



# The World Bank in Laos

March - April 2008

Issue no 6

## JOINT EFFORT FOR SUSTAINABLE FORESTS IN LAOS

**F**orests are very significant for Laos - as much as 80% of the population relies on the forests for income, food, shelter, herbal medicines and other resources.<sup>1</sup> Furthermore, forests are home to diverse wildlife and offer protection from natural disasters such as flooding and land slides. Efforts are needed to protect Laos' forests and to develop more sustainable practices for using this valuable and disappearing natural resource.

The decline in forest cover in the past few decades is the result of the necessary conversion of forestland for agriculture and infrastructure development, such as road and dam construction, but also from unsustainable practices, such as uncontrolled commercial logging and exploitation of non-timber forest products. Whereas the coverage of natural forests was estimated to be 70 percent in the 1940's, 47% in 1992 and 41.5 percent in 2002, based on current trends, this figure could be as low 30% by 2020.<sup>2</sup> Understanding the need to reduce the impact of forest degradation and deforestation, the Government of Laos has taken steps to try to deal with these problems through the 2005 revision of the Forestry Law of 1996, which provides comprehensive and clear guidelines in many aspects of forestry, especially promoting tree planting, and protection and rehabilitation of natural forests. The Government has also developed related regulations to promote sustainable use of forest products and enhance community participation in production forest management. An example of this effort is the recent regulation to set national wood quotas, which has significantly reduced the amount of natural wood harvested as compared to a decade ago.<sup>3</sup>

With the goal of reversing the trend of forest

degradation and deforestation, the Government formulated a Forestry Strategy to the Year 2020 (FS 2020) with the assistance of the Japan International Cooperation Agency (JICA) and the Swedish International Development Cooperation Agency (SIDA), which ambitiously targets a return of forest cover to 70 percent by the year 2020.<sup>4</sup> The FS 2020 presents a comprehensive review of the status of the forestry sector, including current policies and programs and official guidance for managing production forestry, logging plan, conservation, land conversion and many others.

The World Bank has been working with the Government since the 1990's to assist in improving forest management and protection. Together with the Finnish Government, the World Bank is implementing the SUFORD (Sustainable Forestry for Rural Development) project. The objective of SUFORD is to institute more systematic management of natural production forests to protect biodiversity and enhance the contribution of forestry to the development of national and local economies. The Government has recently agreed to expand the area covered under SUFORD and has extended the project for three more years. The project is implemented by the National Agriculture and Forestry Extension Service (NAFES) and is the largest donor-supported forest sector project in Laos. The key achievements to date are the establishment of eight Production Forest Areas (PFAs) in the four most important timber-producing provinces in Laos - Khammouane, Savannakhet, Salavan, and Champasak. PFAs are areas determined by the Government where production of timber and non-timber forest products is managed with the involvement of local communities. >>

### What is SUFORD?

SUFORD is a multilateral cooperation project between the Government of Laos, Finland and the World Bank. The overall goal of the project is to institute nation-wide systematic forest management which includes specific objectives such as to: (a) improve the policy, legal and incentive framework enabling the expansion of Participatory Sustainable Forest Management (PSFM) throughout the country; (b) bring the country's priority natural production forests under PSFM; and (c) improve villagers' well-being and livelihoods through benefits from sustainable forestry, community development and development of viable livelihood systems.



### In this issue

- ◆ Joint Effort For Sustainable Forests in Laos
- ◆ Carbon Finance
- ◆ Interview with Vice Minister of the Ministry of Agriculture and Forestry
- ◆ Nam Theun 2 Update
- ◆ World Bank Events



<< These eight PFAs, with a total area of about 656,000 hectares, cover approximately one-fourth of the country's estimated natural productive forests. The Prime Minister has officially declared a further 29 new PFAs in September 2007. By the completion of the project, all potential PFAs in the country – altogether 54 covering an estimated 3.5 million ha – would have been identified and demarcated.<sup>5</sup>

As PFAs may also contain protected areas, PFA management also serves other important functions such as biodiversity conservation for the areas that could provide a habitat for wildlife; and soil and water conservation for rugged areas best left for its soil and water resources.<sup>6</sup>

### Lao System of Participatory Sustainable Forest Management (PSFM)

The villages inside the PFAs participate in various aspects of forest management from planning to utilization. The stakeholders – including villagers and officials from the district office of the Ministry of Agriculture and Forestry – jointly carry out detailed forest inventory based on which a Forest Management Plan is prepared and approved. The plan is usually for 15 years. Government regulations prohibit any timber harvesting from a production forest, which does not have an approved forest management plan. The forest management plan also defines the village rules and regulations for collection and processing non-timber forest products. Villagers agree to these rules and monitor compliance by themselves.

About 29,200 families and 187,300 people from 412 villages in 18 districts are already benefiting from SUFORD, notably through compensation (wages for labor) for operational activities such as clearing access trails, felling trees and forest road maintenance.<sup>7</sup> In addition, the villagers have access to village funds – their share of the sale of timber – to promote household income generation. Through these funds, villagers can receive grants to purchase, for example, a buffalo or a



weaving machine to support their livelihood. The funds, which are managed collectively by the villagers and local governments, are also utilized to build village infrastructure such as roads, schools, and clinics.<sup>8</sup>

The participatory and voluntary nature of project activities minimizes the risk of serious social impacts from unmanaged timber production and contributes to expanded local control over resources.<sup>9</sup> Local residents benefit most from SUFORD as they are provided the opportunity for developing new livelihoods while at the same time assuring their fair share of revenues from the forest products.

It is also worth noting that natural forest areas covering close to 45,000 ha in two PFAs under SUFORD have been certified by the Forest Stewardship Council certification scheme, the leading international standard of good forest management. Certification demands transparency in timber business, invites international scrutiny, and requires that profits from logging be shared equitably.<sup>10</sup>

With these efforts, the vision of reversing deforestation and forest degradation as outlined in the Government's Forest Strategy can be accomplished. At the same time this forest management scheme will help lift the country from poverty by ensuring a sustainable stream of revenue from timber and non-timber sales.

Joining this effort is JICA with its Forest Management and Community Support Project, which aims to stabilize shifting-cultivation, a major cause of deforestation, by introducing alternative production and income generation (such as animal husbandry, fishery, and fruit tree planting)

in villages in Luang Prabang and Sayaboury provinces of Northern Laos.<sup>11</sup> Other donors involved in developing non-timber forest products in Laos are SNV (Netherlands Development Organization), the Swiss Agency for Development and Cooperation<sup>12</sup> and GTZ. Meanwhile, the WWF actively works on environmental and conservation issues in Laos. ■

### REFERENCES:

- <sup>1</sup> *Forestry Strategy to the Year 2020 of the Lao PDR*, July 2005, page 2.
- <sup>2</sup> *SUFORD Project Document* and interview with Tapani Routsalainen, Technical Advisor for SUFORD.
- <sup>3</sup> Based on interviews with Tapani Routsalainen and Bouahong Phanthanousay, SUFORD National Project Coordinator.
- <sup>4</sup> *Forestry Strategy 2002*, page 3.
- <sup>5</sup> *SUFORD Project Document*.
- <sup>6</sup> Ministry of Agriculture and Forestry, *Forest Management Plan: Cluster of Village Development Number 7 Sub-FMA, Xebangfai FMA, Donghousoi PFA, Kahmmouan Province*, page 4.
- <sup>7</sup> *SUFORD Project Brief*, February 2007.
- <sup>8</sup> Based on interview with Bouahong Phanthanousay.
- <sup>9</sup> World Bank Rural Development and Natural Resources Sector Unit, East Asia and Pacific Region, *Project Appraisal Document for a Sustainable Forestry for Rural Development Project*, page 24.
- <sup>10</sup> *SUFORD Project Brief*, February 2007.
- <sup>11</sup> Based on interview with Sasaki Mitsugu, JICA Forestry Expert.
- <sup>12</sup> World Bank, *Lao PDR Economic Monitor*, November 2007, page 39.

## WORLD BANK EVENTS

- ◆ Regional Program for Management of Health Risks of Persistent Organic Pollutants (POPs) in South East Asia. The launching workshop was held on April 3-5, 2008 in Luang Prabang.
- ◆ Third Series of Seminars on Public Expenditure Review: Public Expenditure Management was held on April 8 at the National University of Laos, Faculty of Economic and Business Management.
- ◆ A Dissemination Workshop of the Study "Teaching in Lao PDR" was held at the Ministry of Education on March 25, 2008.



## CARBON FINANCE: CLIMATE CHANGE AND FOREST PROTECTION

It is widely publicized that deforestation and forest degradation are the second leading cause of global warming and responsible for about 20% of global carbon emission, more than from all the cars, trains and planes in the world. Living trees absorb CO<sub>2</sub>, and as they are cut down or burned, they release their *stored* carbon into the air. In addition, thinning forests mean fewer trees to *capture* the carbon emitted by industry and transport.

Experts and policy makers have been debating about how to prevent or reduce forest loss, especially in developing countries where deforestation and forest degradation are by far the main source of national emissions. The debate has gained new momentum since the World Bank launched the Forest Carbon Partnership Facility (FCPF), a financing mechanism that gives incentives to developing countries for preserving their standing tropical forests and saving them from burning, logging, conversion and other types of degradation.

### Why the World Bank?

The World Bank's goal is to reduce global poverty. Forests play a crucial role in the lives of many of the poor, and the loss of forests as well as its impact on global warming is of particular concern to the World Bank. The carbon finance activities of the World Bank are a natural extension of its mission to reduce poverty. The World Bank, therefore, became a "market maker" to reduce CO<sub>2</sub> emissions and currently manages 12 carbon funds and facilities with contributions of more than \$2 billion from public and private entities.

### How does FCPF work?

FCPF is a World Bank carbon finance initiative. This facility supports projects that encourage governments and companies in the developed world to pay for preserving trees in the tropics in exchange for "carbon credits" that grant them the right to emit CO<sub>2</sub>. The World Bank does not directly lend or provide grants to projects, but with the carbon fund, the Bank will remunerate the participating governments and companies - in accordance with negotiated contracts - for reducing emissions more than a determined reference scenario (i.e. recent historical emissions). The Bank, then, pays "carbon revenue" to the parties contributing to these reductions after verification by independent auditors.

### What are the implications for Laos?

Laos is amongst the many developing countries that have requested an opportunity to participate in the FCPF. The benefits for the country are substantial. The initiatives to reduce deforestation and degradation (REDD) are in line with the Government's Forestry Strategy to the Year 2020 to increase forest cover and directly impacts poor people who depend on forests for their livelihood. At the same time, this partnership will provide the country with a new source of revenue for the sustainable use of forest resources and biodiversity conservation.

REFERENCES: <http://www.carbonfinance.org/fcpf/>; The World Bank, Forest Carbon Partnership Facility Booklet; Interview with Peter Jipp, Brian Walsh, "Getting Credit for Saving Trees," TIME Magazine, July 2007; and Charles Peterson et al., "Make Money While Saving the World," *Water Environment Federation Magazine*, December 2007.

## Q&A with

### H.E. Dr. Ty Phommasack

Vice Minister of Ministry of  
Agriculture and Forestry



*What are the main challenges Laos faces in managing its forests?*

Natural resource management faces many challenges such as deforestation caused by infrastructure development and the shift of land use to agriculture along with an increasing demand for timber as a raw material. This puts much pressure on forest resources - an important source of revenues for sustained national economic growth.

*Illegal logging is a challenge faced by many countries in Southeast Asia due to the valuable timber species. How is the Government addressing this challenge?*

The Government of Lao PDR has developed its forest management plan and strategy to the year 2020. Timber quotas are being implemented annually at the local level to manage, control and monitor resource exploitation. These practices have been effective. However, illegal logging remains a challenge for which we need to further seek solutions, namely through increased community awareness and improvement of control and monitoring systems. It is necessary to increase local community participation and enhancement of ownership and accountability of forest protection throughout the country.

*What contribution has SUFORD made to improve forest management?*

The project's success has brought benefits in many aspects. It has helped to enhance the development of community livelihoods in some of the project areas to reduce poverty. Production forests are gradually being brought under sustainable management with community participation, ownership and accountability, and illegal logging has been reduced. An important result has been to improve international confidence in the policy guidelines adopted by the Government for the protection of forests and the use of natural resources. This project will serve as a model for sustainable community participative use of forests and the preservation of forest resources. ■



## World Bank Update on Nam Theun 2 Project Activities

**O**n April 10, 2008, the tunnel which has been diverting the water around the Nam Theun 2 (NT2) dam will close and the reservoir will gradually begin to fill. Tunnel closure will allow for the filling of the permanent inundated areas of the reservoir, 80km<sup>2</sup> of the 450km<sup>2</sup> reservoir. Following this, in mid-June 2008, the dam gates are scheduled to close which will mark the full inundation of the reservoir.

In February of this year, the World Bank reported in its Interim Progress Report that in order for reservoir inundation to go ahead three benchmarks have to be met according to the Concession Agreement between the Lao Government (GOL) and the Nam Theun 2 Power Company (NTPC).

The three benchmarks and their current status as of April 4, 2008 are as follows:

- ◆ Resettlement of all impacted households in the Nakai Plateau to be completed, along with related infrastructure (houses, water wells...) and services – *98% of houses have been completed with the remaining 35 houses, which will not be impacted until June, fully resettled by end of April. Water wells and other infrastructure, including community buildings (schools, health centers) are almost finished and will be fully completed by June 15, with finishing touches to take place throughout the year;*
- ◆ The Reservoir Fisheries Plan, and related sub-plans, must be completed – *Draft plans have been completed and will be reviewed by GOL and the international financing institutions (IFIs) in April, and the plans will be completed by June 15 so that the resettler villages can start taking advantage this year of fishery opportunities;*
- ◆ An Emergency Contingency Plan must be finalized in consultation with the Dam Safety Review Panel – *This has been completed and communities have been made aware of potential risks.*

In addition, the World Bank also highlighted in February that three other related actions also needed to be met and



their current status as of April 4, 2008 are as follows:

- ◆ Comprehensive plan for mitigation and compensation for the villages who will be impacted in the Downstream Areas – *NTPC, GOL and the IFIs are currently discussing the final refinements to the rolling plan of the Downstream Program that will cover activities for approximately the next two years;*
- ◆ Selective vegetation clearance in the areas of the reservoir that will be permanently inundated will be completed to help with improving water quality as well as providing navigation access – *Most of the 1500 hectares (ha) identified have been cleared and are currently being burned. Additional vegetation clearance will take place until mid June.*
- ◆ Implementation of a water quality monitoring program, including baseline information, must be operational – *This is ongoing and will continue throughout the coming years.*

The **International Panel of Experts** (POE), who advise the Lao Government on social and environmental issues related to NT2, also weighed in on the status of the actions laid above when they undertook their 14<sup>th</sup> visit to the project site March 26-April 4.

In their latest visit, the Panel reviewed the progress made since their visit in January,

assessed the status of all the actions mentioned above and also the status on recommendations they had made during their January visit (see POE 13<sup>th</sup> and 14<sup>th</sup> reports). The Panel has expressed its full support to tunnel closure in April, and their 14<sup>th</sup> report further highlights actions that need to be completed ahead of dam gate closure in June 08.

The World Bank, together with other financing institutions, will continue its close supervision of social and environmental programs. Particular attention in the next coming months will be paid to the full completion of infrastructure in the new villages, the provision of boats for villagers to fish in the reservoir, the permanent relocation of the Vietic villagers from SopHia, the progress on livelihood activities throughout all project areas, the protein status of the 37 villagers downstream of the dam and the continued progress of the Watershed Management Protection Authority (WMPA).

For more information on the activities described above see the [World Bank's Interim Progress Report, February 2008](#) and the [World Bank's Update on NT2, December 2007](#). For more detailed information regarding the current activities in the Nam Theun 2 Project, including an "Action Plan" see GOL and NTPC's latest [Progress Report on Reservoir Impoundment and Action Plan](#).

All the documents, including reports from the International Panel of Experts are available on the World Bank's NT2 website: <http://www.worldbank.org/laont2>

For a look at how we work on a daily basis, read our [NT2 blog](#), which is accessible from the NT2 website. ■



For more information about the World Bank in Lao PDR, please contact:

**Nanda M. Gasparini**  
E-mail: [mgasparini@worldbank.org](mailto:mgasparini@worldbank.org)  
**Viengsamay Srithirath**  
E-mail: [vsrithirath@worldbank.org](mailto:vsrithirath@worldbank.org)  
Website:  
<http://www.worldbank.org/lao>

Editor: Anita Dean