

Document of
The World Bank

Report No: PP1267

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED RESTRUCTURING

AND ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 10.70 MILLION
(US\$15.00 MILLION EQUIVALENT)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

SECOND LAO ENVIRONMENT AND SOCIAL PROJECT (FORMERLY PROTECTED
AREA AND WILDLIFE PROJECT)

March 24, 2015

Environment and Natural Resources Global Practice
East Asia and Pacific Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its content may not otherwise be disclosed without World bank authorization.

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 28, 2015)

Currency Unit = LAK
8,111 Lao LAK = US\$1
US\$1.40739 = SDR 1

FISCAL YEAR

October 1 – September 30

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AF	Additional Financing
AWPB	Annual Work Plan and Budget
ASEAN WEN	Association of South Asian Nations - Wildlife Enforcement Network
BRNH	Building Resilience to Natural Hazards
CA	Conservation Agreement
CAP	Community Action Plan
CEF	Community Engagement Framework
CPS	Country Partnership Strategy
CBI	Community and Biodiversity Investment (EPF)
CITES	Convention on Trade of Endangered Species
CliPAD	Climate Protection through Avoided Deforestation
CQS	Consultant Qualification Selection
DA	Designated Account
DAFO	District Office of Agriculture and Forestry (MAF)
DEQP	Department of Environment Quality and Promotion (MONRE)
DESIA	Department of Environmental and Social Impact Assessment (MONRE)
DFRM	Department of Forest Resources Management (MONRE)
DOFI	Department of Forest Inspection (MAF)
DONRE	District Office for Natural Resources and Environment (MONRE)
DPC	Department of Planning and Cooperation (MONRE)
DPR	Department of Public Relation
ESA	Environmental and Social Assessment
EPF	Environment Protection Fund
EPFO	Environment Protection Fund Office
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESSWRD	Environmental and Social Standards in Water Resources Development
FM	Financial Management
FSS	Faculty of Social Science
GEF	Global Environment Facility
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH</i> (German Society for International Cooperation)

GMS	Greater Mekong Subregion
GoL	Government of Lao PDR
GRS	Grievance Redress Service
HMTA	Hydro Mining Technical Assistance
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant
ICB	International Competitive Bidding
ICBF	Integrated Conservation of Biodiversity and Forestry
ICR	Implementation Completion Report
IDA	International Development Association
IFC	International Finance Corporation
IFR	Interim Financial Report
IMS	Internal Monitoring System
INTERPOL	International Criminal Police Organization
ISP	Integrated Spatial Planning
IUCN	International Union for the Conservation of Nature
KfW	<i>Kreditanstalt für Wiederaufbau</i> (German Reconstruction Credit Institute)
Lao PDR	Lao People's Democratic Republic
LENS	Lao Environment and Social Project
LENS2	Second Lao Environment and Social Project
M&E	Monitoring and Evaluation
MAF	Ministry of Agriculture and Forestry
MDGs	Millennium Development Goals
MEM	Ministry of Energy and Mines
METT	Management Effectiveness Tracking Tool
MOF	Ministry of Finance
MONRE	Ministry of Natural Resources and Environment
MoU	Memorandum of Understanding
MU	Management Unit
NAPA	National Academy of Politics and Administration
NCB	National Competitive Bidding
NEPL NPA	Nam Et - Phou Louey National Protected Area
NEPL MU	NEPL Management Unit
NGO	Nongovernmental Organization
NNT NPA	Nakai Nam Theun National Protected Area
NPA	National Protected Area
NT2	Nam Theun 2 hydropower plant
NTPC	Nam Theun Power Company
NUOL	National University of Laos
ODA	Overseas Development Assistance
PA	Protected Area
PAD	Project Appraisal Document
PAW	Protected Area and Wildlife Project
PDO	Project Development Objective
PES	Payment for Ecosystem Services
PESAP	Provincial Environment Strategy and Action Plan

PFRM	Provincial Office of Forest Resources Management (MONRE)
PICE	Policy, Institutional, and Capacity Enhancement (EPF)
PIM	Project Implementation Manual
PLUP	Participatory Land Use Planning
POFI	Provincial Office of Forest Inspection (MAF)
PONRE	Provincial Office of Natural Resources and Environment (MONRE)
PPA	Project Preparation Advance
QBS	Quality-based Selection
QCBS	Quality- and Cost-based Selection
REDD	Reducing Emissions from forest Degradation and Deforestation
RF	Results Framework
RPF	Resettlement Policy Framework
SDA	Subproject Delivery Agency
SESO	Social and Environmental Standard for Operation
SIA	Social Impact Assessment
SOE	Statement of Expenditure
SSS	Single Source Selection
SUPSM	Scaling Up Participatory Sustainable Forest Management
TA	Technical Assistance
TC	Technical Committee
ToR	Terms of Reference
TRAFFIC	The Wildlife Trade Monitoring Network
VDC	Village Development Committee
VDF	Village Development Fund
WCS	Wildlife Conservation Society
WEN	Wildlife Enforcement Network
WMPA	Watershed Management Protection Authority
WWF	World Wildlife Fund

Regional Vice President:	Axel van Trotsenburg
Country Director:	Ulrich Zachau
Global Practice Senior Director:	Paula Caballero
Global Practice Director:	Bilal Rahill
Practice Manager:	Iain Shuker
Task Team Leader:	Jean-Michel Pavy

LAO PEOPLE’S DEMOCRATIC REPUBLIC
LAO PDR: SECOND LAO ENVIRONMENT AND SOCIAL PROJECT

CONTENTS

Project Paper Data Sheet	i
Project Paper	1
I. Introduction	1
II. Background and Rationale for Additional Financing	1
III. Proposed Changes	4
IV. Appraisal Summary	9
Annexes	11
1 Revised Results Framework and Monitoring Indicators	11
2 Detailed Description	20
3 Implementation Arrangements and Support	34
4 Map	62

ADDITIONAL FINANCING DATA SHEET

Lao People's Democratic Republic

Second Lao Environment and Social Project (P152066)

EAST ASIA AND PACIFIC

GENDR

Basic Information – Parent							
Parent Project ID:	P128393, P128392			Original EA Category:	B - Partial Assessment		
Current Closing Date:	30-Jun-2021						
Basic Information – Additional Financing (AF)							
Project ID:	P152066			Additional Financing Type (from AUS):	Scale-up		
Regional Vice President:	Axel van Trotsenburg			Proposed EA Category:	B - Partial Assessment		
Country Director:	Ulrich Zachau			Expected Effectiveness Date:	04-Jul-2015		
Senior Global Practice Director:	Paula Caballero			Expected Closing Date:	30-Jun-2021		
Practice Manager/Manager:	Iain G. Shuker			Report No:	PP1267		
Team Leader:	Jean-Michel G. Pavy						
Borrower							
Organization Name	Contact	Title	Telephone	Email			
Ministry of Finance	Angkhansada Mouangkham	Deputy Director General - External Finance Department	856-21-412142 856-20-55694219	angkhansada@yahoo.com			
Project Financing Data - Parent (Protected Area and Wildlife Project [Regional APL] - P128393 and P128392)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P128392	TF016619	Effective	02-Apr-2014	14-May-2014	04-Jul-2014	30-Jun-2021	30-Jun-2021
P128393	IDA-53830	Effective	02-Apr-2014	14-May-2014	04-Jul-2014	30-Jun-2021	30-Jun-2021
P128393	IDA-H9150	Effective	02-Apr-2014	14-May-2014	04-Jul-2014	30-Jun-2021	30-Jun-2021
Include GEF Grant							

Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbur sed	% Disbursed
P128392	TF016619	Effective	USD	6.83	6.83	0.00	0.29	6.04	4.24
P128393	IDA-53830	Effective	USD	12.50	12.50	0.00	0.00	12.67	0.00
P128393	IDA-H9150	Effective	USD	4.50	4.50	0.00	1.02	3.45	22.67
Project Financing Data - Additional Financing - Second Lao Environment and Social Project (Additional Financing to the Protected Area and Wildlife Project) (P152066)									
[] Loan [] Grant [] IDA Grant									
[X] Credit [] Guarantee [] Other									
Total Project Cost:		16.60		Total Bank Financing:		15.00			
Financing Gap:		0.00							
Financing Source - Additional Financing (AF)								Amount	
BORROWER/RECIPIENT								1.60	
International Development Association (IDA)								15.00	
Total								16.60	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
Bank Staff									
Name		Title			Specialization			Unit	
Dinesh Aryal		Sr Natural Resources Mgmt. Spec.			Peer Reviewer			GENDR	
Carmenhu D. Austriaco		Finance Officer			Team Member			WFALN	
Khamphet Chanvongnaraz		Procurement Specialist			Team Member			GGODR	
Manuel E. Contreras		Senior Governance Specialist			Team Member			LLILC	
Christophe Crepin		Sector Leader						GENDR	
Ruxandra Maria Floroiu		Senior Environmental Engineer			Environment Safeguard Reviewer			GENDR	

Manush Hristov	Senior Counsel	Team Member	LEGES
Roch Levesque	Senior Counsel	Team Member	LEGAM
Satoshi Ishihara	Senior Social Development Specialist	Social Safeguard Reviewer	GSURR
Peter Leonard	Regional Safeguards Adviser	Regional Safeguards Adviser	OPSOR
Stephen Ling	Senior Natural Resources Mgmt. Spec.	Peer Reviewer	GENDR
Chanhsom Manythong	Rural Development Specialist	Team Member	GFADR
Glenn S. Morgan	Adviser	Peer Reviewer	OPSOR
Ngozi Blessing Obi Malife	Program Assistant	Team Member	GENDR
Vachraras Pasuksuwan	Program Assistant	Program Assistant	EACTF
Jean-Michel G. Pavy	Senior Environmental Specialist	Task Team Leader	GENDR
Sybounheung Phandanouvong	Social Development Specialist	Team Member	GSURR
Viengkeo Phetnavongxay	Environmental Specialist	Team Member	GENDR
Stefanie Sieber	Environmental Economist	Team Member	GENDR
Manoly Sisavanh	Program Assistant	Team Member	EACLF
Lars M. Sondergaard	Program Leader	Peer Reviewer	EACTF
Malarak Souksavat	Financial Management Analyst	Team Member	GGODR
Viengsamay Srithirath	Country Officer	Team Member	EACLF

Non Bank Staff

Name	Title	City
George Henry Stirrett Wood	Consultant	Canada, Omemee
Gabriele Rechbauer	Operations Consultant	France, Strasbourg
Rena Stenhouse	Consultant Biodiversity	USA, Washington

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Lao People's Democratic Republic	Xiengkhuang	Phon Sa Vanh ; Nam Et Phou Louey National Protected Area	X		
Lao People's	Savannakhet	Savannakhet	X		

Democratic Republic					
Lao People's Democratic Republic	Luang Prabang	Luang Prabang; Nam Et Phou Louey National Protected Area	X		
Lao People's Democratic Republic	Borikhamxay	Paksan; Nam Theun 2 Watershed	X		
Lao People's Democratic Republic	Khammouane	Thakek; Nam Theun 2 Watershed	X		
Lao People's Democratic Republic	Huaphanh	Xam Nuea; Nam Et Phou Louey National Protected Area	X		
Lao People's Democratic Republic	Vientiane	Muang Phong Hong	X		
Lao People's Democratic Republic	Xaisomboun	Ban Mouang Cha	X		
Lao People's Democratic Republic	Vientiane capital	Vientiane	X		
Institutional Data					
Parent (Protected Area and Wildlife Project [Regional APL] - P128393 and P128392)					
Practice Area / Cross Cutting Solution Area					
Environment & Natural Resources					
Cross Cutting Areas					
[X] 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 %
Public Administration, Law, and Justice	Public administration-Agriculture, fishing and forestry	54		
Agriculture, fishing, and forestry	Forestry	46		72
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Environment and natural resources management	Biodiversity	73		
Environment and natural resources management	Environmental policies and institutions	27		
Total		100		
Additional Financing – Second Lao Environment and Social Project (Additional Financing to the Protected Area and Wildlife Project) (P152066)				
Practice Area / Cross Cutting Solution Area				
Environment & Natural Resources				
Cross Cutting Areas				
[X] 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 %
Agriculture, fishing, and forestry	Forestry	60		72
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	40		
Total		100		

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Environment and natural resources management	Environmental policies and institutions	45
Environment and natural resources management	Biodiversity	40
Environment and natural resources management	Water resource management	10
Environment and natural resources management	Climate change	5
Total		100

I. Introduction

1. This Project Paper (PP) seeks the approval of the Executive Directors for a level 1 restructuring and for a proposed Additional Financing (AF) for the Lao Protected Area and Wildlife Project (PAW)¹. The AF will be financed by an IDA Credit of SDR 10.70 million (US\$15.00 million equivalent).
2. The level 1 restructuring comprises of: (a) revision of the project name, (b) revision of the Project Development Objective (PDO), and (c) modification of the project components and scope of work.
3. The proposed AF will provide financing to scale-up the following activities: (a) improving the financing capacity of the Environment Protection Fund (EPF), (b) supporting capacity building of national, provincial, and district institutions to implement the Lao legislation on environment and social impact, (c) strengthening the university environment and social curriculum, (d) broadening project support to forested upper-watersheds² of rivers important to hydropower, agriculture irrigation, and flood prevention, and (e) increasing the number of eligible provinces from 5 to 8. Given the proposed broadened scope of the original PAW project, it was decided to strategically align it with the first Lao Environment and Social project (LENS) which closed in 2012 and to change the name from PAW to LENS2.
4. The PDO and the result framework (RF) are modified to accommodate the additional activities supported by the AF. The operational policy OP 7.50 - Projects on International Waterways is triggered since the additional activities may include small water structures along the Mekong River tributaries.

II. Background and Rationale for Additional Financing in the Amount of US\$15 million

A. The Original Project

5. PAW was approved by the Board of Executive Directors on April 2, 2014. The current closing date is June 30, 2021. Its PDO is to strengthen the management systems for national protected areas conservation and for enforcement of wildlife laws. The total PAW cost is US\$25.23 million financed by an IDA Credit of SDR 8.20 million (US\$12.50 million equivalent) and IDA Grant of SDR 3.0 million (US\$4.50 million equivalent) and a Global Environment Facility (GEF) Grant of US\$6.83 million. The Government of Lao People's Democratic Republic (GoL) contribution is US\$1.40 million.

¹ The PAW has two codes: P128393 for the IDA Grant H915-LA, IDA Credit 5383-LA and P128392 for the GEF Grant TF016619. The PAD report number is PAD243.

² In PAW, only NPAs—a generic term for National Conservation Forests defined in the Forestry Law—are eligible for financing. With the inclusion of forested watershed in the project, eligible areas will include not only national but also provincial, district, and village conservation forests as well as national, provincial, district and village protection forests (watersheds forests). Therefore, for the purpose of the proposed AF, all categories are consolidated under the generic term 'Protected Areas' (PAs).

6. *Description of the original project.* PAW is the fourth phase of a horizontal Series of Projects on ‘Strengthening Regional Cooperation for Wildlife Protection in Asia’ (the Program). Phase 1 (Nepal and Bangladesh) and Phase 2 (Bhutan) are ongoing. Phase 3 (India) was dropped. PAW aims to create wildlife and National Protected Areas (NPAs) enforcement standards, develop good practice applications, and learn successful schemes for PA management and reduction of illegal wildlife trade. It builds on bilateral initiatives between Lao People’s Democratic Republic (PDR) and Vietnam to control illegal wildlife trade, as well as strengthen Lao PDR’s capacity to collaborate with regional centers of knowledge and international organizations addressing wildlife trafficking.

- **Component 1: National institution development and capacity building** (US\$8.90 million) seeks to improve the capacity of ministerial departments and university faculties to implement and monitor national conservation laws and regional/international commitments, and to operate according to national plans.
- **Component 2: Management of wildlife and protected areas** (US\$12.6 million) seeks to improve provincial and district offices, communities and other stakeholders’ capacity to manage NPAs and protect wildlife against threats from infrastructure development and illegal use or trade of natural resources. Component 2 supports subprojects such as the Nam Theun 2 (NT2) watershed and the Nam Et - Phou Louey NPA (NEPL NPA).
- **Component 3: Project administration and capacity building** (US\$3.2 million) seeks to deliver project’s outputs within the allocated time frame and with satisfactory planning, procurement, financial management (FM), monitoring and evaluation (M&E), and communication. Component 3 supports the administration of the subproject mechanism by EPF.

7. *Original project implementation progress.* PAW became effective on July 4, 2014. The development outcome and implementation performance ratings are Satisfactory. As an implementing agency, the EPF is compliant with implementation readiness criteria, including opening and provision of a designated account (DA), recruitment of consultants for the functions of subproject facilitator, Financial Management officers, procurement and monitoring and evaluation. The implementation of the FM and procurement action plans is on track. The Technical Committee (TC) is established. Thirteen subprojects proposals have been prepared and submitted to EPF. The Bank has approved six of these subprojects for an overall amount of US\$9.80 million. Their implementation is expected to begin in the second quarter of 2015. PAW is in compliance with all legal covenants. Safeguard compliance is satisfactory, given that PAW meets all project-entry environment and social safeguard requirements. All three subprojects approved so far are Component 1 subprojects which did not require an Environment and Social Management Plan (ESMP) as they focus on technical assistance and training.

B. Rationale for Additional Financing and Restructuring

8. *World Bank portfolio in environment and natural resources.* PAW belongs to a set of complementary, and coordinated, operations supporting the natural resources agenda of the Country Partnership Strategy (CPS). These projects are (a) the NT2 project which initiated the development of the Nakai Nam Theun National Protected Area; (b) the Integrated Water Resources Management (IWRM) project which seeks to establish key examples of integrated water resource management practices in the Lower Mekong Basin at the regional, national, and subnational levels; (c) the Hydro Mining Technical Assistance (HMTA) project, which aims to

increase human capacity and improve the performance of government oversight institutions for the hydropower and mining sectors; (d) the Scaling up Participatory Sustainable Forest Management (SUPSFM) project which supports the efforts of the Ministry of Agriculture and Forestry (MAF) in production forests³, including support for community livelihoods; (e) the project for Building Resilience to Natural Hazards (BRNH) which aims to enhance disaster risk management capacity of hydro-meteorological services and post-disaster recovery programs; and (f) the IFC Environmental and Social Standards in Water Resources Development (ESSWRD) program which aims to increase the share of new private sector investments in the hydropower sector in the Mekong region that adhere to best practices and environmental and social standards.

9. The proposed AF complements the above-mentioned portfolio by addressing the following environment and social issues by (a) improving the financing capacity of the EPF; (b) supporting capacity building of national, provincial, and district institutions to implement the Lao PDR legislation on environment and social impact; (c) strengthening the university environment and social curriculum; (d) broadening project support to forested upper-watersheds of rivers important to hydropower, agriculture irrigation, and flood prevention; and (e) increasing the number of eligible provinces from five to eight.

10. *LENS achievements.* In the past, the EPF through the Lao Environment and Social Project (LENS), which closed in June 2013, initiated support to the above agenda. LENS funded 152 subgrants, benefitting over 16,700 people, including 6,050 women in more than 200 communities. These subprojects collectively contributed to a situation whereby (a) 100 percent of new hydropower and mining concessions include a Social and Environmental Standard for Operation (SESO); (b) 535 Lao students benefited from the new curricula on involuntary resettlement developed and delivered by the Faculty of Social Science (FSS) of the National University of Laos (NUOL) in partnership with a university in China; (c) 131 people from central and provincial government agencies and the private sector participated in a social safeguard training program; (d) 12 communities established a new conservation/livelihood model—the Community Conservation Network—in the Nam Theun-Nam Kading basin; (e) 6 provincial PAs, totaling 169,000 ha, have developed a management plan and initiated implementation; (f) 3 provinces have designed and adopted a Provincial Environment Strategy and Action Plan (PESAP), two of which have tested project tracking databases and community grievance mechanisms; (g) 99 people have been trained to participate in the village grievance committee and use the national guideline for ethnic groups’ consultation developed by the Lao Front for National Construction; and (h) one river basin committee, the Nam Theun Nam Kading, was established and its strategy designed and adopted.

11. *Strategic Alignment with LENS Project.* It has been decided to broaden the scope and coverage of the activities of the original project since the environment is an important agenda for the country and to strategically align the PAW with the LENS project. Reflecting this broadened scope, the project name has been changed to Second Lao Environment and Social Project (LENS2). The original implementation mechanisms are maintained: (a) implementation by the EPF and (b) use of a demand-driven subproject approach.

³ Production Forests, managed by the MAF, are meant to be exploited for timber harvesting.

12. *Lessons learned.* Lessons learned from other environment-related projects in Lao PDR confirm (a) that EPF is a cost-effective mechanism for delivering finances to provincial and district administrations; (b) the need for strong due diligence on environmental and social risks to avoid infractions which absorb a large proportion of the supervision budget; (c) the importance of casting community-based conservation within the decentralization policy and the need for community schemes to target narrowly defined and measurable results;⁴ (d) the importance to balance incentive-based conservation and law enforcement; and (e) the importance of a communication strategy to reverse the prevailing attitudes that environment is contrary to development. The lessons learned are reflected in the original project appraisal document (PAD) annex 7.

13. The LENS Implementation Completion Report (ICR) concluded that for EPF's institutional maturation to occur, it requires an emphasis on technical and administrative capacity development, especially to assist its subgrant recipients, to manage environmental and social frameworks and communicate with potential public or private donors. The proposed AF allocates resources to address these issues.

14. Additional lessons from environment financing elsewhere merit emphasis. Over 50 environmental funds have been created worldwide with over US\$1.2 billion in donor contributions. Their experiences demonstrate that environment funds that deliver environment results do leverage substantial financing. For example, the Brazilian Biodiversity Fund originally established with a US\$20 million GEF/World Bank grant attracted an additional US\$390 million, and the Mexican Fund for Conservation of Nature used its original US\$20 million endowment to attract over 70 donors and increased its endowment to US\$110 million. The same is likely for the EPF, which could easily double its US\$5.5 million endowment by 2020, provided there is improvement in credibility, capacity, and results.

15. *Alignment with the corporate twin goals and contribution to sustainability.* The proposed AF strengthens the project contribution to the World Bank Group's goals of shared prosperity and poverty alleviation. First, the sustainability of public investment in infrastructure and economic growth is dependent on well-managed natural resources especially natural forest. Second, the livelihoods of many rural poor are dependent on arable land and forest resources and also most vulnerable to climate change and increasing natural disasters with forest ecosystems increasingly unable to mitigate climate change impacts and extreme weather events.

16. *Consistency with Country Partnership Strategy.* The CPS 2012–2016⁵ was discussed by the Executive Directors on January 25, 2013, and the CPS Progress Report was completed on September 16, 2014. The proposed AF will contribute to the CPS Strategic Objective 2: 'sustainable natural resource management in general'. The original project contributed to Outcome 2.3: 'sustainable management and protection of forests and biodiversity in particular' and the AF contributes to Outcome 2.2: 'sustainable environmental, social, and water resource management'.

⁴ See also annex 3 paragraphs 55 and 57 where some of the lessons on incentive and community-based conservation as well as some lessons on gender issues related to such an approach are developed.

⁵ CPS Report 66692-LA and CPS Progress Report 90281-LA.

III. Proposed Changes

Summary of Proposed Changes	
<p>The proposed AF will broaden the scope and coverage of the original project by (a) improving the financing capacity of the EPF; (b) supporting capacity building of national, provincial, and district institutions to implement the Lao legislation on environment and social impact; (c) strengthening the university environment and social curriculum; (d) broadening project support to forested upper-watersheds of rivers important to hydropower, agriculture irrigation, and flood prevention; and (e) increasing the number of eligible provinces from 5 to 8.</p> <p>The project development objective and the results framework (RF) are modified to accommodate the additional activities supported by the AF. The operational policy OP 7.50 - Projects on International Waterways is triggered since the additional activities may include small water structures along the Mekong River tributaries.</p>	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Safeguard Policies Triggered	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change of Environmental Assessment (EA) category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Changes to Safeguards	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Legal Covenants	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Loan Closing Date(s)	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Cancellations Proposed	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Arrangements	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Reallocation between Disbursement Categories	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Estimates	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change to Components and Cost	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Institutional Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Financial Management	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Procurement	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Implementation Schedule	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Change(s)	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Development Objective/Results	
Project's Development Objectives	
To strengthen the management systems for national protected areas conservation and for enforcement of wildlife laws.	

Change in Project's Development Objectives

Explanation:

While the original objective of improving capacity for managing wildlife and national protected area is maintained, the PDO scope is broadened to target outcomes related to (a) improving the financing capacity of the EPF; (b) supporting capacity building of national, provincial, and district institutions to implement the Lao legislation on environment and social impact; (c) strengthening the university environment and social curriculum; (d) broadening project support to forested upper-watersheds of rivers important to hydropower, agriculture irrigation, and flood prevention; and (e) increasing the number of eligible provinces from 5 to 8.

Proposed New PDO - Additional Financing (AF)

The revised PDO is to help strengthen selected environmental protection management systems, specifically for protected areas conservation, enforcement of wildlife laws, and environmental assessment management.

The revised global environment objective (GEO) is the same as the revised PDO.

Change in Results Framework

Explanation:

The revised results framework reflects the increased scope of outcomes, activities, eligible provinces, and responsible agencies. These are the indicators at the outcome level:

- **Indicator 1.** Area brought under enhanced biodiversity protection measured by the score of management effectiveness remains the same and its target increased from 0.85 million ha to 1.25 million hectares.
- **Indicator 2.** International illegal trade information report submitted by the Department of Forest Inspection (DOFI) to international law enforcement or monitoring agencies is unchanged.
- **Indicator 3.** Aggregate index of functional capacity of selected protected area and wildlife management institutions is simplified and becomes percentage improvement of a score of functional capacity of Subproject Delivery Agencies (SDA) and EPF with targets set at 20%.
- **Indicator 4 (new).** Percentage of projects registered in environment impact Category 1 that have up-to-date compliance monitoring report published on the Department of Environmental and Social Impact Assessment (DESIA) website with the target set at 60% (hydro) and 40% (mining and transport).
- **Indicator 5 (new).** Number of village organizations supported by the project that meet the terms of conservation agreements (CAs) with target set at 140 villages.

The original project intermediary indicators were reviewed. The results framework in annex 1 describes the proposed changes in the detail.

Compliance

Change in Safeguard Policies Triggered

Explanation:

OP 7.50 is triggered because a few of the protected area subprojects may finance village-level investment such as small rural water supply (less than 50 L/s) and small scale irrigation (less than 10 ha) pumped from rivers that are tributaries to the Mekong River, an international waterway.

Current and Proposed Safeguard Policies Triggered:	Current(from Current Parent ISDS)	Proposed (from Additional Financing ISDS)

Environmental Assessment OP/BP 4.01	Yes	Yes
Natural Habitats OP/BP 4.04	Yes	Yes
Forests OP/BP 4.36	Yes	Yes
Pest Management OP 4.09	Yes	Yes
Physical Cultural Resources OP/BP 4.11	Yes	Yes
Indigenous Peoples OP/BP 4.10	Yes	Yes
Involuntary Resettlement OP/BP 4.12	Yes	Yes
Safety of Dams OP/BP 4.37	No	No
Projects on International Waterways OP/BP 7.50	No	Yes
Projects in Disputed Areas OP/BP 7.60	No	No

Other Changes to Safeguards

Explanation:

The Environmental and Social Management Framework (ESMF) and the Community Engagement Framework (CEF) previously approved under the original project have been updated to include the additional scope such as the addition of three provinces and watershed protection forests.

Covenants - Additional Financing - Second Lao Environment and Social Project (Additional Financing to the Protected Area and Wildlife Project) (P152066)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
				<input type="checkbox"/>		

Conditions

Source Of Fund	Name	Type
IDA	Effectiveness	Effectiveness

Description of Condition

As a condition for effectiveness of both the Financing Agreement and the GEF Grant Agreement (a) both the Financing Agreement and the GEF Grant Agreement have been executed and delivered and all conditions precedent to their effectiveness or to the right of the recipient to make withdrawals under them (other than the effectiveness of these agreements) have been fulfilled and (b) the Subsidiary Grant Agreement has been executed on behalf of the recipient and the EPF.

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	High

3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	High
8. Stakeholders	High
OVERALL	High

Finance

Loan Closing Date - Additional Financing - Second Lao Environment and Social Project (Additional Financing to the Protected Area and Wildlife Project) (P152066)

Source of Funds	Proposed Additional Financing Loan Closing Date
------------------------	--------------------------------------------------------

IDA Credit	30-Jun-2021
------------	-------------

Change in Disbursement Estimates (including all sources of Financing)

Explanation:

With the AF, a new disbursement schedule is provided.

Expected Disbursements (in US\$, Millions) (Original IDA Financing)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	0.75	0.85	2.10	2.60	3.95	3.50	3.05	0.20	0.00	0.00
Cumulative	0.75	1.60	3.70	6.30	10.25	13.75	16.80	17.00	17.00	17.00

Expected Disbursements (in US\$, Millions) (Original GEF Financing)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	0.10	0.40	0.80	1.10	1.60	1.40	1.30	0.13	0.00	0.00
Cumulative	0.10	0.50	1.30	2.40	4.00	5.40	6.70	6.83	6.83	6.83

Expected Disbursements (in US\$, Millions) (Additional IDA Financing)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	1.40	1.90	2.30	3.50	3.10	2.60	0.20	0.00	0.00
Cumulative	0.00	1.40	3.30	5.60	9.10	12.20	14.80	15.00	15.00	15.00

Allocations - Additional Financing (in SDR Million) (Additional Financing to the Protected Area and Wildlife Project) (P152066)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement % (Type Total)
			Proposed	Proposed
IDA	XDR	Goods, works, non-consulting services, consultants' services, Sub-grants, Training and Operating Costs for the	10.05	39.00

		Project		
IDA	XDR	Refinancing PPA Q877	0.65	100.00
		Total:	10.70	

Components				
Change to Components and Cost				
Explanation:				
The scope is increased to include capacity building for environment and social assessment management and to include protected areas gazetted for the purpose of protecting forested watersheds. The Project will now also support provincial and district offices of various departments as well as additional efforts to increase EPF capacity. Thus the word ‘National’ is dropped from Component 1, and “EPF” is added to the title of Component 3. The name of Component 2 is unchanged.				
Current Component Name	Proposed Component Name	Current Cost (US\$, millions)	Proposed Cost (US\$, millions)	Action
National Institution Development and Capacity Building	Institution Development and Capacity Building	8.90	14.40	Revised
Management of Wildlife and Protected Areas	Management of Wildlife and Protected Areas	12.60	20.60	Revised
Project Administration and Capacity Building (includes refinancing of PPA Q843)	Project Administration and EPF Capacity Building (includes refinancing of PPA Q843 and Q877)	3.73	6.83	Revised
	Total:	25.23	41.83	

IV. Appraisal Summary

Economic and Financial Analysis
Explanation:
Under the original PAW Project, an economic analysis was carried out to estimate the Project cost effectiveness of improved protected area management (see PAD Annex 6) for the protected areas covered by the project. The original PAW Project planned to invest \$8.4 \$4.5 million to improve management of 858,000 ha of NPA, support 100 villages and train 300 professionals. Based on expert interviews, existing literature and the appraisal teams estimates, the net present value of the ecosystem services provided by the NPAs was estimated at approximately US\$8.2 billion over 10 years (updated estimate). The LENS2 Additional Financing plans to invest \$5.3 million to improve management of an additional 400,000 ha of protected area, covering 40 villages and training an additional 740 professionals. Since the ecosystem characteristics of the expanded areas being protected under the LENS Additional Financing are the same as

the protected areas under the original PAW Project, we assume the ecosystem services value per hectare of protected area is the same. As a result, the net present value of ecosystems services provided by the additional 400,000 ha of protected area would be approximately US\$3.8 billion over 10 years. The total net present value of ecosystems services provided under the combined project area of 1,258,000 ha of NPA would therefore be approximately \$12 billion over 10 years. Critical ecosystem services provided by forest included in this estimate are biodiversity conservation, consumptive uses (e.g. NTFPs and ecotourism), watershed protection and carbon sequestration. Given that the NPA system of Lao is facing significant management challenges (habitat degradation, overexploitation of resources and limited community engagement), it is safe to assume that in the “without-project” scenario the status quo would remain, and the degradation and depletion of forest resources, biodiversity, and wildlife would continue at its current rate. Within the 1,258,000 total hectares of the combined project area, approximately 480,000 tons of carbon and 3,500 ha of forest cover were lost on average annually between 2010 and 2013. There is also abundant anecdotal evidence of further forest degradation and wildlife extirpation for the same period. Under the “with-project” scenario, the potential economic benefits of management improvements could be large. Under the “with-project” scenario, monitoring of wildlife trade and forest protection would improve, thus reducing pressures on existing resources and therefore ecosystems services. The estimated net present value of the ecosystems services being protected, \$12 Billion over 10 years, is high relative to the cost of improved protected area management covered by the project, which is \$13.7 million. Given that the current forest cover loss is 3,500 ha per year which is equivalent to \$38 million per year in ecosystem services benefits, reducing the loss of ecosystem services by \$15.1 million (the break-even point for this project with an Economic Rate of Return of 12%) or one third of the current losses is readily achievable. Other project funds are supporting human resources and institution building investments which are directly contributing to the maintenance of ecosystem services nationwide but not included into the analysis because of data limitation.

Technical Analysis

Explanation:

No change. The added scope does not entail technical changes.

Social Analysis

Explanation:

No change except for an increase in the number of beneficiaries due to the addition of three provinces and protected areas gazetted for watershed protection. The social dimension possibly triggered by this change in scope has been addressed in the updated ESMF and CEF. Also see annex 3 of this Project Paper.

Environmental Analysis

Explanation:

The addition of three provinces and watershed PAs does not generate new types of possible environment impacts or issues. The change in scope has been addressed in the updated ESMF and CEF. Note that increased policy work and capacity building for university education on environment and social impact assessment is expected to improve the country’s capacity to sustainably manage environment issues. Also see annex 3 of this Project Paper.

Risk

Explanation:

No changes in the fundamental risks. The increased scope and financing also increases the complexity for the implementing agency. This is mitigated by substantially larger technical assistance (TA) and additional training for the EPF office (EPFO) staff. Also see annex 3 of this Project Paper.

ANNEX 1: RESULTS FRAMEWORK

LAO PDR: SECOND LAO ENVIRONMENT AND SOCIAL PROJECT (ADDITIONAL FINANCING TO THE PROTECTED AREA AND WILDLIFE PROJECT) FOURTH PHASE OF A SERIES OF PROJECTS ON STRENGTHENING REGIONAL COOPERATION FOR WILDLIFE PROTECTION IN ASIA

PDO		
<i>Original</i>	<i>Proposed Change with AF*</i>	<i>Explanation for the Change</i>
To strengthen the management systems for national protected areas conservation and for enforcement of wildlife laws.	To help strengthen selected environmental protection management systems, specifically for protected areas conservation, enforcement of wildlife laws, and environmental assessment management.	The project scope has increased.
Outcome Indicator (OI)		
OI 1. Area brought under enhanced biodiversity protection measured by score of management effectiveness	Indicator unchanged but target increased from 858,000 ha to 1,250,000 ha	Inclusion of watershed protection forests
OI 2. International illegal trade information reports submitted by DOFI to international law enforcement or monitoring agencies	Unchanged	n.a.
OI 3. Aggregate index of functional capacity of selected protected area and wildlife management institutions ⁶	OI 3. Percentage increase of the score of functional capacity of SDAs and EPF (annual)	Revision reflects a simplification of the indicator so it can easily be used by all SDAs and EPF.
n.a.	OI 4. Projects registered in environment impact Category 1 that have up-to-date compliance monitoring report published on the DESIA website (annual)	New indicator reflects the added scope on environment and social standards.
n.a.	OI 5. Number of village organizations supported by the project that meet the terms of a conservation agreement (CA) (cumulative)	New indicator reflects a stronger emphasis in the AF on community consultation, planning, empowerment, and then project support for livelihood and ecosystem management by local communities.

Note: n.a. = Not applicable

⁶ The aggregate index of functional capacity is a score provided through 10 capacity criteria each scored from 1 to 10 such as (a) existence of a functional board, (b) staffing, (c) fiduciary system, and (d) budget, etc.

Component 1: National institution development and capacity building	Component 1: Institution development and capacity building	Comments/Rationale for Change
<i>Original</i>	<i>Proposed Change with AF*</i>	
Intermediary Outcome Indicator (IOI)	Intermediary Outcome Indicator	
IOI 1.1. Number of direct project beneficiaries (of which women) (cumulative) as measured by additional PA and wildlife management staff having completed the basic training in management of wildlife trafficking or of PAs	IOI 1.1. Number of direct project beneficiaries (of which women) as measured by additional staff of public and partner's institutions having completed basic adaptive training (short courses)	Reworded to capture quality aspect and reflect the broader scope of AF support
IOI 1.2. Number of wildlife trafficking cases recorded in the Internal Monitoring System (IMS) by Provincial Office of Forest Inspection (POFI) in Khammuane, Borikhamxay, Huaphanh, and DOFI central (of which are international cases)	IOI 1.2. Number of wildlife trafficking cases recorded in the IMS by POFI in eligible provinces	Adapted to the increase in number of eligible provinces
IOI 1.3. Indicator of gradual development of a national system plan for conservation and protection forests development and management.	Unchanged	n.a.
IOI 1.4. Number of planned projects affecting NPAs (e.g., roads, power lines, mines, dams, plantations, logging concessions) for which development status is updated annually and accurately in the Department of Forest Resources Management (DFRM) Tracking Report	IOI 1.4. Projects registered in environment impact Category 1 and Category 2 in the provinces targeted by the project who have a valid ECC ⁷ (annual).	The indicator's scope is modified to measure the capacity of national and provincial offices to monitor environmental and social impacts in concessions and contracted public and private investment projects.

⁷ Category 1 (or EIA) and Category 2 (or IEE) 'projects' correspond in Lao legislation to World Bank safeguard categories Category A and Category B projects. Environment Compliance Certificate (ECC).

Component 2: Management of wildlife and protected areas	Component 2: Management of wildlife and protected areas	Comments/Rationale for Change
<i>Original</i>	<i>Proposed Change with AF*</i>	
Intermediary Outcome Indicators	Intermediary Outcome Indicators	
IOI 2.1. Cumulative number of direct project beneficiary recipients of livelihood or conservation grants (of which, women or women organizations)	Unchanged	n.a.
IOI 2.2. Trend of proportion of household income from non-timber forest product (wild fish, wildlife, bamboo shoots.)	Deleted	Indicator replaced by outcome indicator 5 which also measures benefit to communities, is easier to measure, more attributable to the project and more realistic.
IOI 2.3. Number of villages that (a) have an approved Participatory Land Use Planning (PLUP), (b) have signed an NPA CA, and (c) where the terms of a Conservation Agreement (CA) are met	Revised and upgraded to outcome indicator	Indicator moved to outcome level as indicator 5 after being improved to reflect the village benefits and broader scope of the project, to simplify measurement.
IOI 2.4. Area where the status of the population of selected mammals and hunting intensity is measured	Becomes IOI 2.2. Area within PAs where (a) the status of the population of selected mammals and threat (b) gross forest loss rate are measured (annual).	Scope to include all area-based PA monitoring in all types of protected areas (protection and conservation forest). Threats monitored broader than just hunting, i.e., includes mining, roads, and logging.
IOI 2.5. Area where gross forest loss rate in NPAs is measured (twice in project period)	Merged with IOI 2.2	Target value increased to accommodate the increased geographical scope.
IOI 2.6. Number of POFI patrols and inspections that include wildlife crimes (of which, in border areas or to control international trade)	Becomes IOI 2.3. Text unchanged.	n.a.
Component 3: Project administration and capacity building	Component 3. Project administration and EPF capacity building	Comments/Rationale for Change
<i>Original</i>	<i>Proposed Change with AF*</i>	
IOI 3.1. FM, M&E, and procurement ratings at or above S	Dropped	It is monitored in semester reports and does not need to be a key performance indicator.
IOI 3.2. Percentage of 'Deliverables' proposed in the Annual Work Plan and Budget (AWPB) completed each year	Dropped	It is monitored in semester reports and does not need to be a key performance indicator.
n.a.	IOI 3.1. Amount in US\$ of funds mobilized originating from (a) public sources and (b) private sources remitted to EPF	New indicator reflecting broadened outcome of building EPF capacity.
n.a.	IOI 3.2. EPFO positions initially funded by the project which are funded by EPF own funds	New indicator reflecting broadened outcome of building EPF capacity.

Note: *Indicate if the indicator is Dropped, Continued, New, Revised, or if there is a change in the end of project target value.

REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective (PDO) and Global Environment Objective (GEO): <i>To help strengthen selected environmental protection management systems, specifically for protected areas conservation, enforcement of wildlife laws and environmental assessment management.</i>														
PDO Level Results Indicators	Core	Unit of Measure	Baseline	Target Values (Annual or Cumulative)							Reporting Frequency	Data Source/ Methodology	Resp. for Data Collection	Description (indicator definition etc.)
				YR1	YR2	YR3	YR4	YR5	YR6	YR7				
<i>Indicator 1:</i> Area brought under enhanced biodiversity protection measured by score of management effectiveness (annual)	<input checked="" type="checkbox"/>	% of maximum score	NEPL (for 420,000 ha)	40	40	44	46	48	51	53	Annually	Score of management effectiveness (METT) and area it applies to.	DFRM or relevant SDA	A change in METT category (+25% score) is considered 'enhanced protection' and this is highly satisfactory, a +15% score is satisfactory. Indicator applies to all PAs (Conservation and Protection Forests.). Protected areas will be added during implementation as subproject proposals are accepted.
			NT2 watershed (for 438,000 ha)	35	36	37	40	43	49	50				
			Other PAs (400,000 ha one line per PA)	Tbd	+0	+4	+6	+8	+13	+15				
<i>Indicator 2:</i> International illegal trade information reports submitted by DOFI to international law enforcement or monitoring agencies(annual)	<input type="checkbox"/>	number	0	0	2	3	5	5	5	5	Annually	DOFI information report.	DOFI	Information report refers to suspected, alleged, detected, observed, and reported illegal activities shared with agencies such as TRAFFIC, INTERPOL,

															ASEAN-WEN, CITES ⁸ .
<i>Indicator 3:</i> Increase in the score of functional capacity of SDAs and EPF (annual) ⁹	<input type="checkbox"/>	% (average of all institutions)	0	0	0	2	6	10	16	>20	Annually	Index score sheet filled out by each SDA and by EPF based on a max score of 100	All listed SDAs	Each SDA will include in its subprojects proposal an index of functional capacity, a baseline, and a target. This will be appraised by the Bank and added to the RF.	
<i>Indicator 4:</i> Projects registered in environment impact Category 1 that have up-to-date compliance monitoring report published on the DESIA website ¹⁰ (annual)	<input type="checkbox"/>	%	Hydro 0	0	0	20	30	40	50	60	Annually	DESIA website and database	DESIA	For concession projects this is done by monitoring SESO. For transport project the Environment and Social Operations Manual is tracked by the public works and transport sector.	
			Mining 0	0	0	10	15	20	30	40					
			Road 0	0	0	10	15	20	30	40					
<i>Indicator 5:</i> Village organizations within, or adjacent to, PAs supported by the project that meet the terms of a CA (cumulative)	<input type="checkbox"/>	number	Total: 0	0	10	30	70	95	130	140	Annually	Annual reports from PA teams who verify compliance and authorize payment to village	NEPL MU and Watershed Management Protection Authority (WMPA)	Can only meet those terms if CEF process followed a) approved PLUP, (b) signed CA, etc. % tracked but no target set.	
			NEPL: 0	0	5	10	20	30	40	40					
			NT2 watershed: 0	0	5	15	35	45	60	65					
			Other PA: 0	0	0	5	15	20	30	35					

⁸ The Wildlife Trade Monitoring Network (TRAFFIC), International Criminal Police Organization (INTERPOL), Association of South East Asian Nations Wildlife Enforcement Network (ASEAN-WEN), Conference for International Trade in Endangered Species (CITES)

⁹ The index of functional capacity is a simple score provided through 10 capacity criteria, each scored from 1 to 10 such as (a) existence of a functional board, (b) staffing, (c) fiduciary system, (d) budget, etc.

¹⁰ A Category 1 (or EIA) project in Lao legislation is a project that has potentially severe environment and social impact and is comparable to a World Bank Category A project.

												organizations	community extension staff and other SDAs as selected	
--	--	--	--	--	--	--	--	--	--	--	--	---------------	------------------------------------------------------	--

Note: TBD = To be decided.

INTERMEDIATE RESULTS														
Results Indicators	Core	Unit of Measure	Baseline	Annual or Cumulative Target Values**							Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR1	YR2	YR3	YR4	YR5	YR6	YR7				
Component 1: Institution development and capacity building														
Intermediate Objective: To improve the capacity and collaboration of national and provincial public institutions to design and monitor national and regional natural resources, environmental, and social policies.														
<i>Intermediate Result Indicator 1.1:</i> Direct project beneficiaries (of which women) as measured by additional staff of public and partner institutions having completed basic adaptive training (short courses) (cumulative)	<input checked="" type="checkbox"/>	Cumulative number	Total: 0	0	150	305	508	720	880	1,040	Annually	Recording from NUOL subprojects reports	E.g., staff of NUOL, DOFI, DFRM, DESIA, WMPA and provincial divisions as well as private and civil society organizations employees	Subjects relevant to the PDO
			National training: 0	0	150	300	500	700	850	1,000				
			Regional ¹¹ training: 0	0	0	5	8	20	30	40				
			Female beneficiary %	20	20	20	20	20	20	20				
<i>Intermediate Result Indicator 1.2:</i>	<input type="checkbox"/>	number	Total 29/5	29/5	33/5	42/9	49/9	51/11	58/11	59/12	Annually	IMS	DOFI	

¹¹ 'Regional' here means outside Lao PDR and most likely within Asia.

Wildlife trafficking cases recorded in the IMS by POFI in eligible provinces (of which are international cases) (annual)			Huaphanh 7/0	7/0	7/0	10/1	12/1	14/1	14/1	14/1				
			Khammuane 5/0	5/0	6/0	8/1	10/1	11/1	12/1	12/1				
			Borikhamxay 14/5	14/5	15/5	17/6	18/6	20/7	21/7	22/7				
			DOFI central 3/0	3/0	5/0	7/1	9/1	11/2	11/2	11/3				
<i>Intermediate Result Indicator 1.3:</i> Indicator of gradual development of a national system plan for NPA* development and management (cumulative) *NPAs are National Conservation Forests and National Protection Forests	<input type="checkbox"/>	Progress score	0	0	2	4	6	10	12	12	Annually	Project monitoring reports	DFRM	Point system: NPA planning and reporting guidelines-2; community engagement guidelines-2; economic value of NPAs published-2; national status report-2; report of optimization of policy, institutions, and laws for NPA management-2; adoption of road map to restructure NPA management-2.
<i>Intermediate Result Indicator 1.4:</i> Projects in environment impact Category 1 and Category 2 in the	<input type="checkbox"/>	%	Hydro Near 0	Measured	10	20	30	40	50	50	Annually	Standard Monitoring Check List (existence of Certificate, of Mitigation	DESIA and Environment Impact Divisions of the Provincial	
		Mining Tbd	-	Measured	10	20	30	40	50					

provinces targeted by the project who have a valid ECC ¹² (annual).			Road TBD	TBD	Measured	10	20	30	40	50		monitoring reports, etc.)	Office of Natural Resources and Environment (PONRE)	
Component 2: Management of wildlife and protected areas														
Intermediate Objective: To improve the capacity and collaboration of public institutions, civil society, and communities to manage protected areas and enforce wildlife laws.														
<i>Intermediate Result Indicator 2.1:</i> Direct project beneficiary recipient of livelihood or conservation grants (of which women or women organizations) (cumulative)	<input checked="" type="checkbox"/>	Number in thousands	Total: 0	0	1.0	5	16	24	32	36	Annually	Project implementation on regular monitoring records	NUOL, DFRM, DOFI, NEPL MU, and WMPA	NEPL about 20,000 people and NNT about 6,900 people in enclave villages and 9,400 in the PIZ. Given that Community Action Plans (CAPs) are for all the community, all are considered beneficiary of small grants.
			NEPL: 0	0	0.5	3	8	11	14	16				
			Nakai Nam Theun (NNT) watershed: 0	0	0.5	2	6	9	12	13				
			Other PA Tbd	NA	baseline	–	2	4	6	7				
			% female	40	40	40	40	40	40	40				
<i>Intermediate Result Indicator 2.2:</i> Area within PAs where (a) the status of the population of selected mammals and threat (b) gross forest loss rate are measured (annual)	<input type="checkbox"/>	ha, thousands	Threats and mammals: 0	–	400	600	1000	1000	1000	1000	Every years	Patrol data on occupancy. Gross forest loss measured from satellite images	NEPL MU and WMPA and other MUs assisted by partner organizations	Threat/wildlife on 80% of PAs, forest loss on 100% PAs. Accuracy verified by an independent reviewer.
		ha, thousands	Gross forest loss rate: 0	–	–	1250	–	–	1250	–				
<i>Intermediate Result Indicator 2.3:</i> POFI patrols and inspections that include wildlife	<input type="checkbox"/>	number	Total: 24/0	48/0	72/0	108/3	108/6	120/12	120/12	120/12	Annually	IMS	POFIs from each province as recorded in the Internal	Patrols and inspections include market controls, road blocks, response controls.
			Khammuane 24/0	24/0	24/0	36/1	36/2	40/4	40/4	40/4				
			Borikhamxa	0/0	24/0	36/1	36/2	40/4	40/4	40/4				

¹² ECC Environment Compliance Certificate.

crimes (of which in border areas or to control international trade) (annual)			y 0/0										Monitoring System	International border refers to patrols along borders, and international crime.
			Huaphanh 24/0	24/0	24/0	36/1	36/2	40/4	40/4	40/4				
Component 3: Project administration and EPF capacity building														
Intermediate Objective: <i>To deliver the project's outputs within the allocated time frame and with satisfactory planning, procurement, financial management, monitoring, and communication and to help EPFs become a significant and recognized player in environment financing capable to deliver and monitor subprojects throughout the country.</i>														
<i>Indicator 3.1:</i> Funds mobilized originating from (a) public sources and (b) private sources remitted to EPF (annual)	<input type="checkbox"/>	Amount US\$, thousands	Public: 350	350	350	500	600	700	700	700	Annually	EPF Annual Report	EPF Fund raising officer	
			Private: 450	450	500	600	700	800	900	900				
<i>Indicator 3.2:</i> EPFO staff positions initially funded by the project which are funded by EPF own funds (annual)	<input type="checkbox"/>	Number	0	0	0	0	2	4	6	8	Annually	EPF Annual Report	EPF HR Officer	

ANNEX 2: DETAILED DESCRIPTION

LAO PDR: SECOND LAO ENVIRONMENT AND SOCIAL PROJECT (ADDITIONAL FINANCING TO THE PROTECTED AREA AND WILDLIFE PROJECT) FOURTH PHASE OF A SERIES OF PROJECTS ON STRENGTHENING REGIONAL COOPERATION FOR WILDLIFE PROTECTION IN ASIA

A. Context

1. *Regional activities.* Under the original project, Lao PDR has accessed IDA regional funds in the form of an IDA credit. One of the core issues is the mitigation of illegal wildlife trade across borders and that the supply of wildlife originates from South and Southeast Asia. Hence, applying a regional approach will help build synergies, provide tools for more effective enforcement, support agencies in participating countries to address wildlife trafficking, and build collaboration with existing global organizations and enhance wildlife conservation through a landscape approach. Although subprojects are not yet designed, it is expected that these funds will help Lao PDR (a) engage in discussions with Vietnam authorities to re-energize existing memorandums of understanding (MoUs), prepare action plans, and cooperate on the ground in two PAs; (b) establish relations with India Wildlife Institute to help NUOL develop a curriculum for wildlife and PA management, receive Lao students, and facilitate twinning arrangements between PAs in Laos and other PAs in the region (for example, India, Nepal); (c) participate in various knowledge exchange fora (for example, World Park Congress) or initiatives (for example, annual meetings); and (d) actively help Lao-WEN institutions engage with ASEAN-WEN institutions and CITES not only for capacity building and knowledge exchange but also on the ground collaboration and intelligence sharing.

2. *Bank portfolio in environment and natural resources.* The original project, PAW, belongs to a set of complementary, and coordinated, operations supporting the natural resources agenda of the CPS. These projects are (a) the NT2 project, which initiated the development of the NNT NPA that the original project will help restructure, (b) the IWRM project, which seeks to establish key examples of integrated water resource management practices in the Lower Mekong Basin at the regional, national, and subnational levels; (c) the IDA HMTA project, which aims to increase human capacity and improve the performance of government oversight institutions for the hydropower and mining sectors; (d) the SUPSFM project which supports MAF efforts in production forests, including a similar strategy to the proposed LENS2¹³ to support community livelihoods; (e) the project the BRNH, which aims to enhance disaster risk management capacity of hydro-meteorological services and post-disaster recovery programs; and (f) the IFC ESSWRD program, which aims to increase the share of new private sector investments in the hydropower sector in the Mekong region that adhere to best practices in environmental and social standards.

3. *International donors and NGOs' portfolio in environment natural resources.* Donors with large investments in the environment are led by the German Government. The German Society for International Cooperation (GIZ) supports the Him Nam No NPA (€6.1 million) as well as the Project for Climate Awareness and Education (ProCEED) (€2.5 million), which helps MONRE

¹³ In the PP annexes, the activities and institutional arrangement described are for the original project and the additional financing together referred to as the proposed Project or proposed LENS2.

launch an environment awareness program, and the project Climate Protection through Avoided Deforestation (CliPAD) (€18 million). The German Reconstruction Credit Institute (KfW) is preparing an Integrated Conservation of Biodiversity and Forestry (ICBF) program (€15.5 million). The Bank is actively cooperating with Germany. Both Germany and the European Union are supporting the Forest Law Enforcement, Governance, and Trade Initiative (FLEGT), which involves substantial support (about US\$20 million) to DOFI in forest crime control. Asian Development Bank (ADB) has been financing the Biodiversity Conservation Corridors (BCC) Project (US\$20 million) in southern Lao PDR under the GEF-funded Greater Mekong Subregion (GMS) Forests and Biodiversity Regional Support Project. Finland is funding TA to the Department of Forests (DOF) and DOFI as cofinancing to the IDA project: SUPSFM as well as the Environment Management Sector Program (EMSP), which support capacity building of two MONRE departments and integrated spatial planning (ISP) in several provinces. The United Nations Development Program (UNDP), Germany, and Switzerland are supporting various efforts toward climate change adaptation and urban waste management. The main NGOs active in Laos are World Wildlife Fund (WWF), International Union for the Conservation of Nature (IUCN), and Wildlife Conservation Society (WCS). The focus of their efforts is on wildlife conservation, protected area management, Payment for Ecosystem Services (PES), and offset development, Reducing Emissions from forest Degradation and Deforestation (REDD), and ecosystem-based climate change adaptation.

4. *Complementarity of the AF.* The following environmental and social issues are insufficiently covered by the existing Bank and donor portfolio described above: (a) sustainable public financing of the environment and social sectors in a context of a low, and not increasing, GoL budget allocation; (b) enforcing compliance with national environmental and social regulations in public and private projects, especially in transport, hydropower, and mining; and (c) protecting forest in upper catchments of rivers important for hydropower, agriculture irrigation, and for minimizing downstream floods. Hence, the additional financing.

B. Additional Beneficiaries and Benefits

5. The proposed LENS2 immediate development impact will be measured in terms of improved human capital, more efficient and more sustainable public management systems of environment and social regulations, and better forest development planning that integrates not only hydropower and mining but also other less powerful natural resource users such as farmers and forest dwellers.

6. *Provinces selected.* Under PAW, five provinces were selected on biodiversity and wildlife trade criteria: Borikhamxay, Khammuane, Huaphanh, Xiengkhuang, and Luang Prabang. With the proposed AF, three provinces are added based on MONRE's priority, national poverty, and capacity criteria. The three provinces are Savannakhet, Xaysomboon, and Vientiane (see annex 4). Other provinces may be included based on implementation experience.

7. *Rural direct beneficiaries.* With the proposed AF, the expected number of villages receiving training and livelihood support will increase by about 50 percent to 140 villages (directly benefiting around 14,000 people). Many of these beneficiaries are expected to be ethnic minorities (Hmong, Khmu, Mien, Makong, Bru, and others) living in and around the forested upper-watershed. These are considered to be vulnerable ethnic groups in Lao PDR as their

livelihood is heavily based on subsistence agriculture, fishing, and gathering of forest products. The project enhances the assets of the poor by expanding sustainable livelihood opportunities in an attempt to reduce the poor's vulnerability to natural-resource-related shortages (that is, Nan Timber Forest product, wildlife, fish, and timber) and natural disaster. Given the unique role of women in the above sector, a special emphasis on women is planned (for example, enhanced participation in planning and decision-making). In some communities, the proposed Preproject will contribute to land use planning and land allocation activities, which have been correlated strongly in Lao PDR with a 10 percent lower incidence of poverty.¹⁴

8. *Government beneficiaries and national benefits.* Direct beneficiaries include at least 1,000 staff from universities, GoL departments, provinces, and districts, as well as several thousand university students who, through professional training, improved curriculum, and the opportunity to acquire on-the-job experience, will develop skills that will serve the entire sector.

9. *Indirect beneficiaries.* These are investors and the tax payers of Lao PDR, whose investments in hydropower and mining will be more sustainable and subject to fewer liabilities, with the proposed Project contributing to an improvement in environmental and social compliance. This improvement, unlikely to materialize fully during the project life, will ultimately lead to better forest and soil management in the upper-watershed, decreased river pollution, and increased fish production. They will have a positive impact on the availability of water for downstream users and result in less severe natural disasters, especially in agricultural and urban areas that are prone to flooding in.

10. *Greenhouse gas accounting.* The expected PA affected by the Project totals about 1.6 million ha¹⁵ which is about 70 percent forested with dry deciduous and evergreen forests. The rest is agriculture, fallow, shrub, and grassland. Their overall carbon stock was calculated to be around 200 million tons with a rate of erosion (not accounting for leakages) of about 0.81 million tons per year (0.41percent per year). Even though reduced emission targets are not set, it is expected that deforestation rates will be slowed by a third as a result of the project leading to a reduction of annual carbon emission from project sites of about 0.27 million tons per year by project end.

C. Revised Components

11. With the proposed AF, the scope of the original components will increase. Similar to PAW, Components 1 and 2 will be implemented through a subproject mechanism administered by the EPF. The EPF will provide subgrants to SDAs for two of the five EPF windows: (a) Policy, Institution, and Capacity Enhancement (PICE) and (b) Community and Biodiversity Intervention (CBI). Component 3 will help the EPF administer the project and expand/strengthen its capacity in operational management, fund raising, and external relations.

¹⁴ World Bank. (2006.), Poverty Environment Nexus: Sustainable Approaches to Poverty Reduction in Cambodia, Lao PDR, and Vietnam.

¹⁵ This figure is larger than the area conservatively proposed in the RF.

Table 2.1: Project Components

Original PAW Project Components	Revised Components under AF
Component 1: National institution development and capacity building	Component 1: Institution development and capacity building (broadened to include provincial institutions)
Component 2: Management of wildlife and protected areas	Name unchanged (scope broadened to include all types of protected areas)
Component 3: Project administration and capacity building	Component 3: Project administration and EPF capacity building

D. Revised Financing Plan

12. The revised total project cost is estimated at US\$41.83 million, of which the original IDA financing is US\$17.0 million equivalent, the original GEF financing is US\$6.83 million, and the additional IDA financing is US\$15.00 million. The original GoL financing was US\$1.40 million. Additional GoL financing is US\$1.60 million, bringing the overall GoL contribution to US\$3.00 million. No additional cofinancing is secured. However, SDAs need to justify baseline financing when they submit a subproject proposal. Therefore, substantial related but separate financing is likely to materialize during implementation. The revised project costs are summarized in Table 2.2 and Table 2.3.

Table 2.2: Change in Cost by Component (Costs include GoL Contribution)

Project Component	Original Cost (PAW) (US\$, thousand)	AF (US\$, thousand)	Revised Cost (LENS2) (US\$, thousand)
Component 1: Institution development and capacity building	8,900	5,500	14,400
Component 2: Management of wildlife and protected areas	12,600	8,000	20,600
Component 3: Project administration and EPF capacity building	3,200	2,200	6,830
<i>Refinancing of the Project Preparation Advance</i>	530	900	
Total	25,230	16,600	41,830

Table 2.3: Overall Project Cost by Component and Source of Financing

Project Components	IDA Grant (US\$, thousands)	IDA Credit (US\$, thousands)	IDA Add. Cr. (US\$, thousands)	GEF Grant (US\$, thousands)	GoL (US\$, thousands)	Project (US\$, thousands)
Component 1: Institution development and capacity building	1,486	4,679	5,278	2,557	400	14,400
Component 2: Management of wildlife and protected areas	2,059	6,484	7,314	3,543	1,200	20,600
Component 3: Project administration and EPF capacity building	425	1,337	1,508	730	1,400	5,400
<i>Refinancing of the Project Preparation Advance PAW</i>	530	-	-	-	-	530
<i>Refinancing of the Project Preparation Advance LENS2</i>	-	-	900	-	-	900
Total Project Costs	4,500	12,500	15,000	6,830	3,000	41,830

E. Detailed Description of Project Activities

13. *EPF subproject windows and mechanism.* With the restructuring and the AF, the PAW project components will increase the scope of eligible activities. Similar to PAW, Components 1 and 2 will be implemented through a subproject mechanism administered by the EPF. The EPF will provide grants to SDAs applying to two of the five EPF windows: (a) PICE and (b) CBI. Component 3 will help the EPF administer the project and expand/strengthen its own capacity especially in management, administration, fund raising, and financing.

14. *Province selection.* Five provinces were selected for PAW implementation. To select another three provinces, five criteria¹⁶ were applied to the 18 Lao PDR provinces, which were then ranked in order of decreasing priority. The final eight provinces selected are Borikhamxay, Khammuane, Huaphanh, Xiengkhuang, Luang Prabang, Savannakhet, Xaysomboon, and Vientiane, as well as Vientiane capital.

15. *Subproject selection criteria.* These are the PAW subproject selection criteria: (a) support a GoL policy, strategy, and an official plan; (b) contribute to at least one outcome indicator and at least one intermediary outcome indicator; (c) exclude activities on the negative list; and (d) contribute to a regional outcome such as cross-border cooperation, knowledge transfer, or prevention of illegal wildlife trade. With the proposed LENS2, the original project criteria mentioned above will be applied. However, criteria (d) will apply only to wildlife trade and national protected areas subprojects. A list of non-eligible activities is included in the project implementation manual (PIM), the ESMF, and the Community Engagement Framework (CEF).

16. *Subproject design.* The design of most of the subprojects will be carried out during early implementation. The EPFO will sign Subgrant Agreements with each SDA for the proposed duration of the approved subproject. In year 1, funds will be released to the SDA based on an approved AWPB. From the second year and afterward, funds released will be based on previous years' performance based on agreed triggers and approved AWPB. Nonperforming SDAs will first receive additional support and training. If the situation does not improve, the EPF, in consultation with the Bank, may reduce the value of the subproject or possibly cancel the balance of the funding allocation returning into the project unallocated amount.

17. *Subproject budget.* US\$13.9 million from the original project IDA credit/grant and the GEF grant had been allocated to an initial portfolio of 16 subprojects. Under the proposed AF, a definite budget has not yet been allocated to subprojects. The allocation will be determined when proposals that meet the selection criteria are submitted. It is likely that some financing will support the scale-up of successful initial subprojects.

¹⁶ (1) Priority province for national MONRE departments (DFRM, DESIA, DEQP); (2) number of PONRE staff in province (as a proxy for provincial capacity); (3) number of poor in 2008 (as a proxy for poverty level); (4) existence of a Bank natural resources or social sector project; and (5) contiguity.

Component 1: Institution development and capacity building (US\$14.4 million, of which World Bank US\$14.0 million [US\$11.5 million or 82 percent IDA and US\$2.5 million or 18 percent GEF])

18. This component seeks the following intermediary outcome: Improve the capacity and collaboration of national and provincial public institutions to design and monitor national and regional natural resources, environmental, and social policies.

19. Component 1 is implemented through the EPF window PICE. These subprojects will strengthen the capacity of eligible SDAs to (a) execute and coordinate national and provincial planning for environment and natural resources management; (b) manage the country protected area system in cooperation with communities and neighboring countries; (c) monitor and control the illegal wildlife trade in cooperation with neighboring countries; (d) manage the country environment and social impact assessment system; (e) develop and implement educational and training programs in sciences related to the management of environmental and social impact, biodiversity, wildlife, and protected areas; and (f) improve the knowledge of decision makers and public employees on environment, social, biodiversity, protected area, and wildlife issues.

20. Six subprojects had been pre-identified as part of the original project. Several additional initial subprojects have been pre-identified as part of the proposed AF. The subproject listed in Table 2.4 below are designed or in the process of being designed. Additional subprojects in the areas outlined above may be identified for financing during project implementation.

21. Each subproject will have a set of eligible expenditures. While several subprojects are already approved under PAW Component 1, for which the details of activities are known, the details of the expenditure under all other PAW subprojects and all AF subprojects are unknown until the proposals are received. Eligible expenditures include (a) civil works for office building rehabilitation; (b) equipment, including vehicles, motorcycles, computer and office equipment, furniture, and field equipment; (c) training expenditures, including workshops, study tours, scholarships, short courses, and research grants; (d) consultant services, including international and national TA to SDAs, short-term consultants for advisory services (individual, firm, or NGOs), and legal advice; (e) operating expenditures such as external auditors, non-consultant and non-civil service staff, and labor, utilities, equipment operation insurance and maintenance, rental, office supplies, travel and subsistence.

22. Table 2.4 lists the PICE subprojects. Subprojects 1.1 to 1.6 had been proposed under PAW¹⁷ and the others are additional PICE subprojects proposed for potential financing¹⁸ (shaded). Other subprojects will be identified and appraised during implementation.

¹⁷ The title of some of the subprojects initially identified under PAW (see PAW PAD) may have slightly changed to accommodate the increased scope with the AF and also because the SDAs may have proposed a different title in the subproject proposal.

¹⁸ It is expected that some SDAs may submit proposals for subprojects under the AF before the Board approval but they will be approved only after the Board approval, following the confirmation by the Bank that they meet project financing eligibility criteria and their preparation followed all safeguard requirements.

Table 2.4: List of PICE Subprojects Initially Identified

SDA ¹⁹	Subproject
MONRE/ DPC	1.1 Capacity building for national environment and natural resources planning
MONRE/ DFRM	1.2 Institutional capacity building for protected area and protection forest management and wildlife conservation (subproject submitted and approved)
MAF/ DOFI	1.3 National-level capacity building in wildlife law enforcement (subproject submitted and approved)
NUOL FSS	1.4 Human Resources Development for protected area and wildlife management (subproject submitted and approved)
Kaysone Academy	1.5 Constituency building of high-level officials on biodiversity and wildlife
GO PR	1.6 Constituency building of public administration on environment, biodiversity, and wildlife issues
MONRE/ DESIA	1.7 Capacity building for enforcement of environment and social impact legislations
MONRE/ DEQP	1.8 Capacity building for environment promotion and scaling up ISP in selected provinces
MONRE/ PCD	1.9 Capacity and institution building for pollution reduction especially from industries and small and medium enterprises
NUOL- FES	1.10 Capacity building and strengthening of the environmental science and environmental impact assessment curriculum
NUOL- FEB	1.11 Capacity building and strengthening of the environmental economic curriculum with focus on PES and valuing offsets
NUOL- FSS	1.12 Capacity building and strengthening of the social impact assessment and mitigation curriculum
PONRE ESIA Div.	1.13 Strengthening PONRE divisions for implementation of the PESAP with a focus on enforcement of environmental and social impact regulations (in eligible provinces)

23. The initial subprojects from PAW, including, for some of them, their scaling-up with the AF, are summarized in the following paragraphs:

24. *1.1. Capacity building for national environment and natural resources planning.* The Department of Planning and Cooperation (DPC) of MONRE proposed to implement this subproject. It aims to strengthen the capacity of the DPC. The subproject proposes to finance TA, workshops, and equipment for DPC. Under this subproject, the DPC will (a) coordinate the Forest Subsector Working Group, (b) monitor the DFRM’s implementation of national policies and strategies including progress toward the biodiversity of MDG indicators, (c) develop arguments in favor of greater mobilization of GoL budget for PAs, and (d) monitor implementation of the Natural Resources and Environment Strategies 2020.

25. *1.2. Institutional capacity building for protected area and protection forest management and wildlife conservation.* Approved. This subproject is proposed by the DFRM of MONRE. It aims to strengthen the policy and institutional framework as well as the DFRM’s capacity to protect and manage the country’s national PAs system and implement its MoU with Vietnam on the joint management of borderland PAs. The subproject proposes to finance TA, workshops,

¹⁹ MONRE Department of Planning and Cooperation (DPC), MONRE Department of Forest Resources Management (DFRM), MAF Department of Forest Inspection (DOFI), National University of Laos Faculty of Social Science (NUOL FSS), Government’s Office Department of Public Relations (GO DPR).

and equipment for the DFRM. Under this subproject, the DFRM will (a) establish a database of ‘investment projects’ that impact PAs and a system to monitor them; (b) investigate alternative institutional options to improve PA management nation-wide; (c) prepare a country PA master plan; (d) facilitate the twinning arrangement of NPAs in India or Nepal; (e) activate the MoUs with Vietnam on transfrontier NPAs and possibly prepare guidelines for Lao PDR cooperation with Vietnam PA authorities; (f) prepare PA guidelines for community engagement in and around PAs, infrastructure in PAs, bio-monitoring, and mapping protocols and standards; and (g) support some elements of the Lao PDR tiger plan such as carrying out investigations to map the last tiger locations in Lao PDR, preparing an action plan if tigers are detected and need protection, fund raising, preparing and implementing an information campaign, promoting knowledge exchange with other initiatives in the region, and so on.

- *Additional scope.* The DFRM proposed to embrace similar issues, strategies, and policies in protection forests in addition to conservation forests—collectively termed protected areas in this project. The following activities under the original subproject have expanded in scope to include protection forest: a study and recommendations to optimize PA management in Lao PDR; a study on PA planning, a PA status update, and a PA master plan; production of a number of PA-related guidelines; supervision by the DFRM of subprojects in protection forests as well as a contribution to a national effort to delimitate all PAs requested by the National Assembly before approving a new Forest Law.

26. *1.3. National-level capacity building in wildlife law enforcement.* Approved. The DOFI of MAF proposed this subproject. It aims to strengthen DOFI capacity as well as the capacity of partner institutions members of Lao-WEN and to monitor and enforce national rules and regulations that assist regional cooperation on addressing the illegal wildlife trade. The subproject proposes to finance TA, workshop, and equipment for the DOFI. Under this component, the DOFI will (a) develop and implement protocols for responding to illegal wildlife trade; (b) train and equip the Lao-WEN for operation; (c) activate the relationship between ASEAN-WEN and Lao-WEN as well as other international agencies active in the control of wildlife trafficking; and (d) in collaboration with the NUOL, train DOFI, POFI staff, and partners in investigations, prosecutions, animal handling, media relations, airport-based monitoring and enforcement, CITES, and customs procedures.

27. *1.4. Human Resources Development for Protected Area and Wildlife Management.* Approved. This subproject is proposed by the Forestry Science Faculty of NUOL. A set of training modules for PA staff has been developed and tested over the past decade. The subproject will finance TA, scholarships, workshops, and equipment to help the NUOL (a) enhance and scale up the implementation of these modules so that they are administered to PA and wildlife trade enforcement staff throughout the country, (b) fund bachelor and graduate scholarships in PA or wildlife sciences, (c) establish a relation with international institutions, such as the India Wildlife Institute, (d) develop a bachelor curriculum in PA and wildlife science, (e) administer a scholarship program for ‘conservation leaders’ in universities in South or Southeast Asia, and (f) mobilize additional resources for improving primary research within Lao PDR on subjects consistent with the proposed LENS2 PDO.

- *Additional scope.* The NUOL FSS proposed to include protection forests throughout the activities of the subproject. Hence, bachelor courses related to watershed management

and protection forests will be developed. In addition, students and staff applying for scholarships and research grants can undertake study in watershed management, whereas this was previously limited to wildlife management and biodiversity conservation. Furthermore, the training modules will be expanded to include protection forests across the Lao PDR where suitable staffing numbers exist.

28. *1.5. Constituency building of high-level officials on biodiversity and wildlife.* This subproject is proposed by the GO DPR. The DPR will (a) publish and promote information related to conservation forests and wildlife management in a magazine titled ‘Administrators’, which is distributed to party members (that is, ministers, governors, district governors) and posted in English and Lao on the DPR website and (b) national and international study tours for government decision-makers, promotional writing and singing competitions, educational radio and television programs, and provisions for supplies and equipment.

- *Additional scope.* The DPR proposed to include seminars and workshops at the national and local levels to build the knowledge of participants on Lao PDR decrees, international treaty commitments, strategies, and action plans relevant to green growth, environment risk management, biodiversity conservation, and wildlife.

29. *1.6. Constituency building of public administration on environment, biodiversity, and wildlife issues.* This subproject is proposed by the Kaysone Academy, which trains all high-level GoL officials in leadership, politics, and administration. Kaysone Academy will (a) review and improve its curriculum to include coverage of biodiversity, protected areas, and wildlife; (b) organize and lead study tours for high government official to PA in Lao PDR and elsewhere; and (c) implement and monitor the improved curriculum, including identifying future champions for the conservation sector in Lao PDR.

30. An initial list of subproject concepts identified for potential funding as a result of the additional financing²⁰ are described below. A budget will be allocated to these subprojects when their proposals are submitted during implementation.

31. *1.7. Capacity building for enforcement of environment and social impact legislations.* This subproject is proposed by the DESIA of MONRE. It will (a) provide capacity building for its staff at the national and local levels (for example, review of EIAs and negotiation); (b) revise guidelines and disseminate revised regulations, guidelines, and procedures related to ESIA and IEE decree; (c) support field operation to review, clear, and monitor investment projects; and (d) operationalize the future national policy on public disclosure.

32. *1.8. Capacity building for environment promotion and scaling up ISP in selected provinces.* This subproject is proposed by the Department of Environment Quality and Promotion (DEQP) of MONRE. It will (a) provide capacity building for its staff at the national and local levels (for example, ISP, Strategic Environment Assessment (SEA)); (b) revise guidelines and disseminate revised regulations, guidelines, and procedures related to ISP and SEA; (c) support field operation and consultation process toward ISP and SEA in selected

²⁰ It is expected that subproject proposals will be submitted to EPFO after the AF Board approval.

provinces, (d) monitor the implementation and draw lessons on the ISPs already developed in 10 provinces.

33. *1.9. Capacity and institution building for pollution reduction especially from industries and small and medium enterprises.* This subproject is proposed by the Pollution Control Department (PCD) of MONRE. It will (a) Develop capacity in central and provincial agencies for pollution prevention and control in the household solid waste, industrial liquid and solid waste, protection of waters supplies from pollution through improving guidance publications on best practices for managing household (domestic) solid waste, (b) build technical capacity in key central and provincial staffs, and (c) conduct training program for villages in disposal and use of solid waste.

34. *1.10. Capacity building and strengthening of the environmental science and environmental impact assessment curriculum.* This subproject is proposed by the NUOL's Faculty of Environmental Sciences (NUOL/FES). It will (a) develop and deliver training modules on environmental safeguards at the national and provincial levels, with special emphasis on provinces (training coordinated with NUOL FFS subgrant); (b) develop and deliver training modules on proper waste management that will build on legislative and policy work supported by the Japanese cooperation; and (c) strengthen the academic program through research financing, scholarships, and partnerships with international institutions and organizations.

35. *1.11. Capacity building and strengthening of the environmental economic curriculum with focus on PES and valuing offsets.* This subproject is proposed by the NUOL's Faculty of Economics and Business Management (NUOL/FEB). It will (a) develop and deliver training courses on environmental and natural resource economics for high-level government officials and administrative staff in provinces (high-level government officials training coordinated with NAPA); (b) improved natural resources economics academic program through supporting international experts to visit Lao PDR to train professors; (c) financing for professors and students to participate in innovative research, including the evaluation of current PES piloting commencing in Borikhamxay Province in cooperation with Australian National University; and (d) initiate testing of the Malcom Baldrige Quality Framework (NUOL FEB is the most advanced of the faculties supported by the project), which has been successfully tested in Thailand universities.

36. *1.12. Capacity building and strengthening of the social impact assessment and mitigation curriculum.* This subproject is proposed by the NUOL/FSS. It will (a) develop and deliver training modules on social safeguards at the national and provincial levels, with special emphasis on provinces (training coordinated with other NUOL subprojects); (b) deliver training modules on involuntary resettlement; and (c) strengthen the academic program through research financing, scholarships, and partnerships with international institutions and organizations.

37. *1.13. Strengthening PONRE divisions for implementation of the PESAP with a focus on enforcement of environmental and social impact regulations.* This subproject is proposed by the

PONRE ESIA divisions²¹ Xiengkhuang Province. It will focus on enforcement of compliance to environment and social standards and will (a) support the establishment and management of investment project database and monitoring compliance by developers and contractors; (b) rehabilitate the office space and provide furniture and IT equipment; (c) reactivate and then scale up the grievance mechanism initiated under LENS; and (d) support training of PONRE staff in national EA regulations, guidelines, accountability, and so on.

Component 2: Management of wildlife and protected areas (US\$ 20.6 million, of which World Bank US\$ 19.4 million [US\$15.9 million or 82 percent IDA and US\$3.5 million or 18 percent GEF])

38. Component 2 seeks the following intermediary result: To improve the capacity and collaboration of public institutions, civil society, and communities to manage protected areas and enforce wildlife laws.

39. These subprojects are implemented through the EPF window, CBI. The subprojects will strengthen (a) the management of selected PAs (national, provincial, district conservation, and protection forests) and wildlife in the participating provinces including, among others, design of protected area management plans, development and implementation of improved patrolling mechanisms, ecosystem monitoring, macro zoning, awareness raising, carrying out of community engagement, livelihood development, and other activities related to the implementation of the CEF and ESMF, and implementation of cross-border cooperation and twinning arrangements and (b) the capacity of provincial and district authorities and other stakeholders to coordinate and support the management of PAs and to control the illegal wildlife and timber trade in the participating provinces.

40. Under Component 2, no subprojects, will have been approved by the time of the Board approval. However, several subprojects have been pre-identified and are in the process of being designed (see Table 2.5). Additional subprojects in the areas outlined above may be identified for financing during project implementation. It is expected that some of these subprojects may need up to a year before they are ready to be implemented.

41. Each subproject will have a set of eligible expenditures. While the expenditure details are unknown until the proposals are received, eligible expenditures include (a) civil works, including mostly office building rehabilitation for provincial and district government offices and in PAs, construction of rehabilitation of guards houses, fence and sign posts, and small wooden bridges and forest management road maintenance; (b) equipment such as vehicles, motorcycles, boats, computer and office equipment, furniture, and field equipment; (c) training expenditures, including workshops, study tours, or short courses; (d) consultant services, including international and national TA to SDAs, short-term consultants for advisory services (individual, firm or NGOs), and legal advice; (e) community grants to implement the CAP; and (f) operating expenditures such as non-consultant and non-civil service staff and labor, utilities, equipment operation insurance and maintenance, rental, office supplies, patrol ration, and travel and subsistence.

²¹ A similar subproject (or nearly similar) is expected to be proposed by several other provinces PONRE ESA divisions.

42. Table 2.5 lists the CBI subprojects. Subprojects 2.1 to 2.10 had been identified under PAW,²² but their scope is likely to be broadened to forested watershed PAs. Other subprojects will be identified and appraised during implementation.

Table 2.5: List of CBI Subprojects Initially Identified

SDA	Subproject
WMPA	2.1 - Capacity building for participatory management of the NT2 ²³ watershed
NPA MU	2.2 - Capacity building for participatory management of the NEPL NPA
PFRMs	2.3 to 2.7 - Support to communities engagement and PA management in PAW eligible provinces ²⁴
POFIs	2.8 to 2.10 - Support to wildlife law enforcement in Borikhamxay, Khammuane, and Huaphanh Provinces ²⁵

43. The initially proposed Component 2 subprojects proposed under PAW were all under the CBI window. They are summarized below.

44. *2.1. Capacity building for participatory management of the NT2 watershed.* This subproject is proposed by the WMPA. The subproject will finance TA, workshops, training, civil works, community grants, and equipment to support (a) PA management such as design of management plan, patrolling, biodiversity monitoring, macro zoning, awareness raising; (b) implementation of the CEF in villages and livelihood development linked to land use planning and compliance to CAs; (c) implementation of the NNT ESMP and (d) implementation of the MoU with Vietnam Vu Quang National Park authority for cross-border patrolling and establishment of a twinning arrangement with another park in the region with more experience and capacity.

- *Additional scope.* The dam reservoir is included in the watershed but only partially managed by WMPA. The subproject will additionally finance (a) a legal review of the current fishing regulation pertaining to the various zones of the reservoir and upstream rivers and (b) the preparation and implementation of a reservoir resources management plan, including a review of the institutional arrangements to optimize the sustainable use of these resources.

45. *2.2. Capacity building for participatory management of the NEPL NPA.* This subproject is proposed by the NEPL MU. The subproject will finance TA, workshops, training, civil works, community grants, and equipment support (a) PA management such as design of management plan, patrolling, biodiversity monitoring, macro zoning, awareness raising; (b) implementation of the CEF in village and livelihood development linked to land use planning and compliance to

²² The title of some of the subprojects initially identified under PAW (see PAW PAD) may have slightly changed to accommodate the increased scope with the AF and also because the SDAs may have proposed a different title in the subproject proposal.

²³ NT2 watershed includes the Nakai Nam Theun NPA as well as two corridors.

²⁴ Borikhamxay, Luang Prabang, Huaphanh, Khammuane, and Xiengkhuang Provinces.

²⁵ Provincial offices of forest resources management have presented some ideas. However, none has been formally identified and all the field work required for subproject design will be carried out during year 1 of the LENS2. Such ideas include several protection forests in the Nam Lik watershed in Vientiane Province, the Dong Na Tad Provincial Conservation Forest in Savannakhet Province, and the Phoubia protection forests in Xaysomboon Province.

CAs; and (c) establishment of an MoU with Vietnam forest authorities for cross-border patrolling and establishment of a twinning arrangement with another park in the region with more experience and capacity.

46. *2.3 to 2.7. Support to communities engagement and PA management in eligible provinces.* These subprojects are proposed by the provincial PFRM of the PONREs. They will help the PFRMs receive training, acquire equipment and obtain logistic support for the management of natural resources in and around PAs in their respective provinces in collaboration with the communities and other partners such as NGOs and other provincial offices. For example, the PFRM in Vientiane Province intends to propose PA support in the upper Nam Lik river basin and the PFRM in Savannakhet, support in the Dong Na Tad Provincial Conservation Forest.

47. *2.8. to 2.10. Support to wildlife law enforcement in eligible provinces.* These subprojects are proposed by the POFIs in eligible provinces. This subproject will help POFI and some of its partner institutions such as the provincial environment police, the judiciary, and the customs department receive training, acquire equipment and logistic support to scale up wildlife trade law enforcement in their province and to protect wildlife and prevent timber extraction in the PAs. Under this component, the POFIs will develop provincial law enforcement strategies, equip and upgrade the office, and increase operations for response patrols, routine patrols, and road blocks.

Component 3: Project administration and EPF capacity building (US\$5.4 million, of which World Bank US\$4.0 million [US\$3.3 million or 82 percent IDA and US\$0.7 million or 18 percent GEF])

48. This component is implemented in two subcomponents. Each of these subcomponents has an intermediary result:

Table 2.6: Subcomponent Intermediary Objectives

Subcomponent	Intermediary Objective
C3.1. Project administration	To deliver the project’s outputs within the allocated time frame and with satisfactory planning, procurement, financial management, monitoring, and communication.
C3.2. EPF capacity development	To help EPFs become a significant and recognized player in environment financing capable to deliver and monitor subprojects throughout the country.

49. Component 3 will support the administration of the subproject mechanism by the EPF. Provision of technical and operational assistance to the EPF to: (a) carry out the day-to-day coordination, administration, procurement, financial management, environmental and social management, communication, monitoring, evaluation, reporting and audit of the Project; and (b) enhance its capacity to manage efficiently its financial resources, administer Sub-grants, implement its communication strategy, raise public and corporate funds for environment protection, and monitor and draw lessons from its operations.

50. Eligible expenditures include (a) small civil works to rehabilitate an office building for the EPF; (b) equipment such as two vehicles and two motorcycles as well as office furniture and equipment; (c) training (for example, procurement, FM, safeguard, subproject development and

monitoring, and team building) and workshops (for example, annual planning or stakeholder consultation); (d) consultant services (for example, an international technical advisor, national long- and short-term consultants in FM, procurement, M&E, and communication) and advisory services (for example, database development, communication, and fund-raising strategies.); and (e) operating expenditures such as translation services, stationery, utilities, advertising, labor, travel, and equipment operation and maintenance.

51. *Subcomponent 3.1. Project administration.* This will support the administration of the subproject mechanism by the EPF. Under this component, the EPFO will be supported to carry out day-to-day coordination, administration, procurement, FM, environmental and social safeguards, subproject management for review and approval, communication, monitoring, evaluation, and reporting and audit of the project. It will include TA to help the EPF ensure compliance with the Bank's fiduciary requirements, especially FM procurement, and environment and social safeguards, M&E, communicating with stakeholders, and facilitating effective coordination and cooperation among SDAs. This component will also fund the external annual audits.

52. *Subcomponent 3.2. EPF capacity development.* This will support capacity building of EPF staff and systems to improve EPF organization and staffing for effectiveness and efficiency as well as optimize various functions such as (a) fund raising, (b) planning and M&E, and (c) communication.

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

LAO PDR: SECOND LAO ENVIRONMENT AND SOCIAL PROJECT (ADDITIONAL FINANCING TO THE PROTECTED AREA AND WILDLIFE PROJECT) FOURTH PHASE OF A SERIES OF PROJECTS ON STRENGTHENING REGIONAL COOPERATION FOR WILDLIFE PROTECTION IN ASIA

A. Project Institutional and Implementation Arrangements

1. *Implementation arrangements.* There is little change in implementation arrangements. The EPF remains the implementing agency with its Board, chaired by the deputy prime minister, serving as the Project Steering Committee. The EPFO will be responsible for project administration, including FM, procurement, M&E, safeguard monitoring and reporting. The EPFO will assist the SDAs in developing subproject proposals and provide training (including safeguards) and support during implementation. Given the added scope, to strengthen EPF, the TA package planned under the original project will be increased to include full-time and short-term consultants in operations, safeguard, FM, procurement, and communication. The PIM initially adopted for PAW has been revised to accommodate the expanded scope of LENS2.

Regional

2. Regional coordination, especially with South Asian countries that have benefited from the program, will be mobilized through thematic meetings on transboundary conservation issues. India, Thailand, and Vietnam are expected to join in the discussions. The long-term regional coordination mechanism will be through the SA-WEN and ASEAN-WEN. This will be formalized during the mid-term review of phases 1 and 2 and at the start of this project, both intended to be completed by mid-2014.

Agreements

3. The Lao PDR and IDA (acting in its own capacity and as implementing agency of the GEF) signed the original Financing Agreement that made the credit and the grant available to the Lao PDR. In addition, a Subsidiary Agreement was concluded between the Ministry of Finance (MOF) and EPF, determining the terms by which the MOF makes available the credit and the grants to the EPF for its administration. These legal documents will be amended or replaced for LENS2. For each subproject, the EPF will in turn sign subgrant agreements with the relevant SDAs, defining the terms and conditions under which the SDAs will implement the subprojects and account for the use of the subprojects. Lastly, those SDAs whose subprojects include the provision of community grants will sign CAs and other agreements as needed with the relevant Village Development Committee (VDC) defining the terms and conditions for the use of the community grants.

Project Steering and Advising

4. The EPF Board of Directors will serve as the Project Steering Committee. The Board is chaired by the Deputy Prime Minister, with the Minister of Finance as the vice chair, and has these members: the Minister of MONRE, the Minister of the Ministry of Energy and Mines (MEM), the Vice President of the Science and Technology Council, the President of the Lao Women Union, the Vice Governor of Borikhamxay Province, the Vice President of the Chamber

of Commerce and Industry, and the President of the Association for Agricultural Production and Processing. The Board will (a) provide strategic and policy guidance on the implementation of project activities; (b) support inter-ministerial coordination of project activities; (c) appoint the TC; and (d) approve all subprojects. The EPF Board meets regularly twice a year (every six months) to review and approve annual reports of the EPFO as well as to attend to other EPFO matters. The subprojects above US\$50,000 and up to US\$100,000 will be approved by the vice-chair, and the chair will approve the subprojects above US\$100,000 on a rolling basis.

5. The TC proposed under PAW is chaired by the Director General, DFRM and co-chaired by the Executive Director of the EPFO and the Deputy Director General, DFRM. The TC also comprises appointed executives from the DPC MONRE, MOF, DOFI of MAF, the Ministry of Planning and Investment (MPI), and NUOL. With the proposed AF, the TC will be broadened to include representatives from the Ministry of Energy and Mines (MEM), the Ministry of Transport (MT) as well as other MONRE departments such as DESIA and DEQP. The EPFO will review subproject applications, reports, and the AWPB and prepare the agenda of the EPF Board and TC meetings. For a proposal to be approved, three members of the TC, excluding the SDA proponent but including one of the vice-chairs, must have reviewed and jointly approved it.

Project Administration and Management Mechanisms

6. The EPFO will be the implementing agency and therefore administer and monitor the implementation and management of the subproject mechanism. The Executive Director and staff of the EPFO will be responsible for the day-to-day operations of the project, including facilitating effective operation of the EPF Board and the TC. The EPF has managed a US\$5 million endowment since 2005 as well as funds received from some hydropower and mining investment from the private sector. Between 2005 and June 2013, the EPF implemented LENS. The project closed in June 2013 and the ICR rated its outcome as Moderately Satisfactory. The EPFO's performance was rated Moderately Satisfactory as well though it was recognized that its capacity improved throughout LENS implementation. The main EPF shortcoming was on M&E and technical aspects. One of the main lessons of the ICR was that the EPF subproject mechanism worked best for pre-identified medium subprojects (that is, over US\$100,000) and that its procedures were ideal to support the country decentralization agenda by supporting provincial and district offices which otherwise have little access to development budget.

7. The EPF operates a subproject mechanism dispatched through thematic windows. Of the five EPF windows, two qualify for project financing: (a) PICE and (b) CBI. The EPF general operations are guided by an Operation Manual approved by its Board and a set of manuals such as the subgrant manual. In the context of the PAW project preparation, the EPF had prepared a PIM, which includes FM, procurement, M&E, and subproject operational manuals as volumes. These documents have been updated and improved in alignment with the restructuring and AF.

8. To strengthen the EPFO, TA will be provided through short-term inputs of international and national advisors as needed. The EPFO will be responsible for overall project coordination and management at the national and provincial levels, including FM, procurement, safeguard, monitoring, and reporting. It will assist the SDAs in developing subproject proposals, assist them with initial training for implementation, and provide them support during implementation in the form of technical advice, procurement and M&E services, and reporting. The EPFO will supervise the quality of implementation, compliance with fiduciary requirements, including

safeguards, and whether subprojects are delivering outcomes. However, they will not supervise the alignment with national plans, policy, and laws, which will be carried out by sector ministries as required.

Subproject cycle and administration

9. All subprojects will need to meet the criteria detailed in annex 2. They will exclude any activities or expenditures in the negative list contained in the PIM and the safeguard documents.
10. The subproject cycle will be as follows:
 - (a) The SDA will submit a short concept to be reviewed by the EPFO for eligibility.
 - (b) If the concept is deemed eligible, the SDA will be invited to prepare a full proposal using the PIM subproject application template (the EPFO will provide financial and technical assistance to the SDAs to ensure quality of the proposal and build the SDA's capacity).
 - (c) When the SDA submits its proposal, the EPF will appraise it using a checklist from the PIM and, if necessary help the SDA improve its proposal.
 - (d) When the EPFO and TC are satisfied that the subproject meets all relevant criteria, it will be submitted to the Bank for review, comments, and no objection.
 - (e) At that stage, the SDA of subprojects less than US\$50,000 can sign a subgrant agreement with the EPF Executive Director and begin implementation. Subprojects above US\$50,000 and up to US\$100,000 are submitted to the vice-chair of the EPF Board for approval, and subprojects above US\$100,000 are approved by the EPF Board chairperson.
11. The portfolio of subprojects listed in the PAW PAD has already completed steps (a) and (b). It is expected that they will progress through the steps from (c) to (e) during the first year of the project implementation, with some subprojects starting early after project effectiveness.
12. Subproject performance will be measured along the continuum input, output, intermediary outcome and outcome. However, the trigger for approving the AWPB will be based on performance related to (a) input (use of fund and governance) (b) and output. Each proposal will suggest and comply with specific triggers.
13. According to the EPF Decree a variety of institutions are eligible, as SDA, for subproject financing such as (a) public agencies, departments, and offices; (b) public education institutions; and (c) NGOs and nonprofit associations.
14. Each of the SDAs will need to demonstrate the capacity to implement their subproject. Transactions above US\$10,000 will be carried out through direct payment by the EPFO. Procurement above US\$10,000 will be carried out by the EPFO. Each SDA will have the option of using a percentage of the subproject to recruit implementation support TA.

Community-level Implementation Arrangements

15. The community engagement process is described in the CEF section below.

Planning and reporting

16. By August 30 of each year, the EPFO will prepare an AWPB according to the format in the PIM, which will include a narrative section as well as an RF with indicators measured, an activity plan with completed activities, a detailed budget implementation, and a monitored procurement plan. The AWPB will also include, as annex, a copy of the AWPB of each of the approved subprojects. The AWPB will be submitted to the Bank for approval and to the EPF Board, following the TC's recommendation.

17. The EPFO will produce six monthly reports, due 45 days after the ending period. The reports will include a narrative section, an updated RF, a monitored activity plan, a financial report, and an updated procurement plan. The project semester reports will also include, as annex, a copy of the semester reports of each of the subprojects under implementation.

18. The SDAs will prepare AWPBs and biannual progress reports using the subproject application annexes.

B. Financial Management and Disbursements

Summary of the Financial Management Assessment

19. The financial management capacity assessment determined the adequacy of FM arrangements for the project.²⁶ Under the policy, the EPF, as the implementation agency, and the SDAs, as subproject implementation entities, are supposed to have and maintain adequate FM systems, which include budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements, to ensure that they can readily provide accurate and timely information on the use of project resources and expenditures. These arrangements are deemed acceptable if they (a) are capable of correctly and completely recording all financial transactions and balances relating to the project resources; (b) can facilitate the preparation of regular, timely, and reliable financial statements; (c) safeguard the project's assets; and (d) are subject to auditing arrangements acceptable to the Bank. The assessment was substantially based on previous FM assessment, findings of existing internal and external reviews, the supervision reports of the PAW and LENS2 Project Preparation Advance (PPA) implementation and performance, and discussions with the deputy director of the EPF and the finance team.

20. The EPFO will be responsible for overall project coordination and management and administration of the subproject mechanism at the national and provincial levels. EPF responsibility includes FM, procurement, monitoring, and reporting. The EPF will ensure that fiduciary requirements are met and complied with.

²⁶ An assessment was carried out during November 21, 2013, with the aim to ensure that there will be acceptable FM capacity and systems to take on the project FM as required by the Bank's OP/BP 10.00 with respect to FM. A new assessment of the same nature was carried out in September 2014.

21. The FM arrangements put in place for this project will be deemed acceptable and meet the minimum requirements of OP/BP 10.00 when the proposed mitigation measures (1) and (2) of the FM Action Plan, outlined in Table 3.2, have been implemented.

Country Issues

22. The overall fiduciary risk in Lao PDR is considered to be high despite the fact that there are elaborate built-in controls within the government FM system. There is insufficient transparency in public finances and access to GoL financial information is limited. These weaknesses have been compounded by insufficient awareness of modern practices of internal control in the public sector and by the government's ongoing decentralization initiative, which needs to be supported with a sufficiently robust institutional framework that clearly defines the new responsibilities at lower levels. Technical capacity of staff at these levels needs to be strengthened and the oversight functions and the State Audit Organization need improvement. A Public Expenditure Review, combined with a Public Expenditure and Financial Assessment, has been completed and disseminated. The findings demonstrate the weak accounting environment.

23. The recent Joint Portfolio Effectiveness Review also identified similar issues and weaknesses, and it was agreed that a series of remedial measures in a time-bound action plan will be implemented, including (a) delegation of authority over the management of the project designed accounts (DAs) to executing agencies that have in place adequate quality and control system; (b) streamlining of approval processes; (c) harmonization of an FM chapter in the PIM; (d) utilization of uniform FM software; (e) consolidation of project FM functions; and (f) implementation of a consolidated training program. While these actions have started to improve specific fiduciary issues, the country FM environment for externally funded projects remains weak as the effects of some of the measures being implemented have not yet taken effect.

24. The overall FM risk associated with the project is assessed to be Substantial, given the nature of the project activities and overall weak control environment, particularly at the provincial level and the scale involved.

Staffing

25. Although the proposed implementing agency, EPF, has many years of experience implementing Bank- financed projects, it is foreseen that the limited existing FM capacity may be stretched. Based on discussions with the management and finance staff of the EPFO, it is proposed that two full- time senior FM consultants—, one acting as project financial manager (senior FM Consultant) and the other as deputy— (FM consultant), and at least three accountants be recruited to oversee and provide advice on all FM matters of this project, including capacity building of the EPFO's own staff and those in the provinces. The consultants will be based at the EPFO and the accountants will also support the subprojects. They will report to the EPF Executive Director or a deputy on all FM aspects of the project. One FM consultant is already recruited and the other consultant (senior FM Consultant) shall be recruited within three months of effectiveness with the terms of reference (TORs) acceptable to the Bank. In addition, a senior FM advisor (TA) will be available to optimize the overall FM system and advice on its implementation until the EPFO FM manager and staffs have acquired sufficient capacity. Depending on the complexity of the proposed activities and the total value of a sub-project, a

qualified accountant will be recruited by the SDA to be responsible for the overall recording and reporting of the funds used.

26. Depending on the complexity of the proposed activities and the total value of a subproject, an accountant will be recruited to be responsible for the overall recording and reporting of the funds used.

Accounting Policies, Systems, and Procedures

27. Accounting shall be on cash basis and follow a double entry system. The project will continue to use the existing accounting system to record and report on receipts and expenditures. However, an upgrade of hardware and additional software licenses will need to be purchased and installed. The upgrade of the accounting software shall be procured or updated and put in place within three months of project effectiveness.

28. The FM Manual prepared for PAW was updated for LENS2. The FM Manual, which is volume 4 of the PIM, describes the financial policies and procedures for budgeting, flow of funds, monthly and end-of-year closing and financial reporting procedures, responsibilities and delegation of authorities, disbursement procedures, payment authorization for all accounts and cash, internal controls over petty cash, advances, fixed assets, financial accounting system, and all routine FM and related administrative activities.

Internal Controls

The systems of internal controls and procedures are described in the FM Manual to provide guidance to the project management and financial staff. The internal controls and procedures will be enforced and where necessary enhanced at all level. The existing internal audit unit is composed of one person. Staff has received some training; however it is relatively new and will require strengthening. The project will help strengthen the existing internal audit unit of EPF, and ensure that their periodic review will cover project activities and reports shared with the Bank. The controls that are in place to ensure that all expenditures are properly monitored for eligibility, the financial information is accurate and complete, and the project assets are properly safeguarded. The job descriptions and responsibilities for all the FM staff will be reviewed periodic to ensure that there are adequate segregations of duties of staff function at all times during project implementation.

29. An advance control book should be prepared and maintained to monitor outstanding advances. Reporting of advances should be done in a timely manner. New advances will be made available only if the previous advances have been properly accounted for. Month-end procedures, such as bank reconciliations and cash counts should be noted. The eligible rates of daily subsistence allowance and travel expenses shall be clearly determined and be consistent with the MOF Ministerial Decision on Public Administrative Budget Expenditure Norms currently in force and any related notifications on the use of Overseas Development Assistance (ODA) issued by the Bank and the MOF that are to be followed.

30. Controls over soft expenditure are set out in the FM Manual as most of the activities involved travel and training or workshops.

31. The FM Manual may be revised from time to time and is subject to the approval of the EPF Board and the Bank. The effectiveness of internal controls is to be reviewed annually by the project and will be evaluated as part of the external audit process.

Budgeting

32. The AWPBs shall be prepared by the relevant SDA for their subprojects (Components 1 and 2) and the EPFO will prepare the AWPB for Component 3. In its AWPB, the EPF will summarize Component 1 and 2 subprojects' AWPBs.

33. The AWPBs will be discussed and approved or endorsed by EPF's Board and the Bank by August 30, of each year, or as subprojects are approved, and shall be updated from time to time as needed. Procedures are elaborated in the subproject Operations Manual and in the FM Manual.

34. In budgeting for in-country and out-of-country travel, MOF Ministerial Decision 0008/MoF and any related notifications by the Bank or by the MOF on the use of ODA are to be followed.

Fund Flows

35. A designated account (DA) denominated in U.S. dollars has been opened at the Bank of Lao PDR. The DA is a pooled account that holds both IDA credit and grant funds, with an individual fixed disbursement percentage for each source of funds. The current DA authorized allocation will be increased from US\$1.0 million to US\$1.5 million, which is equivalent to approximately three months of project expenditures less expected direct payments. The level of allocation is considered to be adequate. However, as the project progresses, the ceiling may be adjusted from time to time upon reasonable request.

36. The DA is administered by the National Treasury of the MOF; day-to-day management and replenishment to the DA is handled by the EPF.

37. Accounting opening procedures and authorization for withdrawals from the DA shall follow the current practices of the MOF as elaborated in the MOF regulation 2695/MOF dated November 1, 2010. All replenishment applications will be accompanied by reconciled bank statements from the depository bank, showing all transactions through the DA. The DA will be audited annually by an independent external auditor acceptable to the Bank.

Subproject

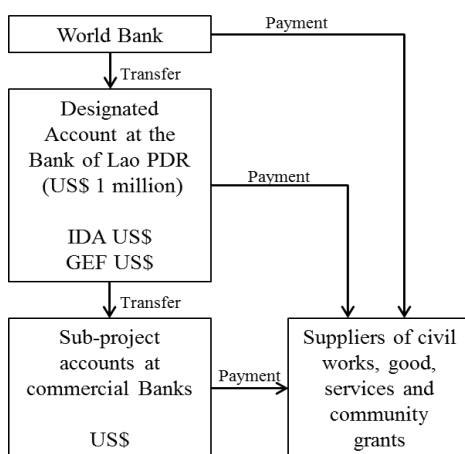
38. The SDA of each subproject will be screened for FM capacity. Depending on the total value of the subproject, an accountant will be recruited to help SDA management on the recording and reporting of the funds. The accountant will be trained and will be closely supervised by the EPF finance team.

39. The SDA of each subproject will open a bank account in the name of the subproject at the nearest town or district, to receive the subproject proceeds. Subproject grants will be paid directly from the DA. Funds will be disbursed to subprojects on a quarterly basis or based on the schedule of payment as indicated in the subproject agreement. However, the EPF's finance team

will closely review and ensure that the subproject submits timely reports on the actual expenditures incurred together with the activities accomplished. No additional advance will be made if the actual expenses of the previous advance have not been reported. The EPF finance team will review all supporting document to ensure that funds are used for the intended purpose before clearing the amount advanced and book the subproject expenditures. Payments from the DA will only be with respect to expenditures actually incurred and must be supported by approved vouchers for payment. These procedures, including additional measures, are documented in the FM Manual.

40. The authorization and procedures for withdrawals from all bank accounts are elaborated in the FM Manual.

Figure 3.1: Funds Flows



Disbursement Arrangements

41. The revised total project cost is estimated at US\$48.31 million, of which the original IDA financing is SDR 11.2 million (US\$17.0 million equivalent), the original GEF trust fund financing is US\$6.8 million, and the additional IDA financing is US\$15.0 million equivalent.

42. The allocation of the proceeds will be disbursed against the following disbursement categories:

Table 3.1: Disbursement Allocation

Disbursement Category	IDA Credit SDR	IDA Grant SDR	GEF Grant US\$	AF IDA Credit SDR	Financing Percentage (inclusive of taxes)
1 Goods, works, non-consulting service, consultants’ services, subgrants, training, and operating costs for the project	8,200,000	2,650,000	6,825,688	10,050,000	IDA (82%) with the grant portion disbursed first; GEF Grant (18%)
2 Refund of Preparation		350,000			

Advance (Q843)				
3	Refund of Preparation Advance (Q877)			650,000
Total		8,200,000	3,000,000	6,825,688
				10,700,000

43. Disbursement from the grant or /credit account shall be based on traditional methods, that is against statement of expenditures (SOEs). Frequency of reporting of expenditures and replenishment will be on a monthly basis (irrespective of the amount involved). The minimum value for direct payments and reimbursements shall be at least 20 percent of the DA.

44. Disbursement methods shall include: advance, direct payment, reimbursement, and special commitment.

45. Supporting documentation required for documenting eligible expenditures paid from the DA are summary sheets and SOEs.

46. The documentation supporting the SOE disbursements will be retained by the EPFO and by the SDAs during the life of the project.

47. The project will have a disbursement deadline date of four months after the closing date of the project. This date is the final date on which the Bank will accept applications for withdrawal from the government for documentation of the use of the proceeds already advanced by the Bank.

48. The GoL counterpart funding of US\$3.0 million will cover staff salaries, offices, and logistical support at the national and subnational levels in participating project provinces. These expenditures will be 100 percent financed by the counterpart funds.

49. There is no outstanding audit report under Bank-financed projects currently being implemented by the EPFO.

50. Operating costs will include the reasonable costs of goods and non-consulting services required for the day-to-day coordination, administration, and supervision of project activities as set forth in the AWPBs, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office 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 to members of the recipient's civil service.

Financial Reporting

51. The project shall prepare and submit the Unaudited Interim Financial Report (IFR) every six months and submit it to the Bank no later than 45 days after the end of each six-month period. The IFR format was agreed at negotiation. The IFR shall include (a) discussion of the project progress; (b) a balance sheet; (c) statement of sources and uses of funds statement; (d) statement of uses of funds by component and activities; (e) advance monitoring; (f) procurement monitoring report; and (g) fixed asset register. These reports shall emphasize linkages between expenditures and physical progress as an important aspect of overall project monitoring. The charts of accounts and the reporting module of the computerized accounting system should be customized to facilitate reporting needs.

52. The period for the purpose of financial reporting shall follow the government's fiscal year which is from October 1 to September 30.

53. Any other financial reporting requirements by project management and/or the MOF are included in the FM Manual.

Audit Arrangements

54. Only EPF operations are audited by the Supreme Audit Office. However, at present, this office can only undertake compliance audits due to the limited capacity. As such, the project expenditures and accounts, including the Project Preparation Advance, will be subject to annual audit by an independent qualified auditor in accordance with International Standards on Auditing, under ToR acceptable to the Bank. The audit report and the management letter are due to the Bank within six months after the end of each fiscal year. The appointment of the external auditor shall be within three months of project effectiveness. The project will be subject to the Bank policy on Access to Information. The auditor's opinions and audited financial statements, including the audit report, shall be made available to the public in accordance with the Bank's Policy on Access to Information. The principle of public disclosure was agreed at negotiation. Disclosure requirements are detailed in the FM Manual.

55. The cost of audit is provided in the project budget and will be paid out of project funds as an authorized expenditure.

56. Due to the large scale of the subprojects, the annual audit will also cover the review of 100 percent of the subprojects (as well as a sample of 30 percent of the community grants) to ensure that processes have been followed and that funds have been used for the intended purpose as well as a sample of 30% of the community grants.

Implementation Support and Supervision Plan

57. As the FM overall risk is assessed as Substantial, implementation support and supervision of the project FM will be done at least twice a year. The supervision will review the project's FM systems, including but not limited to operation of the DA; evaluate quality of budgets, project financial management reports, financial reports submitted by the SDAs; and assess relevance of the PIM, including subproject administration, SOEs, internal controls, reporting and follow-up of audit and mission findings. The review will also include random reviews of financial transactions, concentrating on soft expenditures, that is, per diem allowances, training

and workshop expenses, fuel and accommodation, and compliance with covenants. It will also involve visits to various sites and physical verification of assets bought by the project. During each review, the project’s FM risks and the frequency of supervisions will be reassessed.

58. To ensure that the FM action plan proposed below is implemented, the Bank’s FM team will follow up closely with the EPFO. Implementation support will be integrated with the task team and, where possible, an integrated fiduciary review of goods and services contracts will also be carried out jointly with the procurement team.

FM Action Plan

Table 3.2: FM Action Plan

	Action	Responsibility	Status/Completion Date
1	Agree on the format of IFR	EPFO/ Bank	Completed.
2	Agree on mechanism for disclosure of project audit report to the public	EPFO/ Bank	Completed.
3	EPFO FM staff to be trained in the FM Manual and Bank FM and disbursement policies and procedures	EPFO	FM advisor has already trained current EPFO FM staff. Training to continue as routine measure.
4	Upgrade of the accounting system and training delivered to all EPFO finance staff	EPFO	Consultant recruited and accounting system updating ongoing. Completion June 2015
5	Appointment of external auditors with ToR acceptable to the Bank	EPFO	TOR approved. Selection process ongoing. Completion June 2015.
6	Recruitment by the EPFO of two senior FM consultants and at least two senior accountants to support the EPFO and SDAs, all with ToR acceptable to the Bank	EPFO	One senior FM consultant and 2 accountants recruited. Second senior FM consultant is being recruited. Completion within 3 months of project effectiveness.
7	Enforcement of the internal controls and procedures at all levels, including enhancement of the internal controls staff	EPFO	Throughout implementation.

59. The above action items are included in the PIM, which, in turn, has been referred to in the Financing Agreement.

C. Procurement

Assessment of the Agency’s Capacity to Implement Procurement

60. The Bank carried out the procurement capacity and risk assessment of the EPFO as part of PAW preparation. The assessment reviewed the EPF organizational structure and capacity of staff to implement procurement for the project. The EPFO has experience with procurement financed by the Bank through the previous projects (the LENS and the LENS AF). A procurement officer and a procurement consultant were recruited in 2014 under EPF and PAW budgets, respectively, to further strengthen the EPF procurement team. Under the AF, an additional procurement consultant has been recruited and two procurement assistants are being recruited. All have experience on the Bank’s procurement procedures, such as shopping of

goods and works and selection of individual consultants. Because the original project and the AF are merged in a single projects, all procurement staff will work on the entire operation. A procurement advisor has been recruited on a short- term basis and as required to train and support the procurement team. At the same time, the EPFO will assign enough staff to work with the consultant for on-the-job training. The overall procurement risk is rated as Moderate.

Applicable Guidelines

61. Procurement will be carried out in accordance with the World Bank Guidelines: Procurement of Goods, Works and Non-consulting Services under International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised in July 2014; and Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised in July 2014, and the provisions stipulated in the Financing Agreements.

Procurement Plan

62. For project implementation, a detailed Procurement Plan for the first 18 months of PAW implementation had been prepared and agreed with the Bank in February 2014. A revised Procurement Plan, that accounts for the additional activity funded by the AF has been prepared and agreed with the Bank in March 2015. The Procurement Plan will be updated in agreement with the task team at least annually or as required to reflect the actual project implementation needs and improvements.

- **Bank’s approval date of the Procurement Plan:** March 11, 2015
- **Date of General Procurement Notice:** September 23, 2014
- **Period covered by this procurement plan:** As the proposed AF will not be effective until July 2015, the PAW Procurement Plan which covers an 18-month period starting from October 1, 2014, will remain in effect until then with minor modifications. Before, the beginning of the next fiscal year, the EPFO will submit a new AWPB including a new Procurement Plan for Component 3. Each SDA will propose a subproject Procurement Plan for approval and addition to the initial Procurement Plan. The General Procurement Notice will be updated when the proposed AF is approved.

Goods, Works, and Non-consulting services

63. **Prior review threshold:** Procurement decisions subject to prior review by the Bank as stated in Appendix 1 to the Guidelines for Procurement.

Table 3.3: Procurement Methods and Thresholds

Ref. No.	Procurement Method	Procurement Method Threshold (US\$, thousands)	Comments (Prior Review Requirement)
1.	International competitive bidding (ICB) (Goods)	≥600	All
2.	National competitive bidding (NCB) (Goods)	<600	First contract

3.	ICB (Works)	≥2,000	All
4.	NCB (Works)	<2,000	First contract
5.	Shopping (Goods)	<100	First contract
6.	Shopping (Works)	<200	First contract
7.	Community procurement (Goods and Works)	<10	First contract in each subproject

64. **Proposed procedures for community driven development components (as per paragraph 3.19 of the Guidelines).** When community grants are used for about 100 communities, altogether estimated at US\$4.0 million (amount will depend on subproject proposals), community procurement procedures as defined in the PIM will be used.

65. **Summary of the prior review procurement packages planned during the first 18 months after project effectiveness.** This is for Component 3. Subprojects under Components 1 and 2 will be approved during implementation and will each include a Procurement Plan.

Table 3.4: Prior Review Procurement Packages

Ref. No.	Description	Estimated Cost (US\$, thousands)	Packages	Domestic Preference (Yes/No)	Review by Bank (Prior/Post)	Comments
G01	Vehicles	150	1	No	Prior	First contract NCB (ongoing)
G02	Office equipment	12.8	1	No	Prior	First contract shopping (completed)

Selection of Consultants

66. **Prior review threshold.** Selection decisions subject to prior review by the Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants.

Table 3.5: Consultant Selection Method and Thresholds

Ref. No.	Selection Method	Procurement Method Threshold (US\$, thousands)	Prior Review Requirements
1.	Quality- and Cost-based Selection (QCBS) and Quality-based Selection (QBS)	≥300	All
2.	Least Cost Selection (LCS) and Consultant Qualification Selection (CQS) (Firms)	<300	≥100 and/or first contract for each selection method regardless of value
3.	Single Source (Firms)		All
4.	Individual		>10 for Single Source Selection (SSS) and contracts for fiduciary or legal assignments

67. **Short list consisting entirely of national consultants.** Short list of consultants for services, estimated to cost less than US\$200,000 equivalent per contract, may entirely comprise

of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Table 3.6: Consultancy Assignments with Selection Methods and Time Schedule

Ref. No.	Description of Assignment	Estimated Cost (US\$, thousands)	Procurement Method	Review by Bank (Prior/Post)	Comments
C1–21	Selection of consultants to support the EPFO	430			This is a series of consultants to act as EPFO staff under the project and gradually absorbed by the EPFO. The amount corresponds to one-year salary but these contracts are renewable.
	(a) Project management & subproject coordination (x4)		IC	Post	
	(b) FM (x2)		IC	Prior	
	(c) Procurement (x2)		IC	Prior	
	(d) M&E (x2)		IC	Post	
	(e) Safeguard (x1)		IC	Post	
	(f) Communication and fund raising (x3)		IC	Post	
	(g) Accountants (x2)		IC	Prior	
(h) Procurement and data entry clerks (x3)	IC	Post			
C22–C29	Selection of international short-term consultants to advise and train the EPFO on:	356			This is a series of short-term contracts to support EPFO staff develop capacity. None of these advisers is long term.
	(a) Technical issues		IC/SSS	Post	
	(b) M&E		IC	Post	
	(c) Communication		IC	Post	
	(d) FM		IC	Prior	
	(e) Procurement		IC	Prior	
	(f) Fund raising		IC	Post	
(g) Gender	IC	Post			
C30	Reprogramming FM software and training	25	SSS	Prior	Consultant selected under IC procedure under LENS. Holds license to software.
C31	Auditors	175	CQS	Prior	for the PAW PPA and for the PAW implementation to 09/2014 & for fiscal years 2 to 4, starting 10/2014 and for the LENS2 PPA
C32	Develop a didactic manual for CEF implementation and provide training	50	SSS	Prior	The NGO Village Focus International has been identified.

C32	Support to PA subproject design	5	IC/SSS	Post	Consultant selected with IC procedure under PAW PPA
C33	Support to the design of standard ecological monitoring procedure	21	SSS	Post	Consultant selected with SSS procedure under PAW PPA

Note: IC = Independent Consultant.

Implementation Support

68. Field procurement supervision will be conducted as a part of the regular implementation support missions, which will be fielded twice a year. The Bank will undertake the post review at least annually. The scope of ex post reviews will be expanded to include checks for collusion and verification of end-use delivery. The Bank will undertake periodic fiduciary supervision.

Procurement Action Plan

	Action	Responsibility	Completion Date
1	Recruitment by the EPFO of two senior procurement consultants and at least two procurement clerks to support the EPFO and SDAs, all with ToR acceptable to the Bank	EPFO	Completed
2	The main procurement staff to be trained in the procurement procedures	EPFO	March 2015 (training to continue as routine measure)

69. The above action items are included in the PIM, which in turn has been referred to in the Financing Agreement.

D. Environmental and Social (including safeguards)

70. There is no change in environmental category. The Project is Category B. The type, scale, and scope of additional activities to be supported under the proposed AF, and thus the environmental and social impacts that result, are considered similar to those identified for support under the original PAW project. No long-term or large-scale negative environmental impacts are anticipated, and medium- and longer-term positive impacts are expected from environment and social standard improvement, watershed protection, sustainable land management, biodiversity protection, and avoided deforestation.

71. OP/BP 4.01 - Environmental Assessment is triggered. No large-scale or irreversible adverse environmental or social impacts (at the level of Category A projects) are anticipated, given the project objective to strengthen the management of environmental and social issues associated with investments projects which, in the case of forested upper-watershed and river management, also require the development of sustainable livelihood of the local people who depend on natural resources for livelihood. Most of the subprojects are to develop legislative and regulatory frameworks and provide training to and develop the capacity of government agencies at the national and provincial levels to increase their ability to effectively (a) implement and monitor environment and social standards and (b) conserve and protect forested upper-watershed and rivers. The legislative and regulatory frameworks to be developed are anticipated overall to have positive impacts although they may have some low environmental and/ or social adverse impacts. An ESMF is prepared by the EPF to address potential environmental and social issues

that may result from such institutional development activities as well as relevant mitigation measures.

72. OP 4.11 - Physical Cultural Resources is triggered given the potential impacts on Physical Cultural Resources and the unknown location of the subprojects. Chance-find provisions are presented in the ESMF and inserted in contractors' contracts.

73. OP 4.04 - Natural Habitats is triggered, given the high biodiversity value and protected area status of the project area and the positive benefits provided by the project interventions in the targeted natural protected areas (both conservation and protection forests).

74. OP 4.09 - Pest Management is triggered as subproject activities may include interventions that could further lead to the use of pesticides or of current pest management practices. Screening procedures (and the negative list) are in place to prevent any use of pesticides that would impact the local environment and community. A pest management plan has been included in the ESMF.

75. OP 7.50 - Projects on International Waterways is triggered since the community-support dimension of PA subprojects (Component 2) may finance small irrigation (less than 10 ha) and small water supply systems (less than 50 liters per second). The Bank has informed the Mekong riparian states on behalf of Lao PDR of the proposed additional financing. In the Bank's assessment, the small-scale investments that may be financed under the Project would not adversely affect the flow, quantity and quality of the Mekong River's waters.

76. ESMPs will be developed to address site-specific environmental impacts that may occur in the project area as a result of minor civil works and other activities implemented under the subcomponents of Component 2.

77. Under the proposed AF, Component 2 will continue to support subprojects that will strengthen enforcement of national and international good practice management of forested upper-watershed and rivers, which may result in a short-term loss in livelihood of the local people who will not continue carrying out some of the livelihood activities they traditionally engaged in before the project. The assessment conducted during the preparation of this AF found that the type, scale, and scope of activities to be supported under the proposed AF, and the impacts that may result, are similar to those included under PAW. Significant potential negative impacts will unlikely be caused by project activities. This is partially because the PLUP will be carried out, which will help preserve the current patterns of land and natural resource use.

78. The CEF of PAW was updated for this AF and through its process framework, will address potential impacts of access restriction under the project by providing detailed steps to ensure full and informed participation of local people in the Participatory Land Use Planning (PLUP) process and in the development of alternative, sustainable income streams. Free, prior, and informed consultations will be carried out with affected people, and their broad community support to project activities will be ascertained. The Community Action Plan (CAP) will be developed based on a participatory process, and the project will provide grant funding to implement part of the CAP to at least maintain the pre-project level of livelihood after the project. Potential presence of physical cultural resources will also be identified through the

PLUP and verified through field visits. Management plans will place emphasis on conservation and management of endangered wildlife. Villagers will continue to be consulted and participate in the project throughout implementation through participatory social assessment, PLUP, CAP, and Conservation Agreement (CA) processes at the village level, and through participatory M&E.

79. As under PAW, indigenous peoples (who are called ethnic groups in Lao PDR) will constitute the majority of affected people and project beneficiaries under the subprojects of Component 2 under the proposed AF. The overall project impacts on the ethnic groups are expected to be positive. However, care will be exercised so that their precarious land/natural resource tenure will not be adversely affected by the project. The CEF provides an Ethnic Group Planning Framework with detailed steps to ensure that free, prior, and informed consultations will be conducted with the ethnic groups, leading to their broad community support, and to ensure that they meaningfully participate in a culturally appropriate manner in land and natural resource use planning and zoning and the development of alternative, more sustainable income streams.

80. Baseline livelihood data especially of vulnerable households, including ethnic groups and women-headed households, will be collected based on participatory social assessment to be carried out during implementation. Their livelihood status will be regularly monitored throughout the project implementation under the participatory M&E. Where villages consist of hamlets that previously constituted independent villages but are now consolidated into larger villages, participatory planning process will start at the hamlet level.

81. To address minor land acquisition that may be required for community livelihood development and the construction of office buildings and facilities, the Resettlement Policy Framework (RPF) developed under PAW was updated in line with OP 4.12 as part of this CEF. An abbreviated RAP will be developed during implementation should involuntary land acquisition become necessary.

82. To address project risks with regard to village consolidations, the proposed AF will make an upfront agreement with provincial governors that the following criteria will be applied for the implementation of the project. In villages consolidated in the past, the project will identify such villages and (a) determine through participatory social assessment if land, forest, and tenure issues associated with the consolidation have been resolved to the satisfaction of communities; (b) ascertain if adequate land for agriculture or other means of livelihood to improve, or at least maintain their livelihoods, has been made available; (c) exclude such villages if outstanding issues related to land for agriculture and natural resource are identified, and convey findings to provincial authorities for appropriate action; and (d) excluded villages can subsequently become project beneficiaries if (i) provincial authorities demonstrate that issues have been resolved, (ii) communities confirm that such resolutions met standards of free, prior, and informed consultation, and (iii) communities provide their broad community support for participating in the project. Villages scheduled or proposed for consolidation during the life of the project are excluded from participation in the project. This upfront agreement is to ensure that subprojects to be financed will not be associated or involve in village relocation either induced by the public or private sector development programs that may potentially lead to further impoverishment among the relocated villages without the above-listed measures in place.

83. An initial screening of eligible villages will be conducted under the support of qualified consultants, and their eligibility will subsequently be confirmed during the initial meeting with communities. All relevant data, including minutes of meetings with community representatives, will be documented and filed for review by the Bank. Details on the project approach to village consolidations are provided in the CEF.

84. The project will use indigenous leadership and conflict resolution mechanisms as the first-tier grievance mechanism but will significantly strengthen their capacity, including on safeguards requirements, gender equity, existing legal and administrative frameworks, and land management.

85. The findings of safeguard assessment carried out for the Sustainable Forestry for Rural Development (SUFORD) project (closed in 2012) were used for preparation of the original safeguard instruments under PAW. These remain valid for this AF, given the similarity in issues such as the presence of a large number of ethnic minorities in project areas, project impact on livelihood primarily resulting from access restriction, remoteness of project areas, and similarities in consultative process. Several weaknesses identified under the SUFORD safeguard assessment with regard to the consultation process and the participation of ethnic minorities in key project activities remain valid for this AF. These include limited consultations and participation of target SDAs, inadequate capacity of project staff, weak linkages between safeguard processes and technical processes, and weak monitoring and evaluation mechanisms. These lessons learned were incorporated in the safeguard measures developed under the new IDA SUPSFM project, which were also incorporated in PAW and continue to be applied under this AF.

86. The revised ESMF and CEF were translated in Lao language, and underwent additional consultation in May and June 2014 in 7 provinces, including the 3 new provinces, as well as in Vientiane capital. A stakeholder consultation report, with minutes of meeting has been shared with the World Bank. The meetings had been announced in the local newspaper in capital Vientiane. The ESMF and CEF are disclosed on the EPF website since September 1 2014, updated with a new draft on December 3, 2014. The draft ESMF and CEF were officially received at the Bank on December 1, 2014. The drafts were disclosed on the World Bank web site on December 03, 2014 and, after the World Bank clearance, the final version was disclosed on the World Bank web site on January 12, 2015.

Environment and Social Management Framework

87. Given that subprojects for AF have not been designed at the time of appraisal and therefore specific impacts are not yet known,²⁷ the ESMF prepared under PAW was updated. The ESMF will serve as a template to guide the environmental analysis required for all subprojects that could create negative environmental impacts. The ESMF primarily includes (a) an assessment of generic issues typically associated with the proposed interventions; (b) a

²⁷ An initial list of subprojects that may be potentially funded by the project have been identified; however, they will only be financed if their eligibility is confirmed during implementation against the eligibility criteria, including those on environmental and social issues. Clearance by the Bank is also required before the approval of subproject proposals.

screening process of subprojects which must include measures for environmental risk mitigation; (c) protocols/guidelines to conduct subproject-specific EAs and prepare subproject-specific ESMPs; and (d) protocols/guidelines for implementation and monitoring of subproject-specific ESMPs. The ESMF also include an Environment Code of Practice to be incorporated into the construction contract for all types of civil works as well as the site selection criteria that has been developed based on the technical criteria adopted for the regional series of projects²⁸ as well as measures to reduce the implementation risk. The ESMF recommends approaches to minimize pesticide use and alternatives, including integrated pest management. A pest management plan that applied in other similar Bank-financed projects is provided in the ESMF and will be used for subprojects, as applicable. In compliance with OP/BP 4.11 - Physical Cultural Resources, the environmental screening process will assess and confirm whether selected subproject areas are located in or near known areas with physical cultural resources. A chance-find procedure for confirming and protecting physical cultural resources identified during project implementation is included in the ESMF.

Lessons Learned on Community-based Conservation in Lao PDR

88. A more comprehensive review of incentive and community-based conservation is available in the PAW PAD and widely available in the literature. Lessons, derived from work in and around forest and PAs in Lao PDR, are worth summarizing as they underpin the project approach in PA management and the design of the CEF.

89. In the 1990s, the MAF reported a set of lessons. One of these lessons was that the development of a successful system of participatory co-management requires that both guardian²⁹ communities and government take on appropriate and clearly defined roles and responsibilities for conservation and protection. With respect to monitoring CAs, it is important that villages, rather than the authorities, play a lead role in policing the agreements. If the authorities are to be perceived by villagers as an equal partner in co-management efforts, they should not have the responsibility for enforcing the agreements nor for imposing penalties for their infringement. While local government should be available to support community action in this respect, it should only step in at the request of the villages involved.

90. Other lessons have emerged. In the absence of a strong government presence, community based conservation has elevated significance. In almost all PAs in Lao PDR, there are substantial human populations living within the PA and/or utilizing its natural resources. In the short and medium term, village natural resource management and enforcement will remain one of the most important factors of successful PA management and needs to be incorporated by management. The CEF has been designed as an integrated tool to take this lesson into account.

²⁸ Areas with high levels of poaching and illegal wildlife trade; area of high biodiversity significance; threatened ecosystems; locations with observed high presence of endemic species and/or flagship species; locations with potential for non-consumptive ecosystem services; the PAs at risk of succumbing to surrounding development pressures; and the PAs with high nature-based tourism activity and potential, thus requiring intensive management.

²⁹ The concept of 'guardian' community and guardian village was used in the 1990s and is now coming back. However, the CEF does not refer to the name "'Guardian' villages even though it is likely that during implementation communities may choose this label.

91. Community-based conservation schemes need to be targeted, narrow, and measurable. Empirical evidence suggests that achieving the dual goals of development and sustainability has been elusive. Village development funds and broad development investments do not necessarily lead to community engagement in conservation and can indirectly contribute to counter-productive consequences. Direct and narrowly targeted incentive schemes that are based on rewards for measurable conservation outcomes are likely to be more successful. The CEF includes a conservation compliance agreement which will enable monitoring of local outcomes.

92. Environment projects need to reverse perception of restriction. Throughout the government and Lao society, environmental conservation projects are often perceived as exclusively constrictive or contrary to the nation's development goals. Better communication and awareness is needed of the direct community benefits that result from the sustainable use of natural resources. Two proposed subprojects seek to build conservation awareness of decision makers.

Community Engagement Framework

93. The community engagement process is described in detail in the following paragraphs. The subprojects that implement CBI management activities will work with communities that are reliant to varying degrees on forest resources for their livelihoods. Since, as mentioned above, the type, scale, and scope of activities to be supported under the proposed AF are similar to those identified for support under PAW. The CEF prepared under PAW was updated in accordance with Bank policies OP 4.10 - Indigenous Peoples and OP 4.12 - Involuntary Resettlement.³⁰ All affected communities, be they ethnic groups or Lao, will be engaged in a culturally appropriate way to ensure broad-based community support.

94. The CEF includes, or rather itself represents, a Process Framework for the purposes of OP 4.12 and an Ethnic Groups (Indigenous Peoples) Planning Framework for the purpose of OP 4.10 - Indigenous Peoples. The framework will guide the final selection of villages supported by the NPA subprojects. The CEF constitutes the main strategy for community engagement under the project. It applies to all subprojects that implement CBI management activities. It is an improved version of an approach already in use on some PAs in Lao PDR, called 'Participatory Integrated Conservation and Development'. The CEF is based on four core principles:

- (a) All communities will be approached in the spirit of constructive collaboration and made aware of the subproject purpose and potential benefits. It will be explained that communities have the option to refuse to participate.

³⁰ OP 4.12 is cited to provide guidance and ensure that resource access restrictions that may occur under the project do not disproportionately affect any group within the community. CAPs will be developed in all villages without regard to ethnicity, and are intended by design to offset resource restrictions with viable alternative options to ensure that the livelihood of all households in project participating villages will at least be maintained as before the project level. A resettlement policy framework is also provided in the CEF for use in the unlikely, but possible, localized need for involuntary land acquisition for project-related facilities. The approved CEF has been disclosed both locally and through the World Bank web site on January 14, 2015.

- (b) All community-level beneficiaries, regardless of their ethnic group or social status, will be engaged in a culturally relevant way on the basis of free, prior, and informed consultations.
- (c) The community engagement process will take account of minorities and ethnic differentiation to ensure that dialogue is inclusive and carried out in the appropriate language(s). Communication throughout the project cycle will use appropriate information, education, and communication (IEC) materials to respond to issues of language and ethnicity, literacy/illiteracy, gender, and social vulnerability.
- (d) All project-affected people will have the opportunity to participate in and benefit from the project by providing input to the preparation of, and through participation in, the implementation of CAPs.

95. The CEF will be implemented through four stages that will include (a) selection of participating villages and team formation; (b) community awareness and resource diagnostics, participatory planning including the PLUP, CAP, and signature of CAs; and (c) implementation of CAPs which are likely to include community-based resource protection, revolving fund for community livelihoods, and incentive-based grants to the VDC for social infrastructure and other community priorities. After an initial disbursement, subsequent disbursement into the Village Development Fund (VDF) will be based on compliance with CAs. A CA will be signed between the relevant SDA and the VDC.

96. The subprojects supporting biodiversity management and livelihood development will verify whether existing VDCs and the VDF are adequate to support the implementation of the CEF. If this is not the case, VDCs (or equivalent) and VDFs (or equivalent) will be established in participating villages. The VDCs will become the key institutional mechanism for all subproject activities at the community level starting with the PLUP, the CAP, and the CA in line with the CEF prepared for the project. VDC members will be representatives of the village community and include a chairperson, a deputy chairperson, secretary, treasurer, and representatives of women, elders, youth, and other village subsectors.

97. To implement CAPs and help villagers comply with the CA, the SDA will provide the VDC with community grants to finance agreed activities. Immediately after adoption of the PLUP and CAP and signature of the CA, the SDA will make available to the VDC grants to finance eligible expenditures under two grant budget lines: (a) livelihood development activities and (b) conservation activities. The development and livelihood budget lines will fund the implementation of the main priorities identified in the CAP (a negative list of activities and a 'preference' list are available in the CEF). The conservation budget line will help strengthen the villagers' capacity to manage and support the conservation of biodiversity in their land and in the NPAs. Focus will be on activities that enable the communities to meet the terms of the CA. This may include surveillance of villagers' adherence to the PLUP, contribution to law enforcement in the NPA, and resource monitoring. Based on the monitoring of the CAP implementation and compliance to the CA, in subsequent years, the two budget lines will be replenished according to the terms of the CAs.

Resettlement Policy Framework

98. The Project, will not involve physical relocation. However, minor land acquisition may be required under community livelihood activities and/or small repairs or upgrading of infrastructure, including rehabilitation/upgrading buildings. The RPF sets out policies and procedures that will apply to such impacts. The RPF follows the GoL Decree 192 (2005), on compensation and resettlement for people affected by development projects. The RPF outlines principles and process of consultation with project (subproject) affected people to be carried out in a free, prior informed manner, social assessment, process of voluntary land donation, compensation for land and assets lost, if necessary, preparation of abbreviated resettlement action plan or land acquisition report and grievance procedures.

Gender Mainstreaming

99. Experience elsewhere, especially in Latin America, shows that there are differences between women and men living in protected areas and buffer zones and it is important that those differences be understood and considered for effective participation in the conservation and sustainable use of natural resources. These differences can be grouped into four categories: (a) roles and responsibilities, (b) access and control over resources, (c) knowledge base, and (d) public participation in decision making. From its experience in co-management of forests, the MAF concluded that co-management methods must incorporate a number of gender responsive features: (a) a gender focal person with responsibility for mainstreaming gender considerations is involved throughout the methods development process; (b) wherever possible, gender disaggregated data is collected and needs assessments and problem identification exercises are conducted with separate male and female groups; and (c) both men and women participate in conservation co-management in an equitable manner.

100. Gender has been mainstreamed in project design and steps have been taken to ensure gender issues and the special needs of women receive adequate attention. All subproject proposals will need to demonstrate their approach to considering gender mainstreaming. The community-based development TA will be responsible for gender issues. At mid-term, a gender assessment will be conducted and results reflected in project design and implementation. The project monitoring framework includes gender-specific data. Progress reports at subproject and consolidated levels will systematically report on gender aspects.

101. In subprojects related to CBI management, it is expected that the SDAs will recruit women facilitators with local language skills to be part of the subproject extension and livelihood teams, especially in minority ethnic group communities. CEF consultations, endorsement of CAPs, and CAs will ensure women are active in participation and receive due representation in all decisions. Data collected on livelihoods and forest resources utilization will be disaggregated by gender.

Grievance Redress Mechanism

102. LENS helped in developing grievance procedures in two provinces and ethnic group consultation guidelines. Grievances that result from the Project activities will be resolved through a grievance mechanism provided in the CEF and inspired from the procedures developed under LENS. The grievance mechanism will be based on key principles that will protect the rights and interests of project participants, ensure that their concerns and grievances are

addressed in a prompt and timely manner, and that entitlements or livelihood support is provided in accordance with the GoL and Bank safeguard policies.

103. The grievance mechanism will be in line with existing policies and regulations, specifically the Public Involvement Guideline No 707/MONRE (2013) and Prime Minister's Decree 192 (2005) on redressing village grievances as defined by the GoL and will be institutionalized in each village by a selected group of people, involving ethnic minorities, women, and representatives of other vulnerable groups in the village. In Borikhamxay and Khammuane Provinces, communities can also take advantage of the existing grievance mechanism developed under LENS.

104. The project grievance redress mechanism will consist of four steps with guidelines outlined for each step. Grievances will be addressed at the village, district, province, and national levels. A complainant also retains the right to bypass this procedure and can address a grievance directly to the EPFO or the National Assembly, as provided for by law in Lao PDR. At each level, grievance details, discussions, and outcomes will be recorded in a grievance log book.

Excluded Activities

105. The project will exclude the financing of activities and expenditures posing significant potential negative environmental and/or social impacts and risks, as defined in a detailed negative list included in the PIM, ESMF, and CEF. While the project will build capacity for improved environmental law enforcement, it will not finance the purchase or training in the use of weapons and any other expenditure intended for military or paramilitary purpose. All subproject proposals will be subject to screening and approval by the Bank to ensure that they meet the eligibility criteria (including negative list of excluded activities and expenditures) defined in the PIM and the safeguard documents and referred to in the legal agreements. Small-scale irrigation over 10 ha and village water supplies over 50 liters per second are excluded.

E. Monitoring & Evaluation

106. M&E arrangements are based on the project's RF (see annex 2). The M&E system will use—and if needed improve further—the EPF's recently enhanced subproject M&E system, which is applicable to all subprojects (project funded or through its regular pipeline). It comprises input, output, process, and outcome monitoring and uses the subproject database and EPF web page as the main instruments. The M&E system is described in the EPF's M&E manual as a volume of the PIM. The subproject application and reporting forms represent the key data collection tools. The EPFO will ensure that the following crosscutting issues are embedded in the project activities and are regularly monitored and reported: (a) beneficiary's participation, with particular focus on women and gender equity; (b) compliance with the environmental and social safeguards; and (c) good governance.

Indicator Quality and Reliability

107. The indicators were selected to ensure an accurate attribution of the project's results through its achievement of the PDO. The indicators selected are SMART (specific, measurable, attributable, realistic, and time-bound) and have low-cost data requirements. All subprojects will have their individual RF with clearly defined contribution to indicators defined in the project RF.

M&E Capacity and Capacity Building

108. M&E capacity in the EPFO and at SDA level is generally still low and will require continued support and training during the first years of implementation. As part of the EPFO's TA team, a full-time M&E adviser will be recruited for the duration of the project and will ensure that M&E capacity is built to the required standard and the EPFO's and subproject's M&E systems are functional and of adequate quality.

M&E Implementation by the EPF

109. Data collection starts at the SDA level and will be consolidated at the EPFO (subproject application and reporting forms). Analysis of the data collected will be carried out by the EPFO's M&E team, which includes the provincial facilitators. The project may finance periodic studies to assess project performance. The EPFO will consolidate all subproject AWPBs in its own project AWPB. It will also combine all subproject reports in its own report. Dissemination of the consolidated semester report will be done in English and in Lao through stakeholder meetings at the central and provincial levels and through the EPFO's web page. The project will support annual workshops to facilitate exchange among the SDAs and EPFO, take stock of good practices, and produce operational lesson notes to improve future implementation and subproject development and implementation modalities. Mid-term and end-of-project evaluations may be carried out by independent consultants contracted by the EPFO.

M&E Implementation by the SDA

110. *Data collection.* The subproject application and reporting forms specify information to be provided. Each subproject will have its own AWPB, which will include an RF with clearly defined indicators feeding into the project's RF and annual benchmarks (output indicators) to determine renewed release of funds. Each SDA is expected to provide a baseline and demonstrate how it will monitor and report on its indicators. The EPFO will assist the SDAs at the central and provincial levels in the design of the subproject RF and related implementation and reporting and ensure compatibility with its own subproject database. Communities will play a direct role in monitoring and evaluating the performance of village-level activities under the CBI window's subprojects.

111. The SDA will carry out participatory M&E as part of the subproject implementation. The CEF details the methodology, processes, and procedures for participatory M&E, but the SDA should provide subproject beneficiaries the opportunities to discuss subproject implementation and measures to enhance positive benefits, raise concerns and grievances about subproject implementation, and explore solutions.

National Policy Monitoring

112. The relevant line ministries will monitor the implementation of subprojects from a policy and national plan compliance viewpoint as many of these activities are feeding directly into their five-year programs.

Performance Assessment by the World Bank

113. Implementation support missions will evaluate performance against the approved AWPB and the submitted consolidated and subproject-specific progress reports.

F. Role of Partners

114. Parallel financing is secured from the Nam Theun Power Company (NTPC) for additional activities related to the NNT NPA subproject, in an amount of about US\$1.40 million per year. Funds from the NTPC are released once a year to the WMPA to implement their overall AWPB. The NNT subprojects will also support the implementation of selected aspects of the WMPA AWPB. However, purchases will be segregated as identified in the detailed budget and procurement plans. The Bank will coordinate its input and support advisory services with other WMPA partners such as the NTPC, the Independent Monitoring Agency, and Panel of Experts as they also must clear the AWPB before it is presented to the WMPA Board of Directors.

115. There is also parallel financing from WCS and from WWF for DFRM capacity building and human resources development. Both will be mobilized on a year-by-year basis and taken into account in the relevant subproject's AWPBs.

116. Parallel financing, possibly mobilized by the SDAs when they prepare subprojects, may originate from (a) GIZ, through the CliPAD project (CliPAD is supporting the current stage of NEPL NPA development, which is also financed by GEF) and (b) the ICBF project funded by the German Reconstruction Credit Institute (KfW). Other parallel financing may be mobilized as the project is implemented and new subprojects are approved and implemented.

G. Sustainability

117. The main sustainability aspects are (a) sustainability of the institutional and human resource capacity developed with project financing and (b) financial sustainability of the EPF as the main financier of the environment sector.

118. Managing natural resources and environment issues started less than 20 years ago in Lao PDR. The institutional setup and the legal framework have evolved throughout that period with assistance from external funding. Rapid growth of hydropower and mining investments is even more recent, and therefore, mitigating its negative (often mid- to long-term) impact on society and on the environment are not yet perceived as a priority. However, these negative impacts may soon materialize at a scale that politicians may not be able to ignore, making it even more important to prepare the public sector to offer solutions to decision makers. As elsewhere, investment in human resources and public capacity building, especially one that gives the opportunity for civil servants to work on tangible issues and develops human resources, is likely to be relatively modest in the short term but sustainable over the long term.

119. The environment sector has largely been funded by donors and there is no sign of this diminishing. Given the current macroeconomic situation, the GoL treasury is not expected to increase its allocation to the sector. Alternative mechanisms, such as the EPF, are being explored with more attention. Already, the EPF is financially sustainable as an institution. Its endowment and voluntary contribution from mining are capable of financing a modest secretariat and a portfolio of small subprojects across its five financing windows (currently 50 ongoing subprojects totaling US\$1.4 million). However, the EPF level of funding is insufficient to make a significant impact. The project will help the EPF's financial sustainability (a) support a feasibility assessment of other mechanisms of nongovernmental or private funding, including

voluntary contribution, biodiversity offsets, and increasing the capital of the endowment funds and (b) help the EPF and various public departments engage with the MOF to capture a portion of the hydro and mining royalties or taxes or to obtain a modest national budget allocation. The expected capacity gains should facilitate the GoL negotiations with the public and private investors on sustainable development contributions. One of the expected outcomes is that by project-end, the EPF’s additional annual revenues for investments in the sector double to around US\$1.6 million.

H. Key Risks and Mitigation Measures

120. The proposed AF faces similar high risks as the original project. The Systematic Operations Risk-Rating Tool (SORT) was applied.

Risk Categories	Risk Rating
Political and governance (country risk)	Substantial
Macroeconomic (country risk)	High
Sector strategies and policies	High
Technical design of project or program	Substantial
Institutional capacity for implementation and sustainability	Substantial
Fiduciary (discussed in annex 3, pages 37 to 48)	Substantial
Environment and social (discussed in annex 3, pages 48 to 55)	High
Stakeholders	High
Overall	High

121. *Sector strategy and policies.* The main challenges in the environment sector are: (a) a perception that environmental and social considerations are a hindrance to economic development; (b) slow progress with environmental policy and regulatory reforms (for example land, water, and forest) and low compliance monitoring and reporting; (c) overlapping institutional mandates among GoL agencies; (d) shortage of technical and linguistic skills in civil service; (e) institutional arrangements under the decentralization rule where central departments—already understaffed—were distributed in 18 provincial offices and many more district offices without any staff increase; and (f) lack of GoL funding to the sector aggravated by the current financial difficulties. The project is designed to help address some of these challenges.

122. *Technical design of project or program.* The sub-project mechanism has been tested in LENS1 but the process can be improved. Also, there are many dimension of protected area management, wildlife law enforcement of environment compliance monitoring that are quite technical and not mastered in Lao PDR. The implementation arrangements build on experiences gained under LENS1 project. Technical assistance will be provided to assist EPF during the full implementation period and SDAs. Training to EPF and the SDA is an essential dimension of the project which will be carried out throughout.

123. *Institutional capacity risk for implementation and sustainability.* The EPFO’s capacity to administer funds has proven reasonable for LENS (ICR assessed the EPF’s performance as Moderately Satisfactory) and preparation of PAW. However, the increase in scope and funding increases the risk of insufficient institutional and human resource capacity to cope with the

increase in project funds and scope. The institutional set-up of the EPFO has improved and additional technical and fiduciary staff has been recruited. Sustainability following project closure is a risk but this will be mitigated through financing of an EPF business plan and support for fundraising.

124. *Stakeholders risk.* The project supports a transformational agenda from ‘just growth’ to more “sustainable green and clean growth’. The risk is high because not all branches of society are ready for this transition, resistance is expected from vested interests for a less-than-transparent use of the natural capital, or from the belief that green growth may undermine reaching a middle-income country status by 2020, or is a reflection of a lack of education or awareness or self-interest. However, it seems that more and more members of the GoL and the National Assembly are concerned with the unsustainable use of the country’s natural resource capital. A communication and awareness raising engagement will target specifically high-level decision-makers.

125. *Climate change risk.* The Bank’s Climate and Disaster Screening tool was applied to the project. The major future hazard relevant to the project is ‘extreme precipitation and flooding’. This constitutes a low risk to the project implementation or outcome. Rather, the project, through ecosystem-based adaptation, helps the country preserve forest cover, which in itself is a substantial buffer to the expected increase in extreme climate events.

Measures to Address External Risks

126. *Governance and Anti-corruption.* Governance and anti-corruption (GAC) measures are built into project, and sub-project, design to support transparency, voice, accountability, participation and inclusion of SDAs and, regarding communities, of previously excluded groups. The project contains several GAC measures including close controls by EPFO of SDA implementation and retention by EPFO of most procurement processes. Other GAC measures include participatory village level monitoring, social audits at village tract level, and establishing a grievance redress mechanism. In addition, sanctions are imposed on village tract forum members and government officials who misuse funds or engage in corrupt practices. The PIM provides details on the sanctions that would be applicable under Sub-projects. EPFO and SDAs will take the following specific measures to prevent financial misuse, fraud or corruption: (a) provide training of forum members on good governance, procurement and financial management practices, (b) require all financial transactions are made through a bank account, (c) publicly disclosure at village level on community grant approvals, procurement, and disbursement, and (d) close monitoring and supervision by community facilitators and SDAs.

127. *External risks.* In order to address the risks associated with the government’s ongoing program of village consolidation, the project will not work in villages that will be consolidated or proposed for consolidation within the life of the project. In villages that have been consolidated in the past, project finance can be used if, and only if, land and resource tenure issues associated with the consolidation have been resolved to the satisfaction of villagers. Details on the project approach to village consolidations are provided in the CEF.

128. All public forests are subject to a form or another of infrastructure/concession overlap. However, all must comply with the environment impact legislation, some of which, such as

SESO, are supported by the Bank and the International Finance Corporation (IFC) under the HMTA project and the ESSWRD. The Bank is not involved in any of these projects or concessions. However, the Bank will raise the issue of large infrastructure development in highly valued biodiversity areas and provide advice to the GoL as well as support, if requested. The linkage to these activities and any associated impacts will be assessed as part of subprojects' preparation and approval. The project will help MONRE contribute to the discussion on environment law compliance, build the capacity of national and provincial teams to monitor such projects, help develop a database of large projects so they can better anticipate their environmental and social impacts and feasibility, and help explore alternative mechanisms such as payment for ecosystem services and biodiversity offsets. These potential developments will be taken into account, in the watershed protection plans, which may be developed and initiated during the project. Also, other Bank-financed projects such as IDA's HMTA and IFC's ESSWRD are helping the other GoL departments' capacity to comply with, or monitor compliance of safeguard standards.

129. If it is determined that the area of influence of a subproject includes a concession risk, especially for road construction, mines, and hydropower, that overlap with the forest or natural habitat areas supported by the project, the subproject ESMPs will include an inventory of the concession and infrastructure projects and an assessment of their severity. The current PDO outcome has been designed to seek outcomes that are still relevant should these concessions and projects proceed without environment mitigation. On this basis, discussions will be held with provincial governments to avoid, if possible, overlap between concession areas and the project areas, offer advice and support, and ensure that they are not an obstacle to the PDO. In case it is determined that an overlapping concession (or project) is either non-compliant with national safeguard laws or in opposition to the PDO, and that the promoters are proceeding with implementation, all further expenses under the subproject will be deemed ineligible, the subproject will be cancelled, and no additional fund will be made available for that subproject.

I. Additional Implementation Support and Supervision Plan

130. The larger scope and financing increases the number of subprojects and requires additional staff time and supervision budget for subproject upstream review and implementation support.

J. Implementation Readiness

The EPF is implementing the original project and the first support mission rated its performance Satisfactory. The PAW's PIM has being improved. The EPFO has prepared the year 1 AWPB, including a training plan. A substantial number of SDAs have prepared and proposed their subprojects. The EPFO is recruiting a number of additional consultants to support operation, subproject coordination, M&E, safeguards, communication, financial, and procurement. A training program is planned for the first three years of the project to gradually strengthen EPFO human resources. The fiduciary and administrative systems of the EPFO and the SDAs will continue to be strengthened throughout project implementation.

K. Access the Bank's corporate level Grievance Redress Service and the Inspection Panel

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

ANNEX 4: MAP

LAO PDR: SECOND LAO ENVIRONMENT AND SOCIAL PROJECT (ADDITIONAL FINANCING TO THE PROTECTED AREA AND WILDLIFE PROJECT) FOURTH PHASE OF A SERIES OF PROJECTS ON STRENGTHENING REGIONAL COOPERATION FOR WILDLIFE PROTECTION IN ASIA

