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**MISSION ON BANK INVESTMENT IN THE LAO PDR FOREST  
SECTOR**  
**October 16-29, 2019**  
**Aide Memoire**

*(1) Appraisal of IDA Additional Financing for Scaling Up Participatory Sustainable Forest Management Project (AF-SUPFSM, P170810) and (2) Implementation Support for SUPFSM (also known as SUFORD-SU, P130222), October 16-29, 2019*

## **I. INTRODUCTION**

1. From October 16-29, 2019, a World Bank team<sup>1</sup> and the Ministry of Agriculture and Forestry (MAF) carried out the above-mentioned mission in Vientiane Capital. The objectives of the mission were primarily to (i) review achievement of results from SUFORD-SU (P130222) and provide implementation support, and (ii) Appraise Additional Financing to SUFORD-SU (AF-SUPFSM, P170810).
2. The mission also took the opportunity to advance selection of specific landscapes and provinces for investment support under the potential new Lao Landscapes and Livelihoods Project to be supported by IDA and the Global Environment Facility (GEF) (P170559).
3. The mission also took the opportunity to advance the REDD initiative, by (i) supporting implementation of the FCPF Readiness Grant (P125082) that closes in June 2020, and (ii) supporting preparation of the Lao PDR Emissions Reduction Program (P165751).
4. The Bank team expresses its sincere appreciation to all staff of MAF departments for a successful mission. The findings summarized in this Aide Memoire were discussed at a wrap-up meeting chaired by Mr. Bounpone Sengthong, Deputy Director General of MAF's Department of Forestry (DOF) on October 25, 2019. MAF leadership and the chair of the technical wrap up emphasized the strong relationship with the Bank as a trusted partner in investment and policy development.

## **II. SUFORD-SU (P130222): PROJECT DATA AND RATINGS**

5. The Project Development Objective (PDO) of SUFORD-SU is to “execute REDD+ activities through participatory sustainable forest management in priority areas and to pilot forest landscape management in four provinces.” The project was approved by the World Bank on August 8, 2013 and declared effective on August 30, 2013. The new closing date is March 30, 2020. On May 22, 2019, the Bank approved the request from the Ministry of Finance to extend the project to March 30, 2020 and reallocate disbursement categories. By the end of the mission the restructuring has been completed. SUFORD-SU covers 13 provinces and 41 of the country's total 51 production forest areas (PFAs), comprising 2.3 million ha (72% of the

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1. The mission was led by Mr. Stephen Danyo (Senior Environmental Specialist, Task Team Leader) and included Alex Lotsch (Senior Environmental Specialist and co task team leader for REDD+), Dr Luck Bounmixay (Natural Resource Management specialist), Jim Carle (Consultant, Forest Management Specialist), Viengkeo Phetnavongxay (Sr. Environment Specialist), Mr. Khamphet Chanvongnaraz (Procurement Specialist), Siriphone Vanitsaveth (Sr. Financial Management Specialist), Sybounheung Phandanouvong (Sr. Social Development Specialist), Nelson Gapare (Forest Carbon Specialist) John Parr (Protected Areas Management Specialist), Mr. Arturo Bolondi (Natural Resource Management Specialist), and Anita Soukhaseum (Program Assistant).

total PFA areas) and an estimated 1,090 villages<sup>2</sup>. Component 3B on forest inspection is carried out in the whole country (18 provinces).

### III. SUFORD-SU (P130222): IMPLEMENTATION PROGRESS AND KEY FINDINGS

6. Overall progress toward achieving the PDO<sup>3</sup> is rated Satisfactory due to the fact that all PDO indicator targets met at the time of the previous mission (May 2019) have held and some continue to advance. The PDO remains relevant to SUFORD-SU and to Lao PDR's National Socio-Economic Development Plan, the Forestry Strategy 2020, the country's green growth and REDD+ programs, and the emerging new Forestry Law.

**Table 1: Key Project Data**

Project Data	Total	IDA (H852-LA)	FIP (TF015286)
Original Project Amount	US\$31.83 million	US\$19.00 million	US\$12.83 million
Total Disbursement (Client Connection as of Sept 30, 2019)	US\$30.79 million (100%)	US\$17.96 million (100%)	US\$12.83 million (100%)
Total project expenditure (as of Sept 30, 2019)	US\$ 30.67 million	US\$ 18.40 million	US\$ 12.27 million
Total project expenditure at provincial level (as of Sept 30, 2019)	US\$ 16.85 million	US\$ 10.11 million	US\$ 6.74 million
Current Closing Date	March 30, 2020		

**Table 2: Project Ratings<sup>4</sup>**

Project Ratings:	Previous	Current (October 25, 2019)
PDO	S	S
IP	S	S
Component 1: <i>Strengthening and Expanding PSFM in PFAs</i>	S	S
Component 2: <i>Piloting Forest Landscape Management</i>	MS	MS
Component 3: <i>Enabling Legal and Regulatory Environment</i>	HS	HS
Component 4: <i>Project Management</i>	S	S
Safeguards	S	S
Financial Management	MS	MS
Procurement	MS	MS

#### 7. Key highlights from SUFORD-SU achievements include:

- Village Livelihood Development Grants (VLDGs) have been fully distributed to all 666 targeted villages, extension services provided to more than 21,000 village projects;
- Village poverty reduction and welfare improvements have been observed from the grants (see para 15 below for details)
- Production Forest Area (PFA) of 108,408 ha have been certified for forest management;

2. However, PSFM has not been implemented in Xaysomboun Province due to security issues, therefore, only 40 PFAs have PSFM Forest Management Plans.

3. Current PDO: "To execute REDD+ activities through participatory sustainable forest management in priority areas and to pilot forest landscape management in four provinces." The PDO will be revised under AF.

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- All Forest Restoration Grants (FRGs) have been released to Provincial Agriculture and Forestry Office (PAFOs) and about 97% funds have been spent on the ground, for a total restored area of 30,000 ha.
  - Village Forest Management Plans (VFMPs) of 31 villages were approved and signed;
  - The Prime Minister's logging and export bans (PMO-31 and PMO-15) continue to be effectively implemented so harvest-related employment and financial benefits from PSFM have not yet flowed to Village Forestry Committees (VFCs), although could in future if the ban is lifted for VFCs that are implementing participatory sustainable forest management (PSFM);
  - Loss of forest cover in PFAs had reduced from 0.3%/year 2010-2015 to 0.18 %/year 2015-2017 and in reference areas adjoining PFAs from 0.52%/year to 0.19%/year according to a special study conducted by SUFOR-SU in 2018;
  - Emissions reductions estimated 1.8 million tCO<sub>2</sub>e as of May 2019;
  - Forest inspection capacity of the MAF Department of Forest Inspection (DOFI) and provincial offices of forest inspection (POFIs) continued to increase, and there is an opportunity for strengthening inter-agency coordination as originally envisioned;
  - Contribution was made to preparing and finalizing the new Forestry Law (2019) and other sector related policies;
  - Concept and development of a methodology and framework for forest landscape management was introduced in 4 northern provinces<sup>5</sup>.

8. Implementation performance continues to be rated Satisfactory due to reaching nearly all results targets, including reduced deforestation and enhanced carbon storage, and confirmation of the 108,000 hectares (ha) certified as of August 2019. Implementation performance of each of the four components is summarized below, and further achievements in the past months have been constrained by the fact that project disbursement is 100% and project expenditure at national level is well over 99%. Sub-national level expenditures still remain to be made. A presentation by MAF on the mission findings, status, and challenges is provided in Annex 3.

9. **Component 1: Strengthening and Expanding PSFM in PFAs.** Component 1 performance is assessed as Satisfactory. Key achievements include: completion of PFA management plans and village livelihood development plans (VFMPs); full disbursement of forest restoration grants covering 30,000 ha of assisted natural regeneration (ANR); full disbursement of village livelihood development grants (VLDGs) in 666 villages and provision of extension services to more than 21,000 village projects; FSC Forest Management (FM) Certification in 50,874 ha in Dong Sithouane PFA, Savannakhet province and FSC Controlled Wood (CW) Certification in 57,534 ha in Nakathing and Dong Phousoi PFAs, Khammouane province; inputs to the new Forestry Law (2019, Land Law (2019) and supporting implementation regulations; and completion of the Borrowers Completion Report. Sustainability village livelihood activities/value chains is encouraging. Some more commercially viable value chains have been identified and have to be validated for enhancing agricultural extension support, establishing demonstration sites and scaling up with commercial linkages to local markets, especially with small and medium enterprises. These activities will be strengthened during AF, see Annex 4.

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<sup>5</sup> Bokeo, Luang Namtha, Oudomxai and Xaiyaboury provinces

10. **Component 2: Piloting Forest Landscape Management (FLM).** Component 2 performance rating is assessed as Moderately Satisfactory. Key achievement is the introduction of the concept and development of a methodology and framework for forest landscape management in Bokeo, Luang Namtha, Oudomxai and Xaiyaboury provinces, coordinated under the provincial REDD+ Task Forces and Provincial REDD+ Action Plans. The project piloted forest protection through improved forest law enforcement to reduce deforestation and forest degradation and illegal wood products and wildlife trade; forest landscape restoration through forest restoration grants; carbon enhancement through agroforestry sub-projects; and SFM through PSFM.

11. **Component 3: Enabling Legal and Regulatory Environment.** Component 3 performance rating remains Highly Satisfactory. Key achievements include: support to MAF/DOF and forestry related departments to promulgate the new Forestry Law 2019, implementation Decrees and Regulations, and the forest policy framework for PSFM; forest certification and TLAS; and development of reference emissions levels for REDD+. Additionally, financial and technical support was provided to forest law enforcement and combatting illegal trade of wood products and wildlife. There remains a need to strengthen interagency collaboration on forest law enforcement.

12. **Component 4: Project Management.** This component rating remains *Satisfactory*. Under the parent project the National Project Management Office (NPMO) coordinated project activities, implemented an efficient M&E system, built planning and analytical capacity to meet project objectives, assessed project impacts and supported learning for sector development. It is important to ensure that the SUFORD-SU National Project Management Office staffing is fully maintained to continue effective project management and implementation.

13. There is a need to resume implementation of SUFORD-SU activities as quickly as possible. Because SUFORD-SU is fully disbursed, implementation has stalled.

14. SUFORD-SU/FCPF REDD Coordination. Some SUFORD-SU activities have been identified by DOF and the Bank for funding through the REDD Readiness project that is also implemented by DOF. The REDD+ Division of DOF budgeted \$828,650 for immediate use by SUFORD-SU to implement urgent activities (consultancy recruitment, studies, operating costs, local level consultations in workshops and meetings etc.) required for a smooth transition to the AF-SUPPSFM. The REDD+ Division has already funded the third-party verification of forest management certification in July-August. This cooperation among closely related projects shows a good programmatic approach to forest sector development and implementation of the new Forestry Law. The Bank approved the REDD Readiness annual workplan and budget and the mission emphasized DOF and DPF to spend efficiently and swiftly according to the agreed REDD workplan and budget. The mission worked with the REDD Division and SUFORD-SU teams to prioritize the most urgent follow up activities and internal processes. FCPF/REDD+ initiatives are discussed in sections VI and VII below.

15. *M&E:* The M&E system has reported on all indicators. Findings from these monitoring activities informed a high-quality draft Borrower's Completion report (BCR) which was presented during the previous mission and informed the design of the Additional Financing. The final draft is now available, but will be updated toward the end of the new closing date under the AF implementation period.

16. *Knowledge generation.* Assessments of SUFORD-SU or related to SUFORD-SU and next-generation financing, have been completed or are underway (See Table 2).

**Table 3: Studies and assessments relevant to the Project**

<b>Special assessments</b>	<b>Status as of 20 October 2019</b>
1. Project-level REDD+ MRV and Forest Cover Assessment	Completed
2. Rapid assessment of environmental impacts	Dropped, lacking adequate resources
3. Rapid assessment of institutional development	Completed
4. Economic and financial analysis	Completed
5. Assessment of effectiveness of PSFM and VLD field operations	Completed
6. Study on customary land tenure among ethnic groups	Completed
7. Assessment of technical service quality	Preliminary findings available
8. Assessment of the impact of VLD Grants	Completed
9. Assessment of the impact of resettlement	Completed
10. Borrower's Completion Report	Completed
11. A Review into the Department of Forest Inspection, SUFORD-SU Component 3B Support Program: Forest Law Enforcement (October 2013-December 2018)	Completed
<b>Other Relevant Studies</b>	
12. MAF/WB/IFC: Partnerships and Opportunities for a New Green Forest Economy in Lao PDR: Sustaining Forest Landscapes and Livelihoods	Completed and printed
13. WB/FIP: A case study for the Forest Investment Program in Lao PDR: SUFORD-SU Project.	Completed
14. WB: Filling the Data Gap: FIP contribution to poverty alleviation and green growth. Evidence of Welfare Improvements for SUFORD-SU,	Final draft
15. WB: Lao PDR Strategic Forest Note	Underway
16. WB/DOF: Assessment of Status and Options for Management of Protection Forests and Village Forests	TORs

17. Evidence of Welfare Improvements for SUFORD-SU is one study in the above table that is relevant for SUFORD-SU implementation and the Additional Financing (see section IV below). An independent assessment (P167044) was carried out by the WB's Poverty Global Practice for SUFORD-SU examining its contributions to welfare improvement through its VLDG and PSFM activities. The assessment found that SUPSFM was successful in diversifying income generating activities. The additional income was mostly spent to fulfill households' needs such as food, housing or medical expenses. Further additional income was earned through forest restoration activities. In addition, despite not being directly advised by SUFORD-SU project staff, VLDGs at the village level have been implemented through a revolving fund, which brought benefits to a wider range of people by increasing social cohesion, financial security, sharing good practices, increased knowledge about micro-fund management, savings and financial management. The assessment also identified existing barriers to long term positive impacts of VLDGs. Notably, weaknesses in targeting with the exclusion of the poorest in some instances, might lead to potential welfare decline. Furthermore, design and implementation of VLDGs should be strengthened both in the choice of livelihoods options, identified as top-down and not enough linked to markets, as well as in follow up technical assistance provided after the disbursement of the grants, reported as insufficient by the assessment. Under AF-SUPSFM these lessons have been incorporated, with specific activities promoting extension and technical support including market linkages. Building capacity of district staff to deliver highly and more timely extension support to villagers will be also financed under AF-SUPSFM.

18. **Disbursement.** Client Connection reports that both IDA H8520 and TF15286 have been fully disbursed. US\$883,360 for TF15286 and US\$42,704 for IDA H8520 remained to be documented. The mission was informed that three withdrawal applications totaling US\$700,522 have been submitted for documentation, pending approval by MOF. The project also plans to continue to use existing DA and OA accounts during the implementation of AF.

19. **Financial Management.** Financial management performance is rated Moderately Satisfactory. IFR and audit reports have been submitted on time. As identified during the previous mission, the project will face shortages of funds to meet its total contractual obligations. Hence, the project plans to use the remaining funds to meet its contractual obligations for key consultants which have been committed up until December 2019. Part of project's remaining contractual commitments will be carried forward to the Additional Financing. The project is recommended to continue to closely monitor its remaining funds against commitments. Based on the transaction review, we are pleased to note that there are no major exceptions identified and no overdue outstanding invoices. All forest restoration grants and village livelihoods development grant transfers have been completed and remaining advances have been liquidated. The current audit contract includes the audit period of January to December 2019. Hence, the mission team recommends that the audit contract be extended to cover both the remaining period of the original financing and the AF period. It was agreed that the TOR be revised to include the additional audit period as well as to cover expenditure under the original financing. The TOR will be submitted to the Bank for no objection. The audit contract can then be extended.

20. **Procurement.** Overall, procurement performance of the project is considered Moderately Satisfactory. Contractual commitments are US\$ 11.305 million (100%). A total of 188 packages have been conducted (including 28 works, 32 goods, 3 non-consulting services and 125 consulting services packages). The World Bank has completed the project post review of the contracts awarded during the period from May 09, 2018 to March 29, 2019 that were not previously reviewed by the World Bank. The mission notes that the procurement was carried out in accordance with the Procurement Guidelines for procurement of goods, works and non-consulting services; and the procurement documents have been filed satisfactorily. The Bank will carry out project ex-post review for this fiscal year in November 2019 if there are sufficient contracts for post review.

21. **Safeguards.** The overall safeguard compliance rating is *Satisfactory*. The Project is considered to largely comply with the safeguard policy requirements provided in the Environmental and Social Management Framework (ESMF) and the Community Engagement Framework (CEF), which combines the Process Framework (PF) to manage access restriction and Ethnic Group Development Framework (EGDF), as well as a Resettlement Policy Framework (RPF). These safeguard policy frameworks have been effectively implemented and monitored with no major issues and grievances identified and reported.

22. **Environmental safeguards.** 31 pilot Village Forest Management Plans covering a total area of 10,750 ha of learning sites have been revised and approved at district level; however, the implementation has not yet started and will depend on budget availability. A draft VFMA template for all village forests was finalized by DOF and individual VFMA were prepared for each village. The draft VFMA were validated and signed by village representatives and by the district authorities. Meanwhile, the FLM Framework to be used as a prescriptive tool was completed in four provinces, namely Bokeo, Luang Namtha, Oudomxay, and Xayaboury. The maps of the FLM area are being refined to indicate the hotspots for deforestation. The FLM coordination mechanism under the provincial REDD+ Task Forces is planned to be established to ensure coordination with other players for future activities.

23. Promoting participatory SFM is a key objective of this project. Nevertheless, other development activities in the province have presented risks to the production forest areas (PFAs) currently supported under the project. It was reported and observed during an earlier visit to Thaphalaxay district in Savannakhet province that the development and urbanization surrounding Dong Ka Pho PFA has indirectly facilitated the encroachment into the forest area by local communities. The next step is for DOF to conduct an assessment, consultation with the households and other stakeholders involved, and prepare a map with the information on areas encroached to identify measures and a strategy for addressing the issue and managing the risks in this and other PFAs before the project closure.

24. *Social Safeguards.* CEF covering PF and EGDF has been largely complied with by the project. The target 666 villages were actively engaged in implementation of forest management and VLDG activities. Data on community participation in consultation and project activities (number of events and number of participants) disaggregated by gender and ethnicity have been collected and compiled in the project database along with written evidence on adequate employment and working conditions for village workers. Studies on customary tenure among ethnic groups and impact assessment on poverty reduction carried out reveal positive impacts resulted from project investments to provide alternative sources of livelihood and incomes for the target beneficiaries and reduce their dependency on forest resources.

25. During a July 2019 safeguard mission to PFAs Luang Namtha and Oudomxay provinces and at a consultation for the proposed AF in Bolikhamxay in September 2019 (See Section IV below), suggestions received from villagers were mainly around the need for further extension support to improve sustainability of livelihood activities (which is planned to be emphasized in the AF) and strengthened management of risks associated with other development activities to the PFAs. Good practice and lessons learned from CEF and VLDG implementation will be drawn through the impact assessments and adopted to succeeding projects.

26. A resettlement study has confirmed that VLD activities have not been implemented in a small number of villages that were relocated under GoL resettlement programs during the life of the project and that VLD funds were not used as compensation for livelihood impacts associated with the GoL resettlement program.

27. Next steps for SUFORD-SU implementation are summarized in Table 3 under Section VII.

#### **IV. APPRAISAL OF ADDITIONAL FINANCING (AF) TO SUFORD-SU<sup>6</sup> (170810)**

28. **Overall.** The mission has appraised and confirmed all aspects of the proposed Additional Financing and restructuring, including project development objective and changes to the results framework, closing date, risks, project components, activities and costs, implementation arrangements, fiduciary arrangements, and environmental and social arrangements including safeguards, and. The project processing schedule was also discussed and agreed upon. All project documentation has been revised accordingly, including the updated Project Paper which has been shared with the client. A summary of the current status is below, and details are found in Annex 11. Next steps are summarized in Table 3.2, Section VII.

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<sup>6</sup> Also known as SUPSFM, which is the legal name. SUFORD-SU is the popular name in use in Lao PDR.

29. **Extension of Closing Date:** The project closing date was agreed to be extended until August 31, 2021.

30. **Project Development Objectives (PDO).** The revised, more accurate and simplified PDO was confirmed and now reads “to strengthen participatory sustainable forest management in targeted production forest areas, and forest landscape management in targeted provinces.”

31. **Components and Activities.** The revised names for component 2 and 4 were agreed. All enhanced and scaled up activities were agreed. In particular, the refined definition and approval process for the Forest Landscape Investment Plans, which will be a component of, or input to, the “Provincial Forest Strategic Plan” as noted in the Forest Law Articles 12 and 13. It is envisioned that the Landscape Investment Plan would be endorsed by PAFO, DOF and ideally approved by the Provincial Governor.

32. **Results Framework.** Due to the extension of the closing date of the project, it was agreed to update all indicator targets dates until August 31, 2021. Most indicator values were also updated. One additional intermediate indicator and one intermediate sub-indicator were added:

- New indicator (component 2): Forest Landscape Investment Plans approved (Number);
- New sub-indicator (component 3): Investigation of breaches of forestry law and wildlife and aquatic law referred to criminal courts, proportion of which are joint inter-agency investigations (Percentage).

33. **DOF/NPMO staffing.** The Government agreed to increase the fiduciary capacity of the National Project Management Office (NPMO) by hiring or re-hiring personnel to be paid out of operating costs of the project and/or out of the closely aligned REDD Readiness TA project also implemented by DOF. Additional specialists will be hired on Terms of References and qualifications satisfactory to the Bank. The NPMO expedite consulting firm recruitment for implementation of AF-SUPFSM.

34. **Environmental and Social Safeguards.** The final updated Environmental and Social Impact Assessment (ESIA), Executive Summary of the ESIA, Environmental Management Plan (EMP), and Community Engagement Framework (CEF) were updated by the client, reviewed and approved by the Bank, and re-disclosed in country (Lao and English)<sup>7</sup> and through the Bank’s website (English). The revised and updated final Integrated Safeguards Data Sheet / Project Information Document (ISDS/PID) was also disclosed by the Bank. The Executive Summary of the ESIA was shared with the Secretariat of the Bank Board prior to appraisal.

35. DOF will do the due diligence to make sure the disclosure is followed through at the provincial level and summaries of the documents are made available in the local language building on the consultations described below.

36. A series of stakeholder consultations have been done for the parent project, and an additional consultation was also carried out in Bolikhamxay province for this AF-SUPFSM in September 2019, and a report provided to the Bank. The AF-SUPFSM project information and safeguard policy requirements to be used to address and mitigate the risks and impacts of the project were explained and discussed with participants. No major issues and concerns were raised during the consultation except requests for continued support for livelihood activities financed through VLDF (which the project is not financing any longer as they have been fully

<sup>7</sup> <http://dof.maf.gov.la/en/final-set-of-safeguard-documents-af-supsfm/>

disbursed under the parent project, and the AF-SUPFSM will focus on strengthening extension and market linkages for already disbursed livelihoods grants to boost livelihoods) and the ongoing forest conservation and management activities. The consultation confirms that broad community support is maintained for the parent project and the proposed AF and the participatory approaches and safeguard policies applied under the original project remain applicable for AF, even though the AF is not financing timber harvesting, village livelihoods development grants, or civil works. The AF is financing TA activities to boost sustainability and manage risks.

37. A brief user-friendly information leaflet prepared in Lao language for the AF-SUPFSM was distributed to local stakeholders (target villages, private investors and local authorities) prior to the consultation. Outcomes of the consultation have been reflected in the safeguard instruments: Environmental and Social Impact Assessment (ESIA), Environmental Management Plan (EMP) and Community Engagement Framework (CEF). These instruments have all been revised through an iterative process between the client and the Bank for application under AF-SUPFSM.

38. **Project Procurement Strategy for Development (PPSD).** The PPSD was approved by the Bank and a procurement plan was prepared by DOF and approved by the Bank on October 23, 2019.<sup>8</sup> The Bank has provided training on Procurement Regulations and Project Procurement Strategy for Development (PPSD) to the client's staff.

39. **Risks.** The overall project risk was agreed as Substantial. All other risks and mitigation measures were discussed and agreed upon.

40. **Financial management.** The senior and junior FM consultants currently being hired under the original financing will continue to be hired under the AF to provide additional support to the Finance Unit of DOF. However, the TOR of the Senior FM consultant will slightly be changed to include classroom training on selected FM topics. This will be part of the consultant's deliverable. Procedures for monitoring of funds availability will be included in the FMM to formalize the monitoring and ensure periodic monitoring of funds available. The IFR will continue to be prepared quarterly and submit to the Bank no later than 45 days after the end of each quarter. The IFR will report on receipts and expenditure for all sources of financing. Going forward, the IFR will also include the funds monitoring sheet as at the end of the quarter. An annual audit will also be required. It was also agreed that the same auditor will also audit the AF. The audit report will be subject to disclosure in accordance with the Bank's Policy on Access to Information.

41. The mission team also discussed retroactive financing for the AF. Under retroactive financing, the Bank can reimburse the government for pre-financing eligible expenditure incurred on or after a certain date up to the date of signing of the financing agreement. The expenditure must be eligible and procure in accordance with the Bank's procurement rules. The reimbursement can be up to 20% of the AF amount. It is not an additional amount but part of the AF. It was agreed that the same Designated Account in use for original financing will continue to be used for the AF. The combined ceiling for the DA will be US\$1 million.

42. **Project Paper, Financing Agreement, and Disbursement Letter.** The Bank team updated the Project Paper based on the mission discussions, and will expedite finalization of

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<sup>8</sup> The World Bank's procurement guidelines dated January 2011 and revised July 2014 are being applied under the parent project, whereas the Additional Finance, being prepared after July 2016, will follow the Procurement Regulations, dated July 2016, revised November 2017 and August 2018.

the other project documentation needed to negotiate as soon as possible given the short time frame for approval and the March 30, 2020, closing date of the parent project.

43. **Project delivery schedule.** The teams agreed to expeditiously prepare the project for presentation to the Board of World Bank Executive Directors scheduled for February 13, 2020, with a tentative Negotiations date to be found in November 2019. However, given recent changes in the staffing of the Ministry of Finance (MOF) and Prime Minister's Office, a rapid client authorization to negotiate would be challenging. The task team will seek the possibility of an earlier Board date if possible, given the need to ensure the AF is legally effective as soon as possible before the parent project is scheduled to close at the end of March 2020. As such it is important that the signing of the financing agreement by MOF take place as soon as possible after Board approval. It is important that there is no gap between the parent project closing date of March 30, 2020, and the date of the legal effectiveness of the AF. Legal effectiveness can be met quickly if administrative procedures are met by the Government in a timely manner.

## **V. ADVANCING THE POTENTIAL LANDSCAPES AND LIVELIHOODS PROJECT (LLL) (IDA/GEF)**

44. The concept for the proposed new investment operation, Lao Landscapes and Livelihoods project (LLL), was discussed. A focus was placed on refining and applying the draft criteria for identifying priority investment sites. A long list of possible priority landscapes were selected. The draft Discussion Note for Prioritizing Investment Sites is in Annex 6 This note was revised following the mission discussions and forms the basis for further dialogue. The World Bank aims to hold a Project Concept Note review meeting with Bank management in December 2019 after which formal preparation could begin. An identification mission will be prepared. To support this mission, further comments from DOF would be welcome on the revised Discussion Note.

## **VI. EMISSION REDUCTION PROGRAM PREPARATION AND REDD+ READINESS IMPLEMENTATION**

45. The mission appreciated the good progress being made in advancing the preparation of the Emission Reduction Payment Agreement (ERPA) with the Carbon Fund of the Bank's Forest Carbon Partnership Facility (FCPF). The REDD Readiness TA project is playing a key role in advancing this work. The mission reviewed the safeguards documents, the Benefit Sharing Plan, and monitoring plan, and supported the Government in the negotiation of the commercial terms for an ERPA with the FCPF Carbon Fund. Below are summaries of the current status of each major element.

46. **REDD+ Readiness grant implementation.** The mission also reviewed the REDD+ Readiness annual workplan and budget and procurement plan. As of October 28, 2019, there was US\$2,857,225 of undisbursed funds under the FCPF REDD Readiness grant. The mission referred to the previous May mission which highlighted the need to accelerate spending and emphasized the need for a realistic set of activities, as the grant will close in June 2020. Given the large number of workshops, it is necessary to identify options for executing capacity building activities including outsourcing to specialist service providers to ensure fitness for purpose (for Safeguards, and Benefit Sharing, for example). The mission advised the client to hire a firm to plan and carry out the many trainings intended by the REDD+ Division. The mission decided to raise the disbursement ceiling of the project bank accounts at the BoL and BCEL (central level) from \$800,000 to \$1,000,000 in BoL and from \$100,000 to \$160,000 BCEL (central level).

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47. **ER Program Safeguards.** The GoL has submitted advanced versions of the required safeguards documents (Strategic Environmental and Social Assessment, Environmental and Social Management Framework, Ethnic Group Planning Framework, Process Framework, and Resettlement Policy Framework). These documents are awaiting final review by the RSS. Any necessary additional revisions resulting from this review would need to be addressed in due course and prior to appraisal.

48. **ER Program Benefit Sharing Plan.** The GoL has prepared and submitted an updated version of the BSP on October 11, 2019, which has subsequently undergone quality enhancement review by Bank management. The review identified aspects of the BSP that require revisions before it can be submitted to the FCPF Carbon Fund Participants for review (a required step in the carbon Fund business process). Detailed feedback for revision in Annex 12. The Carbon Fund Participants need to confirm that they have no fundamental issues with the BSP prior to conclusion of appraisal.

49. The mission discussed the options for selection of the mechanism to distribute future payments from an Emission Reduction Payment Agreement (ERPA), which requires GoL decisions. Specifically, the selection of the Forest Protection Fund (FPF) as the institution to manage results-based payments will require the GoL to demonstrate that the FPF meets Bank fiduciary requirements and has the operational capacity and experience to manage the volume of funds expected from the ERPA. The mission acknowledged the need to develop the FPF to take due advantage of existing and emerging climate finance opportunities and to handle sector revenues in future. The Bank also agreed to include funding for development of the FPF in the REDD Readiness budget. The mission discussed the practicalities of the proposed institutional arrangements against the fiduciary requirements provided in Annex 13.

50. **ERPA.** Pre-negotiations have been initiated on the ERPA commercial terms, which are negotiated between MAF and the FCPF Management Team (FMT). The FMT provided feedback on the initial commercial terms put forward by MAF<sup>9</sup>. It is now critical that MAF responds swiftly with revised commercial terms that reduce the gap in expectations. Once ERPA pre-negotiations have yielded a mutually agreeable set of terms, and upon completion of appraisal, final (legal) ERPA negotiations can be held. Key aspects that MAF needs to consider in revising the commercial terms relate to price, advance payments, reporting periods, and legal documentation (ability for ER title transfer), followed by formal submission to the FMT.

51. **National Forest Monitoring System and MRV Functions.** The NFMS and its MRV functions are critical for the government to periodically report on emissions during the ERPA term. The current status and adequacy of the NFMS needs to be assessed against the anticipated reporting requirements under the ERPA. Specifically, it is necessary to fully outline the program of work for the national forest inventory and land use and land cover change mapping during the ERPA period. In addition, it is necessary to finalize the framework for monitoring of REDD+ policies and measures as well the formulation of the Safeguards Information System. Conceptually, these components would be integrated into the NFMS.

52. The mission discussed that the infrastructure at FIPD will soon be replaced and upgrade with funding from the Readiness Grant (budget allocation of \$350,000) and technical support for installation and data migration from JICA. This is an important step to rebuild the capacity of FIPD but additional work is required to clearly outline the future role of the FIPD with

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<sup>9</sup> Since ERPA pre-negotiations are confidential, the FMT shared the feedback directly with the REDD Division, which acts as the secretariat of the MAF-appointed ERPA negotiations team.

respect to the ER Program. Clarifying these roles and responsibilities will enable strategic allocation of resources to ensure adequate capacity.

## VII. NEXT STEPS AND AGREED ACTIONS

### 3.1 implementation of Scaling-Up Participatory Sustainable Forest Management Project (P130222)

Actions	Responsible	Date
<b>Project Management and Learning</b>		
Ensure NPMO is fully staffed.	NPMO	December 2019
Prepare knowledge products and datasets to include in the project management information system.	DOF	January 2020
Start implementation for activities that advance REDD+ objectives through SUFORD-SU as quickly as possible.	DOF	Immediately
<b>Components</b>		
Identify the key legal instruments (decrees, regulations, instructions etc) required to implement the articles of the new Forestry Law (2019) relevant for PSFM, REDD+, planted forests investment and FLM.	DOF	December 2019
Prepare technical and legal guidelines and field test for private sector investment in planted forests in PFAs;	DOF	January 2020
Review the procedures and thresholds for IEE, ESIA, ESMP to simplify and clarify for large scale planted forest investments in PFAs and ascertain the role of ISO and FM and CoC certification in principles standards and criteria for environmental and social safeguards procedures and monitoring.	MAF-MONRE	January 2020
Collaborate with FLEGT team on implementation regulations for TLAS.	NPMU	March 2020
Identify how to strengthen inter-agency collaboration in law enforcement at all levels and more effectively use the Lao-WEN network and multi- and bi-lateral agreements with ASEAN countries, CITES and ASEAN-WEN.	DOF, DOFI, Lao-WEN members	December 2019
<b>Safeguards</b>		
Appoint government staff in DOF to safeguards Focal Point (for AF-SUPSM and new Landscape Project).		
Conduct an assessment, consulting with households and other stakeholders involved, and prepare a map with the information on areas encroached to identify measures and a strategy for addressing the issue and managing the risks before the project closure.	DOF	January, 2020
Strengthen extension support for livelihood activities and, including management of risks associated with other development activities to the PFAs.	DOF	March, 2020
<b>Procurement</b>		
The Bank will carry out project ex-post review for this fiscal year in November 2019 if there are sufficient contracts for post review.	WB	November, 2019
<b>Financial Management</b>		
Submit IFR for the quarter ended September 30, 2019	NPMO	November 15, 2019
Submit audit report and management letter for FY19 (period from January 1 to December 31, 2019)	NPMO	June 30, 2020

Revise audit TORs to include additional audit period and to cover expenditure (this action is also included as part of AF appraisal mission action)	NPMO	October 31, 2020
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### 3.2 Appraisal of AF-SUPFSM (P170810)

Actions	Responsible	Date
Review negotiations package once received from the WB	MAF, MOF, MPI	November 2019
Negotiations	MOF, MAF	November 2019. Date TBC
Bank Board Approval	WB	February 13, 2020
Legal effectiveness (if administrative procedures met) It is important that there is no gap between the parent project closing March 30, 2020, and the date of the legal effectiveness of the AF.	GOL	March 2020
<b>Fiduciary</b>		
NPMO hiring of individual consultants to be completed (SUFORD-SU, AF SUPFSM, new Lao Landscape and Livelihoods project): all relevant positions – procurement, financial management and safeguards	DOF	15 November 2019
Safeguards focal point to be appointed by DOF among government staff (SUFORD-SU, AF SUPFSM, new Lao Landscape and Livelihoods project)	DoF	15 November 2019
Expedite consulting firm recruitment for implementation of AF-SUPFSM	DOF	31 Oct 2019
<b>Financial Management</b>		
Include Senior and Junior FM consultant position in the AF procurement plan as continuing of services (same was done for procurement position and procurement plan was approved).	DOF	Immediately
Include external audit in the AF procurement plan as continuing of service.	DOF	Immediately
Revise Senior Forest Management consultants TOR and submit to Bank team.	DOF	October 31, 2019
Revise audit TOR to include the AF and additional audit period and submit to the Bank.	DOF	October 31, 2019
Revise Forest Management Manual (FMM) to include fund monitoring procedure and submit to Bank.	DOF	October 31, 2019
<b>Component 1-3 activities under SUFORD-SU that are enhanced under AF</b>		
Prepare internal audits and workshops to achieve 230,000 ha of FSC FM certification.	DOF	On-going
Remeasure PSPs in PFAs and in forest restoration areas	DOF	On-going
Prepare template and TORs for Forest Landscape Investment Plan (Khammouane example).	DOF	Jan 2020
Identify VFM success stories, prepare learning sites, extension and training materials.	DOF	Jan 2020
Select 5 VLD demonstration sites, 5 significant products and negotiate 10 farmer-trader partnership agreements.	DOF	March 2020
Identify key legal instruments to implement articles of the new 2019 Forestry Law related to PSFM, REDD+ and FLM that the AF and/or 3rd Green Growth Development Policy Operation (GGDPO-3) could support.	DOF	December 2020

Prepare a template agreement for the GoL – private sector partnerships in planted forest investment.	MAF-MONRE	March 2020
Prepare bidding documents for trucks	DOF	January 2020

### 3.3 Advance the proposed Lao Landscapes and Livelihoods Project (LLL) (P170559)

Actions	Responsible	Date
Comments received from DOF on the revised Discussion Note for Prioritizing Investment Sites (Annex 6)	DOF	November 15, 2019
Data on Land Use and Forest Categories to be shared by FIPD for improved evidence base in site prioritization	FIPD	November 8, 2019
After WB Project Concept Note review meeting, organize identification mission	DOF/WB	December 15, 2019

### 3.4 Implementation support for FCPF Readiness Grant (P125082) and Preparation of the Lao PDR Emissions Reduction Program (P165751)

Actions	Responsible	Date
Decision to raise the disbursement ceiling of the project bank accounts at the BoL and BCEL (central level) from \$800,000 to \$1,000,000 in BoL and from \$100,000 to \$160,000 BCEL (central level).	WB	November 15, 2019
Finalize specific trainings to be carried out between now and June 2020, including the topics of training, participants, locations, service providers, and budgets	REDD+ Division	November 8, 2019
Accelerate approvals of procurements and expenditures for activities in the REDD workplan to be implemented by the SUFORD-SU team at DOF	REDD+ Division and Finance Division of DOF	November 5, 2019
Safeguards Package: Finalize review of current versions safeguards document and approve disclosure	WB	November 8, 2019
Benefit Sharing Plan: Address Bank comments and resubmit	REDD+ Division PMU	November 22, 2019
MMR: Develop an ERP Measurement Monitoring, and Reporting Action Plan in line with the requirements of the Carbon methodological framework as well national requirements (e.g. GHG-I reporting requirements)	REDD+ Division with support from JICA and WB	December 5, 2019
ERPA Term Sheet: Revise position based on response from FMT on GOL's initial proposal of commercial terms.	GOL's ERPA Negotiation Team and Secretariat	November 15, 2019

**List of Annexes**

1. List of officials met
2. Mission agenda
3. SUFORD-SU Aide Memoire, May 2019
4. Summary of activities under AF-SUPFSM
5. SUFORD-SU Results Framework and Monitoring Indicators, May 2019
6. Prioritization Framework for selecting intervention sites in Landscapes and Livelihoods
7. Readiness for implementing activities to be financed by the AF-SUPFSM
8. Summary of Sweden-Laos Plantation Seminar, 22 Oct 2019
9. Summary of Meeting with Lao Planted Forest Products (LPFP) Working Group Members, October 2019
10. Draft Operational Guidance for VLD activities and linking farmer groups to markets.
11. Appraisal Summary for AF-SUPFSM
12. Key items required for an advanced BSP
13. Annex 13: Fiduciary Assessment templates

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**Annex 1: List of officials met**

<b>o</b>	<b>Name and surnames</b>	<b>Positions</b>	<b>Organizations</b>
1.	Mr. Thongphat Vongmany	Vice-Minister	MAF
2.	Mr. Sousath Sayakoummane	DG	DOF
3.	Mr. Somchay Sanonty	DDG	DOF
4.	Mr. Khamkoun Phisavanh	Deputy Head	Production Forest
5.	Mr. Khamsene Ounekham	Head	REDD+ Division
6.	Mr. Esa Puustjärvi	CTA	SUFORD SU NPMO
7.	Mr. Saengduen Phuangphidok	Head of Division	Production Forest
8.	Mr. Bounhom Phothimath	Social safeguards	REDD Division (FCPF)
9.	Mr. Keokolakot Chanthavixay	Deputy Head	Wildlife Management
10.	Ms. Kinnalone Phommasack	Deputy Head	REDD+ Division
11.	Mr. Vilaphon Chanthavisouk	Deputy Head	Legislation Division
12.	Mr. Latthana Thammavongsa	Deputy Head	Production Forest
13.	Ms. Phetsomphone Vonghachak	Head	FPD Office
14.	Mr. Phonesvan Manivong	Deputy Head	DOF
15.	Mr. Oupakhone Alounsavat	Head	VF and NTFP
16.	Mr. Sangouane Chindarath	Finance Specialist	SUFORD
17.	Mr. Thongsanthi Bounthivongsaly	PMA	FEFP
18.	Mr. Bounpone Sengthong	DDG	DOF
19.	Ms. Syphavanh Inthapatha	DDG	PAMD
20.	Ms. Khamnouy Chanthalasy	Deputy Director	VF and NTFPS
21.	Ms. Latsamay Sylavong	Adviser	PAMD
22.	Mr. Sali Langsavang	Head	Legislation Office
23.	Mr. Somphan Thammavongsa	Head	Protection Forest
24.	Mr. Somphet Phangbupha	Deputy Head	DALaM
25.	Mr. Phonthong Chandalaphet	Deputy Head	DoL (MoNRE)
26.	Mr. Vanphone Mixay		Import & Export
27.	Ms. Samnak Sisavath	Deputy Head	REED+ Division
28.	Mr. Somchay Inthavong	Deputy Head	Rural Development Division
29.	Mr. Buaphet Sysaketh	NC on Forest	SUFORD SU NPMO
30.	Mr. Oudome Sipaseuth	DDG	DOFI
31.	Mr. Somphathai Liengsone	Head	DOP (MoF)
32.	Mr. Vongvilay Vongkhamsao	Director	Forestry Research Centre
33.	Mr. Khanxay Xayyong	Deputy Head	Extension Division

**Annex 2: Mission agenda**

Date	Activities	Venue/Presenter /Comments
<b>Wed, 16 Oct</b>		
9:00-10:00	<b>Mission kick off briefing:</b> AF-SUPFSM appraisal and SUFORD-SU implementation support	DOF DG
<b>Appraisal of AF-SUPFSM</b>		
10.30-12.00	Project presentation Q&A	DOF Meeting Room DOF presents
12.00-13.00	Lunch	TBD
13.00-14.00	Validation of Project design: Objectives and Components	DOF Meeting Room DOF presents
14.00-14.30	Validation of Project design: Results Framework	DOF Meeting Room DOF presents
14.30-15.00	Validation of Project design: <ul style="list-style-type: none"> <li>• Annual Workplan and Budget</li> <li>• Procurement Strategy and Plan</li> </ul>	DOF Meeting Room DOF presents
15.00-15.30	Validation of Project design: Financial Management	DOF Meeting Room DOF presents
15.30-16.00	Validation of Project design: Risks	DOF Meeting Room DOF presents on the project paper
16.00-17.00	Validation of Project design: Safeguards	DOF Meeting Room DOF presents ESIA, CEF, EMP
17.00-17.30	Next Steps	DOF Meeting Room World Bank presents
<b>Thu, 17 Oct</b>		
09.00-12.00	Update of AF-SUPFSM documentation	DOF Meeting Room
Afternoon	Continued	DOF Meeting Room
<b>Fri, 18 Oct</b>		
9.00-12.00	Update of AF-SUPFSM documentation	DOF Meeting Room
Afternoon	Continued	DOF Meeting Room
<b>Sat, 19 Oct</b> <b>FREE</b>		
<b>Sun, 20 Oct</b> <b>FREE</b>		
<b>Mon, 21 Oct</b>		
	<b>SUFORD-SU Implementation Support, and REDD+ Readiness and ER Program</b>	

<b>Date</b>	<b>Activities</b>	<b>Venue/Presenter /Comments</b>
8.30-9.00	Briefing with H.E. Vice Minister of Agriculture and Forestry	
9.00-10.00	Overview of results, challenges, and next steps for SUFORD-SU	<b>DOF meeting room</b> DOF presents
9.30-12.30 Parallel Session	REDD+ FCPF Grant AWPB Finalization - IT Budget - Workshops and training preparation	REDD+ Division DOF, WB, TA
10.00-11.00	SUFORD-SU: Review of latest Aide Memoire and update on status of agreed activities	<b>DOF meeting room</b> DOF presents on latest Aide Memoire and completed activities
11.00-12.00	SUFORD-SU: Transition to AF	<b>DOF meeting room</b> DOF presents
12.00-13.00	Lunch	TBD
13.00-14.00	SUFORD-SU: Safeguards implementation	<b>DOF meeting room</b> DOF presents
14.00-15.00	SUFORD-SU: Procurement implementation	<b>DOF meeting room</b> DOF presents
15.00-16.00	SUFORD-SU: Financial management implementation	<b>DOF meeting room</b> DOF presents
<b>Tue, 22 Oct</b>		
9.00-10.30	Discussion on forest management model for areas under Investment Plans	<b>SUFORD-SU Meeting Room</b> DOF, WB and TA WB-DOF presents
10.40-12.30	Discussion on approaches for developing Landscape Investment Plans supported under AF-SUPFSM	<b>SUFORD-SU Meeting Room</b> DOF, WB and TA WB presents
12.30-14.00	Lunch	
13.00-17.30	Sweden – Laos Sustainable Forestry Seminar	<b>Crown Plaza Hotel</b>
14.00-16.30 Parallel session	REDD+ READINESS and ER Program: Review of Safeguards Documents	<b>REDD+ Division</b> DOF, WB, TA
<b>Wed, 23 Oct</b>		
9.00-10.00	REDD+ FCPF Grant AWPB Finalization (continued) Training plan	<b>DOF</b> DOF, WB, TA
10.00-12.30	Landscapes and Livelihoods Project: Discussion on priority landscapes, provinces, and districts	<b>DOF Meeting Room</b> DOF, WB and TA WB Presents
14:00-16.30	REDD+ READINESS and ER Program: Review of Benefit Sharing Plan and monitoring plan	<b>REDD+ Division</b> DOF, WB, TA, FPF
<b>Thu, 24 Oct</b>		

Date	Activities	Venue/Presenter /Comments
9.00 – 12.00	REDD+ READINESS and ER Program: Review of ERPA negotiation package	<b>DOF Meeting Room</b> DOF, WB, TA ERPA Negotiation Team
12.00 – 13.00	REDD+ READINESS and ER Program: Dialogue with private sector on possible engagements in the ERP and other opportunities for carbon trading.	<b>DOF Meeting Room</b> REDD+ division, TA, WB, Stora Enso, Burapa, Mekon Timber Plantations
13.30- 16.30	REDD+ READINESS and ER Program: Lao PDR NFMS/MRV - Status Update and Stock take	<b>DOF Meeting Room</b> REDD+ Division, WB, JICA, FIPD everyone presents.
	Aide Memoire Preparation	
<b>Fri, 25 Oct</b>		
<b>Joint Mission Wrap-Up</b>		
10.00- 10.15	Opening Remarks	<b>DOF Meeting Room</b> Chair
10.15- 11.30	Presentation of main findings by the mission	Mr. Bounpone Sengthong, National Coordinator SUFORD-SU Mr. Khamsene Ounekham, Project Coordinator REDD+
11.30- 11.45	Coffee	
11.45- 12.15	Discussion	All
12.15- 12.30	Concluding Remarks	Chair
13.00 – 15.00	DOF Emission Reduction Program - Progress Update for Development Partners (ERPA, Safeguards/BSP Framework)	<b>World Bank – First Floor</b> DOF, WB, GIZ, ADB, IFAD, BCC, FAO, JICA, EU, KFW, ICBF

**Annex 3: SUFORD-SU Aide Memoire May 2019**

Actions	Responsible	Due Date	Status
<b>Key Project Activities</b>			
FCPF REDD Readiness and SUFORD PMUs to develop a joint workplan	MAF/DOF	June 2019	Done
Implement FSC FM and CW certification from 108,000 ha to 230,000 ha	NPMO	December 31, 2020	Postponed to next audit in fall 2020
Prepare a roadmap of criteria and pre-conditions for lifting the logging ban in PFAs	NPMO	October 31, 2019	Not started
Complete FRG activities in Oudomxay, Vientiane, Khammouane, Xekong and Champassak Provinces to utilize all FRG funds	DOF, PFS, DFU, Villages	June 30, 2019	Done
Strengthen extension services to support VLD activities	DOF, PFS, DFU, Villages	On-going	Not started, no funds available
Incorporate lessons learned from VLD and PSFM into project extension and future projects	DOF, PFS, DFU, Villages	June 30, 2019	Incorporated in work plan
Continue to monitor PSPs in PFAs in control and forest restoration areas	DOF, DFU, Villagers	On-going	Not started, no funds available
Test FLM framework as basis for establishing priorities for the new Landscapes and Livelihoods project	DOF, PFS, DFU, Villages	October 31, 2019	Not started, no funds available
SUFORD-AF should continue the excellent ongoing work on strengthen the legal and regulatory frameworks for implementation of PSFM and REDD+	DOF	October 31, 2019	Support to Forestry Law preparation provided
SUFORD, in collaboration with DOFI and related enforcement agencies, to strengthen the "Report on the performance of DOFI" to include a section on compliance checking, and monitoring extractions, and transportation of timber from salvage logging, including an assessment of the enforcement agencies legal framework.	DOFI	October 31, 2019	Not started, no funds available
Village development grants should be linked to biodiversity threat assessments (ranking threats) mitigation including the preparation of village conservation agreements. This would assist the development of informant networks.	DOFI	June 2019	Not started, no funds available (feasible?)
Include LaoWEN minutes in annual report	DOFI, Lao-WEN	Next AR	Not started, no annual report yet
<b>Safeguards</b>			
Collect and map out the information regarding community members encroachment in PFAs before the project closure and identify proper measures addressing future similar problem in all project's areas.	DOF, PAFO, DAFO	July 12, 2019 or as soon as possible.	Not started, no funds available (feasible?)
Staff needs to be appointed to revise the safeguards documents all reports in preparation for AF	MAF/DOF	July 8, 2019 or as soon as possible.	Done
Continued technical support from DOF, PAFOs, DAFOs and concerned agencies (LWU, LFND) is required to strengthen the target villages particularly ethnic groups to sustain and scale up their VLDG activities and achievements beyond the project lifetime.	DOF, PAFOs, DAFO	Beyond the project lifetime.	Not started, no funds available
Send reports on customary land tenure among ethnic groups and poverty assessment.	MAF/DOF	July 19, 2019	Not finished, no funds available
<b>Financial Management</b>			
Review and revise the calculation of funds available and share with the Bank team	NPMO	Immediately	Done
Submit WA to document expenditure not yet documented	NPMO	As soon as possible	Done
Follow up and pay outstanding invoices as soon as funding is available	NPMO	As soon as funding is available	Done
<b>Next-generation of financing</b>			
MAF's regular verbal request(s) for (i) a possible landscapes and livelihoods project and (ii) additional financing for SUFORD-SU should be formalized in request letters to the Bank	MAF, in coordination with MOF	Immediately	Done

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**Annex 4:**  
**Summary of activities under AF-SUPFSM**

1. **Project Development Objective.** The PDO of the AF-SUPFSM project was revised from that in the parent project for simplicity, precision, measurability, and to more closely align with the components. The revised PDO is “*to strengthen participatory sustainable forest management in targeted production forest areas, and forest landscape management in targeted provinces.*” The definitions of “participatory sustainable forest management (PSFM)” and “forest landscape management (FLM)” remain the same as in the parent.
2. **Component 1: Strengthening and Expanding PSFM in PFAs.** The aim of this component is the same as originally planned, to strengthen and expand PSFM in PFA. The component has two activity groups: (a) Community Engagement in Participatory Sustainable Forest Management (PSFM); and (b) Village Livelihoods Development (VLD).
3. **AF-SUPFSM Activity Group 1: Community Engagement in PSFM.** AF activities are to strengthen DOF capacity to conduct internal audits to raise SFM standards to prepare to achieve the target of 230,000 ha of FSC certified forest. By Oct 2020 it is planned to scale up Forest Stewardship Council Forest Management (FSC FM) certification in Dong Sithouane PFA, Savannakhet province; and Dong Phousoi and Nakathing PFA, in Khammouane province. FSC CW certification will be scaled up in Phak Beuak PFA, Bolikhamxay province; Nongpet Naseng PFA, Vientiane province; Nakathing and Dong Phousoi PFAs in Khammouane province; and Dong Kapho PFA in Savannakhet province. If the logging ban is lifted in PFAs support and training will be targeted to wood processing companies to achieve chain of custody (CoC) certification. As a complement to forest certification, the AF will support DOF and the FLEGT program to revise the regulatory framework for SFM and field test implementation of the TLAS (refer to sub-component 3B).
4. AF activities will enhance DOF capacity to prepare and field test guidelines to clarify procedures for private sector investment in plantation forests in PFAs for criteria for site selection of forestlands suitable for plantation forest developments, forest survey, demarcation and delineation of boundaries, land-use planning, environmental and social safeguards and baseline studies (refer to sub-component 3A). AF will scale up remeasurement of Permanent Sample Plots (PSPs) established during SUPFSM to monitor growth, yield, regeneration, biodiversity, climate change mitigation and other ecosystem services. To ensure that knowledge products and datasets from the SUPFSM parent project are maintained and expanded, the AF will ensure this information will be systematically compiled, digitized and integrated into a management information system for retrieval as required within and beyond the project.
5. AF activities will build upon the 31 VFMPs prepared in the SUPFSM parent project in Bokeo and Luang Namtha provinces to support the maintenance and enhanced management of successes in selected sites and develop them into demonstration sites suitable for training and awareness raising and potential future village forest investments.
6. **AF-SUPFSM Activity Group 2: Village Livelihoods Development.** AF activities will provide enhanced extension and outreach, including farmer to farmer exchanges for 2000 households in selected areas and activities that have a number of recipients and contribute to forestry objectives and strengthen livelihoods conditions, such as, forest tea, cardamom, rattan, broom grass and May Tiew (white charcoal). From the VLD activities success stories will be documented and learning and extension sites for training and awareness raising will be showcased and maintained for replication to other areas. In selected sites and products, support will be provided to prepare and disseminate handbooks and introduce farmers to traders and processing enterprises to increase their productivity, product packaging and efficiency of value chains. The AF aim is to achieve 10 demonstration sites with 5 significant products and negotiate 10 partnership agreements between farmers and enterprises or traders.

8. **Component 2: Forest Landscape Management (FLM).** The aim of this component, as originally planned, is to pilot forest landscape management.
9. ***AF-SUPFSM Establishing Forest Landscape Investment Plans Activities.*** AF activities are to identify and convene practical and simplified forest landscape investment plans and enhance inter-sectoral coordination to address the different forest land-uses throughout the forest landscape (PFAs, PtFAs, CFAs/NPAs, Village Forests, plantation forests, agroforestry); prepare assessments to support forest landscape investment development and minimize and mitigate negative social and environmental impacts; support dialogue, consultations and multi-sector platforms on landscapes, land-use, REDD+ and Provincial Forestry Strategic Plans; develop an integrated monitoring framework across land-uses in the forest landscape; and build institutional and leadership capacity for landscape-level action and management.
10. **Component 3: Enabling Legal and Regulatory Environment.** The aim of the component is the same as originally planned, which is to strengthen the legal and regulatory environment for PSFM as well as enabling more effective forest law enforcement.
11. ***AF-SUPFSM Sub-component 3A: Strengthening Legal and Regulatory Frameworks.*** AF activities are to enhance support to on-going strengthening of the legal and regulatory frameworks for implementation of the Forestry Law (2019 particularly for PSFM and REDD+ and frameworks for FLM and the enabling environment for private sector plantation forest investments in PFAs that are socially, environmentally and economically sustainable. The DG, DOF and members of the Lao Plantation forest Products Working Group requested the AF project to prepare technical and legal guidelines and field test for private sector investment in plantation forests in PFAs, including to clarify criteria and procedures for site selection of forestlands suitable for plantation forest developments, forest survey, designation and delineation of boundaries, land-use planning, environmental and social safeguards and baseline studies. They additionally requested the AF project to prepare simplified and clarified procedures and guidelines for ESIA, ESMP and IEE requirements in planning for plantation forest developments and take account of ISO and FM certification standards and criteria that reflect international best practices. The DG DOF requested the AF project urgently support preparation of a model GoL - private company partnership agreement detailing the terms and conditions for social, environmental, economic, risk, cost, benefit sharing and other dimensions of plantation forest investment in PFAs. As requested by DOF and the FLEGT Standing Office, the AF project will provide enhanced support for further development of the legal framework for TLAS for implementation of the VPA between GoL and the EU.
12. ***AF-SUPFSM Sub-component 3B: Strengthening Forest Law Enforcement and Governance.*** AF activities will continue to support DOFI and other borrower agencies to detect, disrupt, dismantle and prosecute forest and wildlife related crimes at national and provincial levels with greater focus on strengthening collaboration with law enforcement partners such as the environmental police and customs to transition to intelligence-led law enforcement. AF activities will enhance DOFI capacity to: implement Strategic and Tactical Patrol Program (STEPP) and Start Phone Information Reporting and Intelligence Tracking (SPIRIT); adopt advanced techniques and undertake inter-agency law enforcement training at central, provincial and district levels; strengthen the Lao-WEN network to jointly host events to revise mandates and streamline cooperation; undertake joint multi-agency operations with other law enforcement agencies; strengthen the Information Management System and harmonize inventories and law enforcement systems between different law enforcement agencies, particularly the environmental police; and enhance GoL capacity to engage in multi- and bi-lateral agreements, with ASEAN countries, including collaboration through the Association of South East Asian Nations' Wildlife Enforcement Network (ASEAN-WEN) and CITES.
13. **Component 4: Project Management, Learning and Investment Development.** The aim of component 4 is the same as the parent project planned, to manage and coordinate all project related activities including project management, monitoring, reporting, evaluation, project planning and

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procurement. In the AF, the name of the component has been revised to reflect the emphasis on learning and investment development that go beyond conventional project management.

- 14. AF-SUPFSM Activities: Project Management, Learning and Investment Development.** The focus of the AF will be on facilitating and attracting new investment into the forest landscape and consolidating learning from project activities. Overall guidance and decision-making for AF will be provided by joint (the World Bank and GoL representatives) implementation support missions in May 2020, November 2020 and May 2021; regular technical, financial and procurement follow-up missions will be done in central and provincial levels. AF will oversee continued operation costs of implementation, coordination and supervision; engagement in dialogue with stakeholders and sectors on investment prioritization and development; institutionalization of knowledge for investment and policy development; maintenance of the project implementation unit technical assistance team; and replacement of vehicles for field supervision. AF will provide general support to project management through workshops, meetings and dissemination of relevant documents. AF will compile joint mission progress reports (early semi-annual reports) for the May 2020, November 2020 and May 2021 missions.
- 15.** The AF technical assistance input was estimated at 155.5 months, with company consultants estimated at 49.5 months and individual consultants 106.0 months. National consultants were estimated at 112 months and international consultants, 43.5 months. Every effort should be made to match the GoL needs, with targeted availability of funds and specialist expertise.
- 16.** Without the AF-SUPFSM project, the opportunity to assist GoL to steer a path towards PSFM, FLM towards a more green economy will be jeopardized. The GoL is facing unprecedented pressure from proposals from international companies to invest in about 300,000 ha of plantation forests and the wood processing industries dependent upon them. The opportunities are immense for diversified forest landscapes, reduced disaster risk reduction, mitigation of climate change, rural employment, community benefits, wood products trade and export earnings. However, there are immense environmental and social risks if international best practices demonstrated from other countries are not adopted - the selection of reputable companies; quality of public-private partnership agreements and field standards; compliance with environmental and social safeguards; adoption of certification for proof of sustainability and legality; and institutional strengthening and technical and extension capacity building. The World Bank Group has been the primary support to the GoL, working with the private sector and other stakeholders in strengthening of the policy, legal, regulatory framework, providing advice on legal agreements, technical guidelines, and tools to improve best practices standards, institutional strengthening and capacity building for forest restoration and reforestation but further work is necessary towards field implementation and institutional operationalization.

**Annex 5:  
SUFORD-SU Results Framework and Monitoring Indicators  
Country: Lao PDR**

**(Status is the same as the status of the mission in May 2019 due to no budget for implementation)**

Notes: All indicators refer to support provided by the project between 2013 – August 2019 and are cumulative, unless otherwise noted. Baseline dates vary depending on the indicator.

**Project Development Objective**

**To execute REDD+ activities through participatory sustainable forest management in priority areas and to pilot forest landscape management in four provinces**

**PDO Indicators**

Indicator Name	Baseline	Cumulative Target Values (unless otherwise noted)						
		2014	2015	2016	2017	2018	2019	End Target August 2019
<b>Revised indicator 1. (replaces original indicator 1)</b> Forest area brought under management plans (Ha)	0 (2013)	-	-	975 000	975 000	975 000	975 000	975 000
<i>Achievements:</i>	0	-	-	976 211	976 211	976 211		

**Indicator definition:** This indicator measures the Production Forest Area where government-approved PSFM plans prepared with support from SUFORD-SU are under implementation.

Note: The project aims to meet the target by preparing PSFM plans for Production Forest Areas inside the project area. No other forestland areas such as Protection Forests will be covered by PSFM plans, as they are excluded from project scope.

**Methodology:** The total area under PSFM plans will be determined by summing up the areas provided in individual PSFM plans prepared with support from SUFORD-SU.

**Frequency:** Annual starting year 3

**Data source:** Annual Report

**Responsibility:** DOF

<b>Revised indicator 2.</b> (replaces original indicator 2) Forest area brought under forest landscape management plans (Ha)	0 (2013)	-	-	-	2 680 000	2 680 000	2 680 000	2 680 000
<i>Achievements:</i>	0	-	-	-	3 380 000	3 380 000		

**Indicator definition:** This indicator measures the area under plans for Forest Landscape Management (FLM) in Bokeo, Luang Namtha, Oudomxay and Xayaboury provinces. FLM refers to all forest management and land use activities done in the FLM area in a manner where activities impacting across management entities are conducted in a coordinated manner. The Forest Landscape Management Area (FLMA) comprises the total area of three Forest Categories and the “good” forests outside them. The FLMA is defined at the provincial level. The three Forest Categories include Production Forest Areas (PFA), Protection Forests (PF) National Protected Areas (NPAs), Protection Forests at Provincial and District Levels as well as Protected Areas at Provincial and District Levels. “Good” forests are defined as areas with (i) a clearly detectable canopy in aerial photographs, and (ii) no signs of large-scale shifting cultivation or deforestation since 2000. In addition, small unconnected forest patches surrounded by other land uses (fallow, agriculture, shifting, etc.) are excluded. “Pilots” refers to planning FLM in the first four provinces (see above).

**Methodology:** The forest landscape management area will be defined through remote sensing, field checks and consultations with stakeholders.

**Frequency:** Annual starting year 4

*Data source:* Annual Report

*Responsibility:* DOF

<b>Revised indicator 3</b> (replaces original indicator 3) People in forest & adjacent community with monetary/ non-monetary benefit from interventions (Number)	0 (2013)	-	-	-	50 000	115 000	115 000	115 000
<i>Achievements:</i>	0	-	-	-	71 000	117 400		

**Indicator definition:** The number of people in households implementing village sub-projects with funds available from Village Livelihood Development Grants provided by SUFORD-SU.

**Subproject indicators 3a and 3b:** Same as above.

**Methodology:** The number of beneficiary households is derived from project records. The number of people is estimated by multiplying the number of beneficiary households with the average number of people in rural households according to 2015 census. The number of beneficiaries will be cumulative until the maximum number of beneficiaries allowed by the available funds is reached. Thereafter the number of beneficiaries is expected to remain largely unchanged since they continue to benefit each subsequent year. The theory of change of the project centers on the need for both benefits from PSFM and alternative livelihoods that can reduce pressure on forest and land.

**Frequency:** Annual starting year 4

*Data source:* Annual Report

*Responsibility:* DOF

<b>Revised sub-indicator 3a.</b> People in targeted forest & adjacent community with increased benefits from interventions-female (Number)	0 (2013)	-	-	-	20 000	53 000	53 000	53 000
<i>Achievements:</i>	0	-	-	-	32 000	58 700		
<b>Revised sub-indicator 3b.</b> People in targeted forest & adjacent community with increased benefit from interventions - Ethnic minority/indigenous (Number)	0 (2013)	-	-	-	30 000	80 000	80 000	80 000
<i>Achievements:</i>	0	-	-	-	26 000	90 500		
<b>New indicator 4 (replaces original indicator 4)</b> Enhanced carbon storage from improved forest protection and restoration. (tCO <sub>2</sub> e)	0 (2013)	-	-	-	0	0	14 227	14 227
<i>Achievements:</i>	0	-	-	-	3 500	18 500		
<b>Indicator definition:</b> Enhanced carbon storage (i.e., removal of carbon from atmosphere and storage in biomass) from improved forest protection and restoration (i.e., planting, regeneration) in Production Forest Areas covered by the project.								
<b>Methodology:</b> The potential to enhance carbon storage is estimated based on theoretical models of biomass growth and carbon sequestration in agroforestry sub-projects established with funds from VLD Grants. Based on the available models the sequestration with all agroforestry sub-								

projects under implementation is established at 2,500 tCO<sub>2</sub>e per month. The total sequestration is established by multiplying the monthly sequestered amount by the average duration of agroforestry sub-projects and percentage of sub-projects that are under implementation at the time of estimation. The average duration and percentage of sub-projects under implementation are estimated by project staff drawing on project records.

**Frequency:** Closing

**Data source:** MRV Report

**Responsibility:** DOF

<b>Revised indicator 5</b> (replaces original indicator 5) Reduced emissions from deforestation and forest degradation (tCO <sub>2</sub> e)	0 (2013)	-	-	-	0	0	121 407	121 407
<i>Achievements:</i>	0	-	-	-	1 800 000	1 800 000		

**Indicator definition:** Reduction of emissions from deforestation in the Production Forest Areas targeted by the project, and from forest degradation in the entire country.

**Methodology:** The emissions from forest degradation are established by estimating changes in the volume of illegal logging and the associated emissions due to more efficient law enforcement.

The amount of illegal logging is established by working backwards from the changes in customs statistics in key export countries (Vietnam and China) to theoretical logging sites. The proportion of the change attributable to SUFORD-SU (40%) is assumed to be proportionate to the amount of funds provided by the project of the entire forest law enforcement budget in the country in 2016, which is when the key piece of legislation the Prime Minister's Order No. 15 (PMO 15) on *Strengthening the Strictness of Timber Harvest Management and Inspection, Timber Transport and Business* was issued.

The amount of emissions is estimated using standard conversion factors. The emissions are estimated to occur fully at time of harvest following an established international practice (committed emissions). The amount is estimated to be 4.5 million tCO<sub>2</sub>e nationwide, of which SUFORD-SU's contribution is established at 1.8 million tCO<sub>2</sub>e (40 %, see above).

The emissions from deforestation are estimated by establishing the reduction in forest area by remote sensing and multiplying it by average carbon content (as per available literature) in the deforested areas. The potential increase of forest area is excluded from the analysis due to lack of reliable assessment methodologies. The assessment will be carried out in the first half of 2018.

**Frequency:** Closing

**Data source:** MRV Report

**Responsibility:** DOF

<b>New indicator 6 (new indicator)</b>								
Rate of annual forest cover loss in targeted Production Forest Areas (Percentage)	0.27 (2013)	-	-	-	0	0	0.23	0.23
<i>Achievements:</i>	0	-	-	-	0	0.18		

**Indicator definition:** The rate of annual forest cover loss in Production Forest Areas targeted by the project.

**Methodology:** The achievement will be assessed in a PFA Forest Cover Change Assessment to be conducted in the 1st half of 2018 establishing the rate of annual forest loss during 2015-2017.

**Frequency:** Closing

**Data source:** Forest Cover Assessment

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*Responsibility:* DOF

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<b>Intermediate Results Indicators</b>								
Indicator Name	Baseline	Cumulative Target Values						
		2014	2015	2016	2017	2018	2019	End Target August 30, 2019
<b>Revised indicator 1.1</b> (replaces original indicator 1.1). Beneficiaries who receive technical services of adequate quality (Percentage)	0 (2013)	-	-	-	0	80	83	80
<i>Achievements:</i>	0	-	-	-	0	Not measured		

**Indicator definition:** Percentage of the direct beneficiaries among the village population who perceive that they receive technical services of adequate quality. Direct beneficiaries include members of the Village Forest and Livelihood Committee, and those who receive VLD Grants.

**Sub-indicator 1.1a. definition:** Percentage of VFLCs who perceive that the project has delivered services of adequate quality in Forest Management and Village Livelihood Development.

**Sub-indicator 1.1b. definition:** Percentage of production groups who receive services of adequate quality in Livelihood Support. Relevant production groups include those which have as members one or more villagers benefiting from VLD Grants provided by SUFORD-SU.

**Methodology:** The indicator will be measured by conducting a perception-based survey among project beneficiaries.

**Frequency:** Year 5 and Closing

**Data source:** Perception-based survey

<i>Responsibility: DOF</i>								
<b>Revised sub-indicator 1.1a.</b> VFLC who receive services of adequate quality in Forest Management and Village Livelihood Development (Percentage)	0 (2013)	-	-	-	0	80	71	80
<i>Achievements:</i>	0	-	-	-	0	Not measured		
<b>Revised sub-indicator 1.1b.</b> Production groups who receive services of adequate quality in Livelihood Support (Percentage)	0 (2013)				0	80	95	80
<i>Achievements:</i>	0	-	-	-	0	Not measured		
<b>Revised indicator 1.2 (replaces original indicator 1.2)</b> Participants who perceive the Community Engagement Framework (CEF) process is adequate (Percentage)	0 (2013)	-	-	-	0	80	97	80

<i>Achievements:</i>	0	-	-	-	0	Not measured		
<p><b>Indicator definition:</b> Percentage of participants who perceive the Community Engagement Framework (CEF) process is adequate. Participants refer to all villagers who have participated in various stages of the CEF process.</p> <p><b>Methodology:</b> Perception-based survey among villagers who have participated in the CEF process. The survey sample shall include representatives from Village Forest and Livelihood Committee and population groups such as women, and ethnic minorities, if present in the village.</p> <p><b>Frequency:</b> Year 5 and Closing</p> <p><b>Data source:</b> Perception-based survey</p> <p><b>Responsibility:</b> DOF</p>								
<b>New indicator 1.3 (replaces original indicator 1.3)</b> Forest area under MoU-PSFM (Ha)	0 (2013)	-	-	-	0	975 000	10 750	975 000
<i>Achievements:</i>	0	-	-	-	0	976 211		
<p><b>Indicator definition:</b> MoU-PSFM refers to PSFM Forest Management Agreement signed between the villages (located fully or partially inside PFAs) and the government. The area refers to the portion of village territory that is inside PFA boundaries.</p> <p><b>Methodology:</b> The area under MoUs-PSFM is established based on reports provided by Provincial Forestry Sections.</p> <p><b>Frequency:</b> Annual</p> <p><b>Data source:</b> Annual Report</p> <p><b>Responsibility:</b> DOF</p>								

**Note:** The May 2018 restructuring revised the end of project target, which is achieved. The baseline has been set at zero and the target has been reduced to account for the inaccessibility of some areas for security reasons (see PDO 1). MoU is the instrument selected by the government to strengthen tenure in Production Forest Areas. MoU-PSFM refers to the PSFM Forest Management Agreement signed between the villages (located fully or partially inside PFAs) and the government. The area refers to the portion of village territory that is inside PFA boundaries.

<b>Revised indicator 1.4</b> (replaces original indicator 1.4) VLD Grants disbursed to villages and under implementation (Percentage)	0 (2013)	-	-	-	30	100	100	100
<i>Achievements:</i>	0	-	-	-	40	100		

**Indicator definition:** VLD Grants disbursed to villages and under implementation. Each village receives one VLD Grant which is divided among several village sub-projects. Disbursement refers to releasing VLD Grant funds to villagers for implementing their sub-projects. They are considered to be under implementation once the villagers have started to spend funds. The percentage indicates the proportion of village sub-projects under implementation compared to the total number of proposed village sub-projects. VLD Grants are funds provided under SUFORD-SU for village livelihood development.

**Methodology:** The proportion of funding in sub-projects under implementation is estimated based on reports provided by provincial authorities.

**Frequency:** Starting from 2018

**Data source:** Annual Report

**Responsibility:** DOF

<b>Revised indicator 1.5 (replaces original indicator 1.5)</b> Aggregate forest area under certification as a result of the project (Ha)	0 (2013)	-	-	-	0	175 000	108 408	175 000
<i>Achievements:</i>	0	-	-	-	10 949	10 949		

**Indicator definition:** Total forest area under certification as a result of technical or financial support provided by the project. Forest area refers to 3 zones inside PFAs: production forest, HCV zone, and the Village Use Forest. Forest certification is a mechanism for forest monitoring, tracing and labeling timber, wood and pulp products and non-timber forest products, where the quality of forest management is judged against a series of agreed standards. The standards applied in Lao PDR are the FSC Forest Management Standard and the FSC Controlled Wood Standard. FSC Forest Management certification confirms that a specific area of forest is being managed in line with the FSC Principles and Criteria (<https://us.fsc.org/en-us/what-we-do/mission-and-vision>). FSC Controlled Wood Standard confirms that wood products do not originate from unacceptable sources (<https://us.fsc.org/en-us/certification/controlled-wood>).

**Sub-indicator 1.5a. definition:** Same as above.

**Sub-indicator 1.5b. definition:** Same as above.

**Methodology:** The forest area meeting the FSC requirements is determined through audits by a third-party certifying body. Before audits the certificate holder, in this case DOF, declares the area they propose for certification. After completing the audit, the certifying body confirms whether the area meets the requirements. The confirmed area of certified forest is sourced from the audit report.

**Frequency:** Annual starting from 2018

**Data source:** FSC Report

**Responsibility:** DOF

<b>Revised sub-indicator 1.5a.</b>	0 (2013)	-	-	-	0	85 000	50 534	85 000
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Forest area under certification (FSC Forest Management Standard) as a result of the project (Ha)								
<i>Achievements:</i>	0				10 949	10 949		
<b>Revised sub-indicator 1.5b.</b> Forest area under certification (FSC Controlled Wood Standard) as a result of the project (Ha)	0 (2013)	-	-	-	0	90 000	57 534	90 000
<i>Achievements:</i>	0	-	-	-	0	0		
<b>Revised indicator 2.1 (replaces original indicator 2.1)</b> Number of FLM Frameworks developed (Number)	0 (2013)	-	-	-	4	4	6.6	4
<i>Achievements:</i>	0	-	-	-	4	4		
<p><b>Indicator definition:</b> FLM framework at the provincial level comprises the conceptual plan for managing the FLM area, the map defining the FLM area, and the organization coordinating FLM management by involved entities following on the national REDD+ strategy. The target in each province is met once the conceptual plan and the FLM map are available, the organization to be in charge has been identified, and the conceptual plan and the FLM map have been introduced to the representatives of the said organization.</p> <p><b>Methodology:</b> Reporting is based on DOF reports.</p> <p><b>Frequency:</b> Annual</p> <p><b>Data source:</b> Annual Report</p>								

**Responsibility:** DOF

<b>Revised indicator 2.2</b> (replaces original indicator 2.2) Areas with Forest Landscape Management implementation plans (Ha)	0 (2013)	-	-	-	0	1.080m	1.080m	1.080m
<i>Achievements:</i>	0	-	-	-	0	110 000		

**Indicator definition:** Forest landscape (as defined under PDO indicator 2) covered by implementation plans. These may include annual plans, general long-term plans or short-term operational plans depending on the planning approach in the involved entities.

**Methodology:** The information is collected from entities managing land units inside Forest Landscape Management area.

**Frequency:** Annual starting from 2018

**Data source:** Annual Report

**Responsibility:** DOF

<b>Revised indicator 3.1</b> (replaces original indicator 3.1) Reforms in forest policy, legislation or other	No (2013)	Yes						
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regulations supported (Yes/No)								
<i>Achievements:</i>	No	Yes	Yes	Yes	Yes	Yes		

**Indicator definition:** Description of reforms in forest policy, legislation or other regulations supported by the project. Support comprises formulation of proposals for policies, legal acts or guidelines, conducting relevant analyses, and contributing to relevant working groups.

**Methodology:** Information collected through project reports.

**Frequency:** Annual

**Data source:** Annual Report

**Responsibility:** DOF

**Note:** Support has been provided to completed or on-going policy or legal work on village forestry, salvage logging, preparation of the pending new Forest Law (including forestry legal compendium, wildlife and aquatic legal compendium, penal code, TLAS, Forest Certification Systems), implementation of PMO-15, and National REDD+ Strategy, and approval of PMO5 (wildlife law enforcement).

<b>Revised indicator 3.2 (replaces original indicator 3.2)</b> Investigations of breaches of forestry law and wildlife and aquatic law referred to criminal courts (Percentage)	N/A (2013)	-	0	1	12	5	5	5
<i>Achievements</i> :	-	-	0	16 (out of 1345 investigations in 12 months)	88 (out of 710 investigations in 12 months)	32 (out of 643 investigations in 9 months)		

**Indicator definition:** Percentage of investigations of breaches of forestry law and wildlife and aquatic law referred to criminal courts.

**Methodology:** Data will be collected from DOFI records. The original related indicator (now replaced with this indicator in the May 2018 restructuring) did not capture the salient points of investigative activity. It referred only to Forestry Law and excluded the Wildlife and Aquatic Law which is a critical area of enforcement carried out under SUFOR-SU. Also, it did not distinguish between the types of investigative "conclusions". Administrative procedures are considerably easier to conclude than cases referred to criminal courts, which are considered more important in that they typically deal with more serious breaches. Accordingly, the indicator scope has been broadened to cover activities related to Wildlife and Aquatic Law. At the same time, it has been given a sharper focus by limiting it to cases that reach criminal courts. The outcome of the court cases is left out of the indicator scope as the project is not directly involved and cannot contribute to the outcome.

**Frequency:** Annual

**Data source:** Annual Report

**Responsibility:** DOF

<b>New indicator 3.3 (new indicator 3.3) STEPP field activities resulting in enforcement action (Percentage)</b>	0 (2013)	-	-	-	80	80	85	80
<i>Achievements:</i>	0	-	-	-	81	81		

**Indicator definition:** Percentage of person-days spent on STEPP field activities resulting in enforcement action. Enforcement activities include detection, disruption, dismantling, discouragement, and ultimately prosecution. Field activities refer to activities undertaken by provincial and district staff. Enforcement includes patrolling but excludes education and administration.

**Methodology:** Data will be collected from DOFI records.

**Frequency:** Annual

**Data source:** Annual Report

**Responsibility:** DOF

<b>New indicator 3.4</b> <b>(new indicator 3.4)</b> POFIs in compliance with DOFI best management practice operating procedures (Number)	0 (2013)	-	-	-	17	18	16	18
<i>Achievements:</i>	0	-	-	-	17	17		

**Indicator definition:** Number of provinces (out of the total of 18 provinces) that pass the DOFI annual compliance audit.

**Methodology:** Compliance will be assessed based on DOFI evaluation audits done separately for each province on a monthly basis. The annual score is the average of monthly scores during the fiscal year. The evaluation is done by the DOFI Information Management Division whose initial assessment is endorsed by DOFI Director General. The evaluation is done on a scale from 1 to 5 where 1 indicates full compliance and 5 poor performance. An average score of 4 or higher indicates failure to pass the audit. Evaluation covers eight areas of work including 1) Patrol Activity, 2) Timber Seizures 3) Wildlife Seizures, 4) NTFP, 5) Land illegally cleared, 6) Equipment, 7) Investigations, 8) Community Education Activity. In addition, the quality of written reports is evaluated. The limitation of the indicator is that it captures compliance with procedures but not the direct outcome.

**Frequency:** Annual

**Data source:** Annual Report

**Responsibility:** DOF

<b>New indicator 3.5</b> <b>(new indicator 3.5)</b> Forest area under MoU-VFMA	0 (2013)	-	-	-	-	0	5 000	10 000
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<i>Achievements:</i>	0	-	-	-	-	0	
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**Indicator definition:** MoU-VFMA refers to Village Forest Management Agreement signed between the villages and the government. The area refers to the portion of village territory allocated as Village Forests inside or outside PFAs comprising Village Use Forests, Village Protection Forests and Village Protected Areas.

**Methodology:** The MoU – which is the Village Forest Management Agreement (VFMA) -- is the instrument selected by the government to strengthen tenure in village forests. The target was reduced because after the mapping done by SUFORD-SU the area of Village Use Forests in and around the PFAs of the two pilot provinces turned out to be significantly less than the original target. Measurement will be done in year 5 and at close because Village Forest Management Plans, which are the basis for preparing VFMA, became available only towards the end of year 4. VFMA cannot be signed unless the Village Forest Management Plans are available.

**Frequency:** Annual

**Data source:** Annual Report

**Responsibility:** DOF and Division of Village Forestry

**Annex 6:  
Prioritization Framework for selecting intervention sites in Landscapes and Livelihoods  
(Draft for review)**

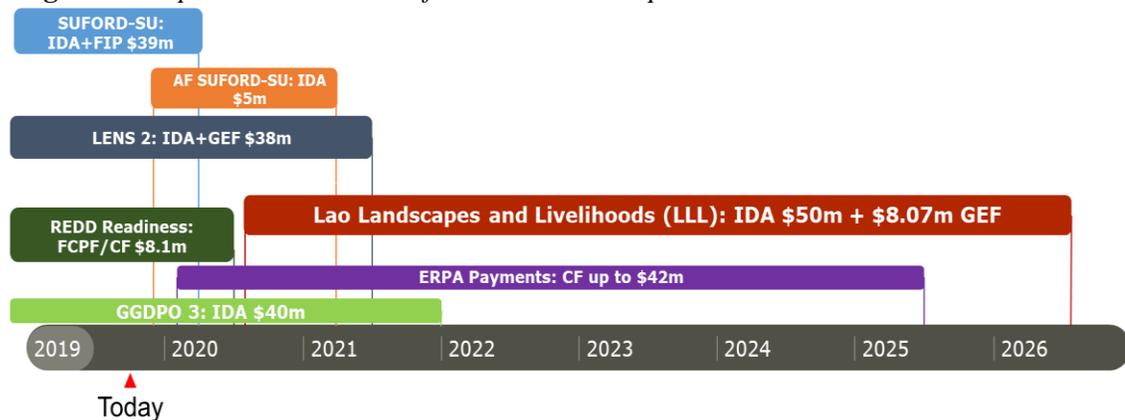
**DISCUSSION NOTE**

**Date: 23 October 2019**

**Background**

The Lao PDR Landscapes and Livelihoods Project (P170559/P171406) is considered a successor to the Scaling-Up Participatory Sustainable Forest Management Project (SUFORD-SU), (which closes in March 2020) as well as the SUFORD – Additional Financing which is currently under preparation that would extend to March 2021; the latter is viewed as a bridge to the proposed Landscape and Livelihoods operation) in parallel to the protected areas and wildlife component of the IDA/GEF-supported Second Lao PDR Environment and Social Project (LENS2). The operation would also build upon the International Finance Corporation (IFC) support under the Forest Investment Program (FIP) of the Climate Investment Fund, as well as the Green Growth Development Policy Operation series, Lao Green Growth Advisory Program, and the REDD+ initiative and emerging Emissions Reduction (ER) Program. The proposed operation will advance the country’s strategic program on resilient landscapes that establishes the client’s long-term programmatic approach to investment and policy. A core group of key Bank supported initiatives mentioned above would directly contribute to the program’s objectives (Diagram 1) and would be complimented by partner-supported operations and other Bank-supported operations such as the regional DRM project, Poverty Reduction Fund Project, Cook-stoves initiative, and Integrated Water Management Project.

**Diagram 1: Implementation Period for Forest Landscape Investments**



As a prerequisite to the design of the Lao PDR Landscapes and Livelihoods Project (P170559/P171406), it is important to identify the key criteria which might assist in the selection of the proposed landscapes. Preliminary criteria include:

- Nationally and internationally significant protected areas
- Participatory Sustainable Forest Management of Production Forest Areas
- Village Forest Management
- National Protection Forests
- Provincial and/or District Forest Areas with existing or high potential for forest plantation investment
- Provincial and/or District Forest areas (river basins) with high flood or other disaster risk

- Provincial and/or District Forest areas with high Poverty Headcounts
- Illegal wildlife trade

Some key government experts within the Department of Forestry were consulted to draw up provisional lists of forest sites or administrative areas, as described in the document below. However, these lists of sites have yet to be considered by concerned parties in combination with the other criteria, or awarded point weightings, through which to consider prioritizing landscapes for investment interventions.

For this reason, both the criterion and lists should be considered totally provisional - and subject to change, and not considered set in stone. The document represents a tentative first step towards landscape identification, and as an entry point for ongoing dialogue.

### **1. Objective of this document**

This document is a discussion note for anchoring a dialogue to help select priority investment provinces, landscapes and possibly districts for the anticipated new investment plans in the Lao Landscapes and Livelihoods initiative as inputs to Provincial Forestry Strategic Plans.

### **2. Key protected areas of significance**

Two draft documents provide entry points for the site selection of priority protected areas to target under the Landscapes and Livelihoods Initiative. These two draft documents comprise the Optimization Study and the draft Master Plan for National Protected Areas (2020-2025), both prepared under the LENS-2 sub-project. These two documents identify sites with (i) high biodiversity conservation values; (ii) strong management capacity; (iii) near a tourism hub and/or (iv) with existing donor aid and/or technical assistance components.

- Nakai Nam Theun National Park (wet evergreen forest, history of sustainable financing, potential World Heritage Site, NTPC/WB).
- Khouan Xe Nongma (wet evergreen forest, rich biodiversity, potential World Heritage Site, ICBF/Asian Arks).
- Xe Sap NPA (wet evergreen forest, potential World Heritage Site, WWF).
- Hin Nam No NPA (Indo-Chinese karst, sustained technical assistance, potential World Heritage Site, GIZ)
- Phou Hin Poun NPA (Indo-Chinese karst, potential ASEAN heritage Site, IUCN)
- Phou Xai Lai Leng (montane forest, upgrading to NPA; no donor)
- Phou Sam Soun (montane forest; no donor)
- Phou Khao Khouay NPA (evergreen forest/mix deciduous/pine; national PA model; no donor)
- Nam Kading NPA (evergreen forest/mix deciduous; Nam Ngiep Hydropower/WCS)
- Nam Et-Phou Louey National Park (Northern uplands/montane forest, LENS 2/WCS).
- Nam Kan NPA (tourism concession; gibbon experience/ICBF)
- Nam Poui NPA (elephant conservation, WWF)
- Xe Pian NPA

Note all these protected areas have associated buffer zone communities which should be considered high priority for supporting targeted livelihood interventions linked to conservation agreements.

### **3. Participatory Sustainable Forest Management of Production Forest Areas**

Participatory Sustainable Forest Management of Production Forest Areas (PFA) as independently, third party assessed (or in process 2019) for FSC Forest Management or Controlled Wood certification include:

#### Forest Management Certification

- Thapangthong FMA, Dong Sithouane PFA, Savannakhet Province
- Xebangfai FMA, Dong Phousoi PFA, Khammouane Province (in process)
- Mahaxay FMA, Nakathing PFA, Khammouane Province (in process)

#### Controlled Wood Certification

- Boualapha FMAs, Nakathing PFA, Khammouane Province
- Xayabouathong FMA, Dong Phousoi PFA, Khammouane Province
- Phalanxay FMA, Dong Kapho PFA, Savannakhet Province (in process)
- Phin FMU in Dong Kapho PFA, Savannakhet Province (in process)
- Bolikhan and Vienthong FMAs, Phak Beuak PFA, Bolikhamxay Province (in process)
- Kasi, Met and Feuang FMAs in Nongpet Naseng PFA in Vientiane Province (in process)

#### 4. Village Forest Management

The new Forestry Law (2019), approved by the National Assembly but not yet signed by the President (as of 8 October 2019), promotes village forest management.

##### Article 39. Village Forest Management Planning

*Village forest management planning is the management of forest and forestland within the management area of the village, which is operated both within and outside Protection Forests, Conservation Forests and Production Forests for the village to engage in management, protection, development and utilization within the management area of the village to be abundant and become forest development village. Village forest management planning shall be regulated by a separate specific regulation<sup>10</sup>.*

In terms of site selection, it makes sense to select “the district” as the operating unit for implementing village forest management in terms of landscapes, consistent with Provincial Forest Strategic Plans as detailed in Articles 12 and 13 of the new Forestry Law (2019).

This village forest management approach - targeting districts - can be applied to address a variety of natural resource issues and priorities, production, conservation and protection forest management, including plantations, river basin management & disaster risk reduction management, poverty alleviation, among others.

#### 5. Protection Forest Areas

The new Forestry Law (2019) defines Protection Forest Areas as forests classified for the function of protecting water resources, riverbanks, roadsides, preventing soil erosion, protecting soil quality, strategic areas for national defence, protection from natural disasters, environmental protection and others. Protection forests can be designated as national, provincial, district and village level in specific regulations. The priority Protection Forest Areas are those in upper catchments critically important for watershed management and disaster risk reduction as detailed in section 7 below.

#### 6. Provincial and/or District Forest Areas with existing or high potential for forest plantation investment

The following provinces have companies investing in best practice management of forest plantations, as well as NTFP management. The districts are not yet known.

Province	Company	Notes
Xayabouri	Burapha Agroforestry (BA)	
Vientiane	Burapha Agroforestry (BA)	

Bolikhamxay	Mekong Timber Plantations (MTP)	
Khammouane	Mekong Timber Plantations (MTP)	
Savannakhet	Stora Enso (SE) Sun Paper (SP)	Sun Paper has 10,000 ha of existing plantation and has expansion plans for up to 60,000 hectares in the Xepone District, Savannakhet Province where they have an existing pulp mill of 1.2 million tonnes/year capacity with plans to expand their pulp capacity in Attapeu and Bolikhamxay provinces
Salavanh	Stora Enso (SE)	

The Landscape and Livelihoods could select clusters of districts in selected provinces through which to promote good practice forest plantation interventions including riparian reserves and biodiversity corridors linking fragmented indigenous forests.

#### 7. Provincial and/or District Forest areas with high flood or other disaster risk

The country is prone to regular flooding due to the location of major rivers such as the Mekong and Sekong. Apart from the Mekong, there are several minor rivers such as Nam Ou, Se Bang Fai, Se Bang Heng, Se Kong, Nam Jha, and Nam Beng, Nam San, Nam Ngiep, Nam Ngum, Nam Lik and Sedone, which are responsible for floods in the country. Flood hazard assessments for Lao PDR has been undertaken at the national level for seven priority river basins listed below. The study used secondary data primarily from the Department of Meteorology and Hydrology, the Irrigation Department, and Department of Mining and Power. Due to the limited access to detailed data and field visits, the results of the flood hazard assessment are limited to the national level. It is recommended that site-specific flood hazard mapping is enhanced or initiated for local-level analysis and more detailed planning.

The seven priority river basins are listed below, together with the status of their respective river basin management plan, and the vulnerable districts.

High Priority River Basins	Approved river basin management plan (still awaiting clarification)	Vulnerable districts to flooding
Nam Xam		Borikhan and Pakxan districts in Bolikhamxay province
Nam Ou		Mai and Khoa district in Phongsaly province. Ngoy, Nambak, Pakxeng and Pak Ou districts in Luang Prabang Province
Xe Ngum		Pak Ngum District. Bolikhamxay, Vientiane and Vientiane Prefecture
Nam Ngiap		Borikhan and Pakxan districts in Bolikhamxay province and Hom district in Xaysomboun Province.
Xe Bang Fai		Mahaxai, Xe Bang Fai and Nongbok districts in Khammouane ; and Xaibouri and Atsaphon districts in Savannakhet Province.
Xe Bang Hiang		Xephon, Phin, Champon, Nong, Xonbouri, Songkhon, and Thapangtho in Savannakhet Province.

Xe Kong		Karum and Lamam district in Sekong province and Thateng, Pakxong, Sanxai, Sanamxai, Samakkhixa, Phouvong and Xaisettha district in Attapeu province
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### 8. Provincial and/or District Forest areas with high Poverty Headcounts

Based upon government figures from the Lao PDR Census-based Poverty Map June 2016 (2015), districts with Poverty Headcounts (PO) exceeding 40 are shown in the Table below:

Province	District	Poverty Headcount (PO)
Houaphanh	Houamueang	45.6
	Kuane	45.2
	Sone	42.8
Xieng Khouang	Nonghed	41.5
	Muang Mok	42.3
Bolikhamxay	Xaychamphone	64.2
Khammouane	Boualapha	43.7
	Nakai	42.6
Savannakhet	Phine	42.4
	Sepone	42.2
	Nong	54.0
	Thapangthong	40.6
	Xonebuly	49.5
	Atsaphone	42.0
	Phalangxay	43.2
Saravanh	Saravanh	50.3
	Ta Oi	64.3
	Toomlarn	73.1
	Vapy	42.9
	Khonexedone	41.5
	Lao Ngarm	42.6
	Samuai	52.8
	Kaleum	46.4

Clusters of districts with high Poverty Headcounts could be selected for the Lao Landscapes and Livelihood interventions in combination with other priority selection criteria.

### 9. Illegal wildlife trade

- **Luang Prabang:** Trade in this province would focus on Chinese retail traders and a number of Vietnamese suppliers.
- **Bolikhamxay and Khammouane** are the base for major wildlife trafficking syndicates operating internationally with shipments transiting through Lao PDR from Thailand and into Vietnam.
- **Luang Namtha** should be prioritized as it is home to the largest land border crossing between Lao PDR and China. The Boten border and SEZ is known as trading hotspot and as entry/exit point for the Lao China Railway.
- **Vientiane province and capital** should also be a priority as many traders are operating in Vientiane and numbers are increasing in Vang Vieng. Lack of wildlife law enforcement in VTE needs addressing.

- **Houaphanh** is a known wildlife trading and poaching hotspot close to NEPL within close proximity to the Vietnam border. Local markets, traders and bus companies should be targeted.
- **China Lao Railway:** The railway will enter and exit Lao PDR at the Luang Namtha –Yunnan border carrying freight and passengers. Expected stops will include Vientiane, Vang Vieng and Luang Prabang. Increased Chinese visitation will not only lead to an increase in trade in ivory, rhino, tiger products etc but will also lead to an increase in restaurants catering local wild food.

## 10. Selection of priority landscapes

Based on the above analysis, a long list of landscapes have been developed for possible investment and further shortlisting.

Province	Sites or Districts	Strengths	Weaknesses	Opportunities	Threats
Phongsaly					
Bokeo					
Luang Namtha		The largest land border crossing between Lao PDR and China. The Boten border and SEZ is known as trading hotspot and as entry/exit point for the Lao China Railway			
Oudomxay					
Luang Prabang	Nam Et-Phou Louey NP;	Protected area; nature-based tourism; smallholder teak plantation forests; Chinese retail wildlife traders and a number of Vietnamese suppliers.			
Houaphan	Nam Et-Phou Louey NP;	Protected area; nature-based tourism. Three districts in poverty; Illegal wildlife trading close to NEPL and Vietnam border.			
Sayabouri	Nam Poui NPA	Nam Poui NPA; smallholder teak and BA fast growing plantation forests			
Vientiane	Phou Khao Khouay NPA Kasi, Met and Feuang FMAs, Nongpet Naseng PFA	Protected area cluster; nature-based tourism; controlled wood certification; plantations (BA and small-holders)	Phou Khao Khouay managed by army	Nature-based tourism targeting decision-makers, donor community and for capacity building. Supported by commercial plantation forests	Increasingly degraded protected area
Vientiane Capital		Many wildlife traders and numbers are increasing in Vang Vieng			
Xaisomboon			Security issues		

Xieng Khouang	Nam Et-Phou Louey NP; Phou Xai Lai Leng; Phou Xam Soun	Protected area cluster (highest mountains); tourism; two districts in poverty			
Bolikhamxay	Nam Kading NPA; Xe Bang Fai. Bolikhan and Vienthong FMAa, Phak Beuak PFA.	FM certified PFA cluster; plantation forests (MTP, SE, Sun); major Mekong watershed with potential for river basin management; One district in poverty; major wildlife trafficking syndicates operating internationally.			
Khammouane	Nakai Nam Theun National Park; Khouan Xe Nongma PPA; Hin Nam No NPA; Phou Hin Poun NPA.  Xebangfai FMA, Dong Phousoi PFA; Mahaxay FMA, Nakathing PFA, Boualapha FMAs, Nakathing PFA, Xayabouathong FMA, Dong Phousoi PFA.	Protected area cluster; tourism; FM Certified PFA cluster; plantation forests (MTP, SE); major wildlife trafficking syndicates operating internationally. Two districts in poverty	Limited funding in Phou Hin Poun NPA; investments in commercial plantation may reduce pressures on Pas	Nature-based tourism in sites of international conservation value; investments in commercial plantation forests may reduce pressures on PFAs, PtFAs, CFAs/NPAs	High concentrations of investments with contradicting objectives. Human resource skill sets and outreach constraints.
Savannakhet	Laving Laverne NPA; Phalanxay FMA, Dong Kapho PFA, Phin FMU in Dong Kapho PFA.  Sun paper Seven districts	Forest management certification PFA cluster; controlled wood certification; commercial plantation forests (MTP, Sun); seven districts in poverty	Western side of Laving Laverne NPA pristine only		
Salavanh	Eight districts	Eight districts in poverty			
Sekong	Xe Sap NPA; Xe Kong river basin		Remoteness		
Champassak	Xe Pian NPA	Close to Pakse, Khone Falls and Wat Phu			
Attapeu					

## **Annex 7: Readiness for implementing activities to be financed by the AF-SUPFSM**

The mission discussed activities to accelerate readiness for implementing activities financed by the AF.

### **Component 1: Strengthening and Expanding PSFM in PFAs**

- Commence internal audits and preparatory workshops and schedule the 3<sup>rd</sup> party assessor field audits in sufficient time to achieve the Forest Stewardship Council (FSC) Forest Management (FM) and Controlled Wood (CW) Certification target of 230,000 by late 2020;
- Identify and re-measure PSPs in control and forest restoration areas;
- Compile all knowledge products and datasets from the SUPFSM parent project to prepare for inclusion in the management information system;
- Identify success stories in VFM areas, prepare demonstration sites and extension and training materials; and
- Identify VLD success stories in selected locations, products and value chains and processing and trading key actors in readiness for documentation, demonstration and agreements.

### **Component 2: Forest Landscape Management (FLM)**

- Agree upon key criteria for selection of key forest landscapes, overlay digitized maps of key factors (e.g. forest land-uses [certified PFAs, PtFAs, CFAs/NPAs, VFM, plantation forests], poverty, flood/landslide vulnerability, major infrastructure impacting forests, governance etc.) and select potential landscape priorities for target field studies and orientation of FLM approaches with DAFOs, PAFOs, DOF and other relevant stakeholders;
- Prepare a FLM in practice methodology note for key stakeholders at central, provincial, district levels and highlight potential linkages to support the Provincial Forestry Strategic Plans required under the new Forestry Law (2019);
- Prepare guidelines for preparation of forest landscape investment plans;
- Assess institutional strengths and weaknesses in implementing FLM approaches in the context of key forest landscapes; and
- Identify existing and potential development partners for collaboration and potential donor support for the FLM approach in target forest landscapes.

### **Component 3: Enabling Legal and Regulatory Environment**

- Identify the key legal instruments (decrees, regulations, instructions, guidelines) required to implement the articles of the new Forestry Law (2019) relevant for PSFM, REDD+, environmentally and socially sustainable plantation forests investment and landscape sustainability;
- Ascertain the role of ISO and FM and Chain of Custody (CoC) certification in principles standards and criteria for environmental and social safeguards procedures and monitoring;
- Prepare a draft template agreement for PPPS that are environmentally and socially sustainable;
- Collaborate with FLEGT team on implementation regulations for Timber Legality Assurance System (TLAS); and
- Identify how to strengthen inter-agency collaboration in law enforcement at all levels and more effectively use the Lao-WEN and multi- and bilateral agreements with ASEAN countries, Convention on International Trade and Endangered Species (CITES) and ASEAN-WEN.

### **Component 4: Project Management, Learning and Investment Development.**

- Ensure full staffing of NPMO.
- Expedite funds to continue the consulting firm recruitment for implementation of AF-SUPFSM;
- Recruit consultant to undertake the urgent inputs to facilitate planted forest investment (model GoL-private company partnership agreement and revised IEE, ESIA and ESMP procedures);
- Incorporate lessons from SUFOR SU into AF-PSFM VLDGs activities that promote extension and technical support including market linkages, building capacity of district staff to deliver highly and more timely extension support to villagers;
- Prepare bidding documents for trucks.

**Annex 8:****Summary of Sweden – Laos Sustainable Forestry Seminar,  
Crowne Plaza, 22 October 2019**

1. Seminar was opened by the hosts **Mr. Staffon Herrstrom, Ambassador of Sweden**, Lao PDR and **Mr. Carl Lindwall, Country Manager, Business Sweden**, who welcomed participants, outlined similarities between Swedish forestry decades ago and Lao forestry currently. Sweden, is one of the most advanced and innovative forestry countries in the world, has only 1% of the world's commercial planted forest area but accounts for 10% of wood products trade on the global market. Sweden has been an early investor in Lao's emerging plantation forestry sector. Swedish companies are willing to further increase their commitments in the sector and bring state of art technologies and solutions across the plantation forestry value chain from forest to the marketplace. The seminar introduced the active international plantation forest companies in Lao PDR and new Swedish companies supporting all aspects of the plantation forest sector from nursery productions systems, to plantation management, harvesting, transport, wood processing and supply chain tracking systems.

2. **H.E. Thongpath Vongmany, Vice-Minister, Ministry of Agriculture and Forestry** emphasized that natural resources were the foundation for sustainable rural development in Lao PDR. In the past deforestation and forest degradation had undermined the prominent role of forests in sustaining livelihoods, mitigating climate change and reducing natural disaster risks. Reform of the legal, policy and regulatory framework in recent years had brought about a reduction in unsustainable forest management practices and in illegal wood production and wood products trade. The new Prime Ministers Orders since 2016 and elaborated in the new Forestry Law (2019) and associated implementing Decrees and Regulations will steer the GoL on a path to SFM and a more green-growth economy in the future. The GoL has recognized the potential role for the private sector and wish to enter into partnership agreements to invest in plantation forests and forest restoration in PFAs. He acknowledged the MoU for SwedFund to provide technical support for facilitating the expansion of the plantation forestry sector in Lao PDR.

3. **Mr. Nico Strydom, CEO, Mekong Timber Plantations** highlighted that New Forests, on behalf of the Tropical Asian Forest Fund, have 85% and the GoL 15% shareholdings. About 24,000 ha of plantation forests have been established in Bolikhamxay and Khammouane provinces, primarily Eucalyptus and Acacia species. Recent focus has been in increasing productivities by improved quality germplasm (Godwana Genomics, linking gene markers with unique site matching to counter insect, disease and pest risks); innovative new nursery practices producing 3 million seedlings; improved environmental and social safeguards procedures; piloting new outgrower schemes; becoming FSC FM certification compliant (90% achieved and expect to be by end 2019); piloting mechanical harvesting; and expanding their plantation forest resources. One of the significant constraints in Lao PDR is the lack of skilled labor and expertise available in plantation forestry activities and requested priority be given to increasing vocational, professional and in-service training.

4. **Mr. Martin Forsen, CEO, Burapha Agroforestry** highlighted that Swedish shareholders owned 95% and a Lao individual, 5% of shareholding in the company. Existing plantations area is 4,200 ha, with expansion to 5,000 by 2020 and ultimately to 50,000-60,000 ha plantation estate. Eucalyptus is grown in agroforestry systems (rice production and cattle grazing are popular) on a 7-year rotation, trees growth varies from 30-40 m<sup>3</sup>/ha/year. The aim is to produce up to 70,000 m<sup>3</sup>/ha of plywood production from the new plant (under construction). Lao PDR was chosen because of low population density, good soils, undulating topography, stable governance and proximity to markets (the China – Laos railway line runs within 1 km of the new plywood plant in Vientiane province). Piloting of outgrower schemes with support from the GoL and IFC has become popular with farmers and communities. The company is committed to a long-term investment strategy based upon sustainable plantation forest management for sustainable livelihoods.

5. **Mr. Peter Fogde, CEO, Stora Enso** highlighted that 3,300 ha of plantation forests had been established, working in 55 villages (24,000 families); plantations are ISO certified (health and safety) and FSC certified (FM and CoC). The aim is to expand the plantation resource to 35,000 ha. To date \$27 million had been invested in pilot plantation development and sector growth but the company also paid significantly into access roads, civil buildings, livelihoods development, community funds, district development, taxes and annual land rentals. UXO is a significant issue for the company and rural communities. A focus has been on quality germplasm, matched with specific site conditions. Management of Teak Planation (MTP), Site Effect (SE) and Basal Area (BA) have collaborated in R&D on germplasm and site species matching. It was emphasized that the new Sun Paper plant and expansion require 2 million tones/year of Eucalyptus and Acacia logs from Thailand and Vietnam. The resource has not been planted in Lao PDR so is sourced from neighboring countries. *This equates to a lost opportunity for cash recycling in the Lao economy of \$220,000/day at current market prices.*

6. **Mr Bhounpone Sengthong, DDG, DOF**, introduced the new Forestry Law (2019) and associated implementing Decrees and Regulations, highlighting those articles that related to enabling investments in plantation forestry and SFM. He also highlighted that the Forestry Strategy 2020 (prepared in 2005) was under review and a new Green Growth Strategy had recently been completed. Forest restoration and reforestation are high priorities for the GoL.

7. **Dr. Khamfeua Sirivongs, Manager, FLEGT Divisional Standing Office, DOF** highlighted the relevance of the EU's Forest Law Enforcement and Governance and Trade (FLEGT) for access of wood products to the EU, and beyond; the steps in the preparatory process; and the status of the Lao development process and negotiations towards a Voluntary Partnership Agreement (VPA) with the EU and the critical Timber Legality Assurance System (TLAS). The legality definition process has been done by stakeholders in a participatory process and three Lao-EU negotiations have been undertaken with a fourth program in the foreseeable future.

8. Swedish company representatives introduced their goods and/or services offered to the plantation development sector in Sweden and internationally.

**Annex 9:  
Meeting with Lao Planted Forest Products (LPFP) Working Group Members  
Friday 11 October 2019**

**Discussion Highlights:**

1. Priority plantation provinces included: Vientiane, Xayabouly, Khammouane, Savannakhet, Bolikhamxay, Attapeu and Saravanneane Provinces in economic work circles of existing or proposed wood industries processing plants.
2. The macro-level DOF/SUFORD-SU planning identified 650,000 ha with planted forest potential in PFAs of interest to LPFP members.
3. Due to a lack of GoL criteria and methodologies, LPFP members have applied proven company procedures to meet FSC certification standards in undertaking their micro-level studies including forest survey and selection of forest lands suitable for planted forest development, delineating and demarcation of boundaries and undertaking baseline studies, socio-economic studies and feasibility studies on planted forest investments in PFAs.
4. The existing GoL environmental and social safeguards mechanisms and procedures have been based upon the mining and hydro-electricity sector activities in specific sites and not suited to the large-scale land-use in planted forest developments. There is an urgent need to clarify the social and environmental mechanisms and procedures adapted to suit the extensive and fragmented nature unique to planted forest developments.
5. In the past year LPFP members have undertaken the micro-level planning in collaboration with Forest Inventory and Planning Division on behalf of DOF. Drones were used to identify land suitable and accessible for planted forest development in degraded forest and forestlands, barren forestlands, PFAs and have proven a valuable tool to verify actual land-use. However, drones have not always matched realities on the ground which involves customary land-use practices.
6. When land is assessed as suitable and accessible for planted forest development LPFP members have been negotiating village forest management agreements with local communities.
7. Although there is GoL approval for LPFP members to proceed with pilot planted forest areas in PFAs and seedlings are being prepared for planting, there has been no Forest Concession Agreement (MPI) or Land Lease Agreement (MoF) or detailing of the preparatory procedures for obtaining these under the new Forestry Law and Land Law.
8. Increasingly LPFP members in Lao PDR adopt FSC certification- Forest Management and Chain of Custody - to prove responsible/sustainable planted forest management to their shareholder investors and their Boards of Directors.
9. DOF and MONRE are negotiating with LPFP members for frequent and expensive monitoring and evaluation (M&E) procedures for planted forest developments which could potentially be forgone if planted forests were ISO and FM and CoC certified by third party, international assessors based upon internationally proven standards. LPFP members advise that FSC certification of their planted forests is a cheaper M&E tool which can additionally demonstrate compliance with legal/policy/regulatory and management standards to consumers and access to international markets
10. The LPFP meets quarterly with support from the IFC, to make collective representations to the GoL on important/urgent issues of mutual interest.
11. Collaborative R&D between LPFP members has focused primarily on securing quality germplasm for Eucalyptus hybrids but other areas of potential interest could include silviculture; growth and yield; baseline and socio-economic monitoring procedures; outgrower models; and protection from harmful abiotic (winds, fire, floods) and biotic (insects, diseases, pests) agents.
12. The Swedish Government have an interest in supporting the GoL and Swedish investors to advance investments in planted forests in Lao PDR. A Lao-Swedish seminar on Sustainable Forestry was hosted by the Swedish Ambassador and the Swedish Trade and Investment Council at the Crown Plaza on 22 Oct 2019. This provided an appropriate opportunity for the World Bank and IFC to

meet with the Swedish Ambassador to ascertain interest for participation of the Swedish in the Multi-donor Trust Fund in support of the new Landscapes and Livelihoods project.

**13. LPFP governance priorities included:**

**a. Urgent/Important - within the proposed AF-SUFORD project to SUFORD SU 2021:**

- i. Procedures for private sector investor in planted forests in PFAs:
  - forest survey and selection of forestlands suitable for planted forest developments, land-use planning, environmental and social baseline studies, demarcation and delineation of boundaries, socio-economic survey;
  - revised ESIA, ESMPs and role of IEEs adapted to suit the context of planted forests;
- ii. Procedures and conditions for GoL:
  - private sector company Forest Concession Agreements (MPI) and Land Lease Agreement (MoF)

**b. Important, longer term, within the proposed Landscapes and Livelihoods project (overlap with AF-SUFORD):**

- i. Capacity building for commercial planted forests includes:
  - Periodic workshops, seminars, study tours, field trips, fellowships;
  - Vocational training for artisans, technicians, foremen, supervisors; and
  - Professional education at university.
- ii. Rationalization of M&E procedures, criteria, frequency and costs
- iii. On-going support to policy, legal, regulatory and institutional frame reforms responding to new circumstances
- iv. Collaborative R&D for quality germplasm, silviculture; growth and yield; socio-economic and environmental monitoring; outgrower models; and protection from harmful abiotic (winds, fire, floods) and biotic (insects, diseases, pests) agents.
- v. On-going support to the Lao Planted Forest Products Working Group by IFC

## Annex 10: Draft Operational Guidance for VLD activities and linking farmer groups to markets

### 1. Background

The objective of this document is to provide operational steps and guide for activity implementation. SUFORD-SU Additional Financing will provide additional extension support to producer groups, establish demonstration sites and foster a stronger linkage between commercially viable farmer production groups supported by VLD grants and small and medium economic operators to ensure greater access to markets and strengthen commodity value chain.

Under SUFORD-SU, VLD grants of LAK 32.8 billion were fully disbursed to 22,334 activities in 666 targeted villages involving about 7,500 farming households across project provinces<sup>10</sup>. Main activities financed by VLD grants mainly included (i) NTFPs, (ii) small livestock (goat and pig raising), (iii) cash crops (maize, cassava and tea); (iv) paddy field expansion, (v) fish raising, tree plantation (teak and vernicia) (iv) household-based textile weaving (manual) and (vii) horticulture (fruit crops).

**Table 1 – Main activities of Village Livelihoods Development Grants<sup>11</sup> by province**

Provinc es	VLD Grants					
	1 <sup>st</sup> activity	Sha re	2 <sup>nd</sup> activity	Sha re	3 <sup>rd</sup> activity	Shar e
<i>Northern</i>						
Bokeo	Job's tear	15.8%	Maize	13.2%	Teak	9.0%
Luangnamtha	Trees	27.1%	Cardamom	26.5%	Tea	24.6%
Oudomxay	Cardamom	38.5%	Maize	15.9%	Fish	8.0%
Sayaboury	Job's tear	41.3%	Small livestock	12.6%	Maize	8.3%
<i>Central</i>						
Vientiane	Paddy expansion	29.2%	Weaving	15.0%	Job's tear	14.0%
Borikhamxay	Cassava	37.4%	Weaving	19.1%	Paddy expansion	9.4%
<i>Southern</i>						
Champasack	Cassava	32.6%	Small livestock	21.7%	Rice	17.7%
Sekong	Small livestock	53.7%	Poultry	8.6%	Fish	6.0%
Attapeu	Small livestock	24.4%	Paddy expansion	13.7%	Banana	11.9%

Source: SUFORD-SU data (2019)

<sup>10</sup> Attapeu, Sekong, Champasack, Borikhamxay, Vientiane Province, Sayaboury, Oudomxay, Luang Namtha and Bokeo.

<sup>11</sup> Each project village received about US\$8,000 for livelihood development in complementarity with existing production activities were already implemented by farmer groups.

These activities were implemented as part of the interventions by SUFORD-SU to generate more livelihood for and to reduce pressure of adjacent communities on production and conservation forests. Based on a recent livelihood impact survey<sup>12</sup>, most farming households have diversified their livelihood sources that still include NTFPs but also agriculture, livestock and wages. Poor farming households at the bottom 40 percentile depend greatly on income generated by involving in forest-related activities. They are more likely to collect and sell NTFPs. Participation in forest-related activities is still high at about 92 percent with 9 out of 10 households engaged in NTFP extraction.

Implementation of SUFORD-SU AF's village livelihood development activities will involve in a market-based approach to help leverage commercially viable agricultural production and NTFP extraction as sustainable sources of income for targeted villages. This approach aims to strengthen existing production capacity of farmer groups to improve quality of produces and make them more marketable through promotion of productive partnership between farmer groups and economic operators (especially small and medium enterprises, wholesalers, traders and processors). Currently, market orders and product quality specification are not adequately transmitted to farmer groups to ensure that farmers understand their production capacity gap and are trained to produce in matching with market-demanded quality and volumes. Extension services need to be focused and targeted to specific farmer groups for increased production capacity.

Likewise, economic operators should play a greater role in connecting farmer group to markets where appropriate provision of post-harvest handling through both sourcing and processing by using productive partnerships with farmer groups as a pulling factor. Simple processing or handling steps such as grading, packaging and cleaning should be trained and managed by farmer groups to add more value to their products instead of selling raw materials to economic operators. DOF through Village Forest and NTFPs Management Division (VF/NTFP-MD), PAFOs and DAFOs are implementing agencies and they will play a facilitative role in bridging productive partnerships between farmer groups and economic operators. These implementing agencies will take the responsibility in strengthening farmers group in production plans, technical capacity and establishing productive partnership with economic operators. Consultations and training will be provided by implementing agencies to farmer groups and economic operators.

## **2. Operational steps**

Implementation of AF-VLD activities requires a strong linkage between extension support (Act 1.8), establishment of demonstration sites (Act 1.9) and improvement of value chains (Act 1.10).

**Step 1. Rapid selection of commercially viable producer groups and products/commodities.** VF/NTFP-MD, PAFOs and DAFOs conducted a rapid selection of commercially viable producer groups and products/commodities based on defined criteria (prepared by DOF):

- (i) There is a large number<sup>13</sup> of recipients/farmers/producers in a given region (village and district);
- (ii) Production activities are likely to make a significant contribution to forestry objective; and,
- (iii) Economic returns of the activities equivalent to those from agriculture.

Tentatively, DOF has identified the following commodities: forest tea, cardamom, rattan, broom grass and Mai Tiew for selection. However, it will take a rapid validation and/or selection of existing commodities that are more commercially viable based on local context of geographical districts and provinces. It is important that the commodity list is established early so that project activities will be accelerated due to limited framework of the AF.

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<sup>12</sup> An impact survey was conducted to estimate welfares and forests in 2019 in the draft assessment of the FIP contribution to SUFORD-SU Project.

<sup>13</sup> Number of recipients/farmers/producers will be defined during implementation when a rapid assessment take place. Minimum threshold can be at least 10 farming households.

**Step 2. Establish a long list of economic operators.** In support of farmer group capacity building, VF/NTFP-MD, PAFOs and DAFOs will need to establish a long list of economic operators who are operating in forestry-related activities such as NTFP trading and processing in key municipalities of districts and provinces. During project preparation, the VF/NTFP-MD indicated that it already has a list of NTFP traders/enterprises. If such list may not be complete or inadequate, DOFO and PAFO should compile them and create business profile for each operator in relevant geographical location of project provinces. A long list will be established to include all possible economic operators who involve in the selected commodities or value chains, but it is important to note that more reputable operators may be more likely to cooperate with farmer groups as well as the authorities.

**Step 3. Rapid need assessment of farmer groups and establishment of productive partnership agreement.** Conduct consultations between farmer groups and economic operators to identify linkage gaps between farmer groups and economic operators for selected commodities. In this process, it is essential that farmer groups receive feedbacks from economic operators on market requirements of product quality, volumes, and transporting or processing aspects. Two main documents are to be produced:

- (i) Need assessment for farmer groups must be initial outputs of these consultations that will be proposed for extension support by the SUFORD-SU AF.
- (ii) Productive partnership agreements (template below) between farmer groups and economic operators (specific market requirements, product quality and volume). The productive partnership agreement will be voluntarily entered between farmer groups and economic operators based on mutual benefits to ensure quality control of products and predictive volume of production based on a market price.
- (iii) Economic operators may be connected and encouraged to apply for matching grants from the Business Assistance Facility (BAF) in Vientiane for business growth diagnostics and matching grant application through: <https://www.baflaos.com/en/services>

**Step 4. Establishment of demonstration sites.** Through the support of SUFORD-SU VLD grants, there are good/success stories about farmer groups and these achievements need to be capitalized and clustered into demonstration sites to spread relevant good lessons learnt and experiences for greater benefits of farmer groups.

**Step 5. Provision of training and extension support.** VF/NTFP-MD, PAFOs and DAFOs mobilize and conduct training and extension services farmer groups. Development of product catalogues/brochures and marketing materials in support of marketable products made by farmer groups. Some training may be organized for economic operators on value chain development and marketing where this is feasible.

### 3. Performance monitoring and reporting

VF/NTFP-MD, PAFOs and DAFOs are required to produce timely reports and monitor progress of the AF VLD activities based on the following indicative performance outputs:

Outputs	Targets	Actual	Percentage	Remark
Number of commodities selected	5			
Number of farmer groups strengthened	10			
Number of farmers received training and extension support	2,000			
Number of female farmers received training and extension support	800			

Number of productive partnership agreements signed	5			
Number of demonstration sites established and strengthened.	5			

**Annexes to be prepared:**

- (1) Template for farmer group establishment
- (2) Template for business profiles and long list
- (3) Template of Productive partnership agreement

## **Annex 11: Appraisal Summary for AF-SUPFSM**

### **A. Economic and Financial (if applicable) Analysis**

1. The Economic and Financial Analysis of the parent project remains relevant. Assessments since then help illuminate the changing context for Additional Financing.

2. SUPFSM has been financing several activities to support the management of 41 of the state's 51 PFAs and the communities that depend on these forests including: participatory SFM for timber production, forest certification, NTFPs, forest restoration, VLDGs, and policy development which has driven comprehensive sector reform and improved governance – although communities have not received revenues from timber due to effective the logging ban (local use excepted). The AF continues these activities; however, no new forest restoration grants or VLDGs will be provided although extension support will be enhanced.

3. Financial efficiency: In terms of forestry revenues to communities and government, SUPFSM is likely financially and possibly economically inefficient mainly due to the impact of the logging ban. Since there has been no legal harvesting since 2011, the overall returns from SUPFSM's community PSFM activities are questionable even without carrying out a detailed analysis; simply the intended main benefits flows have not been realized but the costs have remained the same or possibly increased due to enhanced budget for patrolling and law enforcement. However, the PSFM approaches developed can be viable under specific conditions which can be specified in general terms (see calculations below).

4. Rationale for public investment and World Bank value addition: The sector has undergone deep changes since the beginning of SUPFSM, with a series of legislative, policy, regulatory and institutional reforms that are set to transform the sector in the future. If the logging and export bans have had a negative impact on the timber industry and the related benefit sharing project outcomes, the bans also gave the necessary time to design and discuss the needed reforms and help protect the resource base until viable management regimes can be put in place. The process is not complete yet, and the government continues to support sustainable practices on the ground like third-party forest management certification, while engaging the private sector in future new investments. Under the new 2019 Forest Law, PFAs have been opened for commercial and smallholder private timber plantations in degraded areas, and village forestry has been authorized for local communities. A new 2019 Decree on Promoting Commercial Tree Plantations (PM/247) also adds further impetus. These major changes will transform the landscape, and as such will require careful implementation and wide roll out to ensure sector sustainability. In this matter, the Bank's convening power with different stakeholders will be an invaluable asset to provide technical support to the government, communities and investors.

5. In June 2019 the Bank delivered a detailed economic assessment of forestry production models under the Green Growth Advisory Program for Lao PDR (P162374). This assessment concluded that meeting the growing international demand for "good wood" through SFM would be highly profitable for planted forests and natural forest management. Based on data from current investors in Lao PDR, internal rates of return for Lao PDR's main forest production models (smallholder teak, industrial and out grower eucalyptus, participatory SFM) were 6-24 percent, which is internationally competitive. Returns for SFM in particular were the highest at 24 percent, up from a base case of 14 percent. However, as mentioned above, the project support for PSFM can only have positive returns if, when and where the logging ban is lifted. With the authorization of village forestry in the 2019 Forest Law, there is an opportunity to apply the lessons learned in PSFM under the parent project to assist the client to articulate the framework for implementing village forestry.

6. The results based on market costs and prices indicate that all of them have large economic returns based on land expectation value (LEV) and internal rate of return (IRR), indicating that forestry opportunities in Lao PDR are promising—among the best in the world, which is a perspective backed up by credible private investors consulted during the assessment. The approach of SFM applies across all forests and forest categories and across landscapes in all geographic and climatic regions and ecological zones in Lao PDR. At the same time, the social and cultural, environmental and ecosystem services and economic sustainability needs to be considered in the SFM scope. This assessment focused on the production purposes of SFM, which primarily involve modified or degraded natural forests in PFAs, plantation forests and trees outside forests. These forests

produce wood, fiber, fuel, non-wood forest products, and provide a wide range of ecosystem services.

7. Financial and economic analyses provide useful information about prospective returns to forest owners from four production forest models: eucalyptus industrial plantation (company); eucalyptus out grower plantation; smallholder teak plantation; and participatory SFM in native forests. Using an assumed and conservative 8 percent discount rate for the capital budgeting criteria, the results in the table below suggest that forest investment returns for all four types of forest management can be quite attractive; the estimates are similar to returns calculated in China and Vietnam, and greater than most other regions in world. However, realizing this potential will take dedicated, conscientious and persistent efforts by all actors in the forest products value chains, from the forest to the mill and export point to global markets. It also will require good in-country processing or export to higher value-added markets. Developing practical and successful field skills and broader institutional capacity will be a challenge for Lao PDR, although the AF for SUPSFM aims to address this challenge.

**SFM Scenarios, in U.S. dollars<sup>14</sup>**

Scenario	Eucalyptus Industrial Plantation		Eucalyptus Outgrower Plantation		Smallholder Teak Plantation		Participatory SFM	
	LEV	IRR	LEV	IRR	LEV	IRR	LEV	IRR
<b>Base Case</b>	\$6,282	22%	\$5,801	61%	\$2,383	13%	\$603	14%
<b>Potential Situation</b>	\$2,500	15%	-\$563	6%	\$5,000	18%	\$2440	24%
<b>Base Case + Carbon (\$5/tCO<sub>2e</sub>)</b>	\$6703	22.9%	\$6192	69%	\$3225	16%	\$1645	33%

8. Payments for carbon storage and emission reductions can be a viable add-on for improving afforestation, forest management and restoration. At a price of US\$5<sup>15</sup> per tCO<sub>2e</sub> the added carbon payment returns were found to increase LEVs from about US\$500 to US\$1000 per ha for the four different management regimes. SUPSFM has already led to a claimed 1.8 million tCO<sub>2e</sub> of emissions reduction as of May 2019, which at a hypothetical US\$5/ton would be US\$ valued at US\$9 million. Including this carbon price to the internal rate of return for SFM brings it up to 33 percent. The AF is anticipated to support further emission reductions to a revised total target of 2 million tCO<sub>2e</sub> by closing. Factoring in the shadow price of carbon (SPC),<sup>16</sup> project benefits would amount to over US\$8.2 million in the low SPC estimate (US\$41/ton) and US\$16 million (US\$80/ton) in the high SPC estimate just during implementation.<sup>17</sup> If considering the entire economic life of the project (assumed to be 10 years), the prospective returns from SCP amount between US\$ 120 million (low SCP) up to US\$240 million, assuming annual net emission of -300,000 tCO<sub>2e</sub> in line with SUPSFM results. See table 6 for a SCP economic analysis over the economic life of the project, comparing scenarios with low SCP, high SCP, and current World Bank Carbon Fund prices.

**SCP economic analysis over project lifetime**

<b>Project Activity</b>	Reforestation, Enhancement of SFM, certification of SFM, agroforestry, policy development, forest law enforcement, identification of tree plantation sites.				
<b>Baseline</b>	-1,800,000 tCo <sub>2e</sub> (i.e. 1,800,000 tCo <sub>2e</sub> emission reductions) from SUPSFM 2014 to 2018.				
<b>GHG emissions</b>	Project gross emissions: -300,000 tCo <sub>2e</sub> / year (i.e. 300,000 tCo <sub>2e</sub> emission reductions) Project net emissions: -300,000 tCo <sub>2e</sub> / year Economic lifetime: 10 years (2020 to 2030)				
<b>Shadow Price of Carbon (SPC)</b>		<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>
	<b>Low SPC in \$/tCo<sub>2e</sub></b>	40	50	63	78

<sup>14</sup> World Bank 2019. *Partnerships and Opportunities for a New Green Forest Economy in Lao PDR: Sustaining Forest Landscapes and Livelihoods*.

<sup>15</sup> Carbon Fund starting price for the Emission Reduction Program.

<sup>16</sup> World Bank 2017. Shadow Price of Carbon Guidance Note.

<sup>17</sup> Carbon Pricing Leadership Coalition 2017. *Report of the High-Level Commission on Carbon Pricing*. Commission chairs: Stiglitz, J.E. and Stern, N., supported by World Bank Group, ADEME, French Ministry for the Ecological and Inclusive Transition.

	<b>High SPC in \$/tCo2e</b>	80	100	125	156	
<b>Results</b>		<b>ERR</b>		<b>NPV</b>		
	<b>Without SPC (CF price)</b>	300%		\$15,000,000		
	<b>With low SPC</b>	2400%		\$120,000,000		
	<b>With high SPC</b>	4800%		\$240,000,000		
<b>Interpretation</b>	The ERR increases with inclusion of SCP in the economic analysis because the project is estimated to reduce GHG emissions during its economic lifetime compared to a do nothing scenario. It is worth considering that about the GOL is preparing an emission reduction purchase agreement (ERPA) with the World Bank's Carbon Fund until 2025, at a starting price of \$5/tCo <sub>2e</sub> . Emission reduction from SUPSFM and AF-SUPSFM would in principle generate a maximum return of US\$7,500,000 irrespective of SCP.					

9. VLDGs financed, among others, NTFPs and agroforestry activities. Regarding these activities, the parent project invested US\$1.4 million (35 percent of VLDG funding), 75 percent of which was in the northern provinces.<sup>18</sup> Cardamom, white charcoal, forest tea and broom weed were the more popular choices, and especially cardamom production expanded considerably due to high demand from both domestic and Chinese markets. According to Phouthoum Village Authorities, Oudomxay, with the introduction of an improved variety from China, villagers could make 5,500 US\$/year per ha. With a low input cost in terms of seeds and labor, and relative short-term returns (2-year time from seed to harvest), cardamom in some areas has become more economically attractive than other traditional livelihoods such as livestock raising. In addition, growth under shade has a direct contribution in reducing pressure on natural forest and improving efficiencies in existing land use.<sup>19</sup> The parent project has collected a series of best practices in NTFPs and agroforestry, and the AF will disseminate them by promoting village-to-village learning and knowledge sharing to maximize the potential for income generation while increasing forest cover.

10. Regarding VLDGs, a wide variety of activities were funded under SUPSFM, which differed based on geographic location and individual preferences. A total of about 770,000 people (more than 10 percent of the entire population of the country) live in villages where SUPSFM activities are implemented. About 30 percent of them (more than 200,000 people) have benefited from about 20,600 individual VLDGs distributed to households<sup>20</sup>. In most cases, VLDGs were disbursed through small loans in revolving funds managed by a village committee (US\$8000 per village), which increases the financial sustainability of the intervention by re-investing the proceeds in new activities and new people. A project survey of SUFORD-AF (P064886) villages, most of which continued support from SUPSFM, demonstrated that VLDGs had a positive impact on household incomes, with the majority of recipients who claimed “a bit more” (44 percent) or “much more income” (42%) as a result of the loans; 11 percent registered “no change in income” while only 2 percent of households reported a “decrease in income” as a result of the loans.<sup>21</sup> Looking at the (baseline) poverty status of households, it emerged that poorer households were less able to benefit from the loans than medium and (especially) better-off households. Less than 50 percent of poor households reported that they were able to get good or very good benefits from the loans, while this ratio was around 80 percent for medium and 95 percent for better-off households<sup>22</sup>. This finding prompted the design of SUPSFM AF to focus on enhancing extension services to address barriers to more equally distributed returns.

11. An independent poverty impact assessment being carried out by the Poverty Global Practice for SUPSFM and comparator projects around the world (P167044)<sup>23</sup> examines the contributions of SUPSFM to welfare improvement through its VLDG and PSFM activities. The assessment found that SUPSFM was successful in diversifying income generating activities. The additional income was mostly spent to fulfill households' needs such as food, housing or medical expenses. Further additional income was earned through forest restoration activities. In addition, despite not being directly advised by SUPSFM project staff, VLDGs at the village level have been implemented through a revolving fund, which brought benefits to a wider range

<sup>18</sup> A Case Study of the Lao PDR Forest Investment Program, World Bank 2019.

<sup>19</sup> Direct communication. SUPSFM Social Safeguard Mission, July 2019.

<sup>20</sup> Draft Borrower Completion Report, SUPSFM 2018.

<sup>21</sup> DOF 2017. SUFORD-AF Village Livelihood Development Grant (VLDG) Assessment in Vientiane, Sekong and Attapeu Provinces, Lao PDR.

<sup>22</sup> SUFORD Village Development Activities Impact Assessment Report, 2012.

<sup>23</sup> World Bank 2019. Welfare and Forests. An assessment of the FIP contribution to SUFORD-SU project in Lao PDR.

of people by increasing social cohesion, financial security, sharing good practices, increased knowledge about micro-fund management, savings and financial management. The assessment identified existing barriers to long term positive impacts of VLDGs. Notably, weaknesses in targeting with the exclusion of the poorest in some instances, might lead to potential welfare decline. Furthermore, both design and implementation of VLDGs should be strengthened both in the choice of livelihoods options, identified as top-down and not enough linked to markets, as well as in follow up technical assistance provided after the disbursement of the grants, reported as insufficient by the report. Under AF-SUPFSM these lessons have been incorporated, with specific activities promoting extension and technical support including market linkages. Building capacity of district staff to deliver highly and more timely extension support to villagers will be also financed under AF-SUPFSM.

12. The parent project estimated in 2017 that over 9,000 people were able to lift themselves out of poverty during the SUPFSM-SU period by taking advantage of the grants issued in the last years of the predecessor SUFORD-AF implementation in 2010-2012.<sup>24</sup> Before the grants were distributed, the poverty rate was almost equal among those who would receive the grants and those who did not. Three years later the poverty rate was 5 percentage points lower among those who received the grants.

13. It is too early to quantify the efficiency of SUPFSM forest restoration work. More information will be available only after the permanent sample plots have been re-measured after 3-4 years. However, there is some evidence available to suggest that natural regeneration is likely a viable approach while planting is too costly.

## **B. Technical**

14. SUPFSM has contributed to the modernization of the forest sector in Lao PDR by mainstreaming REDD activities and principles of participatory SFM in national policies and practices. Many of the original objectives have been met, demonstrating the technical soundness of the SUPFSM approach and the effectiveness of the institutional set up within MAF. However emerging challenges and opportunities, especially concerning commercial plantations and village forestry have shown the need for more support to implement the new forest law and other recent policies. As such, the AF will scale up the ambition of SUPFSM by intervening in key areas where the improved policy environment allows for further support to enhance institutions, policies, regulations and plan the next generation of environmentally and socially sustainable investment in the forest landscape.

15. The AF would continue the process of third party certification of forest management; in addition, it will support preparation of third-party certification for the whole timber value chain (Chain of Custody) and implementation of the emerging new Timber Legality Assurance System. Together these actions would help position Lao PDR to improve the sector's competitiveness in profitable export markets while complying with the provisions of the 2016 export ban on unprocessed wood, enacted after the approval of SUPFSM.

16. The new Forest Law approved in June 2019 has new provisions that were not present at the time of SUPFSM approval, notably (among others) the opening of PFAs for commercial tree plantations and the authorization of village forestry at the local level after years of banning logging of certain tree species. While these legal provisions present new opportunities for various stakeholders in the sector, they also pose significant risks for the sustainability of the natural resource base and the government capacity to effectively enforce the new law. As such, the AF will support the regulatory capacity of the government in this critical phase, by providing focused technical assistance to relevant institutions in the roll out of the law and drafting of implementing guidelines or regulations for commercial tree plantations and village forestry.

17. VLDGs have been fully disbursed through provincial and district authorities, but some shortcomings have been observed in some settings in the capacity of villages to effectively maintain some investments. The

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<sup>24</sup> DOF/SUFORD-SU 2017. SUFORD-AF Village Livelihood Development Grant Assessment in Vientiane, Sekong and Attapeu Provinces, Lao PDR. This study assessed performance of the SUFORD interventions from 2010-2012 and post-project effects. There was a total of 32,572 grant-receiving households in the project area, so the number of benefiting households was 1628 (5% x 32,572). Multiplying this with the average household size, 5.6 people, the number of individual beneficiaries can be estimated at 9120.

AF would therefore strengthen the capacity of extension service providers to ensure that beneficiaries have adequate technical support during implementation of existing VLDGs, based on the recommendation of the survey on service delivery.

18. The SUPSFM objective to pilot forest landscape management in 4 provinces coordinated under provincial REDD+ Task Forces, was achieved with the creation of Provincial REDD+ Action Plans that are typical of FLM activities including forest restoration, expansion of agroforestry, SFM and conservation across the forest estate. The AF would build on these, expanding both spatially to other landscapes and methodologically, by generating investment plans that also include investment opportunities for nature-based tourism, village forestry, and commercial forest plantations within the landscape. This is necessary because there is continued work needed to increase the understanding of benefits from integrated landscape approaches and to operationalize its implementation in locally appropriate ways.

19. Knowledge and learning have been central to SUPSFM, having driven the sector policy reforms and new opportunities to leverage good private sector development for SFM and to potentially renew village forestry with evidence-based approaches. A wealth of documents, reports and data have been generated during implementation. This wealth of knowledge however is not systematized and easily accessible. In addition to few new assessments on emerging topics, the AF will finance the digitalization of all resources currently stored in different divisions at national and provincial level and systematize this information in a user-friendly platform which could inform future public and private investment in the forest sector.

### **C. Financial Management**

20. **Financial management.** For continuity and to minimize disruptions, the Finance Division of DOF will remain responsible for project FM. They will continue to be supported by two national consultants: a part-time senior FM consultant and a full-time junior consultant. To improve and sustain capacity of DOF staff, the senior part-time consultant will also include delivery of training in specific topics such as the preparation of Interim unaudited Financial Reports (IFR), consolidation of financial data and preparation of Withdrawal Applications to DOF staff on a face to face basis. This is to be part of the TOR and performance indicator of the senior part-time consultant. The Financial management Manual will be revised to include, among others, controls and systems on monitoring commitments and remaining funds and assigning DOF finance staff to take responsibility for monitoring and reporting of the status of commitments and remaining funds. An acceptable FM manual is already in place. The revision is to enhance the controls and monitoring of remaining funds. The financial reporting and audit requirements remained unchanged. Quarterly IFRs will be submitted to the Bank no later than 45 days after each quarter end. The project will be required to submit status of overall remaining funds with the quarterly IFR. The audit report and management letter will be submitted to the Bank no later than 6 months after each fiscal year end and subject to disclosure as per the Bank's policy on Access to Information.

21. **Disbursement.** A separate Designated Account denominated in USD will be opened for the AF at the Bank of Lao PDR. The ceiling for the AF is fixed at US\$1 million. The AF will be disbursed against one category including Goods, Works, Non-consulting Services, Consulting Services, Training and Workshops and Incremental Operating Cost. Disbursement methods and other disbursement arrangements would remain unchanged from the original financing.

22. **Retroactive financing.** The project will provide retroactive financing for any eligible expenditure prior to project effectiveness. Expenditures under retroactive financing will be eligible if dated on or after 29 November 2019, and the total amount available is up to a maximum of 20 percent of the total financing provided under the AF.

### **D. Procurement**

23. The Bank's procurement guidelines, dated January 2011 and revised July 2014, are being applied under the parent project (P130222), whereas the AF, being prepared after July 2016, will follow the Procurement Regulations, dated July 2016, and revised November 2017 and August 2018. Training was provided to DOF

in June 2019 on the new Borrowers Regulations. Over 87 percent of the project funds will finance Components 1, 2 and 3 which include continued community engagement in PSFM including certification, monitoring, reforestation, and village forest management planning; extension, monitoring and maintenance of activities already financed by the parent project via VLDGs; development of Forest Landscape Investment Plans; implementation of forest law enforcement and governance, and other technical assistance and capacity building. There will be no large and complex contracts, as the procurement approach will not be as complex as the current practice. The Borrowers Regulations and harmonized standard bidding documents and request for quotations will be used for works and goods, national market approach and request for quotations packages. The procuring entity under the project will be DOF. DOF staff currently handling procurement for the parent project will be handling procurement under the AF as well. To ensure the procurements under the AF will be implemented effectively, a local procurement consultant will be hired to assist and train the DOF staff. The AF will use Systematic Tracking of Exchanges in Procurement (STEP) to manage the procurement plan and transactions. On September 17, 2019, DOF submitted a draft Project Procurement Strategy for Development (PPSD) to inform fit-for-purpose procurement arrangements in the procurement plan of the AF. The PPSD was approved by the Bank before appraisal and includes specific project needs identification, assessment and operating context for the Project, and assessment of its own capacity and experience to carry out procurement and market assessment for the key contracts under the Project. A procurement plan has been developed based on the PPSD.

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

24. No new safeguard policies are triggered for the AF-SUPFSM. Under the parent project, SUPFSM, a Community Engagement Framework (CEF) was prepared and effectively applied in accordance with World Bank Operational Policy (OP) 4.10 on Indigenous People and OP 4.12 on Involuntary Resettlement. These instruments remain applicable for AF-SUPFSM. As in SUPFSM, the AF also triggers OP4.12 to ensure that natural resource access does not disproportionately affect any group within the community and are offset with viable alternative options to ensure that the household livelihood in project villages are maintained or enhanced. OP 4.10 is applied in AF-SUPFSM to ensure that all ethnic groups will continue to be engaged in a culturally appropriate way to ensure broad community support. The CEF includes an Ethnic Group Planning Framework, Access Restriction Process Framework and a Resettlement Policy Framework. A series of safeguard assessments were carried out, including Impact Assessment of Village Livelihood Development Fund (VLDF), Customary Tenure among Ethnic Groups, which found good CEF implementation and SUPFSM has been and is in compliance with CEF policy requirements and processes. Key areas identified to be improved are to strengthen ethnic group consultation and engagement and more systematic support to strengthen VLDF implementation and management to improve sustainability of the VLDF. The CEF has been updated to reflect the scope of the AF, and lessons learned from safeguard implementation by the parent project.

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

25. The Environmental Category “A” of parent project will also apply to the AF because many of the parent project activities are enhanced, consolidated, or scaled up under AF-SUPFSM and the project area remains the same, although (i) no new village grants are planned as all have been fully disbursed under the parent project, and (ii) there is no timber harvesting supported by the parent project and AF. The nature of the environmental and social risks remains the same, and therefore the safeguard policies triggered remain the same. The likelihood of environmental impact has been identified, and mitigation measures have been developed and implemented, during the implementation of parent project. No significant adverse or cumulative environmental impacts have been experienced, and the Bank assessed performance to be satisfactory.

26. Environmental safeguard issues associated with AF-SUPFSM remains the same as for the parent project. The main concern is related to SFM where forest landscape management was piloted. There are issues related to village livelihood development and SFM in the project target areas that may cause negative impacts on wildlife and non-timber forest products (NTFPs). Assessments of biodiversity and wildlife values were undertaken as part of participatory land use planning processes. The AF-SUPFSM project area continues to be the same as the parent project, where the region is environmentally fragile with steep slopes, significant biodiversity and habitats, and High Conservation Value Forests (HCVF). Rain-fed upland agricultural fields,

fallow land, and forests characterize the landscape. Shifting cultivation based on controlled burns are a dominant, but low-margin, land use in these provinces and contributes significantly to household food security as well as forest loss and degradation as population expands.

27. The existing safeguard instruments applied under the parent project have been updated and will be applied under AF-SUPFSM; these instruments include (i) an Environmental Management Plan (EMP) and (ii) a Community Engagement Framework (CEF) which includes an Ethnic Group Planning Framework (EGPF), a Process Framework (PF) for access restrictions, and a Resettlement Policy Framework (RPF). In addition, AF-SUPFSM will help strengthen the field presence of technical support staff and coordination mechanisms using GoL institutions functioning as technical service centers. Adequate funds will continue to be allocated for Borrower capacity building and implementation support in safeguards (EMP and CEF) implementation and compliance monitoring. CEF, EMP and the ESIA Executive Summary have been updated and consultations were held on Sept. 19, 2019, with the ESIA further revised. The documents have been updated to reflect the consultations and have been submitted to the Bank for review. Draft documents were disclosed by the client for consultations after upstream review by the RSA.

28. DOF has a good overall track record of working with the Bank over the last 15 years to implement early predecessor projects and the parent SUPFSM project and has gained increasing experience with and knowledge of the Bank's social and environmental safeguard requirements. However, as noted during the recent safeguard implementation by SUPFSM, the Implementing Agency will continue to need technical assistance to meet safeguard requirements due to limited resources and recent staff turnover, especially as the sector implements ambitious sector reforms that can potentially reduce poverty and drive economic growth while reducing pressure on natural forest and protected areas. The World Bank Safeguard Specialists will provide strategic inputs and support to the Project Management Unit in DOF and its consultants, both national and international. As during past implementation, partnerships with civil society organizations may be established and maintained to implement some technically specialized activities and initiatives. In addition, the proposed AF will continue to facilitate coordination and experience-sharing among staff and consultants in DOF working on a possible Emissions Reduction Purchase from the World Bank Forest Carbon Partnership Facility to ensure cross-fertilization of ideas, dissemination and adoption of approaches.

## Annex 12 : Key items required for an advanced BSP

Key items required for an Advanced Draft BSP	
1.	<p><u>Fund Management arrangement (Forest Protection Fund (FPF))</u>: The use of the FPF as the Benefit Sharing Mechanism was identified as a substantial risk to the ERPA, both in the short-term in meeting fiduciary requirements of the World Bank and to obtain adequate capacity in time to manage advanced and/or performance-based payments. Parallel tracks should be explored:</p> <ol style="list-style-type: none"> <li>i. to specify interim arrangements, using an existing and operational mechanism, with structures and processes that can meet fiduciary requirements during appraisal.</li> <li>ii. while, in the meantime, building the capacity of the FPF through the existing readiness grant as well as other sources.</li> </ol>
2.	<p><u>Advance payments</u>: Advance payments will need to be negotiated. The current proposal of over \$5 million is unlikely to be acceptable to Carbon Fund Participants (CFP). Thus,</p> <ol style="list-style-type: none"> <li>i. any request for advanced payments should be smaller and accompanied by a clear plan and justification, including when and how money would get to communities.</li> <li>ii. alternative scenarios (for \$1 million, \$2 million, no advance payment) and other potential means for supporting operational costs should be considered in the event CFPs will not agree to provide the expected level of support upfront.</li> </ol>
3.	<p><u>Capacity</u>: A capacity support strategy related to the BSP is needed, clearly articulating the type of needs and actions, and specifying the timeline, budget and funding source. This should also consider contingencies in the event gaps in capacity remain, the optimal use of funds in the time provided, as well as alternative funding (additional to the readiness grant). Key areas for capacity strengthening include:</p> <ol style="list-style-type: none"> <li>i. safeguards - bringing safeguards implementation capacity from national-level down.</li> <li>ii. monitoring - to track and report on implementation.</li> <li>iii. benefit sharing mechanisms (FPF and Village Development Committees (VDCs)) - capacity to receive the funds, but also the capacity of the recipients to use the funds.</li> <li>iv. institutional arrangements - strengthening institutional capacity along with individual capacity.</li> </ol>
4.	<p><u>Operational costs</u>. Acknowledging the critical importance of an adequate operational budget, especially early on, the program's fixed operational costs (20%) are high relative to other ER Programs (generally in the range of 4-10%).</p> <ol style="list-style-type: none"> <li>i. Further elaboration is needed, including clarification of what the operational costs are, and separating activities that contribute to the objective of the program from normal operating costs.</li> <li>ii. Rationalize the allocation of operational costs, considering overall program financing.</li> <li>iii. Examine the timing of, and exploring potential phasing of operational funding, for example demonstrating the urgency upfront and gradual reduction over time.</li> </ol>
5.	<p><u>Institutional arrangements for benefit distribution</u>. Delays in the flow of benefits to the communities (given the complexity of arrangements) was identified as a risk to the program.</p>

	<p>The BSP requires further clarity on how benefits will be shared between provinces and within groups of beneficiaries under the performance-based payments.</p> <ol style="list-style-type: none"> <li>i. Further clarity is needed on the information underpinning disbursement decisions (how performance will be calculated and used to make decisions on benefit distribution).</li> <li>ii. Elaborate further on the make-up of VDCs and selection criteria for activities, given the VDCs' role in managing and executing the activities for the communities and determining the use of benefits at the community-level.</li> <li>iii. Include representation from subnational or nongovernmental stakeholders (including communities, ethnic minorities, private sector, CSOs, etc.) in the decision-making body for the benefit sharing arrangements, ideally as decision-makers but at the very least as observers.</li> <li>iv. Specify a timeline for benefit distribution – from ERPA payment through to communities.</li> </ol>
6.	<p><u>Community eligibility.</u> All communities, not just those that are legally recognized, should be able to access benefits under the benefit sharing arrangements if they contribute to ERs in the accounting area. Further clarity is needed on how this would be done, and whether further considerations should be made to ensure communities are not unnecessarily excluded from the benefit sharing arrangements while the legislation to implement the land and forest laws is developed.</p>
7.	<p><u>Consultations schedule:</u> A consultations schedule is needed, with clarity on the substance and timeline for ongoing engagement (including post ERPA signature).</p>
8.	<p><u>Complexity.</u> Review the BSP to identify aspects that can be clarified and or simplified.</p>

### Annex 13: Fiduciary Assessment templates

#### 13.1 Financial Management Questionnaires

Summary Risk Assessment

Project

Date

Inherent risk	Risk assessment				Comments
	H	S	M	N	
Control risk					
1. Implementing entity					
2. Funds Flow					
3. Staffing					
4. Accounting Policies and Procedures					
5. Internal Audit					
6. External Audit					
7. Reporting and Monitoring					
8. Information System					

H – High S- Substantial

M – Moderate

N – Negligible or Low

## 13.2 Financial Management Questionnaires

**Project:**

**Self-assessment completed by:**

**Date:**

**Bank review/Assessment completed by:**

**Date:**

Interviewee:

Note: If there is more than one implementing entity, a Questionnaire should be completed for each entity

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
<b>1. Implementing Entity</b>					
1.1 What is the legal status/registration of the entity					
1.2 Has the entity implemented a bank-financed project in the past					
1.3 What are the statutory reporting requirements for the entity					
1.4 Is the governing body for project independent?					
1.5 Is the organizational structure appropriate for the needs of the project?					
Risk assessment (implementing entity)	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>	
<b>2. Funds Flow</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	
2.1 Describe the funds flow arrangement, including a chart and explanation of the flow of funds from the World Bank, Government, and other financiers.					
2.2 Are the arrangements to transfer the proceeds of the loan (from the government/ ministry of finance) to the entity satisfactory?					
2.3 Have there been major problems in the past in receipt of funds by the entity?					
2.4 In which bank will the Special Account be opened?					
2.5 Does the PIU have experience in the management of disbursements from the World Bank?					
2.7 Does the entity have/need a capacity to manage foreign exchange risks?					
2.8 How are the counterpart funds accessed?					
2.9 How are payments made from the counterpart funds?					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
2.10 If part of the project is implemented by communities or NGOs, does PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?					
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?					
Risk Assessment (Funds Flow)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>3. Staffing</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
3.1 What is the organizational structure of the accounting department? Attach an organization chart.					
3.2 Identify the accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.					
3.3 Is the project finance and accounts function staffed adequately?					
3.4 Is the finance and accounts staff adequately qualified and experienced?					
3.5 Is the project accounts and finance staff trained in Bank procedures?					
3.6 What is the duration of the contract with the finance and accounts staff?					
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.					
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?					
3.11 At what frequency is the staff transferred?					
3.12 What is training policy for the finance and accounting staff?					
Risk Assessment (Staffing)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>4. Accounting Policies and Procedures</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?					
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?					
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?					
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?					
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?					
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?					
<b>Segregation of Duties</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.7 Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?					
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?					
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?					
<b>Budgeting System</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.10 Do the budgets lay down physical and financial targets?					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?					
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?					
4.13 Are approvals for variations from the budget required in advance or after the fact?					
4.14 Who is responsible for preparation and approval of budgets?					
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?					
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?					
<b>Payments</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.17 Do invoice processing procedures provide for: <ul style="list-style-type: none"> <li>▪ Copies of purchase orders and receiving reports to be obtained directly from issuing departments?</li> <li>▪ Comparison of invoice quantities, prices, and terms, with those indicated on the purchase order and with records of goods actually received?</li> <li>▪ Comparison of invoice quantities with those indicated on the receiving reports?</li> <li>▪ Checking the accuracy of calculations?</li> </ul>					
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?					
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?					
<b>Policies And Procedures</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.20 What is the basis of accounting (e.g., cash, accrual)?					
4.21 What accounting standards are followed?					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?					
4.23 Is the accounting policy and procedure manual updated for the project activities?					
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?					
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?					
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?					
4.27 Are manuals distributed to appropriate personnel?					
<b>Cash and Bank</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.28 Are there any project bank accounts opened yet?					
4.29 Indicate names and positions of authorized signatories in the bank accounts.					
4.30 Does the project maintain an adequate, up-to-date cash book, recording receipts and payments?					
4.31 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?					
4.32 Are bank and cash reconciled on a monthly basis?					
4.33 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?					
4.34 Are all receipts deposited on a timely basis?					
<b>Safeguard over Assets</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.35 Is there a system of adequate safeguards to protect assets from fraud, waste, and abuse?					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.36 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?					
4.38 Are there periodic physical inventories of fixed assets and stocks?					
4.39 Are assets sufficiently covered by insurance policies?					
<b>Other Offices and Implementing Entities</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
4.40 Are there any other regional offices or executing entities participating in implementation?					
4.41 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?					
4.42 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?					
4.43 Are periodic reconciliations performed among the different offices/implementing agencies?					
<b>Other</b>					
4.44 Has the project advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of project resources or property?					
Risk Assessment (Accounting Policies and Procedures)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>5. Internal Audit</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
5.1 Is there a internal audit department in the entity?					
5.2 What are the qualifications and experience of audit department staff?					
5.3 To whom does the internal auditor report?					
5.4 Will the internal audit department include the project in its work program?					
5.5 Are actions taken on the internal audit findings?					
Risk Assessment (Internal Audit)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>6. External Audit</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?					
6.2 Are there any delays in audit of the entity? When are the audit reports issued?					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?					
6.4 Were there any major accountability issues brought out in the audit report of the past 3 years?					
6.5 Will the entity auditor audit the project accounts or will a separate auditor will be appointed to audit the project financial statements?					
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?					
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?					
6.8 Has the project prepared acceptable terms of reference for an annual project audit?					
Risk Assessment (External Audit)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>7. Reporting and Monitoring</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?					
7.2 Are financial statements prepared for the implementing unit?					
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely manner so as to useful to management for decision making?					
7.4 Does the reporting system need to be adapted to report on the project components?					
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?					
7.6 Does the project have established financial management reporting responsibilities that specify					

<b>Topic</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
what reports are to be prepared, what they are to contain, and how they are to be used?					
7.7 Are financial management reports used by management?					
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?					
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?					
Risk Assessment (Monitoring and Reporting)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	
<b>8.Information Systems</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Review</b>	<b>Remarks/Comments</b>
8.1 Is the financial management system computerized?					
8.2 Can the system produce the necessary project financial reports?					
8.3 Is the staff adequately trained to maintain the system?					
8.4 Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?					
Risk Assessment (Monitoring and Reporting)	<b>H</b>	<b>S</b>	<b>M</b>	<b>N</b>	

### 13.3 Risk Assessment (Fiduciary Assessment)

#### PROCUREMENT QUESTIONNAIRE (ແບບສອບຖາມວຽກງານຈັດຊື້-ຈັດຈ້າງ)

Project (ໂຄງການ): ..... Date: .....

#### I. Implementing Agency Risks

##### Risk Factor 1: Procurement Regulatory Framework and Management Capability

Risk Rating: .....

This aspect of the review covers the Procurement policy framework, regulation, procedures and Procurement documents in use at the agency level and the adequacy of staffing and assesses the following.

1. Procurement policies (regulations) are documented and publicly available.
2. The Procurement policies and the regulatory system are designed to meet Core Procurement Principles of value for money, economy, efficiency, effectiveness, integrity, transparency and fairness and accountability.
3. The Procurement regulatory system as defined “on paper” is effectively applied is applied consistently "in practice".
4. The agency has a clear system of accountability with clearly defined responsibilities and delegation of authority on who has control of Procurement decisions.
5. Project implementations and Project appropriations are typically not delayed in approving or diverted and there is predictability of funds for implementation.
6. Realistic Procurement plans aligned with the budget are prepared routinely in the agency, approved formally and followed during implementation.
7. The Agency has sufficient staff with the right skills and behaviors and a satisfactory track record in carrying out Procurement.

Description of Regulatory Framework and Management Capacity Risks: .....

.....

Mitigation measure: .....

Due date	Responsible	Status
		<input type="checkbox"/> not started <input type="checkbox"/> dropped <input type="checkbox"/> ongoing

##### Risk Factor 2: Integrity and Oversight

Risk Rating: .....

Examines Procurement administration to assess the quality and effectiveness of the Procurement arrangements when putting Procurement procedures into practice.

1. There is adequate internal and external oversight of procurement that provides timely and regular feedback e.g. through procurement audits.
2. The Agency produces and adequately maintains written records of all Procurement and contract documents.
3. The Agency has an effective complaints management system known to the bidding community to review and resolve complaints / disputes at appropriate stages of the Procurement cycle.
4. The Agency is not impacted by fraud and corruption risk.

Description of Integrity and Oversight Risks: .....

Mitigation measure: .....

Due date	Responsible	Status
		<input type="checkbox"/> not started <input type="checkbox"/> dropped <input type="checkbox"/> ongoing

**Risk Factor 3: Procurement Process and Market Readiness**

Risk Rating: .....

Examines fiduciary risk presented by (i) the day to day management of the procurement process and (ii) the supply market for the planned procurement

**A. Procurement Process**

1. Procurement methods are chosen appropriate for the market / type, value and complexity of the procurement and are consistent with the legal framework.
2. Clear procurement documents proportionate to the need, are used to encourage broad participation from potential competitors.
3. Procedures for bid submission, receipt and opening are clearly described in the procurement documents and complied with.
4. Bid evaluation is based on the criteria stated in the procurement documents and to award the contract.
5. Procurement notices and Contract awards are announced as prescribed.
6. The Agency effectively manages contracts to ensure delivery as per the contract conditions.
7. The selection and award process are carried out effectively, efficiently and in a transparent way.
8. Contract performance clauses provide incentives for exceeding defined performance levels and disincentives for poor performance.
9. The agency has a good track record of managing environmental, social, health and safety risks including preventing sexual exploitation, rape and assault throughout the procurement process.

**B. Market readiness**

1. There is a clear identified target market for all procurements.
2. The target market for the procurements is willing and able to respond competitively.
3. The target market has a good history of delivery.
4. The target market views the purchaser as attractive.
5. There are no restrictions to open competition in the market.
6. The target market is stable and does not suffer from supply chain risks.
7. The target market is not impacted by fraud and corruption risk.
8. The market has a good track record of managing environmental, social, health and safety risks including preventing sexual exploitation, rape and assault.

Description of Procurement Process and Market Readiness Risks: .....  
 .....

Mitigation measure: .....

Due date	Responsible	Status
		<input type="checkbox"/> not started <input type="checkbox"/> dropped <input type="checkbox"/> ongoing

**Risk Factor 4: Procurement Complexity**

Risk Rating: .....

Examines the risks presented by the inherent complexity of the Procurement and proposed Procurement arrangements. It takes into consideration the nature of planned procurement under the project including its value and volume

1. The Procurement is of low complexity where the scope of the Procurement is certain and easily quantifiable.
2. The procurement will be centralized within a few implementing agencies
3. The Procurement arrangements do not include complex arrangements requiring specialized skills e.g. dialogue-based arrangements that present probity risk (e.g. competitive dialogue, negotiations, PPP or BAFO).
4. The delivery/contract implementation related risks are largely within the supplier'/contractor's control.
5. Evaluation will largely be based on conformance criteria.
6. Life cycle costs and /or rated criteria that are complex to apply will not be a major evaluation factor.
7. Contract terms and conditions will largely be standard and follow available standard documents and do not require bespoke procurement documents.
8. There is a clear understanding of contract risk allocation (borrower v supplier) and cost premiums which will support appropriate risk transfer.

Description of Procurement Complexity Risks: .....

Mitigation measure: .....

Due date	Responsible	Status
		<input type="checkbox"/> not started <input type="checkbox"/> dropped <input type="checkbox"/> ongoing

#### Assessment of National Procurement Procedures

Does the Borrower's system for national open competitive procurement meet the requirement of the procurement regulations?

*NCB will be carried out in accordance with the national regulations including the Procurement Decree #03 dated January 9, 2004 and Implementation Rule and Regulations #0063 issued by MOF March 12, 2004. These procedures were reviewed by the World Bank and found acceptable subject to some exceptions which will be specified in the Financing Agreement. Harmonized national bidding and request for quotations documents will be used for procurement of goods, works and non-consulting services under NCB and shopping respectively.*

#### Project Procurement Risk

Risk Rating: .....

Description: .....  
.....

## II. Agency is responsible for procurement under the proposed project (ອົງກອນທີ່ຮັບຜິດຊອບ ວຽກງານຈັດຊື້-ຈັດຈ້າງຂອງໂຄງການທີ່ກຳລັງກະກຽມ)

2.1 Name of unit/agency (ຊື່ຂອງໜ່ວຍງານ/ອົງກອນ): .....

2.2 Head of unit (ຊື່ຫົວໜ້າໜ່ວຍງານ/ອົງກອນ): .....

2.3 Number of staff (ຈຳນວນພະນັກງານ) .....

1. ....
2. ....
3. ....

2.4 Number of participation in procurement training (can be specified by each staff)

(ຈຳນວນພະນັກງານທີ່ເຄີຍເຂົ້າຮ່ວມການຝຶກອົບຮົມວຽກງານຈັດຊື້-ຈັດຈ້າງ (ອາດຈະລະບຸລະອຽດ ເປັນແຕ່ລະຄົນ):

1. .... [name of staff]
  - WB: ..... on: .....
  - ADB: ..... on: .....
  - MOF: ..... on: .....
  - Others ..... on: .....
2. .... [name of staff]
  - WB: ..... on: .....
  - ADB: ..... on: .....
  - MOF: ..... on: .....
  - Others:..... on: .....

2.5 Staff involved in procurement (ພະນັກງານທີ່ເຄີຍມີສ່ວນຮ່ວມກັບການຈັດຊື້-ຈັດຈ້າງ):

1. .... [name of staff]
  - WB: .....contracts total amount (or per contract)..... Bidding documents used .....
  - ADB: .....contracts total amount (or per contract).... Bidding documents used .....
  - Others: .....contracts total amount (or per contract)..... Bidding documents used ...
2. .... [name of staff]
  - WB: .....contracts total amount (or per contract)..... Bidding documents used .....
  - ADB: .....contracts total amount (or per contract)..... Bidding documents used .....
  - Others: .....contracts total amount (or per contract)..... Bidding documents used ...

2.6 Procurement methods used and number of contracts (ຮູບການ ການຈັດຊື້ຈັດຈ້າງ ທີ່ນຳໃຊ້ ແລະ ຈຳນວນ ສັນຍາ ຕໍ່ກັບການຈັດສັນພູດການຈັດຊື້-ຈັດຈ້າງ ຂອງໜ່ວຍງານໃນຜ່ານມາ):

1. ICB: Goods: .....; Works: .....
2. NCB: Goods: .....; Works: .....
3. Shopping: Goods: .....; Works: .....
4. Direct contracting: Goods: .....; Works: .....
5. QCBS: .....
6. QBS: .....
7. LCS: .....
8. CQS: .....
9. SSS: .....
10. Individual consultant: .....
11. Others: .....

2.7 Procurement arrangements (ການກະກຽມວຽກງານຈັດຊື້-ຈັດຈ້າງ)

1. Who will prepare bidding documents/request for proposals (ໃຜຈະເປັນກະກຽມເອກະ ສານປະ ມູນ/ ເອກະສານປະກອບສະເໜີໂຄງການ): .....
2. Who will issue bidding documents/request for proposals (ໃຜຈະເປັນຜູ້ອອກເອກະສານ ປະມູນ/ ເອກະສານປະກອບສະເໜີໂຄງການ): .....
3. Who will receive bidding documents/request for proposals (ໃຜຈະເປັນຜູ້ຮັບເອກະສານ ຍື່ນປະມູນ / ເອກະສານປະກອບສະເໜີໂຄງການ): .....
4. Who will evaluate bids/proposals (ໃຜຈະເປັນຜູ້ປະເມີນການປະມູນ/ບິດສະເໜີໂຄງການ): .....
5. Evaluation committee will consist of: (ຄະນະກຳມະການປະມູນຈັດຊື້-ຈັດຈ້າງ ປະກອບດ້ວຍ):
  - i. ....
  - ii. ....
  - iii. ....

- iv. ....
- v. ....
- 6. Who will approved the evaluation reports (ໃຜຈະເປັນຮັບຮອງບົດລາຍງານການປະເມີນຜົນ): .....
- 7. Who will sign contracts (ໃຜຈະເປັນຜູ້ເຊັນສັນຍາ): .....
- 8. Who will manage contracts (ໃຜຄຸ້ມຄອງການປະຕິບັດສັນຍາ): .....
- 9. Others (ອື່ນໆ): .....

2.8 Challenges form undertaking procurement in the past (ສິ່ງທ້າທາຍ ຈາກການດໍາເນີນການຈັດຊື້-ຈັດຈ້າງ ໃນ ໄລຍະຜ່ານມາມີຫຍັງແດ່)

- 1. ....
- 2. ....
- 3. ....

**III. Contractors** (for projects that finance works activities) (ບໍລິສັດຮັບເໝົາ, ສໍາລັບໂຄງການມີວຽກກໍ່ສ້າງ)

3.1 How many contractors are available in the market/province (ຈໍານວນບໍລິສັດຮັບເໝົາ ທີ່ມີຢູ່ໃນ ຕະຫຼາດ/ ແຂວງ ຫຼາຍປານໃດ):

- i. Class 1 (contractor): .....
- ii. Class 2 (contractor): .....
- iii. Class 3 (contractor): .....

3.2 Contractors that have not good performance (ບໍລິສັດຮັບເໝົາ ມີການປະພຶດບໍ່ດີ): .....

3.3 Others (ອື່ນໆ): .....

**IV. Website (ເວັບໄຊ)**

4.1 Did the agency have experience in posting procurement information on the Ministry's website (ອົງກອນໄດ້ມີປະສົບການໃນການລົງຂໍ້ມູນຂ່າວສານການຈັດຊື້-ຈັດຈ້າງ ໃນເວັບໄຊຂອງກະຊວງ ບໍ່)?

4.2 If not yet, can the agency do it? If no, why (ຖ້າບໍ່ມີ, ອົງກອນສາມາດເຮັດເອງໄດ້ບໍ່? ຖ້າບໍ່, ຍ້ອນຫຍັງ)?

**V. Required information/documents (ຂໍ້ມູນ/ເອກະສານທີ່ຕ້ອງການ):**

5.1 Organization chart of ministry, department and division (ໂຄງຮ່າງການຈັດຕັ້ງຂອງກະຊວງ, ກົມ/ພະແນກແຂວງ, ພະແນກ/ຂະແໜງຂອງພະແນກແຂວງ),

5.2 Copy of the ministry's permanent evaluation committee (ອັດສໍາເນົາລາຍຊື່ຄະນະກຳມະການປະມຸນການຈັດຊື້-ຈັດຈ້າງ)