and resources, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Project Operations Manual (Section I.B, Schedule 2 of the Financing Agreement and Section I.B, Schedule of Project Agreement)	X		CONTINUOUS
<b>Description of Covenant</b>			
Obligation of the Recipient and PRF to ensure that the Project is carried out in accordance with the Project Operational Manual, and not amend, abrogate or waive any provisions of the Manual unless the Association agrees otherwise in writing.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Annual Work Plans and Budgets (Section I.C, Schedule 2 of the Financing Agreement and Section I.C, Schedule of Project Agreement)	X		Yearly

**Description of Covenant**

Obligation of the Recipient and PRF to ensure that the Association is furnished, not later than December 31 of each year, an annual work plan and budget for the Project, satisfactory to the Association, covering the activities and expenditures (including counterpart funding) proposed for the subsequent year of Project implementation, and thereafter implement the Project in accordance with such plan and budget.

Name	Recurrent	Due Date	Frequency
Environmental and Social Safeguards (Section I.D, Schedule 2 of the Financing Agreement and Section I.D, Schedule of Project Agreement)	X		CONTINUOUS

**Description of Covenant**

Obligation of the Recipient and PRF to ensure that the Project is carried out in accordance with the provisions of the ESMF, the CRPF and the EGPF and the other safeguard provisions of the legal agreements, not amend, abrogate or waive any of their provisions unless the Association agrees otherwise, and report on their status of implementation as part of the semi-annual progress reports.

Name	Recurrent	Due Date	Frequency
Sub-grants (Section I.E, Schedule of Project Agreement)	X		CONTINUOUS

**Description of Covenant**

Obligation of PRF to provide Sub-grants for financing Sub-projects under Component 1 of the Project in accordance with the eligibility criteria, approval and administration arrangements, and terms and conditions set out in the Project Agreement and the Project Operational Manual.

**Conditions**

Source Of Fund	Name	Type
IDA	Financing Agreement Article V Subsidiary Grant Agreement	Effectiveness

**Description of Condition**

A Subsidiary Grant Agreement has been executed and delivered between the Recipient and PRF and all conditions precedent to its effectiveness (other than the effectiveness of the Financing Agreement) have been fulfilled.

**Team Composition****Bank Staff**

Name	Role	Title	Specialization	Unit
Satoshi Ishihara	Team Leader (ADM Responsible)	Senior Social Development Specialist	Team Leader	GSU02
Khamphet Chanvongnaraz	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement	GGO08

Siriphone Vanitsaveth	Financial Management Specialist	Sr Financial Management Specialist	Financial Management	GGO20
Anita Soukhaseum	Team Member	Program Assistant	Program Assistant	EACLF
Azeb Fissaha Mekonnen	Team Member	Agricultural Spec.	Agricultural Specialist	GFA13
Chanhsom Manythong	Team Member	Agricultural Spec.	Agriculture Safeguard	GFA02
Gayatri Acharya	Team Member	Lead Economist	Lead Economist	GSU02
Manush A. Hristov	Counsel	Senior Counsel	Counsel	LEGES
Miki Terasawa	Team Member	Social Development Specialist	Social Development Specialist	GSU06
Nodoka Hasegawa	Team Member	Social Development Specialist	Gender	GSU02
Peter William Crawford	Team Member	Environmental Specialist	Environmental Safeguards	GEN02
Susan Wong	Team Member	Lead Social Development Specialist	Social Development	GSUSD
Sybounheung Phandanouvong	Team Member	Senior Social Development Specialist	Social Safeguards	GSU02
Waraporn Hirunwatsiri	Environmental Specialist	Senior Environmental Specialist	Environmental Safeguards	GEN02
Viengsamay Vongkhamsao	Team Member	Senior Water & Sanitation Specialist	Water and Sanitation	GWASE
Susanna Smets	Team Member	Senior Water & Sanitation Specialist	Water and Sanitation	GWASE
Sitaramachandra Machiraju	Team Member	Senior Water & Sanitation Specialist	Water and Sanitation	GWASE
Sombath Southivong	Team Member	Senior Infrastructure Specialist	Transport	GTI02
Sutayut Osornprasop	Team Member	Human Development Specialist	Nutrition	GHN02

**Extended Team**

<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>		
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Lao People's Democratic Republic	Xiangkhouang	Xiangkhouang		<b>X</b>	
Lao People's Democratic Republic	Savannahkhet	Savannahkhet		<b>X</b>	
Lao People's Democratic Republic	Salavan	Salavan		<b>X</b>	
Lao People's Democratic Republic	Phongsali	Phongsali		<b>X</b>	
Lao People's Democratic Republic	Oudomxai	Oudomxai		<b>X</b>	
Lao People's Democratic Republic	Louang Prabang	Luang Prabang		<b>X</b>	
Lao People's Democratic Republic	Loungnamtha	Louangnamtha		<b>X</b>	
Lao People's Democratic Republic	Houaphan	Houaphan		<b>X</b>	
Lao People's Democratic Republic	Attapeu	Attapeu		<b>X</b>	
Lao People's Democratic Republic	Xekong	Xekong		<b>X</b>	



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Poverty significantly declined in Lao People’s Democratic Republic in the previous decade, from 41.4 percent in 2002/03 to 28.8 percent in 2012/13.**<sup>1</sup> With a gross domestic product per capita of around US\$1,600 in 2014, Lao PDR has become a lower-middle income country. Improvements in welfare are evident in the changes in many socio-economic indicators, such as the ownership of televisions and access to electricity, which doubled, and the number of households (HHs) living in houses built with bricks or concrete, which nearly tripled over this period. The proportion of HHs without a toilet halved, and net secondary enrollment increased from 27 percent in 2002/3 to 50 percent in 2012/13.<sup>2</sup>

2. **Impressive poverty reduction and welfare improvements at the national level, however, mask significant differences between regions and among socioeconomic groups.** Access to services and markets remains poor in rural areas: approximately 30 percent of rural villages are at least two-hours on foot from the nearest health dispensary, and only 69 percent of the bottom 40 percent have access to all weather roads. Ethnic groups tend to be significantly poorer than the majority Lao-Tai population even when education levels and livelihoods (farm/non-farm wage) are controlled for. About 40 percent of Mon Khmer and Hmong ethnic groups are poor, compared to 15 percent of Lao-Tai people, and ethnic groups account for about two thirds of people without formal education. The rate of stunting among children under five years of age is above 60 percent among ethnic groups, compared to the national average of about 44 percent. The gender gap remains high with fewer than 60 percent of women in poor HHs able to read and write, compared to over 80 percent of men who can.

3. **A high level of vulnerability facing Lao population, in particular the bottom 40 percent, poses a significant constraint for sustainable poverty reduction in Lao PDR.** A significant portion of Lao citizens who escaped poverty in the recent past have fallen back into poverty again,<sup>3</sup> a clear manifestation of the vulnerability the poor and near poor face and the scale of difficulties they face to escape poverty. Indeed, about half of the poor in 2012/13 were previously non-poor in 2007/8 and more than two thirds of them had been non-poor at some point during that 10-year period.<sup>4</sup> Inequality is rising: between 2002 and 2012, the Gini coefficient rose from 32.5 to 36.2. While consumption per capita on average grew by 2.2 percent per year between 2002/3 and 2012/13, the equivalent figure for the bottom 40 percent is only 1.3 percent per year.

4. **About 42 percent of the bottom 40 percent in Lao PDR need tailored policy interventions.** This group is predominantly comprised of minority ethnic groups and live in highlands, generally have limited access to external markets or services and have low capital endowments. Policies directed at increasing social inclusion, including investments in both human

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<sup>1</sup> Lao Expenditure and Consumption Survey (LECS 5). Based on the internationally comparable poverty line of US\$1.25 in 2005 PPP a day.

<sup>2</sup> Lao PDR Poverty Policy Note, “Driver of Poverty Reduction in Lao PDR”, World Bank, October 2015

<sup>3</sup> Lao Expenditure and Consumption Survey 5 (LECS 5) (2012/13)

<sup>4</sup> Lao PDR Poverty Policy Note, *ibid*

and physical capital, and a well-designed social protection system, need to be developed to lift them out of poverty permanently.

## **B. Sectoral and Institutional Context**

5. **Recognizing increasing inequality and persistent rural poverty, the Government of Lao PDR (GoL)’s 8th National Socioeconomic Development Plan (NSEDP) calls for tailored interventions to improve the welfare of the poorest groups, in particular ethnic groups.** Investments proposed include the construction of basic education infrastructure, rural access roads and improvements in access to safe drinking water. It also recognizes that poverty reduction must be tailored to the specific needs and capabilities of ethnic groups, and address gender disparities.

6. **The “*Sam Sang*” pilot envisions greater decentralization and local area development** through delegating responsibilities, functions and resources to local governments, particularly at the district level. Evidence suggests that, while responsibilities have been delegated to lower levels of government, funding decisions remain centralized. Weak public financial management arrangements, especially at provincial and district levels, have contributed to the running-up of arrears. In general, roles and responsibilities of various levels of government need to be further clarified in some sectors.

7. **To guide decentralized planning processes, the Ministry of Planning and Investment (MPI) developed the Participatory Planning Manual (PPM)** which provides processes and procedures to empower district authorities to develop the five year District Socioeconomic Development Plan (DSEDP) based on the Village Development Plan (VDP) and the Kum Ban Development Plan (KDP).<sup>5</sup> The District Planning Office, under the supervision of the District Governor, is tasked with developing the annual implementation plan which provides investments to address priority issues identified in the five year DSEDP. While the PPM provides an institutional platform to integrate bottom-up processes with the GoL’s planning and budget processes, gaps exist, including: (i) lack of capacity and resources for district authorities to develop the VDP and the KDP adequately and reflect them in the DSEDP; (ii) lack of voice for villagers to present their priorities to district authorities; (iii) sector-driven priority setting that tends to prioritize large infrastructure; and (iv) lack of resources to implement and monitor the DSEDP.

8. **The Poverty Reduction Fund (PRF) has established itself as one of the GoL’s main vehicles to reduce rural poverty and deliver infrastructure services in rural areas.** The PRF was established in May 2002 in accordance with the Prime Minister’s Decree (73/PM, 2002).<sup>6</sup> Under the two preceding World Bank supported projects, the PRF has improved access to infrastructure for well over a million rural people through implementing more than 4,700 subprojects.<sup>7</sup> The Poverty Reduction Fund Project II (2011–2016) (PRF II) alone has improved

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<sup>5</sup> The 5 year DSEDP is linked to the 5 year NSEDP.

<sup>6</sup> The institutional framework of the PRF was refined over time, with amendments via PM Decree #222/2006 and then PM Decree #10, 2012.

<sup>7</sup> The Poverty Reduction Fund Project I (2003–2011) (PRF I) implemented many subprojects to support the training of villagers rather than improve infrastructure.



access to infrastructure for more than 567,000 rural people,<sup>8</sup> or a significant proportion of national population, through financing 1,400 subprojects identified by the rural poor themselves. About half of the direct beneficiaries are women, and ethnic minorities account for about 70 percent of project beneficiaries. The village institutions established and numerous village volunteers and leaders trained by the PRF are increasingly seen by the GoL and Development Partners as an effective platform to implement rural development programs.

### **C. Higher Level Objectives to which the Project Contributes**

9. The proposed Poverty Reduction Fund Project III (PRF III) would contribute to the World Bank Group's Lao PDR Country Partnership Strategy (CPS) for FY 12–16 (Report No. 66692-LA). Specifically, the proposed PRF III supports Outcome 3.3: Improved access to basic services and markets and community participation in rural areas under Strategic Objective 3 Inclusive Development. The CPS includes additional IDA support for PRF in FY 16/17.

10. The Project supports the World Bank Group's strategic twin goals of ending extreme poverty and boosting shared prosperity as it would help the GoL address some of the priority areas identified in the 8th NSEDP, such as addressing increasing inequality and persistent rural poverty, through tailored interventions to improve the welfare of the poorest groups, in particular ethnic groups.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

11. **The Project Development Objective** is to improve access to basic 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.

### **B. Project Beneficiaries**

12. The PRF III will continue to operate in about 275 kum bans of 44 districts in 10 provinces where the incidence of poverty is high. Minor adjustments may be made to target kum bans and/or districts based on the results of the on-going poverty mapping to ensure that geographical targeting based on poverty data remains consistent. All villages within project kum bans are eligible to receive sub-grants to address priority needs. The PRF III would also continue to develop the capacity of local authorities to plan, implement and monitor local development processes in partnership with the local population.

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<sup>8</sup> About 20,000 of them also benefited from livelihood and nutrition improvements, including about 14,000 female villagers of ethnic groups, in addition to infrastructure development.

### C. PDO Level Results Indicators

13. PDO indicators include: (i) percentage of HHs in PRF targeted villages reporting improved access to basic services (by type of services); (ii) Number of direct project beneficiaries, disaggregated by gender and ethnicity.

## III. PROJECT DESCRIPTION

### A. Project Components

14. The PRF III will build on the successful experience of the PRF II, and aims to further improve and consolidate gains in increasing access to services for the rural poor. The activities and approaches to be used under the PRF III are described below.

15. **Component 1: Community Development Sub-grants (US\$26.4 million).** This Component will finance (1.1) carrying out of participatory community and local development planning processes at the village and Kum Ban levels; and (1.2) provision of Sub-grants for the implementation of eligible community infrastructure Subprojects based on the Kum Ban development plans prepared under the Project.

16. Technical and logistical support would continue to be provided to eligible villages to develop the VDP based on participatory planning processes. The VDP would be developed on a five year rolling basis, and consolidated into the KDP by elected village representatives. Kum Ban Facilitators (KBFs)<sup>9</sup> will continue to play a leading role in village planning processes, under the support of the PRF's district community development specialists. The Deepen Community-Driven Development (DCDD) approach<sup>10</sup> successfully piloted under the PRF II will be used for community planning and implementation for all supported districts under the PRF III.

17. Each target kum ban would receive a three-year budget allocation upfront to finance eligible subprojects on an annual basis based on the KDP. The kum ban allocation will be increased by 10 percent compared to the PRF II in line with the scale of increase in the cost of construction. The average annual kum ban allocation will be about US\$43,000,<sup>11</sup> or about US\$130,000 over three years. Activities to be financed would be open except for items included in the project's negative list. Each target kum ban will continue to be assisted to identify subprojects that will generate broader benefit at the kum ban level. To address sustainability, minor repair and simple maintenance of existing infrastructure will be promoted. Beneficiary villagers will be assisted to form Road Maintenance Groups (RMGs) for the maintenance of rural roads, which would be financed through the kum ban block grant.<sup>12</sup>

18. **Component 2: Local and Community Development Capacity Building (US\$3.3 million).** This component will finance: (2.1) 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

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<sup>8</sup> See Annex 2 for more detail about KBF.

<sup>9</sup> See the box on DCDD in annex 2 for more detail.

<sup>10</sup> The annual kum ban allocation under the PRF II is about US\$39,000 on average, adjusted based on the size of population and remoteness, and varies from US\$35,000 for smaller kum bans to US\$55,000 for larger kum bans.

<sup>12</sup> Initially, 10 RMGs will be supported. See annex 2 for more details about maintenance activities and the RMG.

plan, implement and monitor Subprojects; (2.2) 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 Subprojects; (2.3) Provision of technical assistance to the National Committee for Rural Development and Poverty Eradication to promote participatory rural development in coordination with various sector ministries and other entities supporting rural development in the Recipient's territory; (2.4) Provision of technical and operational assistance for the development and implementation of partnerships between PRF and other agencies in rural sanitation, nutrition, poverty assessment, and other areas within the mandate of PRF; and (2.5) Monitoring and evaluation of the activities carried out under Parts 1 and 2 of the Project.

19. At the village level, this component would finance the capacity development of village leaders and KBF in participatory planning processes and the logistical cost associated with their participation in district level planning and monitoring processes. This component would also develop their technical, fiduciary and safeguard capacity to implement, supervise and maintain infrastructure subprojects and livelihood activities in line with agreed procedures.

20. At the district and provincial levels, this component would continue to finance the cost associated with developing the capacity of relevant government officials to support pro-poor local and community development processes. The technical and logistical support to help district authorities integrate the PRF facilitated KDP into the annual implementation plan of the DSEDP with the participation of kum ban representatives would be financed under the component.

21. At the central level, this component would finance the cost associated with strategic capacity building of the PRF staff and organizing and participating in workshops and other relevant capacity development events. This component would also finance the cost associated with coordination with sector ministries and relevant Development Partners. Project monitoring, reporting and evaluations, and thematic studies, would also be financed under this component.

22. This component would continue to finance the logistical cost of KBF and Village Implementation Team (VIT) to provide implementation support to the National Center for Environmental Health (Namsaat)'s<sup>13</sup> Open Defecation Free (ODF) campaign. A partnership with the Cookstove Initiative is under discussion in which the PRF's Self-Help Group (SHG) and KBF may serve as the village platform to introduce clean cookstoves to rural HHs.<sup>14</sup> The PRF would not start other partnerships under PRF III in order not to over-extend its capacity.

23. **Component 3: Project Management (US\$5.4 million).** This component will finance the provision of technical and operational assistance for the day-to-day management of the Project and the carrying out of financial audits. This would include remuneration of national, provincial and district PRF staff; associated equipment and operating costs; accounting, procurement, FM, internal controls, auditing, and other specialized areas.

24. **Component 4: Nutrition Enhancing Livelihood Development (US\$0.9 million):** This component will finance: (4.1) provision of capacity building assistance to village SHGs, with a

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<sup>13</sup> Namsaat is under the Ministry of Health (MoH).

<sup>14</sup> This initiative is currently supported under Bank Executed Trust Funds. See Annex 2 for more details about the Cookstove Initiative.

focus on women’s SHGs in selected communities, to develop and implement nutrition sensitive livelihood activities and to enhance their knowledge of livelihood activities including financial literacy and production cycles; (4.2) monitoring and evaluation of the activities carried out under Part 3 of the Project, including carrying out of studies on thematic or operational innovations and participatory assessments of nutrition training.

25. This component will continue to help existing SHGs<sup>15</sup> start or further develop nutrition sensitive livelihood activities such as the production of small livestock (for example, poultry and fish) and home gardens, and increase their capacity to manage them. This component would continue to support the improvement of dietary diversity and food intake of pregnant and lactating mothers and children below the age of two, however, it will not provide supplementary meals as provided under PRF II.

## B. Project Financing

26. **Lending Instrument.** It is proposed that the PRF III be supported by the World Bank through Investment Project Financing from IDA Credit in the amount of US\$30 million equivalent. The table below presents the total summary costs and IDA financing for the PRF III. In addition to the proposed IDA Credit, the Government of Lao PDR would provide US\$6 million. The detailed project cost is attached below.

**Table 1. Project Cost and Funding Sources**

Project Components	Project Cost (US\$, Millions)	Funding Sources		Percent Financing
		IDA	GoL	
1. Community Development Grants	26.4	20.4	6.0	73.3
2. Local and Community Development Capacity Building	3.3	3.3		9.2
3. Project Management	5.4	5.4		15.0
4. Nutrition Enhancing Livelihood Development	0.9	0.9		2.5
Total Project Costs	36.0	30.0	6.0	100

## C. Lessons Learned and Reflected in the Project Design

27. **The PRF III takes into account the following lessons learnt under the PRF II.**

- **The PRF II has significantly improved the villagers’ access to services available in or near villages.** The recently completed Impact Evaluation (IE)<sup>16</sup> found that

<sup>15</sup> The PRF II created SHGs support more than 4,200 villagers, about 70 percent of whom are poor ethnic women.

<sup>16</sup> PRF II included a rigorous randomized impact evaluation with quantitative and qualitative components. The evaluation collected data from approximately 4,400 HHs in 44 kum ban (22 treatment and 22 control) in the four project provinces of Attapeu, Luangprabang, Oudomxay and Phongsaly. The qualitative component included focus group discussions and in-depth key informant interviews with 744 respondents. The endline survey was completed at the end of 2015.

project impacts especially for access to water, education and village roads are positive and significant; those impacts are localized at or near villages where subprojects are implemented. Impacts requiring trips beyond nearby village, for example for markets or healthcare, are not realized, as the condition of roads leading to such facilities tends to be poor and the PRF sub-grant is sufficient to carry out the spot improvement of only parts of the critical access roads. To address the issue, PRF III will encourage the formation of RMGs to preserve and improve rural access roads where possible.

- **PRF’s bottom-up processes should be more strongly integrated with broader rural development processes to address problems which cannot be addressed by kum ban block grants alone.** The IE found that PRF beneficiaries perceive increased participation in and influence on village decision-making, however, it did not find an increase in their influence on higher level decision processes. The stocktaking of participatory rural development processes conducted during preparation identified potential opportunities to link PRF processes more effectively with the GoL’s regular planning processes, such as the use of the PRF KDP in the GoL’s district planning process. The PRF III would seek to pursue such opportunities more systematically to further integrate PRF processes in the GoL’s rural development processes.

- **PRF subprojects are generally well built and maintained, but communities face difficulties maintaining road subprojects.** A Technical Audit<sup>17</sup> conducted during preparation found that PRF subprojects are overall properly designed and built, and cost-effective in comparison to similar investments financed by other agencies in Lao PDR. It also found that most PRF subprojects are functional after four to six years of operation, and the Operations and Maintenance (O&M) committees remain active. Some routine maintenance was carried out in all communities, and 26 percent of communities carried out some major repairs. The exception is road subprojects – about half of the road subprojects built 4 to 6 years ago now need a major repair due in part to lack of maintenance. Under the PRF III, villagers will be assisted to establish RMGs, based on the PRF’s SHG model and following the pilot successfully conducted in Sekong province, to help strengthen the sustainability of PRF’s road subprojects.<sup>18</sup>

- **The DCDD approach has successfully strengthened community engagement and should be rolled out to all PRF operational areas.** The review of the DCDD approach conducted during preparation found that the participation of ethnic minorities and women significantly improved in DCDD villages.<sup>19</sup> The average female participation is 61 percent in DCDD villages while the project wide average is 48 percent. Under the PRF III, the DCDD approach would be improved based on the lessons learnt and rolled out to all project

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<sup>17</sup> This “*Technical, Cost Effectiveness and Sustainability Audit*” was conducted by the consultant firm contracted by the PRF, which worked under the direct supervision and quality control of the Bank. The final report is currently under development.

<sup>18</sup> The RMG may carry out routine maintenance of roads improved under the PRF funding as well as other rural roads that are in a maintainable condition. This model has been highly successful in remote communities with the additional benefit of providing flexible employment for women.

<sup>19</sup> See the box on DCDD in the annex 2 for more details.

areas. The training of trainers (TOT) will be provided under the PRF II to expedite the roll-out process.

- **Service agreements should be formalized.** There is a growing demand within and outside the GoL to use PRF trained staff and village institutions it built as a platform to deliver last mile services. The PRF’s KBFs and village leaders already started providing facilitation services to the National Center for Environmental Health (Namsaat) of the Ministry of Health (MoH). So far, the experience is positive. Within two months, the KBF and village leaders facilitated the “triggering events” in 33 villages<sup>20</sup> in which about 1,200 HHs participated. About 23 percent of participants expressed willingness to build latrines, and 185 HHs have already built latrines. The only cost to the PRF is the logistical cost of District PRF staff, the KBF and village leaders to receive training, carry out village meetings and participate in the triggering events and other Community-Led Total Sanitation (CLTS) activities. While the increasing use of PRF’s Community-Driven Demand (CDD) platform for broader rural poverty objectives is a clear manifestation of the strengths of the PRF and is not unusual among mature CDD programs globally, the challenge is how to develop and maintain the institutional platform without negatively affecting its own managed programs. Under the PRF III, current partnerships will be managed based on Memoranda of Understanding (MOUs) to ensure that the programs make positive contributions to overall rural poverty agenda without negatively affecting the core operations of the PRF.<sup>21</sup>

- **Experience of livelihood and nutrition pilot is mixed.**<sup>22</sup> More than 4,200 rural poor, about 70 percent of whom are ethnic women, formed 306 SHGs and established revolving funds.<sup>23</sup> So far, about 3,000 rural HHs have received about US\$570,000 as loans and started pro-nutrition livelihood activities such as production of small livestock and horticulture, for own consumption and sales. The ability of the SHG to manage revolving funds, and of the PRF to support and oversee them, however, is limited. An independent assessment conducted by the Access to Finance Project (AFP) supported by the Department of Foreign Affairs and Trade (DFAT) of Australia and the *Gesellschaft fuer Internationale Zusammenarbeit* (GIZ) recommended increasing financial literacy training and technical training for investment activities to increase returns and thereby credit repayment quality. Under the PRF III, coordination with AFP will be maintained to strengthen the revolving funds. The PRF II also piloted 15 community-managed Village Nutrition Centers (VNCs) to improve dietary intake and diversity of pregnant and lactating mothers and children below the age of 2. While there is anecdotal evidence about improved dietary diversity, its attribution to the VNCs is unclear. Given the substantial cost and capacity constraints, the PRF III would not support VNC meals and seeks to improve the dietary diversity and intake

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<sup>20</sup> The “triggering event” is the first step in CLTS processes to raise awareness of villagers on rural sanitation and motivate them through peer pressure to stop open defecation under the guidance of the village CLTS committee. According to the partnership, the PRF would assist facilitating the CLTS process in 40 villages in six districts.

<sup>21</sup> The MOU between the PRF and the Namsaat has been recently updated to clarify the institutional mandate of the Namsaat to achieve the ODF, the supportive role of the PRF to facilitate ODF processes at the village level, technical assistance to be provided by the Bank’s Water and Sanitation Program (WSP), and cost sharing arrangements.

<sup>22</sup> This pilot was funded by Japan Social Development Fund (JSDF).

<sup>23</sup> The PRF provided US\$650,000 of seed grants. They also mobilized US\$45,000 through saving groups.

of target population through continued support to the SHG to produce nutritious and low-cost food and partnership with agencies that carry out nutrition awareness raising.

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

28. **The PRF would implement the PRF III project using the same institutional and implementation modality as the PRF II.** The PRF is a legally established autonomous entity, formed and run in accordance with the Decree of the Prime Minister (10/PM, 2012). It is governed by the PRF Board which is chaired by the Minister to the Government Office and consists of the Vice Ministers of the Ministry of Finance (MOF) and the Ministry of Planning and Investment (MPI), representatives of all other ministries and provincial vice-governors where the PRF operates.

29. **The PRF would continue to use the GoL's three tier organizational structure, with an increased focus at the district level.** Under the PRF III, the PRF Central Office, led by the Project Management Team under the leadership of the Executive Director, would continue to carry out strategic oversight, coordination with and reporting to the GoL and donors, and the general quality control and monitoring of project implementation. The PRF Provincial office would focus on the capacity development of district staff, the appraisal of subprojects proposals, the collection of project performance indicators and their reporting to the Central office. The PRF District Office will continue to collaborate with district authorities in supporting bottom-up planning processes, preparation and implementation of subprojects, and monitoring and follow-up activities during and after subproject implementation.

30. **The PRF III will continue to be implemented under the oversight of the District Governor, and strengthen the involvement of line agencies.** The District Governor will continue to chair the District Coordination Committee and endorse PRF subprojects proposed by communities following the confirmation of their alignment with the GoL strategy for rural development and poverty reduction. Under the PRF III, PRF subprojects will be integrated in the annual implementation plan of the five year DSEDP to minimize overlap and enhance synergy. The pilot implemented during the PRF II to help district authorities develop the annual implementation plan based on the PRF supported KDP would be modified based on the experience and rolled out in other provinces in stages.<sup>24</sup> It is expected that the PRF's bottom up process will become part of the integral process in the development of the next five year DSEDP. District GoL officials would receive additional training to strengthen their capacity in strategic planning using inputs from communities. They will also continue to participate in the design and supervision of subprojects, and advise communities on O&M in partnership with the PRF.

31. **The PRF would implement the PRF III project using an updated Project Operations Manual (POM) and technical guidelines reflecting the changes introduced in this phase of financing.** The POM was recently updated as the PRF II Additional Financing was prepared, and is currently being further modified based on the findings of the Impact Evaluation of PRF II, the Technical Audit and other analytical studies conducted during the preparation of the PRF III.

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<sup>24</sup> The draft procedure was developed by the PRF to develop the annual implementation plan of the DSEDP and is currently under review by the MPI.

Technical guidelines developed during the PRF II will continue to be used with modifications where necessary to provide standard operating procedures for key aspects of project implementation, such as community engagement, quality assurance, subprojects implemented under the community force account, fiduciary aspects, and project monitoring.

32. **The Swiss Agency for Development and Cooperation (SDC) is planning to provide a complementary financing grant of about US\$16 million to the PRF III operation.**<sup>25</sup> The PRF would continue to use the single reporting and supervision procedures for SDC complementary financing, and efforts will continue to be made to further harmonize fiduciary review. The PRF III would also benefit from, and complement, the SDC's continuing support to the capacity development of district officials through its support to the District Development Fund (DDF).<sup>26</sup>

33. **The PRF III will continue to provide implementation support to the National Center for Environmental Health (Namsaat), and may start a partnership with the Bank executed Cookstove Initiative,**<sup>27</sup> under which the PRF's village institutions, in particular VIT and KBF, would serve as the local platform to deliver last mile services. The World Bank's Water and Sanitation Program (WSP) will continue to support the partnership with the Namsaat under the planned Technical Assistance program.<sup>28</sup> It is unlikely that the PRF would start any other partnership during the life of the PRF III.

## **B. Results Monitoring and Evaluation**

34. The PRF III will build on the project monitoring framework established under PRF II to provide timely data regarding the progress and results of the project. Overall project progress will be measured against the results indicators shown in the Results Framework (annex 1). A core set of these indicators would be used to report in the Bank's Implementation Status and Results system for the project.

35. Several studies will be undertaken to analyze and evaluate project performance. A full-scale impact evaluation will not be carried out as the impact evaluation of the PRF II has demonstrated the validity of the PRF model. Instead, several special studies will be undertaken to enhance the understanding of key aspects of the project, including: (i) a Technical Audit to assess the technical quality, cost effectiveness and sustainability of PRF subprojects<sup>29</sup>, (ii) PRF organizational review to enhance performance and improve efficiency; (iii) a detailed evaluation of PRF processes; and (iv) a household (HH) survey to track key project outcome indicators.

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<sup>25</sup> The SDC's complementary financing is expected to become available from January 2017.

<sup>26</sup> The SDC supports the DDF in 53 districts under the on-going National Governance and Public Administration Reform (NGPAR) Programme.

<sup>27</sup> This Cookstove Initiative is funded by Bank Executed Trust Funds. The PRF III would not finance the cost of purchasing cookstoves under the partnership. See Annex 2 for more details about the Cookstove Initiative.

<sup>28</sup> This TA program may explore steps to strengthen the sustainability of PRF's water supply subprojects and ways to ease supply side constraints to rural sanitation using the PRF implementation mechanisms.

<sup>29</sup> This assessment will include cost benefit analysis and safeguard performance assessment.



### **C. Sustainability**

36. The Technical Audit conducted during preparation found that the majority of PRF subprojects built four to six years ago are still functioning, and many beneficiary communities carried out small repairs where necessary. However, it also found that maintenance of rural roads is particularly challenging to communities. Also, many communities have received infrastructure sub-grants only once during the PRF II period, and the participation of district authorities is generally limited to the endorsement and the technical inspection of PRF subprojects. These factors limit the capacity development impact of the project.

37. Under the PRF III, beneficiary villagers will be assisted to form RMGs and carry out routine maintenance of rural roads using parts of the infrastructure sub-grant. The PRF would work closely with the Ministry of Public Works and Transport (MPWT) and the International Labour Organisation (ILO) which carried out the routine maintenance pilot using the RMG model in Sekong province to ensure that sufficient technical support would be provided to the RMGs. Also, target communities will be encouraged to use infrastructure sub-grants to address critical maintenance needs of priority infrastructure. Maintenance activities will not only help ensure sustainable access of rural poor to critical infrastructure at a lower cost. It will also allow the PRF to engage with communities repeatedly and develop their capacity continuously. District officials will continue to participate in the semi-annual follow-up visits and be encouraged to include the current needs of communities in the sector planning. The PRF III would also provide technical and logistical support to district authorities in developing the annual implementation plan of the DSEDP with the participation of kum ban representatives to facilitate linking bottom-up planning processes with the GoL's official planning processes.

## **V. KEY RISKS AND MITIGATION MEASURES**

### **A. Overall Risk Rating and Explanation of Key Risks**

38. The overall risk of the PRF III project is rated as moderate. Key risks include implementation capacity risk and political risk. Implementation capacity risk is significant as is shown by the significant delay experienced at the beginning of the PRF II as a result of geographical expansion and transition in leadership. The mitigation measures that have proven to be effective under the PRF II include the introduction of new activities in phases, the development of standard operating procedures and the continuing capacity development of implementation staff. Also, the forthcoming move of the National Committee for Rural Development and Poverty Eradication (NCRDPE) from the Prime Minister's Office to the Ministry of Agriculture and Forestry (MAF) may affect the legal status and implementation capacity of the PRF which the Decree of the PRF provides would operate under the guidance of the President of the NCRDPE. The mitigation measures include a continued policy dialogue to help the GoL make an informed decision on the legal and institutional arrangements of the PRF in consultation with the Bank. Political risk concerns potential elite capture which will be mitigated by the use of objective selection criteria, strengthened community engagement and social/ technical audit processes, and community oversight of procurement and subproject implementation processes.

39. Environmental and social risks will remain substantial given the continued risk that the project would be used as incentives for village consolidations. The same risk mitigation measures

applied successfully under the PRF II would continue to be used under the PRF III. Macroeconomic risk is substantial given the continuing fiscal crunch facing the GoL, which will be mitigated through the continued use of procedures developed during the PRF II which helped ensure a timely allocation of GoL funding. Fiduciary risk is considered substantial given the low capacity at the community level which is mitigated through the continued application of the strengthened Community Procurement Manual and Financial Management (FM) Manual.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial Analysis**

40. An economic analysis of PRF subprojects was performed for three types of infrastructure subprojects which will likely remain priority areas for investment, namely (i) farm to market roads, (ii) water supply (gravity and pump), and (iii) school buildings.<sup>30</sup> The decision rule is to accept a project where the Economic Internal Rate of Return (EIRR) is greater than the hurdle rate of 11.25 percent and the Net Present Value (NPV) is greater than zero.

41. The benefits associated from road subprojects<sup>31</sup> are (a) increase in farm incomes as a result of improved access to markets; (b) cost savings in transporting agriculture produce to the market; (c) additional earnings from a reduction in post-harvest losses; and (d) cost savings in transporting agricultural inputs to the farm site. A conservative analysis revealed an NPV of US\$126,000 and EIRR of 44 percent. The benefits of water supply subprojects includes (a) opportunity cost of time saved from fetching water, especially for children and women; and (b) increased water consumption for HHs. The health benefits are difficult to estimate and are not included in this analysis. A conservative analysis revealed an NPV of US\$8,724 and EIRR of 20 percent for gravity supply and NPV of US\$ 2,961 and EIRR of 14 percent for pump driven water supply, suggesting that returns from investment from water supply subprojects are acceptable. The benefits of new classrooms include: (a) reduction in dropout rates; (b) increase in enrollment rates as a result of having more classrooms and teachers; and consequently (c) higher earnings over a lifetime as a result of increase in number of years with education. A conservative analysis revealed an NPV of US\$34,000 and EIRR of 26 percent.

42. A sensitivity analysis<sup>32</sup> found that the water subprojects (gravity) are sensitive to a reduction in project lifetime by four years and that pump water supply projects are sensitive under all scenarios, suggesting that the costs of drilling wells should be reduced or priority be given to gravity schemes. The returns from improved classrooms and new road projects are robust under all scenarios. Other non-tangible benefits associated with the PRF, such as increased participation in village and local government planning and the impact of the livelihoods support, are not quantified in the economic analysis. These impacts were partially captured by the Impact

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<sup>30</sup> The shadow wage rate (SWR) was used to reflect the true economic value of unskilled labor employed in the project. The value of unskilled labor in the PRF project areas is around LAK 41,000/day. The social discount rate (SDR), currently pegged by the Lao Central Bank at 11.25 percent, was used.

<sup>31</sup> Almost all PRF road subprojects are spot improvement.

<sup>32</sup> Sensitivity analysis was conducted under three scenarios, namely: 1) reduction in the project lifetimes as result of poor maintenance; 2) increase in construction cost by 20 percent; and 3) reduction in project benefits by 20 percent.

Evaluation which shows that PRF supported HHs perceive increased participation in and influence on village decision-making.

## **B. Technical**

43. The cost of construction of buildings, particularly dispensaries and schools, increased by 20 percent in the first two years of the PRF II. To maintain the current level of project benefits, block grant amounts will be increased by 10 percent under the PRF III, and subprojects that may go above the cost ceiling will be allowed on exceptional cases if sufficient technical and economic justifications are provided. Subproject design, appraisal and supervision will continue to be strengthened as the PRF would assign engineers experienced in specialist fields for technically challenging subprojects. The subproject sustainability will continue to be strengthened through the semi-annual follow up visit jointly conducted by the PRF and line ministries, under which additional technical guidance is provided to the O&M committees.

44. The PRF updated the Memorandum of Understanding (MOU) with the Ministry of Health (MOH) which gives a priority to PRF built dispensaries in the provision of necessary staff and equipment. It is expected that this agreement will expedite the provision of staff and equipment to PRF built dispensaries. The timely provision of staff and resources will be monitored through the semi-annual follow up visits.

45. The PRF uses well-established technical standards of line ministries. Technical Audit conducted during preparation of PRF III found quality issues with PRF road subprojects due to low initial inputs, high maintenance costs and poor Operations and Maintenance (O&M). In order to address these issues, the PRF III will establish RMGs and allow villages to use part of the subgrant for O&M activities. The RMG will be established with members from the poorest HHs using the same methodologies used under the PRF's SHG, and will consist of four to five persons working part time to maintain a typical 5 km PRF road.

## **C. Financial Management**

46. The same FM arrangement will apply for the PRF III as for the previous PRF I and II. The implementing agency remains the PRF, whose staff has gained substantial experience in managing donor funded projects. The PRF's FM system has been significantly improved over the life of the previous phases, including the existence of trained staff, and the establishment of functioning project FM system and internal audit unit. A grievance handling system is in place and operational. Nevertheless the risk of misuse of funds remains, due to the weak FM capacity at the community level. **The overall FM risk thus remains 'Substantial'**, which will be mitigated by (a) updating and further simplifying the community FM guidelines so that procedures are clear and easily understood, (b) training of the community to ensure that they clearly understand the procedures and are able to complete the necessary financial records, (c) audit of a sample of subgrants as part of the project's annual financial audit by external qualified auditors with terms of reference acceptable to the Bank. The assessment concludes that the FM arrangements for the overall project are adequate and acceptable in accordance with OP/BP10.0. The FM systems at the community level will be further enhanced when the additional mitigation measures are implemented.

47. **Retroactive Financing:** To ensure continuity of the Project activities, retroactive financing of up to SDR 2 million under IDA Credit is allowed to finance payments made for eligible expenditures made prior to loan signing but on or after July 31, 2015.

#### **D. Procurement**

48. The World Bank carried out a procurement capacity assessment during the preparation of the PRF III. The project is a continuation of previous phases. The main procuring entity under the project is the PRF in Vientiane which will carry out the procurement of goods, works and services required for project management, while beneficiary communities will carry out the procurement under subprojects. The PRF office has sufficient capacity and experience to undertake procurement under the project and supervise communities in their procurement activities. Procedures for procurement at the village level already exist and have been updated based on the lessons learned from previous phases.

49. The implementation of the subprojects, including procurement, will be decentralized to the village level, as the PRF project design is focused largely on the implementation of subprojects through a CDD process at the village level. Procurement under subprojects will involve small value works and goods that will be procured through national competitive bidding (NCB), shopping, procurement from UN Agencies, direct contract or community force account as appropriate. The PRF central office will provide procurement training to PRF provincial and district staff; and the PRF provincial and district staff will provide procurement training to elected village representatives, KBFs and also assist them in conducting procurements. **Overall procurement risk is ‘Moderate’** and risk mitigation measures have been agreed with the PRF during the preparation.

#### **E. Social (including Safeguards)**

50. OP 4.12 *Involuntary Resettlement* and OP 4.10 *Indigenous Peoples* will continue to be triggered under the PRF III since minor impact on lands and other private assets is expected and also because many subprojects will be implemented where ethnic groups who meet the eligibility criteria of OP 4.10 are present.

51. The overall impact of the PRF III on local communities and minority ethnic groups is expected to be positive. The safeguard performance review of the PRF II did not find significant negative impact. Minor loss of private assets was addressed through voluntary donations. Gaps were found such as the documentation of consultation processes and the knowledge of project staff in voluntary donations. The Compensation and Resettlement Policy Framework (CRPF) and Ethnic Group Planning Framework (EGPF) were updated to address such gaps. Under the PRF III, a Land Acquisition Plan (LAP) will be prepared and the Voluntary Donation Form used, as relevant, if private assets are affected, and the VDP will be developed to address the requirements of the Indigenous Peoples Plan (IPP). The revised CRPF and EGPF were disclosed in country and on the World Bank website on March 2 and 7, 2016, respectively, and in-country consultations were conducted in regions (on March 10 and 11, 2016) and in Vientiane (on March 14, 2016). The CRPF and EGPF were revised based on the comments received and re-disclosed on March 22, 2016.

52. To address the risk that the GoL uses PRF subprojects as an incentive for village consolidation, the PRF III would not allow project resources to be used in villages that have been consolidated in the past four years or those which are planned to be consolidated in the next four years. The same principle was applied under the PRF II and successfully mitigated the risk.

53. **Gender.** A Gender Equality and Social Inclusion (GESI) Action Plan developed under the PRF II will continue to be applied under the PRF III. Female members of more than 300 SHGs, who are about 70 percent of the SHG members, will continue to benefit from improved child nutrition, HH food security and livelihoods. The RMGs will be formed as women only groups which would help increase women's income, enhance social standing and strengthen their management and facilitation capacity. Gender and ethnic disaggregated data will be continuously collected through the Management Information System (MIS).<sup>33</sup>

54. **Social Accountability and Citizen Engagement.** The PRF beneficiary communities will continue to play a key role throughout the project implementation and be assisted to ensure that ethnic minorities, women and other vulnerable groups are not excluded from project benefits. Citizen engagement and accountability measures used under the PRF II, such as the free hotline and locked mail boxes, will continue to be used under the PRF III. The experience to date shows that most questions received and grievances registered were responded to in a timely manner. The PRF III will strengthen the information disclosure and transparency by improving the timely disclosure of key information through the project website and by ensuring that a notice board is installed and maintained in all project villages.<sup>34</sup>

#### **F. Environment (including Safeguards)**

55. OP/BP 4.01 *Environmental Assessment*, OP/BP 4.04 *Natural Habitats*, OP 4.09 *Pest Management* and OP/BP 4.37 *Safety of Dams* will continue to be triggered under the PRF III. In addition, OP/BP 4.36 *Forests* and OP/BP4.11 *Physical Cultural Resources* will also be triggered under PRF III.

56. The environmental impacts of the PRF III will be comparable to those of the PRF II. The Environmental Category remains B. The PRF III would continue to finance, in the main, the new construction, rehabilitation or improvement of small-scale rural infrastructure, such as schools, markets, dispensaries, over-flow bridges, access roads, water supply, water storage facilities and irrigation systems. They may cause minor impacts such as waste disposal, water pollution, dust and noise which can be mitigated through good construction practices and implementation of screening and monitoring tools.

57. The safeguards review of the PRF II did not find negative environmental impacts. Minor gaps were found such as tree cutting without replanting and inadequate watershed management. Training will be provided so that such minor impact would not occur. It was found that 78 subprojects were initiated within classified forests, including 22 (about one percent of subprojects funded) which rehabilitated existing tracks although such activities were in the non-eligibility list. No negative impacts occurred. To avoid any impact on the health of forests, the OP/BP 4.36, *Forests*, is triggered and safeguard monitoring will be tightened. The OP/BP 4.11, *Physical*

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<sup>33</sup> More details are provided in Annex 3.

<sup>34</sup> More details are provided in Annex 3.

*Cultural Resources*, is also triggered to address potential chance finds. The existing Environmental and Social Management Framework (ESMF) was updated based on the experience and disclosed in country and at the World Bank website on March 2 and 7, 2016 respectively. In-country consultations were conducted in regions (on March 10 and 11) and in Vientiane (on March 14) 2016. The ESMF was revised based on the comments received and re-disclosed on March 22, 2016

58. **Climate and disaster risk:** Lao PDR is vulnerable to natural disasters and climate change. About two thirds of the population experience an average of 1.5 serious floods or droughts every year. From 1970 to 2010, 33 natural hazard events (mostly floods and droughts) occurred, affecting more than nine million people and resulting in economic losses of over US\$400 million. Climate change would result in increases in average annual temperature, increased extreme rainfall events in the Annamite mountain range, and the frequency of large rainfall events and flash floods. The Climate and Disaster Risk Screening found that measures taken under the PRF II remain valid. Under the PRF III, on-site inspection will continue to be conducted for selected subprojects and climate and disaster risk management training be provided to PRF engineers to make PRF investments more resilient against disasters. Improvements in site screening and site investigation introduced under the PRF II will also continue to be applied in PRF III.

#### **G. Other Safeguards Policies Triggered**

59. As under the PRF II, OP 7.50 *Projects on International Waterways* will be triggered under the PRF III as it would finance subprojects involving gravity-fed water systems or small irrigation schemes that take water from rivers that are direct or indirect tributaries of the Mekong, an international waterway. At the request of the GoL, the World Bank notified riparian countries/agencies (China, Myanmar, Thailand, Cambodia, Vietnam and the Mekong River Commission) prior to appraisal. No response or inquiry has been received. In the World Bank's assessment, the small-scale subprojects to be financed under the Project are unlikely to cause any adverse effects to flow, quantity and quality of the Mekong River's waters or its tributaries.

#### **H. World Bank Grievance Redress**

60. 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 Bank'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 Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring and Evaluation

Country: Lao PDR

Project Name: Poverty Reduction Fund III (P157963)

### Results Framework

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#### Project Development Objectives

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PDO Statement

A. PDO

The Project Development Objective is to improve access to basic 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.

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These results are at | Project Level

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#### Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Direct project beneficiaries <sup>35</sup> (Number) - (Core)	567,762	640,000	680,000	687,000	690,000	690,000
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	53.00	50.00	50.00	50.00	50.00	50.00
Ethnic Beneficiaries	70.00	70.00	70.00	70.00	70.00	70.00

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<sup>35</sup> The baseline value is the total number of villagers who have directly benefited from the PRF II at the time of PRF III appraisal. The Year 1 value includes villagers who would benefit from the last annual sub-grant cycle of the PRF II, in addition to those who would benefit from the first annual cycle of the PRF III.

(Percentage - Sub-Type: Supplemental)						
% of PRF beneficiary HHs reporting improved access to basic services (Percentage) <sup>36</sup>						End targets set for each subproject type
% of PRF beneficiary HHs with access to health services (Percentage - Sub-Type: Supplemental)	36.40				42.40	42.40
% of PRF beneficiary HHs with access to safe water resources (Percentage - Sub-Type: Supplemental)	11.00				15.00	15.00
% of PRF beneficiary HHs with access to all weather roads (Percentage - Sub-Type: Supplemental)	48.00				58.00	58.00
% of PRF beneficiary HHs reporting improved quality of educational facilities (Percentage - Sub-Type: Supplemental)	45.00				60.00	60.00

### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
% of total project value contributed by the community (Text)	11.00					No target value set
% HHs in PRF beneficiary villages voting for village priorities (Percentage)	60.00	70.00	75.00	75.00	75.00	75.00
% of PRF Kum bans participating in DSEDP process promoting PRF KDPs and/or VDPs (Percentage)	0.00	50.00	70.00	75.00	75.00	75.00
% of subproject activities of high technical quality (Percentage)	85.00			85.00		85.00
% of HHs in PRF beneficiary villages satisfied with the participatory planning process supported by PRF III (Percentage)	75.00			80.00		80.00
% of PRF III subproject prioritized by women (Percentage)	91.00	90.00	90.00	90.00	90.00	90.00
% of PRF III subprojects prioritized by ethnic group (Percentage)	70.00	70.00	70.00	70.00	70.00	70.00
% of PRF built infrastructure in a functioning quality (Percentage)	80.00	80.00	80.00	80.00	80.00	80.00
% of registered grievances that are addressed according to agreed procedures (Percentage)	90.00	90.00	90.00	90.00	90.00	90.00

<sup>36</sup> Baseline values for the sub-indicators are the current level of access at the time of PRF III appraisal.



Number of communities able to plan, implement and monitor their VDPs (Number)	1,124	1,300	1,400	1,450	1,450	1,450
Number and value of subproject activities implemented by types (Number)	1,426	1,750	2,100	2,450	2,800	2,800
Number of individuals with livelihood investments using loans from SHGs (Number)	4,054	8,000	8,000	8,000	8,000	8,000
% of SHGs with NPLs 4% and below <sup>37</sup>	60.00	60.00	70.00	70.00	70.00	70.00

### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Description (indicator definition and so on)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Direct project beneficiaries	Total village population where a subproject is implemented	Annual	MIS	PRF M&E
Female beneficiaries	Total female population in the village where a subproject is implemented	Annual	MIS	PRF M&E
Ethnic Beneficiaries	Total ethnic minority population in the village where a subproject is implemented	Annual	MIS	PRF M&E
% of PRF beneficiary HHs reporting improved access to basic services	End targets have been set for different types of subprojects. Baseline value is the current level of access at the time of Appraisal.			
% of PRF beneficiary HHs with access to health services	Seeking care when sick, time to nearest health facility	Before project closing	HH survey	Contracted firm
% of PRF beneficiary HHs with access to safe water resources	Access to protected water source during wet/dry seasons	Before project closing	HH survey	Contracted firm
% of PRF beneficiary HHs with access to all weather roads	Travel time and accessibility of roads & nearest village during wet/dry season	Before project closing	HH survey	Contracted firm

<sup>37</sup> The baseline value is the estimation based on an assessment carried out by GIZ/ Access to Finance project on a sample basis, and will be verified by the closing of the PRF II. Year 1 value includes additional beneficiaries who would receive loans from SHGs during the remaining period of the PRF II.

% of PRF beneficiary HHs reporting improved quality of educational facilities	Perceived quality of school facilities	Before project closing	HH survey	Contracted firm
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### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
% of total project value contributed by the community	Community share of cost in the BOQ, updated at the final inspection	Annual	MIS	PRF M&E
% of HHs in PRF beneficiary villages voting for village priorities	% of people who would vote to select priorities at the hamlet level.	Annual	MIS	PRF M&E
% of PRF KBs participating in DSEDP process promoting PRF KBPs and/or VDPs	Inclusion of KBPs in annual DSEDP implementation plan will be measured	Annual	MIS	PRF M&E
% of subproject activities of high technical quality	% of sample infrastructure subprojects judged by qualified engineers to be of good or fair technical quality	Midterm	Special survey	Contracted firm
% of HHs in PRF beneficiary villages satisfied with the participatory planning process supported by PRF III	% of HHs in PRF beneficiary villages who express satisfaction with the participatory planning process supported by PRF III	Midterm	Special survey	Contracted firm
% of PRF III subprojects prioritized by women	Subprojects prioritized by women only or by men and women	Annual	MIS	PRF M&E
% of PRF III subprojects prioritized by ethnic group	Subprojects prioritized by ethnic minorities	Annual.	MIS	PRF M&E
% of PRF built infrastructure in a functioning quality	% of sample PRF III subprojects continuing to be under fair or satisfactory conditions and in use	Midterm, bi annual follow up visit	Special survey, bi annual follow up visit	PRF M&E, Contracted firm
% of registered grievances that are addressed according to agreed procedures	Grievances submitted through hotlines and Feedback and Resolution Mechanism (FRM) would be monitored	Annual.	MIS	PRF M&E

# of communities able to plan, implement and monitor their VDPs	# of villages that have successfully developed and implemented the VDP	Annual.	MIS	PRF M&E
# and value of sub project activities implemented by types	MIS will disaggregate subprojects for new construction, improvement, rehabilitation/ reconstruction and maintenance/ repair	Annual.	MIS	PRF M&E
# of individuals with livelihood investments using loans from SHGs	The number of HHs who initiate livelihood investments using SHG loan will be counted	Annual.	MIS	PRF M&E
% of SHGs with NPLs 4% and below	Value of all outstanding loans with payment(s) past due more than 90 days	Annual	MIS	PRF M&E

## Annex 2: Detailed Project Description

### LAO PDR: POVERTY REDUCTION FUND (PRF) III

1. The PRF III will consist of the following four components: (a) Community Development Sub-grants, (b) Local and Community Development Capacity Building, (c) Project Management; and (d) Nutrition Enhancing Livelihood Development.

#### Component 1: Community Development Sub-Grants (US\$26.4 million)

2. **Planning for community and local development.** Under the PRF III, kum bans will continue to be the planning and fund allocation unit given the efficiency in project management and to minimize external interference in planning processes. Eligible villages will develop the VDP based on the participatory planning processes. The VDP will be developed on a five year rolling basis, and will be consolidated at the kum ban level by elected village representatives into the KDP.

3. **Kum ban allocation.** Each target kum ban will receive a three-year budget allocation upfront to inform its planning and prioritization. Upfront budget allocation for multiple years has proven to be effective in establishing predictability in budget allocation and helping villages prioritize subprojects based on a longer-term perspective without causing undue competition over resources among them. In line with the increase in the cost of construction since the beginning of the PRF II, the average annual allocation will be increased by 10 percent to US\$43,000<sup>38</sup> per kum ban, for a total average investment amount per kum ban of about US\$130,000 over three years.

4. **Community subprojects.** As under the PRF II, subprojects would be financed and implemented on an annual basis. Activities to be financed under the sub-grants would be open except for items included in the project's negative list. The sub-grant ceiling of US\$60,000 will be maintained. Subprojects will be selected for financing from the KDP. PRF district staff and GoL district officials would continue to provide technical guidance to help kum bans identify subprojects that will generate optimal benefit and poverty impact at the kum ban level, using the kum ban resource map where already developed<sup>39</sup> and other available resources. As under the PRF II, it is expected that, overall, 75 percent of subprojects would directly benefit the poorest communities within the kum ban.

5. Under the PRF III, minor repair and simple maintenance of existing infrastructure will be promoted to maintain favorable access to critical infrastructure for rural poor. The semi-annual follow-up visit will continue to be carried out to inform villagers of the urgent repair and maintenance work that have to be conducted to prevent a premature deterioration of priority infrastructure which, if remain unaddressed, would require significantly more resources to restore functionality in future. If prioritized in the VDP and included in the KDP, such repair and

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<sup>38</sup> Annual kum ban allocation under the PRF II is about US\$39,000 on average, adjusted based on the size of population and remoteness, and varies from US\$35,000 for smaller kum bans to US\$55,000 for larger kum bans

<sup>39</sup> The kum ban resource map which is currently under development is a GIS based map that shows village settlements, locations of infrastructure including road networks, schools and hospitals, job opportunities such as plantations, to visually illustrate the current access to infrastructure and livelihood opportunities and guide kum bans and district authorities in the optimization of investments for the best benefit of the entire district.

maintenance works will be financed like new construction or improvement through infrastructure sub-grants. The promotion of maintenance will also allow the PRF to engage with communities repeatedly and strengthen their capacity continuously. Local engineers may also be trained to provide regular technical support to communities, which will improve the access of villagers to technical skills at a lower cost.

6. **RMGs.** Where the PRF III supports road subprojects, villagers will be assisted to form the RMG and carry out simple routine maintenance, following the pilot conducted in Sekong province funded by the International Labour Organisation (ILO).<sup>40</sup> While RMGs will only be able to preserve roads of maintainable conditions and conduct spot improvement of a limited scale, they can help preserve the current road conditions and prevent currently functioning roads from deteriorating rapidly. RMGs will initially focus only on PRF road sections, however, they can carry out routine maintenance and minor spot improvement of critical access roads beyond the PRF sections, if additional funding is available from the GoL.<sup>41</sup>

7. About 10 RMGs will be formed initially to test and finalize the approach.<sup>42</sup> RMG members will receive training and carry out simple maintenance activities using hand tools, such as culvert cleaning, road surface cleaning, vegetation cutting, and surface repairs of unpaved roads, under the supervision of engineers from the PRF and District Public Works and Transport. They will be paid according to the agreed work plan and against the achievement of milestones. The processes and procedures to organize the SHGs used under the PRF II will be modified to form the RMG. The procurement and payment mechanism used for PRF hired contractors will be used, with minor modifications where necessary. The discussion is ongoing so the Bank's Road Asset Management Project (RAMP) under preparation would provide additional funding to expand the operational coverage of the RMG beyond the PRF improved roads and institutionalize the RMG as a model of rural road asset management.

## **Component 2: Local and Community Development Capacity Building (US\$3.3 million):**

8. **Village level.** This component will build on the achievement under the PRF II and continue to develop the capacity of local government officials to plan and manage local development processes in partnership with villagers. The costs of KBFs will be financed under this component. The DCDD approach which was successfully introduced under the PRF II to reach out to minority ethnic groups and vulnerable women in the planning process will continue to roll out to other districts.

9. **KBF.** The KBF are selected by villagers themselves from local communities to facilitate bottom-up processes. Of more than 600 KBF, about 72 percent are from local ethnic groups and about 45 percent are female. The KBF does not receive a salary but their travel and subsistence costs are covered by the PRF. The PRF recently increased the per diem and introduced the performance-based grading system linked to remuneration to create incentives for more competent

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<sup>40</sup> The PRF participated in implementing the pilot.

<sup>41</sup> 10 RMGs will initially be piloted to finalize the approach. Based on the experience of PRF II, it is expected that on average, 40 road subprojects will be supported in each cycle under PRF III. RMGs will be developed in each of these road subprojects to ensure proper maintenance and improve sustainability.

<sup>42</sup> They will be formed during the PRF II implementation with the funding from the SDC.

villagers to serve as the KBF. The capacity assessment of the KBF will be regularly conducted and additional training will be provided as necessary under the PRF III.

**10. District and provincial level.**

The capacity of district and provincial officials to support pro-poor local and community development processes will continue to be strengthened under the PRF III<sup>43</sup>. Line ministry officials will continue to participate in the semi-annual follow-up visit to advise villagers on O&M of village infrastructure including but not limited to PRF subprojects, and discuss with them any additional support they may need from the Government. The PRF's Annual Work Plan will continue to be developed at the district level, following the pilot successfully implemented under the PRF II, and potentials for mutual support will be explored with district officials.

**11. DSEDP.** The PRF III will seek to strengthen the integration of the PRF's bottom-up processes with the GoL's planning and delivery mechanisms through facilitating the participation of

kum ban representatives in the development of annual implementation plan of the existing five year DSEDP<sup>44</sup>, using the PRF's convening power. Under the existing mechanism, each sector prepares a sector plan annually which the District Planning Office consolidates into the annual implementation plan in line with the five year DSEDP. Under the PRF III, building on the pilot implemented under the PRF II, the PRF district office will invite representatives of all kum bans in the district including non-PRF kum bans to present their KDPs to sector officials so their priorities would be integrated in the sector plans. The PRF district office will also invite kum ban representatives to the workshop where the annual DSEDP implementation plan is presented to all stakeholders<sup>45</sup>, so they are given opportunities to provide comments to the draft plan before the annual DSEDP implementation plan is finalized.

**12.** Experience of the pilot indicates that, where the quality of the KDP is high and district officials are experienced in PRF processes, kum ban representatives tend to be more successful in integrating kum ban priorities in the annual DSEDP implementation plan. The PRF III will continue to help kum bans improve the quality of the KDP and facilitate their active participation

**Box 2.1. Deepen CDD**

The DCCD approach was introduced under the PRF II to improve the quality of participation especially among ethnic groups and women. So far, the approach has been rolled out to 316 villages of 43 kum bans across 8 districts in four provinces.

Under the DCDD approach, three KBFs including two female facilitators are recruited from within the local communities who facilitate community meetings which will be held not just in the village centers but in distant hamlets where many poor minority ethnic groups live, using ethnic languages and numerous information education communication (IEC) materials. HH wealth ranking and various participatory tools are used to identify the distinctive needs of poor groups and women. DCDD successfully improved the participation of ethnic groups and women from below 50 percent to 91 percent and 61 percent, respectively. Participation of female villagers in decision processes improved with a result that over 90 percent of sub projects are prioritized by women or both women and men. The cost of planning under the DCDD is about US\$430 per village per year, or about 8 percent of kum ban allocation.

Under the PRF III, the DCDD approach will be rolled out to all kum bans. A training program is under way to equip PRF and government staff as well as KBFs with basic skills in DCDD approach. The training program is scheduled to be completed by September 2016, prior to the effectiveness of the PRF III.

<sup>43</sup> The stocktaking of rural development processes conducted during preparation found that many district officials highly appreciate the capacity development support and on-the-job training opportunities provided by the PRF.

<sup>44</sup> The current DSEDP was developed in 2015 and would unlikely be updated within the life of the PRF III.

<sup>45</sup> This workshop is chaired by the District Governor.

in the development of the annual DSEDP implementation plan. Subprojects to be funded by the PRF will continue to be selected directly from the KDP at the PRF's District Coordination Meeting<sup>46</sup>, however, the list of PRF subprojects will be included in the annual DSEDP implementation plan as a separate budget line so that the overlap with the GoL investment plan will be minimized. It is expected that strengthened engagement between kum ban and district authorities will not only help improve the development effectiveness of GoL's planning process by strengthening synergy between local and district level planning. It will also contribute to strengthening the participation of local population in the GoL's planning process. The PRF will also encourage the district authorities to use the PRF village institutions to monitor the implementation of the five year DSEDP and its annual implementation plan.

13. **Partnership.** The PRF III would continue to support and deepen the ongoing partnership with the National Center for Environmental Health (Namsaat)<sup>47</sup> through financing the travel and logistical cost of the KBF and the VIT to receive basic training in sanitation and supporting the Namsaat's Open Defecation Free (ODF) campaign at the village level.<sup>48</sup> The PRF III may also provide logistical support to the KBF and the VIT to receive training for latrine construction if so requested by villagers. The Bank's Water and Sanitation Program (WSP) will continue to support the implementation of the partnership under the planned Technical Assistance program.<sup>49</sup> The MOU has been recently updated to clarify the roles and responsibilities between both parties including cost sharing arrangement, and the supportive role of the WSP in the partnership.<sup>50</sup> A similar implementation support partnership may also be made with the Cookstove Initiative under which the VIT and the KBF may serve as the village champion to introduce clean cookstoves.<sup>51</sup> The PRF III would not finance the cost of purchasing cookstoves. It is unlikely that the PRF would start any other partnership during the life of the PRF III.

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<sup>46</sup> The PRF's District Coordination Meeting and the District Planning Committee which develops the five year DSEDP and its annual implementation plan consist of same officials and are both chaired by the District Governor.

<sup>47</sup> Namsaat is under the Ministry of Health (MoH).

<sup>48</sup> Such support will include regular awareness raising using behavior change communication materials currently under development, sharing of basic knowledge on rural sanitation including basic latrine construction techniques, facilitation of triggering and ODF verification events at the village level, day-to-day counselling and monitoring of villagers on sanitation, among other activities.

<sup>49</sup> This TA program may explore steps to strengthen the sustainability of rural water supply systems in the PRF villages and ways to ease supply side constraints to rural sanitation using the PRF implementation mechanisms.

<sup>50</sup> The WSP is not a party to the MOU but will carry out Bank-Executed Capacity building activities in support of the partnership.

<sup>51</sup> The Cook Stoves and Health Initiative (Cookstove Initiative) provides technical assistance to the Ministry of Energy and Mines (MEM) and the Ministry of Health (MOH) to promote super clean cookstoves which will improve indoor household air pollution, reduce the incidence of respiratory diseases and provide an efficient alternative energy solution, and thereby contribute to improving the health and economic well-being of the rural poor. It is funded by Bank Executed Trust Funds including Energy Sector Management Assistance Program (ESMAP) and Asia Sustainable and Alternative Energy (ASTAE), and has provided over US\$ 1.5 million to date.

### **Component 3: Project Management (US\$5.4 million)**

14. This component would finance the central, provincial and district costs of implementing PRF III. This would include remuneration of national, provincial and district PRF staff; associated equipment and operating costs; accounting, procurement assessments, auditing, and other specialized areas. Technical assistance would also be financed under this component.

15. The PRF III will continue to strengthen the Monitoring and Evaluation (M&E) capacity of the PRF. The understanding of technical staff (community facilitators, engineers and fiduciary staff) on M&E issues will continue to be strengthened. In particular, PRF staff involved in livelihood development and partnership with Namsaat will receive dedicated training on M&E to strengthen the unified monitoring mechanism.

### **Component 4: Nutrition Enhancing Livelihood Development (US\$0.9 million)**

16. This component would continue to strengthen the SHGs created under the PRF II to increase the economic opportunities for the rural poor and improve their nutrition conditions. PRF III will help the SHG strengthen the management of investment funds to: (a) start or further develop eligible nutrition sensitive livelihood activities such as the production of small livestock (for example, poultry and fish) and home gardens mostly for own consumption; (b) increase their knowledge of livelihood activities including financial literacy and production cycles, and (c) monitor and evaluate project activities.

17. This component would also continue to support the improvement of dietary intake and diversity of pregnant and lactating mothers and children below the age of two, which will be provided through the GoL's nutrition-related social and behavior change communication (SBCC) strategic action plan and in partnership with the Bank's Health Governance and Nutrition Development Project (HGNDP) and the Strategic Support for Food Security and Nutrition Project supported under the Global Agriculture and Food Security Program (GAFSP). Supplementary meals that are provided at the VNC under PRF II would not be provided under the PRF III, and other activities supported under the VNC would be integrated in the support to the SHG. Where the HGNDP operates, SHG members will be encouraged to participate in the monthly SBCC session delivered by the village communicators.<sup>52</sup> Where the HGNDP does not operate, partnership will be sought with other development partners that provide SBCC events.<sup>53</sup> Partnership with Namsaat on ODF campaign may also be implemented where nutrition activities are conducted to achieve synergy.

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<sup>52</sup> The village communicators will include village health workers, village health volunteers and LWU members, and will be trained and supervised by MOH under the HGNDP funding.

<sup>53</sup> For instance, UNICEF and Save the Children organize such SBCC events in many parts of rural Lao PDR.



## Annex 3: Implementation Arrangements

### LAO PDR: POVERTY REDUCTION FUND (PRF) III

#### Project Administration Mechanisms

- 1. The Poverty Reduction Fund (PRF) would implement the PRF III project under the same implementation modality as under PRF II.** The PRF is a legally established autonomous entity, formed and run in accordance with the Decree of the Prime Minister (10/PM, 2012). It is governed by the PRF Board which is chaired by the Minister to the Government Office and consists of the Vice Ministers of the MOF and the MPI, representatives of all other ministries and provincial vice-governors where the PRF operates. It has about 150 staff at the district level, of whom about a third is female, 80 at the provincial level and 40 at the central level. The PRF implementation will continue to be supported by more than 600 KBFs<sup>54</sup> who are mostly from local ethnic groups and selected by villagers themselves, and serve as volunteers to facilitate bottom-up processes at the village level. At the village level, the VIT, established in each village and selected by villagers themselves, will continue to manage bottom-up processes and implement subprojects in partnership with district officials.
- 2. The PRF would continue to use the three tier organizational structure, with an increased focus at the district level.** The roles of central, provincial and district offices have been clarified and clearly distinguished during the PRF II. Under the PRF III, the PRF Central Office, led by the Project Management Team under the leadership of the Executive Director, would continue to focus on strategic oversight, coordination with and reporting to the GoL and donors, and general quality control and monitoring of project implementation. The PRF Provincial office would focus on capacity development of district staff, appraisal of subprojects prepared by communities, collection of project performance indicators and their reporting to the Central office. The PRF District Office will continue to play the key role by directly supporting the bottom-up planning processes, provide technical support to communities in preparing and implementing infrastructure subprojects, carrying out monitoring visits to communities during and after subproject implementation, and so on. The PRF District Office will supervise and develop the capacity of the KBF. Under the PRF III, the PRF District Office will strengthen partnership with and provide stronger support to the GoL's district authorities through assisting the development of DSEDP annual implementation plans and monitoring their implementation.
- 3. The capacity of the KBFs will continue to be strengthened under the PRF III.** The assessment conducted during preparation found that younger female KBF tend to need continuous capacity development. All KBF younger than 27 years of age need additional capacity development, and 85 percent of female KBF need additional training. Low level of education and traditional values are considered to be a significant constraint for the capacity development of young female KBF. Given the important role that the KBF play in PRF's bottom-up processes, the PRF will step up the training of the KBF under the PRF III. The PRF also plans to promote experienced KBFs as the Senior KBF, provide them higher per diem and let them mentor younger KBF.

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<sup>54</sup> About 72 percent of KBF are from local ethnic groups. About 45 percent of KBF are female.

## Partnership and harmonization

4. **The SDC is planning to provide about US\$16 million complementary financing to the PRF III**, starting from January 2017. The SDC is also interested in supporting the next phase of the National Governance and Public Administration Reform (NGPAR) Programme.<sup>55</sup> The PRF III would benefit from the NGPAR's continued support to the capacity development of district officials where geographical coverage overlaps. The PRF III would also complement the SDC's support to district planning process by strengthening the linkage between village and district planning processes. A dialogue is on-going between the MPI and the PRF to integrate the PRF supported village and kum ban planning process as part of the MPI's official planning processes towards the stronger institutionalization of the PRF in the GoL system. The PRF plans to use SDC funding to the PRF II to carry out analytical works to develop a clearer perspective and a basis for decision on the institutionalization of the PRF in the GOL system in the next 10 years, in light of international experience.

5. **District line agencies and the PRF would deepen their partnerships.** A pilot implemented in Houaphanh province under which the PRF provided logistical and technical support to the district authorities to develop the annual implementation plan of the five year DSEDP based on the KDP developed by PRF and non-PRF kum bans would be rolled out in other provinces in phases. District officials would continue to receive training in bottom-up planning processes, participate in the design and supervision of subprojects, and advise communities on O&M needs in partnership with the PRF.

6. **The PRF will continue to pilot the on-going partnership with the National Center for Environmental Health (Namsaat).** It will continue to finance the travel cost and the logistical cost of KBF and VIT to support the Namsaat's Open Defecation Free (ODF) campaign at the village level. The Bank's Water and Sanitation Program (WSP) will continue to support the partnership with the Namsaat under the planned Technical Assistance program.<sup>56</sup> The MOU has recently been updated to clarify the roles and responsibilities between both parties including cost sharing arrangement, and the supportive role of the Water and Sanitation Program (WSP) in the partnership.<sup>57</sup> A similar partnership may also be made with the Cookstoves Initiative<sup>58</sup> under which the VIT and KBF may serve as village platform to introduce the clean cookstoves. The PRF III would not finance the cost of purchasing cookstoves. It is unlikely that the PRF would start any other partnership during the life of the PRF III.

## Implementation procedures

7. **The PRF would implement the PRF III using the updated POM and technical guidelines.** The POM was recently updated as the PRF II AF was prepared, and will be further modified based on the findings of the Impact Evaluations and analytical works conducted during preparation. Technical guidelines developed during the PRF II will continue to be used to provide detailed standard operating procedures for key aspects of project implementation, such as

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<sup>55</sup> The next phase of the NGPAR is expected to start in January, 2017

<sup>56</sup> This TA program may explore steps to strengthen the sustainability of PRF's water supply subprojects and ways to ease supply side constraints to rural sanitation using the PRF implementation mechanisms

<sup>57</sup> However, the WSP is not a party to the MOU.

<sup>58</sup> See Annex 2 for more details about the Cookstove Initiative.

community engagement, Quality Assurance System, subproject implementation under the community force account, and project monitoring. These technical guidelines are linked to the POM but will be periodically updated as experience is gained.

8. **The Annual Work Plan and Budget (AWPB) will continue to be developed by the PRF central office, based on the plan developed at the district level.** The AWPB will include all activities implemented under the PRF III, including the complementary financing by the SDC. The AWPB will include the list of subprojects to be implemented under respective annual Cycle, broken down to sources of funding, for review and clearance by the Bank. The experience of the PRF II shows that the preparation and review by the Bank of the AWPB helps ensure minimizing the risk of double-dipping.

9. **Local communities will continue to be responsible for the identification, planning and management of subprojects.** Sufficient technical support will be provided to communities to ensure that project activities are implemented in line with the POM and applicable legal agreements. The District Coordination Committee, chaired by the District Governor and consisting of representatives from line agencies, will be responsible for sector coordination at the district level and the approval of PRF III's annual investment plan. The PRF district office will also work through the District Coordination Committee to support the development of DSEDP annual implementation plans based on the KDP in PRF and non-PRF kum bans.

#### Financial Management, Disbursements and Procurement

##### *Organization and staffing*

10. The Financial and Administration Division (F&A) will continue to be responsible for the overall FM of the PRF III. To ensure smooth implementation, financial staff structure and number will remain the same at all levels. As new subgrant activity (road maintenance grant) is being introduced in PRF III and some revision being made to the Finance and Administration Manual (FAM) and Financial Management Guidelines (FMG), financial staff at all levels will need refresher training before activities commence. To build capacity at the provincial and district levels and address issues identified by the audit and various reviews conducted by the Internal Audit Unit (IAU) or the Bank team, face to face meeting for training and review of issues identified in the internal and external audits should also be carried at least once a year.

##### *Budgeting and planning*

11. A bottom up or decentralized planning and budgeting approach has been piloted in the last cycle of PRF II. This process involves annual planning and budgeting from the district level where the annual work plan is drafted, to be submitted to the provincial and then the central levels for review and consolidation. The process will be institutionalized under the PRF III based on the lessons learnt. The consolidated Annual Work Plan including estimated budgets will be prepared with sufficient details for project component and by source of funds. Basis for estimation shall be clearly stated. The consolidated Annual Work Plan will be submitted to the Bank for review and no objection. Budgeting process for funding from GoL (for subgrants only) will follow the same procedure as used under PRF II. Review of the budget shall be made twice a year. The FAM will be updated.

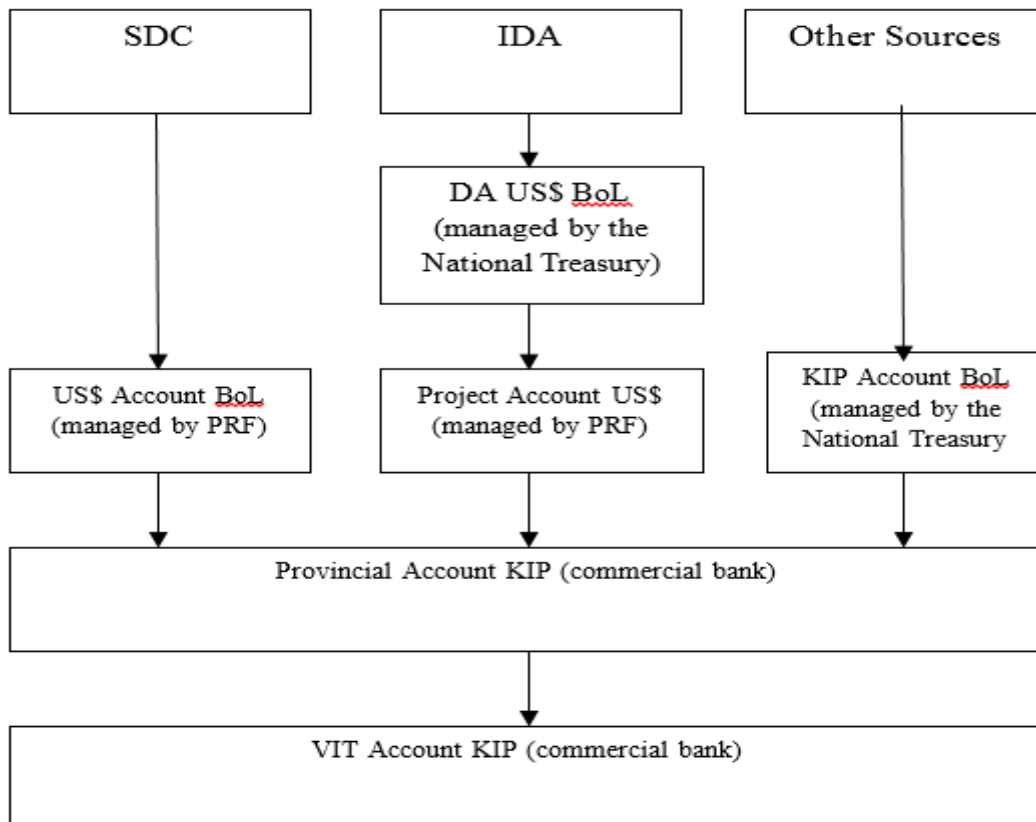
*Accounting policies and procedures*

12. FM policies and procedures are documented in the FAM. The FAM will need to be updated<sup>59</sup> to reflect the new budgeting process, streamlined review procedure for fund transfers to community. FM procedures relating to sub-grants implemented at the village level are documented in the Community Financial Management Guide (FMG). The FMG will need to be updated to reflect additional procedures for disbursement and accounting of road maintenance grant. FM related procedures of the livelihood activities are also to be revised. PRF will continue to use ACCPAC accounting software with some re-configuration to enable recording of transactions of PRF III.

*Fund flows*

13. IDA funds flow arrangement remains unchanged. Funds will flow to the current U.S. dollar pooled designated account, maintained at the Bank of Lao PDR and managed by the National Treasury, MOF. Funds flow from DA to Project Account to VIT Accounts. Funds flows of other sources also remained unchanged. Detailed funds flow mechanism is outlined in the FAM.

Figure 3.1. Project fund flow mechanism



<sup>59</sup> The draft updated FAM was prepared and submitted to the Bank for review.

### *Financial reporting*

14. Financial Reporting requirements for internal reporting from district to provincial to central level and reporting to development partners are described in the FAM. The Project will be required to prepare and submit to the Bank quarterly unaudited Interim Financial Report (IFR) no later than 45 days after each quarter end. The IFR shall report at minimum receipts, expenditure and fund balances. Variance analysis between actual and budgeted expenditure shall be performed and reported as part of the IFR. Format of the IFR has been discussed and confirmed at negotiation. Financial reporting requirements and procedures for sub-grants are included in the FMG.

### *Audit arrangements*

15. **Internal audit.** The IAU has been set up and operational in the PRF since September 2013. The IAU had carried out audit of the central and provincial level on a risk based approach. Internal Audit Committee is in place. The same arrangement will continue to be used under PRF III.

16. **External audit.** PRF III will also be subject to annual audits. At least 10 percent of sub-grants approved each year must be selected for audit on a risk basis. The audit shall be carried out by qualified external auditors with Terms of Reference (ToR) acceptable to the Bank. The TOR has been confirmed and agreed to at negotiation.

17. The audit report together with management letter shall be submitted to the Bank no later than six months of each fiscal year end. Audited financial statement and audit opinion will also be subject to disclosure on the PRF website in accordance with Bank Policy on Access to Information.

**Table 3.1. FM actions**

	<b>Actions</b>	<b>Responsible Party</b>	<b>Status</b>
1	Agree on IFR format	PRF and Bank	Agreed at negotiation
2	Agree on audit ToR	PRF	Agreed at negotiation
3	Complete revision of the FAM, FMG	PRF	Drafted prior to negotiation (not a condition)

### *Implementation Support and Supervision Plan*

18. FM supervision will be carried out twice a year. The supervision is intended to be an integrated supervision with procurement and technical reviews of subprojects.

## Disbursements

19. Disbursement arrangements shall follow the current arrangements.<sup>60</sup> The existing pooled designated account will be used. The ceiling for the designated account will be US\$3,500,000. Applicable disbursement methods shall include (a) advance, (b) reimbursement and (c) direct payment. Minimum application value for direct payment and reimbursement will be US\$300,000. Disbursements shall be made against the following expenditure categories:

**Table 3.2 Disbursement Category**

Expenditure Category	Amount (SDR)	Percentage of Expenditure to be Financed (inclusive of taxes)
(1) Goods, works, non-consulting services, consultants' services, Sub-grants, Training and Workshops, and Operating Costs	21,300,000	100
Total	21,300,000	100

20. Withdrawal of GoL funds for sub-grants shall follow existing procedures used under PRF II. This shall be documented in the FAM.

21. **Retroactive Financing:** To ensure continuity of the Project activities, retroactive financing of up to SDR 2 million under IDA Credit is allowed to finance payments made for eligible expenditures made prior to loan signing but on or after July 31, 2015.

22. **Operating cost** means the reasonable costs of goods and non-consulting services required for the day to day coordination, administration and supervision of Project activities, including rental and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, offices supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), website maintenance, translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, Project-related meeting expenses, Project-related travel, subsistence and lodging expenses, and other administrative costs directly related to the Project, but excluding salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient's civil service.

## Procurement

23. **Procurement for the proposed Project will be carried out in accordance with the Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers"**, dated January 2011, revised July 2014; and **"Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers"** dated January 2011, revised July 2014, and the provisions stipulated in the Legal Agreements. Procurement under the sub

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<sup>60</sup> The Designated Account to be used is the existing account used under IDA H6850, IDA 56770 and TF 12419. The current DA Ceiling of IDA H6850 and IDA 56770 is US\$2,500,000. With this financing, the DA ceiling for IDA financing is increased to US\$3,500,000. In addition to this, the ceiling of TF 12419 of US\$1,450,000 is added to the combined DA ceiling. Total combined DA ceiling is US\$4,950,000.00. The ceiling of this IDA financing will remained at US\$3,500,000 when all other financing closes.

projects will be carried out in accordance with Project Community Procurement Manual dated July 8, 2014 and Section I of the Procurement and Consultant Guidelines cited above.

24. **Procurement of works.** Works procured under this project would include: office renovation at national, provincial and district offices, small scale infrastructure for subproject grants (such as access and transportation infrastructure; schools and nurseries; clinics; community halls and other public building; communal water supply systems or structures; community electrical supply, local markets and road maintenance). The maximum amount of subproject will be US\$60,000 and the expected average value of contract is US\$43,000. No International Competitive Bidding for works is envisaged at appraisal. The Government standard bidding documents, that is, the new harmonized NCB and Shopping for works, the Decree 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations dated March 12, 2004, as well as the amendment No.0861/MOF dated 05 May 2009, shall be used to procure works packages as specified in the procurement plan. Small scale infrastructure for subproject grants under Component 1 of the Project, meeting the criteria in the Project Operation Manual may be procured through Community Participation in Procurement method as stipulated in the Bank's Procurement Guidelines and described in the Project Procurement Manual. Works that meet the circumstances specified in paragraph 3.7 of the Procurement Guidelines may be procured through Direct Contracting.

25. **Procurement of goods.** Goods procured under this project would include: office equipment, vehicles, computer, and furniture for national, provincial and district offices and goods for subproject grants. No International Competitive Bidding for goods are envisaged. The government standard bidding documents, that is, the new harmonized NCB and Shopping for works, the Decree 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations dated March 12, 2004, as well as the amendment No.0861/MOF dated 05 May 2009, shall be used to procure goods packages as specified in the procurement plan. Procurement of goods for subproject grants under Component 1 of the Project, meeting the criteria in the Project Operation Manual may be procured through Community Participation in Procurement method as stipulated in the Bank's Procurement Guidelines and described in the Project Procurement Manual. Goods that meet the circumstances specified in paragraph 3.7 of the Procurement Guidelines may be procured through Direct Contracting. Procurement from UN agencies may be used for procurement of goods as per paragraph 3.10 of the Guidelines.

26. **Selection of consultants.** Consultant services are expected in the following areas: financial audits, technical assistance and project staff support. These services would be procured through various selection methods including Quality and Cost Based Selection, Quality Based Selection, Least Cost Selection, Selection Based on Consultant Qualifications, Single Source Selection and Individual Consultant depending on the value, nature and complexity of the consultant assignments. The use of the method will be based on as specified in the procurement plan.

#### *Assessment of the Agency's Capacity to Implement Procurement*

27. The Bank carried out a procurement capacity assessment during the project pre-appraisal on December 3–4, 2015. The project is a continuation of previous phases under Poverty Reduction Fund I and II. The main procuring entities under the project are the PRF office in Vientiane for goods, works and services required for project management and communities for procurement

under subprojects. In PRF I & II, the PRF central office in Vientiane has been fully responsible for procurement for national, provincial and district offices and has had overall responsibility for the implementation of village subproject grant. Procurement of vehicles, offices equipment, furniture and renovation of office were done by the PRF central office in Vientiane for the use in national, provincial and district level. Two procurement officers and a procurement assistant will handle procurement, which were ICB, NCB and Shopping. Post review of procurement at national level did not reveal any substantial deviation from the Bank's required procedures. The capacity of PRF central office to handle procurement at national level was sufficient, as there will not be many procurement packages at this level.

28. There are areas for improvement related to procurement under subprojects grants managed by communities and PRF district offices, risk/problem, proposed risk mitigation measure, responsible office/ person and period of implementation/completion are specified in the table below.

**Table 3.3. Risk Mitigation Measures (these measures will be included in the POM)**

No	Risk/Problem	Proposed Risk Mitigation Measure	Responsibility	Deadline
1.	Shortage and limited capacity of local contractors and suppliers, particularly in remote areas	(i) Regular reviews of market based cost estimates; and (ii) Capacity assessments of local contractors in provincial and district levels and associated mitigation actions plans.	PRF procurement staff.	Within six months of the signing of the grant agreement.
2.	Strengthening the community/beneficiary oversight of procurement and contract implementation	(i) Participation of community representatives in bid opening meetings; (ii) Public disclosure of procurement plans and contract award information to communities; (iii) Strengthened complaints handling and feedback procedures; and (iv) Community participation in quality and completion checks of implementation.	PRF staff at provincial and district levels	During project implementation
3	Strengthen transparency and accountability in procurement processes,	(i) An action plan for strengthening transparency for the project should be agreed and will be adopted. (ii) Maintain two to three procurement staff at national level. (iii) Maintain one provincial procurement officer in each province. (iv) Enhanced disclosure of procurement information, including publication of the annual procurement plan, and a quarterly summary of the contract award information for all procurement packages; and (iv) Enforce a procurement complaint handling mechanism, requiring integrity pacts, and sanctions procedures, consistent with the Government Procurement Rules & Regulations of the Procurement Management Office of the MOF, and the Bank's requirements.	PRF and the Bank. PRF PRF PRF	Within three months of the signing of the grant agreement.

29. **The PRF project design was focused largely on the implementation of subproject grants through the community-driven process at village level.** The implementation of the subprojects, including procurement, was decentralized to the village level and the procurement, mostly of very small value civil works and some goods, was also carried out at the village level



through VITs using either NCB, Shopping (with advertisement) or Community Force Account procedures.

30. **In the implementation of subproject grants, project staff at the national, provincial and district levels provided technical guidance and capacity-building to the VITs, including in procurement.** Under PRF I and II projects; it is noteworthy that all those mentioned projects procurement packages have been carried out by the consultants financed by the project. Therefore, they are actually the consultants who have gained substantial knowledge under PRF I and II. The PRF Procurement Unit consists of one Senior Procurement Specialist, one Procurement Specialist and one Procurement Assistant. The Procurement and Human Resources Units have sufficient capacity to handle all individual consultant contracts under this project. The Procurement and Human Resources Units were under Finance and Administration Division before; and by mid-2014, these two units were separated from Finance and Administration Division as independent units and report directly to the PRF Executive Director. This restructuring is based on the Bank's recommendation to give more freedom to the Procurement and Human Resources Units and can boost up the procurement arrangement of the project as well. There are the engineer and the community facilitator at the district level, and the Provincial Coordinator, the Technical Advisor (civil engineer), the Community Development Specialist, the Monitoring and Evaluation personnel and the FM personnel in each province. Under the Additional Financing of the PRF II, one procurement officer was added in each province. These ten procurement officers provide regular procurement training to the project's technical staff at the national, provincial and district levels, which is also supplemented by periodic procurement training provided by Bank staff.

31. **The PRF central office will organize a procurement training workshop** for the project implementing staff with assistance from the Procurement Management Office of the MOF within three months of the signing of the grant agreement, and periodically during the life of the project; and PRF will adopt a project procurement record and filing system acceptable to the Bank within three months of the signing of the grant agreement.

32. **Ex-post reviews.** The scope of ex-post reviews by the Bank will be expanded to include checks for collusion and verification of end-use delivery. The Bank will periodically undertake integrated fiduciary supervision jointly by the Procurement and FM specialists. With incorporation of the above measures, the residual procurement risk for the overall Project is rated as "Moderate."

33. **Procurement plan.** For project implementation, a detailed Procurement Plan for the first 18 months of project implementation, including prior reviews thresholds, has been prepared. The Procurement Plan will be updated in agreement with the Bank at least annually or as required to reflect the actual project implementation needs and improvement.

# DRAFT PROCUREMENT PLAN

As of April 28, 2016

**Period covered by this procurement plan: 18 months**

## I. GOODS AND WORKS AND NON-CONSULTING SERVICES

- Prior Review Threshold:** Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

No.	Procurement Method	Contract Value Threshold US\$	Prior Review Threshold US\$	Comments
1	ICB (Goods)	>=600,000	All ICB contracts	
2	NCB (Goods)	100,000 - <600,000	None	
3	Shopping (Goods)	<100,000	None	
4	Direct Contracting (Goods, Works, and Non-consulting Services)	-	All contracts above 5000	
5	ICB (Works)	>= 2,000,000	All ICB contracts	
6	NCB (Works)	200,000 - <2,000,000	None	
7	Shopping (Works)	<200,000	None	
8	Procurement from UN agencies (Goods)	<600,000	All contracts above 600,000	Use World Bank-UN contract template

- Prequalification:** Not expected for the works/goods packages
- Reference to Project Operational Manual:** PRF III
- Any Other Special Procurement Arrangements:** N/A
- Procurement Packages for Works & Goods (prior & post reviews) with Methods and Time Schedule:**

The following table lists goods, furniture, works contracts for which procurement activities are expected to commence during the project cycle.

<b>A. Goods</b>								
No.	Contract (Description)	Estimated Cost US\$	Proc. Method	PQ (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid/ Opening Date	Comment
G001	Procurement of 3 Pick-ups 4x4 WD Double Cab	99,000	Shopping	No	No	Post	Dec-2016	
G002	Procurement of 1 Minibus	36,000	Shopping	No	No	Post	Dec-2016	

G003	Procurement of 40 Motorcycles 100-125 cc	52,000	Shopping	No	No	Post	Dec-2016	
G004	Procurement of IT equipment	144,900	Shopping	No	No	Post	Dec-2016	
G005	Procurement of Furniture for PRF Central Office	2,500	Shopping	No	No	Post	Dec-2016	
G006	Procurement of Furniture for Provinces and districts (US\$ 600 per Office)	15,600	Shopping	No	No	Post	Dec-2016	<u>Multiple packages</u>
G007	Procurement of 3 Pick-ups 4x4 WD Double Cab	99,000	Shopping	No	No	Post	Dec-2017	
G008	Procurement of 58 Motorcycles 100-125 cc	75,400	Shopping	No	No	Post	Dec-2017	
G009	Procurement of IT equipment	90,000	Shopping	No	No	Post	Dec-2017	
G010	Procurement of Furniture for provinces and districts (US\$ 600 per Office)	15,600	Shopping	No	No	Post	Dec-2017	<u>Multiple packages</u>
<b>Total (Goods):</b>		<b>630,000</b>						

#### B. WORKS

No.	Contract (Description)	Estimated Cost US\$	Proc. Method	PQ (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid/ Opening Date	Comment
W001	PRF Central Off. repair	19,600	Shopping	No	No	Post	Dec-2017	
W002	PRF Province Off. repair (US\$1,500 each office)	7,500	Shopping	No	No	Post	Dec-2017	<u>Multiple packages</u>
W003	PRF District Off. repair (US\$1,200 each office)	25,200	Shopping	No	No	Post	Dec-2017	<u>Multiple packages</u>
W004	PRF Province Off. repair (US\$1,500 each office)	7,500	Shopping	No	No	Post	Jan-2018	<u>Multiple packages</u>
W005	PRF District Off. repair (US\$1,200 each office)	25,200	Shopping	No	No	Post	Jan-2018	<u>Multiple packages</u>
<b>Total (Works):</b>		<b>85,000</b>						

#### C. IEC Materials

No.	Contract (Description)	Estimated Cost US\$	Proc. Method	PQ (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid/ Quotation Opening Date	Comment
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IEC01	Produce PRF Calendar, Diary, logo, sticker, brochure, etc....	45,000	Shopping	No	No	Post	Jan-2017	
IEC02	Printing manual, guideline, report, etc...	50,000	Shopping	No	No	Post	Feb-2017	
IEC03	Produce PRF story video and etc...	45,000	Shopping	No	No	Post	Mar-2017	
IEC04	Printing Livelihoods and Nutrition IEC materials	17,500	Shopping	No	No	Post	Apr-2017	
<b>Total (IEC):</b>		<b>157,500</b>						

**Total (Goods + Works + IEC) = 872,500**

## II. SELECTION OF CONSULTANTS

1. **Prior Review Threshold:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

No.	Selection Method	Contract Value Threshold (US\$)	Prior Review Threshold (US\$)	Comments
1	Competitive Methods (Firms) – Quality & Cost Based Selection (QCBS) and Quality Based Selection (QBS)	>=300,000	All contracts	
2	Competitive Methods (Firms) – Least-Cost Selection (LCS) and Selection Based on Consultant Qualifications (CQS)	<300,000	>=100,000	
3	Single Source (Firms)		All contracts above 5000	
4	Individual Consultants		All contracts above 100,000 for all individuals. Key (heading those units/departments), Legal and Fiduciary Consultants and all sole-source selection >=10,000. All TOR will required Bank clearance	Project staff may be employed over entire duration of project or as required subject to annual performance review. Contract extension shall be subject to post review.

2. **Short list comprising entirely of national consultants:** No short lists of consultants for services are expected to comprise entirely of national consultants in accordance with the

provisions of paragraph 2.7 of the Consultant Guidelines. However, if a need arises during the project implementation and if it is warranted, short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants.

3. **Any Other Special Selection Arrangements:** Advance contracting may be applied for some items as specified in the Procurement Plan. . All existing project staff will be single sourced subject to satisfactory performance review by the Project and Bank. Project will provide schedule of names of staff and their salaries fees together with their performance for blanket review by the Bank.
4. **Consultancy Assignments with Selection Methods (prior & post reviews) and Time Schedule:** For all individual contract amendments /extensions/ follow-on contracts, etc., the following guidelines shall apply: i) gross salary increases shall be limited to CPI plus a performance-based increase not to exceed 2 percent of the current contract per annum; ii) there shall be no increase in living allowances or similar expenses unless explicitly authorized by MOF Decree.

Sr.	Description of Consultant Services	Estimate Cost (US\$)	Selection Method	Bank Review	Expected EOI Date	Comments
C001	PRF: 197 Local Staff (Central Provincial and District staff )	3,133,171	IC	Post	Dec-2016	Continuation contracts
C002	LN: 52Local Staff	375,500	IC	Post	Jan-2017	Continuation contracts
C003	International Institutional Development Consultant	19,840	SSS	Post	Jan-2017	Continuation. Competitive selection under PRF II.
C004	International TA	17,000	SSS	Post	Jan-2017	Continuation. Competitive selection under PRF II.
C005	International M&E	12,000	SSS	Post	Jan-2017	Continuation. Competitive selection under PRF II.
C006	International Internal Audit Advisor	5,661	SSS	Post	Jan-2017	Continuation. Competitive selection under PRF II.
C007	Senior Technical Advisor	93,636	IC	Post	Jan-2017	
C008	Technical, Cost Effectiveness, Cost Benefits Assessment	70,000	CQS	Post	Aug-2019	
C009	ACCPAC Accounting System Software Upgrading	10,000	CQS	Post	Feb-2017	
C010	Providing capacity building and assistance on website improvement, update and maintenance	5,000	CQS	Post	Feb-2017	
C011	External Audit FY 2016-2017	25,000	CQS	Post	Dec-2017	
C012	PRF Process Evaluation Assessment	50,000	CQS	Post	Sep-2017	
C013	Organization Assessment	50,000	CQS	Post	Sep-2017	
C014	HH Survey (Impact Evaluation)	50,000	CQS	Post	Jun-2019	
<b>Grand Total :</b>		<b>3,916,808</b>				

*Environmental and social (including safeguards)*

34. **Social.** Overall, the impact of the PRF III on local communities and minority ethnic groups would be positive. The PRF III would continue to empower women, the poor and minority ethnic groups through strengthening their participation in bottom-up planning processes and linking them to rural development planning processes at the district level. The safeguard performance review of the PRF II conducted during preparation did not find any major social impact. Of about 1,400 subprojects implemented under the PRF II, 120 subprojects (eight percent) involved a minor loss of private land or assets, mostly under road and water supply subprojects. All affected people are direct beneficiaries of respective subprojects, and no physical relocation of HHs or business entities occurred. The total number of affected HHs amounts to 350, or about 0.2 HHs per subproject. No HH lost more than five percent of the total productive assets. All impacts have been addressed as voluntary donations in line with the existing Compensation and Resettlement Policy Framework (CRPF).

35. The Social Assessment (SA) including free, prior and informed consultations conducted during preparation found that, overall, minority ethnic groups are adequately consulted with and meaningfully participate in project implementation processes. In particular, it found that the DCDD approach used under the PRF II significantly improved the quality of consultations and participation of women, minority ethnic groups and other vulnerable groups. Under the PRF III, measures employed under the PRF II would be rolled out to all project areas in phase. Many IEC materials developed during the PRF II which proved to strengthen participation of ethnic groups will also continue to be used under the PRF III.

36. The CRPF has been updated to reflect minor changes in the scope of the project and take into account the lessons learnt during the PRF II. In case conditions of voluntary donations in the CRPF could not be met, a Land Acquisition Plan (LAP) would be developed. The Ethnic Group Planning Framework (EGPF) has also been updated based on the experience of the PRF II. Under the PRF III, measures employed to address the risk of village consolidations will continue to be used to mitigate the risk of the PRF III subprojects being used by the GoL as incentives for village consolidations.

37. **Gender.** A Gender Equality and Social Inclusion (GESI) Action Plan developed under the PRF II set forth actions to enhance the participation of women and ethnic groups in the PRF's bottom-up planning processes, including: mainstreaming GESI throughout the project cycle; capacity development of female and ethnic villagers; strengthening communication and partnership with external stakeholders; and GESI oriented human resource development. Participation of women and ethnic groups in planning, decision making and monitoring processes was enhanced where the DCDD approach was piloted. Under the PRF III, the GESI Action Plan will continue to be applied but its implementation will be deepened for example by ensuring an equal pay for the equal works done by men and women. Female members of more than 300 SHGs, who are about 70 percent of the SHG members, will continue to benefit from the PRF supported revolving fund which will: (a) enhance their agricultural activities, (b) improve women's access to extension and financial services, (c) support their voice in HH and farming decisions, all of which can have strong positive effects on child nutrition and HH food security. Technical assistance will be provided to female SHG members to improve financial literacy and production

skills. The Road Maintenance Group (RMG) will be formed as women only groups which would help increase women's income, enhance social standing and strengthen their management and facilitation capacity. Gender and ethnic disaggregated data will be continuously collected through the MIS.

38. **Social Accountability and Citizen Engagement.** The PRF II adopted a number of measures to strengthen citizen engagement and accountability. In particular, the free hotline was introduced and locked mail boxes installed in villages as part of the FRM. The experience shows that, while most questions received and grievances registered were responded to in a timely manner, the FRM has not been actively used as a platform of engagement between the PRF, the community and the government. PRF III will further strengthen the FRM by integrating some additional complementary tools such as social audit and use accountability meetings as a platform to discuss issues and share information including the use of FRM.

39. By design, PRF beneficiary communities play a key role in planning, implementing, monitoring and evaluating project activities. For example, villagers develop their own VDP to identify critical needs that may be filled with funding from the PRF and from other sources. Efforts will continue to be made to ensure that physically and socially excluded people participate in and benefit from the project through mainstreaming the DCDD approach. The project will also strengthen the information disclosure and transparency by improving the timely disclosure of key information through the project website and by ensuring that a notice board is installed and maintained in all project villages. The PRF will also actively use community radios and mass organizations' magazines as the platform to showcase project achievements.

40. **Environment.** The expected environmental impacts of the PRF III are comparable to those observed during PRF II. The Environmental Category remains B. Most civil works to be financed under the PRF III, as with PRF II, would be the new construction, rehabilitation or improvement of small-scale rural infrastructure, such as schools, markets, dispensaries, over-flow bridges, access roads, water supply, water storage facilities and irrigation systems. They may cause minor impacts such as waste disposal, water pollution, dust and noise which can be mitigated through good construction practices and implementation of screening and monitoring tools. Safeguards performance review conducted during preparation did not find significant environmental impacts. It found some gaps such as tree cutting in school areas without replanting, inadequate watershed protection plan in some cases with water supply system installation and irrigation systems with no or inadequate O&M plans for irrigation projects. Safeguard training was provided to PRF staff under the PRF II AF and will continue to be provided under the PRF III, and mitigating measures will be budgeted in the cost of subprojects, so that such minor gaps are avoided.

41. Safeguards performance review also found that under PRF II, 78 subprojects were conducted within protected areas including 22 which rehabilitated existing small road/ tracks even though construction or rehabilitation of roads within protected areas or forests are prohibited. Such road works represents about 1 percent of total PRF subprojects, and Environmental Code of Practice (ECOP) was adequately followed. No negative impacts occurred. To minimize the risk of causing induced impacts, the OP/BP 4.36, *Forests*, is triggered, and the PRF III would continue to prohibit, and strictly apply the prohibition on, any road works or any investments that have the potential to cause significant conversion (loss) or degradation of natural habit inside or near forests

or protected areas. The OP/BP 4.11, *Physical Cultural Resources*, is also triggered to address the potential risk of chance finds.

42. The PRF III would continue to trigger OP/BP 7.50 *Projects on International Waterways* as it would likely finance subprojects involving gravity-fed water systems or small irrigation schemes which 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, and requested response by March 16, 2016. No response or inquiry was received. In the Bank's assessment, the small-scale subproject 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.

**Table 3.4. Safeguard Policies Triggered to the PRF III**

<p>Environmental Assessment OP/BP 4.01</p>	<p>The PRF III is classified as Environmental Category B. This policy is triggered as PRF III would continue to finance the new construction, rehabilitation or improvement of tertiary infrastructure such as village water supply systems, expansion or existing schools or construction of new schools buildings, spot improvement of rural roads without widening, and so on. Such civil works will be implemented in the same geographical areas where the PRF II was implemented. The safeguards performance review conducted during preparation found that no major environmental issues have occurred under PRF II.</p> <p>Minor environmental impacts are expected to occur such as construction waste disposal, cutting of trees, disease vectors, noise and air pollution, which can be minimized and mitigated through sound engineering techniques and proper screening and monitoring of potential impact.</p>
<p>Natural Habitats OP/BP 4.04</p>	<p>This policy is triggered because some villagers to be supported under the PRF III live in national or provincial protected areas, and the implementation of subprojects may have negative impact on natural habitats in such protected areas. As under the PRF II project, these activities are expected to be small-scale, typical for CDD operation, and overall will have only limited impacts manageable through the application of mitigation measures. The policy is nonetheless triggered for precautionary reasons to ensure that any physical interventions (including those proposed in known reserved or declared national forests zones) will not lead to degradation of critical or other natural habitats. The PRF III will continue to use the ESMF amended under the PRF II AF, and further updated based upon lessons learnt. This provides for the screening of potential project impacts and how safeguard issues under 4.04 should be addressed.</p>
<p>Forests OP/BP 4.36</p>	<p>Before the PRF supports a village in or near forest areas, the proposed subproject should be screened to ensure that there is no negative impact on the surrounding forest. Safeguards performance review found that, under PRF II, 22 subprojects were conducted within forests which rehabilitated existing small tracks. Environmental impacts of such subprojects were minimal as environmental screening was conducted and adequate measures were taken to minimize and mitigate minor environmental impact. No forestry activities were found to have been engaged.</p> <p>Under the PRF III, any subproject within a forest will be required under the updated ESMF to prepare an Environmental Management Plan (EMP) prior to approval and reviewed by the Bank's environment specialist. Also, the 'non-eligibility list' which includes no improvement of tracks or roads inside or near forests would be strictly enforced and closely monitored through the review of the EMP and regular semi-annual supervision mission.</p>
<p>Pest Management OP 4.09</p>	<p>The PRF III as under the PRF II would continue to support community livelihood activities which will involve agricultural production. As under the PRF II, the PRF III would not procure or promote use of chemical pesticides and fertilizers, which will continue to be included in the non-eligibility list as under the PRF II, and continue to promote organic farming. However, beneficiary farmers may apply pesticides, herbicides and insecticides. A simplified Pest Management Plan (PMP) developed under the PRF II would continue to be applied. This PMP</p>



	<p>outlines clear regulations and procedures for the management of pesticides and/or toxic chemical as well as provides knowledge and training on health impacts and the safe use of pesticides. The PRF III will continue to actively promote non-chemical use alternatives such as organic farming and integrated pest management systems.</p>
Physical Cultural Resources OP/BP 4.11	<p>Adverse impacts on known archeological, paleontological, historical, or unique natural values in subproject areas are unlikely. A thorough review of the subprojects financed under the PRF II did not find subprojects have been implemented in any areas where there are known Physical Cultural Resources as identified by the local communities. Additionally, no chance finds have been reported during the PRF II. ECOP in the ESMF has a procedure to address chance finds in the unlikely event that chance find is observed. However, the policy is triggered to address potential risk of chance finds.</p>
Indigenous Peoples OP/BP 4.10	<p>The PRFIII will continue to operate in the same provinces, and in areas that are home to numerous ethnic groups, many of whom are vulnerable and poor. The PRF III will continue to use the approach developed under the PRF II and described in the Ethnic Group Policy Framework (EGPF) to ensure that free, prior and informed consultations would be conducted with affected ethnic groups leading to their broad community support, and that they receive project benefits in a culturally sensitive manner.</p> <p>Social Assessment (SA) was conducted during preparation as part of the safeguard performance review of the PRF II which included free, prior and informed consultations with affected ethnic groups. Broad community support to the project was ascertained. It was found that the monitoring and documentation should be strengthened in the later phases of implementation (e.g. follow up visits, facilitation of accountability meetings, etc.). The EGPF has been updated to address such findings and will be used under the PRF III.</p> <p>Due attention will continue to be given to ensure that ethnic groups do not suffer adverse impacts and that they receive culturally compatible social and economic benefits. Throughout the PRF's subprojects' implementation, steps will continue to be taken to make sure that the cultures of the multi-ethnic society are respected and that gender issues are integrated at all levels. The feedback and resolution mechanism strengthened under the PRF II will continue to be used under the PRFIII. Specifically, these mechanisms will provide affected ethnic groups an 'on-the-ground' platform for monitoring and reporting on the LAP and/or EGPF implementation.</p> <p>Under the PRF III, the PRF would continue to support the on-going partnership with the National Center for Environmental Health (Namsaat) and finance the travel cost and the logistical cost of KBF and VIT to support the Namsaat's Open Defecation Free (ODF) campaign at the village level. It will not finance the cost of latrine constructions. No land acquisition or private assets are expected to occur. A similar partnership may also be made with the Bank executed Cookstove initiative under which the VIT and KBF may serve as village platform to introduce the clean cookstove. The PRF III would not finance the cost of purchasing cookstoves.</p>
Involuntary Resettlement OP/BP 4.12	<p>The PRF III, as under the PRF II, would continue to finance the new construction, rehabilitation or improvement of small scale rural infrastructure on a demand driven basis. The safeguard performance review conducted during the preparation did not find any significant loss of private land or assets. Of about 1,400 sub-projects implemented under the PRF II, 120 sub-projects (8 percent) involved a minor loss of private land or assets, mostly under road and water supply sub-projects. All affected people were direct beneficiaries of respective sub-projects, and no physical relocation of HHs or business entities occurred. The total number of affected HHs amounts to 350, or about 0.2 HHs per sub-project. No HH lost more than 5 percent of the total productive assets. These cases have been addressed as voluntary donations in line with the existing CRPF.</p> <p>The safeguard review also found that, while all interviewed PAPs who donated land or assets are content with the benefit they received from the project, some of the PAPs are not always aware that they have the right to refuse to donate land or assets and claim for compensation for the lost assets, land and necessary support. Under the PRF III, efforts should be made to ensure that all affected people are aware that they have the right to refuse to donate and are entitled for</p>

	<p>compensation at replacement cost. The CRPF has been updated to reflect changes in the scope of the project and take into account the lessons learnt during the PRF II. In case conditions of voluntary donations provided in the CRPF could not be met, an LAP would be developed.</p> <p>Under the PRF III, the PRF would continue to support the on-going partnership with the National Center for Environmental Health (Namsaat) and finance the travel cost and the logistical cost of KBF and VIT to support the Namsaat’s Open Defecation Free (ODF) campaign at the village level. It will not finance the cost of latrine constructions. No land acquisition or private assets are expected to occur. A similar partnership may also be made with the Bank executed Cookstove Initiative under which the VIT and KBF may serve as village platform to introduce the clean cookstove. The PRF III would not finance the cost of purchasing cookstoves.</p>
Safety of Dams OP/BP 4.37	<p>The policy is triggered because, as under the PRF II, the PRF III would likely finance the construction of small weirs that will regulate the flow of small natural water sources. The weirs to be built are classified as “small dams” as defined in the policy. Generic dam safety measures designed by qualified engineers should be applied. The ESMF has been updated based on the experience of the PRF II to provide standard procedures the PRF takes to address the safety of weirs in line with the policy. The PRF has a comprehensive Quality Control monitoring system in place which covers safety in dams and past experience has demonstrated the efficiency of this tool in ensuring safety. The ESMF includes a comprehensive quality control/ monitoring forms to ensure that PRF built weirs meet necessary safety standards.</p>
Projects on International Waterways OP/BP 7.50	<p>The PRF III, as under the PRF II, would likely finance the construction of gravity-fed water systems or small irrigation schemes that take water from rivers that are direct or indirect tributaries of the Mekong, an international waterway. The policy is therefore triggered. Riparian countries (China, Cambodia, Myanmar, Thailand, Vietnam and the Mekong River Commission) have been notified prior to appraisal.</p>

*Monitoring and Evaluation*

43. The Results Framework of PRF III shares many of the same indicators with PRF II but simplifies and improves indicator definitions and calculation methods where necessary. In general, the PRF III builds on the Monitoring and Evaluation (M&E) systems and capacities developed under the PRF II. M&E tools and procedures were developed and refined under the PRF II, and the PRF III will continue to use many of these, modifying them further as required. In particular, the MIS initiated under the PRF II, and progressively brought into full operation, will continue to be the basis for routine monitoring information. The MIS will enable the storing, collation and analysis of data collected by PRF technical, community development, and administrative staff at both subnational and national levels. Staff at all levels (from district to central levels) have been trained in their M&E responsibilities, and the M&E Unit at the central level will continue to provide training and leadership in M&E issues. The PRF staff responsible for livelihood activities will receive dedicated training on M&E and systems and procedures will be further refined. M&E of the partnership with Namsaat will be integrated in the KBF’s and District PRF staff’s regular reporting procedures to avoid creating a parallel monitoring mechanisms.

44. A full-scale impact evaluation will not be carried out as the impact evaluation of the PRF II has demonstrated the validity of the PRF model. Instead, several special studies will be undertaken to enhance the understanding of key aspects of the project, including: (a) a Technical Audit to assess the technical quality, cost effectiveness and sustainability of PRF subprojects,<sup>61</sup>

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<sup>61</sup> This assessment will include cost benefit analysis and safeguard performance assessment.

(b), PRF organizational review to enhance performance and improve efficiency; (c) a detailed evaluation of PRF processes and (d) a HH survey to track key project outcome indicators.

## **Annex 4: Implementation Support Plan**

### **LAO PDR: Poverty Reduction Fund (PRF) III Project**

#### **Strategy and Approach for Implementation Support**

1. The implementation support plan of the PRF III is developed based on the experience of the PRF II project and the risks and challenges identified in SORT, in particular those related to political and governance risks, macroeconomic risks, safeguard risks and stakeholder risks.
2. The implementation capacity of the PRF has been significantly improved during the PRF II, however, an intensive implementation support and technical guidance will still be necessary to maintain the upward trends in implementation capacity. Day-to-day implementation support will be provided by the Country office-based Task Team Leader and other technical specialists familiar with the country context, including an engineer, an M&E specialist, livelihood specialist, nutrition specialist, FM specialist, Procurement specialist, environment specialist, social safeguard specialist. These specialists will undertake frequent technical meetings and field visits to address key implementation issues and assess intermediate results on the ground. The Bank's Task Team Leader (TTL)'s in-country presence will also help mitigate stakeholder risks through a continuing dialogue with GoL and development partners to gauge their support for the project.

#### **Implementation Support Plan**

3. The Bank's implementation plan is composed of an intensive in-country implementation support and standard semi-annual implementation support missions, to be participated by other technical specialists (see below tables). The Bank team will also oversee studies, such as HH survey, technical audit, and other special studies, all of which will contribute to improving the technical quality of implementation. A Mid-Term Review will be conducted after approximately two years of implementation, and identify and recommend any structural changes that may need to be made.
4. The Bank's implementation support will focus on providing technical assistance to continue building the PRF's capacity, in particular to scale up existing pilots introduced under PRF II (DCDD, semi-annual follow-up visits, rural sanitation partnership with the Namsaat, and so on), and new pilots to be initiated under the PRF III such as the RMG. In the first 12 months of implementation, the Bank will focus on reviewing existing tools and developing new approaches, and supporting the scale-up of existing innovations and the introduction of new pilots through intensive technical guidance and learning by doing. Thereafter, the support will shift to scaling up activities, while gauging lessons learned at Mid-term Review.
5. **Procurement.** The Bank shall carry out formal procurement supervision missions and would conduct post reviews of contracts that are not subject to the prior review requirements (see annex 3) every six months. The procurement post review will cover at least 10 percent of contracts not prior reviewed by the Bank. The ratio will be reviewed and adjusted as required, based on performance of PRF.

6. **FM.** Formal implementation support missions will be conducted twice a year focusing on the adequacy of the FM system. The PRF has built FM capacity during the previous phases at the central level. However, FM capacity remains weak at community level. In the first 12 months of implementation, FM implementation support will include updating and further simplifying the community financial management guideline and supporting training activities. Fund use will be monitored through audit reports and field visits. Desk reviews will also be conducted on a regular basis and upon submission of the annual external audit of the project and the quarterly IFRs. Issues arising from these reports will be used to revise and adjust the scope of the planned FM implementation support.

7. **Safeguards.** During the previous phases, the PRF has built capacity in both environment and social safeguards at the central level. However, at the district level and below, the capacity remain weak. Two new additional safeguard policies are triggered to the PRF III, which will require additional capacity to monitor and report any potential environmental and social impact. In the first 12 months of implementation, an intensive safeguard capacity development support will be provided by Country office based environmental and social specialists. The safeguard specialists will undertake frequent field visits to ensure compliance.

**Table 4.1. Main Focus in Terms of Support to Implementation**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>
First twelve months	<ul style="list-style-type: none"> <li>• Capacity building</li> <li>• Review FM and disbursements</li> <li>• Review Procurement</li> <li>• Review E&amp;S</li> <li>• Technical, RMG pilot and sanitation partnership</li> <li>• SHG capacity building, nutrition education</li> <li>• Updating MIS; M&amp;E training and capacity building</li> </ul>	<ul style="list-style-type: none"> <li>• CDD, institutional development,</li> <li>• FM specialist</li> <li>• Procurement specialist</li> <li>• E&amp;S Safeguards</li> <li>• Engineer, WSP</li> <li>• Livelihoods, nutrition</li> <li>• M&amp;E</li> </ul>	<ul style="list-style-type: none"> <li>• TTL: 4SW; institutional development specialist: 2SW (US\$40,000 inc. travel)</li> <li>• FM Specialist: 2 SW (US\$8,000)</li> <li>• Procurement Specialist: 2 SW (US\$8,000)</li> <li>• E&amp;S Specialists, 2 SW each (US\$10,000 inc. travel)</li> <li>• Engineer: 3 SW; WASH Specialist: 2 SW (US\$35,000 inc. travel)</li> <li>• Livelihoods Specialist: 3 SW; Nutrition Specialist: 2 SW (US\$10,000, inc. travel)</li> <li>• M&amp;E Specialist: 2 SW (US\$8,000 inc. travel)</li> </ul>
12-48 months	<ul style="list-style-type: none"> <li>• Continued capacity building</li> <li>• Review FM and disbursements</li> <li>• Review Procurement</li> </ul>	<ul style="list-style-type: none"> <li>• CDD, institutional development</li> <li>• FM specialist</li> <li>• Procurement specialist</li> </ul>	<ul style="list-style-type: none"> <li>• TTL:4 SW annually; institutional development specialist: 2SW annually (US\$40,000 annually, inc. travel)</li> <li>• FM Specialist (2 SW/ US\$8,000 annually)</li> <li>• Procurement Specialist (2 SW/ US\$8,000 annually)</li> </ul>

<ul style="list-style-type: none"> <li>• Review E&amp;S</li> <li>• Implementation support to technical, RMG pilot and sanitation partnership</li> <li>• SHG capacity building, nutrition education</li> <li>• Review MIS data collection, M&amp;E implementation</li> </ul>	<ul style="list-style-type: none"> <li>• E&amp;S Safeguards</li> <li>• Engineer, WSP</li> <li>• Livelihoods, nutrition</li> <li>• M&amp;E</li> </ul>	<ul style="list-style-type: none"> <li>• E&amp;S Specialists (2 SW each annually, US\$10,000 annually inc. travel)</li> <li>• Engineer: 3SW annually, WASH Specialist: 2 SW annually (US\$35,000 annually)</li> <li>• Livelihoods Specialist: 2SW annually; Nutrition Specialist: 1 SW annually (US\$8,000 annually inc. travel)</li> <li>• M&amp;E Specialist (2 SW annually, US\$8,000 inc. travel)</li> </ul>
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**Table 4.2. Skills Mix Required**

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Overall coordination and partnerships	5 SW annually	2 Regional; 4 Domestic	TTL based in CO
Technical specialists (CDD, engineer, nutrition, livelihoods, RMG, WASH, and so on)	2–3 SW per specialist annually	28 Regional; 2 International; 20 Domestic	
FM	2 SW annually	2 Domestic	Based in CO
Procurement	2 SW annually	2 Domestic	Based in CO
Safeguards (E&S)	4 SW annually	4 Domestic	Both environment and social specialists based in CO
M&E	2–3 SW annually	1 International	

**Table 4.3. Partners**

Name	Institution/Country	Role
Swiss Agency for Development and Corporation (SDC)		Complementary financing
Gesellschaft fuer Internationale Zusammenarbeit (GIZ)		Livelihoods
International Labor Organization (ILO)		RMGs
Department of Foreign Affairs and Trade, Australia		Analytical work