PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 7.2 MILLION (US$9.90 MILLION EQUIVALENT)

TO

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR A

SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

May 28, 2003
CURRENCY EQUIVALENTS
(Exchange Rate Effective April 30, 2003)

Currency Unit = Lao Kip
LAK 1 = US$.0000928
US$1.00 = LAK 10,770.00

FISCAL YEAR
Government: October 1 - September 31 -- World Bank: July 1 - June 30

ABBREVIATIONS AND ACRONYMS

AAC
Annual Allowable Cut

ADB
Asian Development Bank

ADP
Agricultural Development Project

CAS
Country Assistance Strategy

CFAA
Country Financial Accountability Assessment

CPAR
Country Procurement Assessment Report

DAFO
District Agriculture and Forestry Office

DOF
Department of Forestry

ERI
Environmental Research Institute

ESIA
Environmental and Social Impact Assessment

FIPC
Forest Inventory and Planning Center

FIPD
Forest Inventory and Planning Division

FMAC
Financial Management Adjustment Credit

FMR
Financial Monitoring Reports/ing

FMU
Forest Management Unit

FOMACOP
Forest Conservation and Management Project

FORDEV
Sustainable Forestry for Rural Development Project

FS2020
Forestry Strategy 2020

GOL
Government of Lao

IAPSO
Inter – Agency Procurement Service Office

ICB
International Competitive Bidding

ICR
Implementation Completion Report

IDA
International Development Association

I-PRSP
Interim Poverty Reduction Strategy Paper

MAF
Ministry of Agriculture and Forestry

MOC
Ministry of Commerce

M&E
Monitoring and Evaluation

NAFES
National Agriculture and Forestry Extension Service

NBCA
National Biodiversity Conservation Areas

NGO
Non-Governmental Organizations

NPC
National Project Coordinator

NRPMC
Natural Resource Monitoring and Planning Centre

NT2
Nam Thuen 2 Hydroelectric

PAFES
Provincial Agriculture and Forestry Extension Service

PAFO
Provincial Agricultural Forestry Office

PER
Public Expenditure Review

PFA
Production Forest Area
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>PIM</td>
<td>Project Implementation Manual</td>
</tr>
<tr>
<td>PIU</td>
<td>Provincial Implementation Units</td>
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<tr>
<td>PMO</td>
<td>Project Management Office</td>
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<tr>
<td>PPIU</td>
<td>Province Project Implementation Unit</td>
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<tr>
<td>PrMO</td>
<td>Procurement Management Office</td>
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<tr>
<td>PSC</td>
<td>Project Steering Committee</td>
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<tr>
<td>PSFM</td>
<td>Participatory Sustainable Forest Management</td>
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<td>SA</td>
<td>Special Account</td>
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<tr>
<td>SBCQ</td>
<td>Selection Based on Consultants’ Qualifications</td>
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<tr>
<td>SIAS</td>
<td>Satellite Image Analysis Software</td>
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<tr>
<td>SFM</td>
<td>Sustainable Forestry Management</td>
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<tr>
<td>SOE</td>
<td>Statements of Expenditure</td>
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<tr>
<td>STEA</td>
<td>Science, Technology and Environment Agency</td>
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<tr>
<td>VD</td>
<td>Village Development</td>
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<tr>
<td>VDF</td>
<td>Village Development Fund</td>
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<tr>
<td>VFMA</td>
<td>Village Forest Management Agreement</td>
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<tr>
<td>VFO</td>
<td>Village Forest Organization</td>
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### Executive Management

<table>
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<tr>
<td>Vice President</td>
<td>Jemal-ud-din Kassum, EAPVP</td>
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<tr>
<td>Country Director</td>
<td>Ian C. Porter, EACTF</td>
</tr>
<tr>
<td>Sector Director</td>
<td>Mark D. Wilson, EASRD</td>
</tr>
<tr>
<td>Task Team Leader</td>
<td>William B. Magrath, EASRD</td>
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LAO PEOPLE'S DEMOCRATIC REPUBLIC
SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

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MAP(S)
IBRD 32463
LAO PEOPLE'S DEMOCRATIC REPUBLIC  
SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT  

Project Appraisal Document  
East Asia and Pacific Region  
EASRD

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<td>Sector Manager/Director:</td>
<td>Mark D. Wilson</td>
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<td>Country Manager/Director:</td>
<td>Ian C. Porter</td>
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<tr>
<td>Project ID:</td>
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<td>Lending Instrument:</td>
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**Team Leader:** William B. Magrath  
**Sector(s):** Forestry (100%)  
**Theme(s):** Other public sector governance (P), Land management (P)

**Project Financing Data**  
[ ] Loan  [X] Credit  [ ] Grant  [ ] Guarantee  [ ] Other:

**For Loans/Credits/Others:**  
Amount (US$m): 9.90

**Proposed Terms (IDA):** Standard Credit  
Grace period (years): 10  
Commitment fee: Standard  
Years to maturity: 40  
Service charge: Standard%

**Financing Plan (US$m):**  

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<td>Total:</td>
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**Borrower:** LAO PEOPLE'S DEMOCRATIC REPUBLIC  
**Responsible agency:** MINISTRY OF AGRICULTURE & FORESTRY  
**Address:** Department of Planning, Ministry of Agriculture and Forestry, Vientiane, LAO PDR  
**Contact Person:** H.E. Siene Saphantong, Minister  
**Tel:** (85621) 415 359  
**Fax:** (85621) 415-363  
**Email:** Maf@laogov.net

**Estimated Disbursements (Bank FY/US$m):**

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**Project Implementation period:** 9/2003-- 6/2008  
**Expected effectiveness date:** 09/24/2003  
**Expected closing date:** 12/31/2008
A. Project Development Objective

1. Project development objective: (see Annex 1)

The objective of the Project is to assist the Borrower to achieve the sustainable management of production forests to alleviate rural poverty in the Project Provinces by implementing the forest policy reform actions and policies set forth in its Letter of Forest Management Policy.

The development objectives of the project are to:

- improve the policy, legal and incentive framework enabling the expansion of sustainable, participatory forest management throughout the country by assisting the Government in its implementation of policy reforms described in its Letter of Forest Management Policy;
- bring the country’s priority natural production forests under participatory sustainable forest management (PSFM); and
- improve villagers’ well-being and livelihoods through benefits from sustainable forestry, community development and development of viable livelihood systems.

These objectives will be attained by:

- helping the government to develop its forestry institutions, including regulatory framework and organizational arrangements, and enhancing their capacity to provide training, extension, control and monitoring services to support PSFM;
- providing support for establishing a Production Forest Area (PFA) system that together with the National Biodiversity Conservation Areas (NBCAs), provincial conservation areas, designated watershed areas will form the permanent National Forest Area;
- supporting model development, forest management capacity building, piloting and scaling-up of implementation of PSFM systems;
- enhancing village development planning and implementation capacity in project villages and financing village development plan implementation to establish and institute viable sustainable livelihood systems and employment opportunities; and
- strengthening village organizations, their capabilities, access to assets and decision-making power to enable them to solve their priority problems and make sound decisions regarding the management of the surrounding forest land resources.

2. Key performance indicators: (see Annex 1)

Performance in this context needs to be assessed at the level of sector-wide performance as well as project output and outcomes and impacts:

**Sector Indicators**

- Increased area under sustainable management as indicated by the coverage of management plans and areas certified as sustainably managed;
- Decreased deforestation rate;
- Enabling policy and regulatory framework for SFM established;
- Improved quality of forest management from biodiversity perspective; and
- Forest revenues at household, community, and national level increased on a sustained basis.

**Project Output Indicators**

- Number of village forestry committees established and functional;
- Number and area coverage of forest management and annual operational plans;
Increased participation of women, ethnic minorities, and poor households in forest management activities and in leadership roles in VFOs.

Village Forestry Organization (VFO) is the umbrella term that encompasses Village Forestry Committees (VFC) and Village Forestry Associations (VFA).

Outcome/Impact Indicators
- Improvements in forestry revenue-generation and benefit-sharing equity;
- Number and area of forest management units fulfilling certification criteria;
- Reductions in illegal land conversions and logging and better compliance with management plans;
- Improvements and maintenance of forest ecosystem health and increased availability of subsistence and economic NTFPs and wildlife resources; and
- Improved household-level food security, community infrastructure and number of people benefiting from development projects.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)
   Document number: 19098-LA   Date of latest CAS discussion: April 20, 1999

The Bank’s Country Assistance Strategy (CAS) goal in Lao PDR is poverty reduction. The CAS focuses on assisting in: (a) stabilizing the economy and returning the country to a stable and sustainable growth path; (b) deepening structural reforms in the regulatory environment, capacity building, financial sector and state-owned enterprises SOEs; (c) focusing on a social service delivery and infrastructure development; and (d) investing in rural development and natural resource management. In the natural resource sectors, the CAS aims at assisting to remove distorted policies, improving technology, and ensuring appropriate forest management practices to achieve environmental sustainability.

2. Main sector issues and Government strategy:

Lao forestry has been in disarray. On the basis of detailed sector work, presented in World Bank/Sida/Government of Finland, Lao PDR: Production Forestry Policy, Status and Issues for Dialogue (June 11, 2001) and the Bank's long engagement in village forestry and biodiversity conservation in Lao PDR, putting order to the commercial exploitation of forestry is the priority. This involves attention to seven major sets of interrelated concerns:

2.1 Policy and Legal Framework

The Forest Law (1996) provides broad framework for sustainable forest management, including management planning and forest operations that, in principle, permit villages to participate in sustainable management of forests. However, although the law allows different type of management approaches, policies, as well as regulations and orders (e.g. Prime Minister Order (PMO 10, PMO 11, and PMO 15) narrowly restrict participation in forest management and do not provide the rights and incentives needed for villagers to be involved in the management of production forest (especially in log sales and sharing of financial benefits). Recent PM Decree 59 on Sustainable Management of Production Forests (May 2002) represents a step forward. The next challenge will be appropriate Implementing Regulations and Ministerial instructions. Agreement in principle has been reached on these under the Financial Management Adjustment Credit program and new Regulations are expected before Effectiveness.
2.2 Sustainability of Forest Management

Since the 1989 National Forestry Congress GOL has officially promoted sustainable forest management. A Tropical Forest Action Plan (1991), and a number of major projects and programs have been launched and completed. The recent World Bank/SIDA/Government of Finland sector review and forest cover change studies carried out by Forest Inventory and Planning Center (FIPC), clearly indicate, however, that Lao forestry is on an unsustainable track. The capacity of forests to provide benefits and services has been reduced because of wasteful, unplanned logging and conversion of forests to other land uses. In 1940 forest cover was about 70% (17 million ha) of total area. Current forest cover estimates range from 40.6% (Mekong River Commission) to 47% (NAFRI), depending on the forest classification criteria. Annual deforestation rate has been estimated at 0.8 – 1.2 percent a year in the 1990s. A large share of the remaining forest area is degraded. There is also increasing evidence that NTFPs resources are dwindling.

Direct causes of deforestation and forest degradation include uncontrolled commercial logging, expansion of shifting cultivation, land conversion for agriculture and infrastructure, and exploitative utilization of NTFPs. Underlying main causes include population growth, absence of enabling frameworks, insufficient technological knowledge and management capacity, unclear forest land tenure arrangements, and lack of alternative livelihood opportunities. In many areas, traditional management systems have broken down because of outside disturbances and pressures as well as due to increasing population. Inadequate funds and low government salaries and per diems also do not provide incentives to staff to efficiently control forest utilization.

Quotas are not based upon calculated annual allowable cuts and guidelines for sustainable forestry operations are largely missing. Existing guidelines are unnecessarily complex and focus on regulating extraction rather than sustainable management. Harvesting practices result up to 60-80 percent loss in volume and often have adverse impact on biodiversity and other services. National criteria and indicators for sustainable forest management were developed in 1999-2000 however, they still need formal approval. Reliable growth and yield information is needed to enable sound forest management planning and also to help matching industry capacity with sustained wood supply.

At present, “scientific” forest management based on careful inventories and reliable growth data exists only for pilot areas in Savannakhet and Khammoaune. The remaining forests are under increasing pressure from the domestic forest industry with serious excess capacity, and demand originating from neighboring countries. Along with the likely loss of production forest resource and associated biodiversity, exploitation has already begun to put pressure on the National Biodiversity Conservation Areas (NBCAs). These trends prevailing, the forest cover, and quality of forests, will continue to decline contrary to the GOL objective of increasing forest cover to 60 percent by 2020.

2.3 Determination of the Permanent Forest Area and Instituting Sustainable Management

GOL has established and legally recognized a system of National Biodiversity Conservation Areas (NBCA) comprising of twenty NBCAs covering altogether 3.1 million hectares (12.5% of total land area). However, a comparable system of clearly defined, mapped, and demarcated production forest area (PFA) fundamental to sustainable forest management does not exist. As a result, the extent and location of forests with potential for sustainable management are not known. It is likely, however, that a PFA system in Lao PDR would exceed 5 million hectares (more than the NBCA system) and would in total contain more biodiversity. A set of principles, criteria, and procedures to define, map, and demarcate PFAs, leading to their legal declaration, should be formulated and applied, thus reserving large areas of natural forests for sustainable management to provide various forest products and services. Once PFAs
are declared, a strategic plan and program for prioritizing and putting them under management should be formulated and implemented. The program would ideally form a part of the Forestry Strategy 2020.

2.4 **Contribution of Forestry to Rural Development and Revenue Generation**

Forest resources play a central role in the Lao economy in supporting rural livelihoods and the national economy. Timber royalties are an important source of government revenue. Timber exports account for a large share of foreign exchange earnings. Forest industry is also a major employer providing an estimated 18,300 jobs in 2001. Rural people, who comprise about 80% of the population of 5.3 million, are generally highly dependent on forests especially as source of food, raw materials, traditional medicines, and source of revenue. In many areas, villagers may obtain half of their income and also protein from NTFPs. It is often the poorest, who are dependent on the NTFPs and for whom forests act as a safety net.

GOL is not close to maximizing revenues from sustainable forest management. Forestry royalties as share of GOL revenues have decreased from 20% in the mid-1990s to 6% percent of tax revenues and 5% of all revenues in 2000-2001. Collection rates are low, around 50%. Over the last five years, the Treasury has realized only about one third of the estimated market value of the timber harvested. The royalty system is based on administrative price setting and does not adequately follow the market trends. Consequently prices do not move in unison with international forest product prices although more than 90% of the production is exported. The stumpage fee (royalty) does not reflect the value of the final product but forestry assets are often undervalued or sometimes overvalued depending on the species and market situation. Ministry of Commerce also applies a dual pricing system to promote domestic value-added processing but ends up merely distorting timber markets and contributing to inefficiency in processing.

2.5 **Organizational and Management Capacity**

Organizational arrangements at the national, provincial, district and village level do not support participatory forest management. Forestry organizations are still geared towards regulating and controlling rather than providing services and supporting management of forests by local communities (or others). During recent years several organizational changes have introduced improvements such as strengthening the status of forest research and extension. At present, there is no unit or section at district level with a responsibility to help villagers with forest management. Assessments carried during preparation found that DOF, PAFOs and DAFOs do not have adequate organizational arrangements (mandates and job descriptions) attending to even their regulatory functions.

Despite past investments into human resource development in the sector one of the main constraints faced by the forest sector faces is a shortage of well-educated and trained staff. Review during project preparation found that, at the national level, qualified staff is increasingly available to provide support for sustainable forest management. Constraints are more serious at province and especially at district level. At PAFO and DAFO institutions, training, experience, expertise or resources are not adequate for sustainable forest management. The necessary knowledge, skills, and resources to formulate and implement forest management plans, and provide necessary extension and training services to field staff and villagers needs to be instituted in provinces and districts.

2.6 **Sectoral Monitoring and Control and Related Information and Reporting Systems**

Current systems do not allow comprehensive, timely and reliable monitoring of sectoral performance. Government does not have the capacity to systematically detect major encroachment or illegal forest operations. Information is collected mainly by ad hoc assessments using satellite imagery or
combination of remote sensing information and field checks (e.g. in the Nakai area). Monitoring mandates are not clearly defined and monitoring of compliance, i.e. law enforcement, is under-resourced. Internal resource management information systems are needed to help in making sound and timely management decisions, and provide necessary information for (external) monitoring systems. Provincial and district forestry offices need to be provided enough personnel with necessary skills, equipment, transport facilities, and funding to be able to effectively monitor and control operations in the forests and thus enforce PMO 10, PMO 11, PMO 15 or the Forestry Law in general.

Even if unauthorized or illegal forest operations are detected through an improved monitoring system, such information is meaningful only if it leads to law enforcement action. So far, there is no structured law enforcement reporting system in the forestry and natural resources management sector. In fact, there appear to be no records on illegal forest acts.

2.7 Forest Industry Capacity and Production Efficiency

The World Bank/SIDA/Government of Finland review found, and subsequent work has confirmed, that the installed and operating sawmill capacity in Lao PDR may be up to three times the sustainable supply. Estimated sawmilling capacity in Savannakhet alone is at more than 600,000 m³, at the same level as the average annual national quota during the last five years. Because of excess capacity, most mills operate at 20-40% capacity, and resort to undesirable practices to secure logs. Despite raw material constraints, new industry capacity has been installed, further increasing pressure on natural forests. Sawmills in Lao PDR numbered 32 in 1988. By 2001, the number increased to 156. In Savannakhet, where the annual sustainable cut has declined rapidly, the number of operating sawmills increased from 12 in 1995 to 22 in 2002.

Many mills have old equipment and technology. Sawnwood recovery is on average acceptable, but provides major opportunities for improvement. One of the main problems is poor quality of processed sawnwood. Little use is made of waste wood. Downstream processing is very limited. The wood and wood product sector accounts for about 15% of the manufacturing sector output but only 4% of the value added. The main product is rough sawnwood exported unprocessed to relatively poorly paying markets. The licensing system needs to be changed to encourage investments into secondary processing and further manufacturing and eliminate excess capacity. More high quality raw material needs to be processed in Lao PDR rather than exporting for processing in consumer countries. More attention will have to be paid to tap better-paying markets and benefits from potential offered by forest certification and chain of custody.

Government Strategies

2.8 Forest Policy

Until recently Government has been reluctant to squarely confront the problems of the sector and has attempted to claim that it has been focusing logging on conversion of infrastructure development areas and on a plantation development program that would eventually take pressure of the natural forest. At the forestry donor roundtable meeting in September 2000, the Ministry of Agriculture and Forestry (MAF) presented its Forestry Vision for 2020, recognizing the need to reverse the negative forestry trends. As a follow-up, GOL initiated the formulation of a Forestry Strategy 2020 (FS2020) with support from SIDA and JICA. FS2020 will identify the roles and potentials of the Lao forestry sector in achieving the goals of economic growth, poverty alleviation, and environmental stability in Lao PDR. In the context of the Financial Management Adjustment Credit (FMAC), GOL has committed to adopting policies to support village participation in forest management. In December 2001, MAF agreed initially on the main
principles for village participation in the sustainable management of production forests, which are yet to be formally endorsed. On 22 May 2002, the PMO issued Decree No. 59 on sustainable management of production forests incorporating these principles.

Recently, GOL has initiated concrete steps to bring forests under sustainable forest management. In 2001 six forest management plans were prepared. These plans have several deficiencies, but just the fact that they were prepared without external assistance is a step forward. In February 2002 Department of Forestry (DOF) and its Forest Inventory and Planning Division (FIPD) started a program to train PAFO and DAFO staff in forest inventory. The proposed project will build on these attempts, improve their quality, systematize the work, and most importantly, link the work to management planning.

2.9 Rural Development and Decentralization

The Government of Lao PDR is committed to rural development and poverty reduction. As more than 90 percent of Lao’s poor live in rural areas, the poverty reduction efforts focus on rural development. In support of these objectives, GOL is gradually introducing a system of decentralization and promoting greater participation of villagers. In its Interim Poverty Reduction Strategy Paper (I-PRSP), GOL commits to a wide-ranging attempt to reduce rural poverty including efforts at agricultural intensification, expansion of irrigation and better management and use of forest resources.

The overall agricultural sector objectives outlined in Government’s Strategic Vision, issued in late 1999, builds upon the idea of supporting rural development to take advantage of the “comparative advantages” of different areas. In addition to the “differential strategy approach” for rural development, Government has adopted a focal site approach. Beginning in 1994, government has focused on development of key “focal sites,” which are clusters of villages that are targeted for rural development efforts.

In March 2000, the Government committed itself to a broad-reaching program of decentralization, with rights and responsibilities being defined for various levels. Prime Ministerial Order No. 1 specifies that decentralization will focus on promoting the provincial level of government as the strategic planning level, the district level as the planning and budgeting level, and the village as the implementing level for rural development. The approach is intended to support bottom-up participatory planning and management of natural resources, with the major focus on the village and district levels.

3. Sector issues to be addressed by the project and strategic choices:

The proposed operation focuses selectively on participatory production management in natural forest areas. Focusing on production forestry means that it will not be possible to deal "holistically" or "comprehensively" with the full range of issues related to forests and forest-related biodiversity in Lao PDR. The management and conservation of National Biodiversity Conservation Areas (NBCAs), watershed management, upland agriculture development, and plantation development remain outside the project scope. Government and other donors already work in these less controversial fields, leaving support for management of natural forests as the major gap (at present, the only project linked to the management of natural production forests is a small Pilot Forest Certification Project assisted by the Government of Finland). Some of these issues are addressed in the “Letter of Forest Management Policy” (Annex 12).

The operational strategy is also chosen in recognition of Government’s forest-related commitments and obligations in the framework of the IMF Poverty Reduction and Growth Facility and the Bank support for the proposed Nam Theun II Hydroelectric Project. The current operation aims to support Government
in fulfilling these obligations.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

Project objectives are to be attained by implementing four inter-related components: (a) Support Services for Sustainable Forest Management; (b) Sustainable Forest Management and Village Development; (c) Sectoral Monitoring and Control; and (d) Project Management.

Component 1: Support Services for Sustainable Forest Management (US$0.99 million)

This component will provide support for policy development, systems and guidelines development, remote sensing assessment of forest areas, setting up databases, mapping, planning, field demarcation, and training facility and capacity development. Support will cover acquisition of equipment (computers, printers, etc.) and vehicles, carrying out studies, and financing of technical assistance, training and allowances and other incremental operating costs for the government forestry staff.

The component is divided into four sub-components:

Sub-component 1.1: Sectoral Policy Reform Support. This will assist GOL in implementing the Letter of Forest Management Policy (Annex 12) and in developing remaining regulations and ministerial/departmental instructions covering the principles for PSFM, establishment of the PFA, benefit sharing and conflict resolution mechanisms. The project will provide support for disseminating relevant laws and regulations and providing related training at national, province and district level. It will enable Government to consult with stakeholders on actions aimed at implementing the approved key principles for participatory sustainable forest management and other measures. This sub-component will also support introduction of market-oriented log sales and pricing systems.

Sub-component 1.2: Establishment of the PFA System. This sub-component will build on the ongoing efforts of DOF/FIPD to administratively define production forest areas as part of the permanent National Forest Area. PFA determination will take place within a broad macro-level forest land use and natural resource framework addressing issues such as infrastructure development, and land and social requirements of local communities. Main activities supported under this sub-component include: finalizing methodology, criteria and processes for PFA determination and developing related systems manuals, guidelines and procedures; preparing a detailed implementation plan for identifying PFAs; staff training and facilities; demarcating and mapping the (initial) PFA starting in Southern and Central provinces; program monitoring; and preparation of a phased national program for bringing production forests under sustainable forest management.

Sub-component 1.3: Forest Management Guidelines and Procedures. This will develop technical guidelines for planning, implementation and monitoring PSFM. The sub-component will develop a national Code of Forest Management Practice; pilot application of national criteria and indicators; and help introduce independent third party certification, including preparing a program for promoting forest certification, and enhancing the awareness about chain of custody operations.

Sub-component 1.4: Strengthening Sustainable Forest Management Capacity. This will support organizational development and capacity building of NAFES/PAFES, DOF and PAFOs and DAFOs. Support will be provided for developing a long-term training strategy and research support to PSFM,
including developing volume tables and growth and yield information based on existing and new permanent sample plots, and carrying out field research on natural forest regeneration, enrichment planting techniques, and cultivation of selected NTFPs.

**Component 2: Sustainable Forest Management and Village Development**  
**US$11.04 million**

This component will put priority natural production forests under sustainable management and improve village livelihoods in the project area. It will provide support for training, preparation, implementation and monitoring of forest management and annual operation plans. It will support acquisition of satellite imagery, GIS mapping facilities; computers and printers; road upgrading, field and training equipment; vehicles; and incremental field operating costs such as per diems, fuel and vehicle maintenance. The Village Development Sub-component will support investments in small scale village infrastructure aimed at supporting villager involvement in forest management and at building local capacity.

**Sub-component 2.1: Participatory Sustainable Forest Management.** This sub-component will support implementation of sustainable management practices in selected production forest areas of the Central and Southern provinces (see section 3.1 below for specific sites). It will provide support for training Forest Management Unit (FMU) staff and villagers in sustainable forest management planning and implementation covering timber, NTFP and biodiversity resource inventories; forest land-use zoning for production, conservation, protection and other purposes; and preparation, implementation and monitoring of forest management and annual operation plans. Forest operations are to be conducted on all types of forest within the context of approved management plans, including assisted natural regeneration, enrichment planting, forest protection, sustainable NTFP utilization and other operations. Monitoring will cover all these aspects including NTFP utilization and wildlife/hunting trends.

**Sub-component 2.2: Village Development.** The component will support villagers in the project area to plan, implement, monitor and evaluate their own development projects financed initially through project support but later on from revenues based on sustainable forest utilization. The main project activities are revision of guidelines and procedures; training in village organizing and development; creation and strengthening of village forestry committees and associations; village development planning; village development financial management; and village development plans and projects. The sub-component will fund investments in village development, tentatively budgeted at US$8,000 per village, which are to be complemented by villagers’ inputs mainly in kind (labor, materials).

The project will undertake studies to assist in its efforts to target increased participation of women, ethnic minorities and the poor. In the first six months of project implementation, the project will undertake a gender analysis, to identify other specific steps to be taken, to better promote women’s participation in the project. The project will also undertake specific studies of ethnic minority groups, as needed, to adapt the project methodology to suit their needs.
**Component 3: Forestry Sector Monitoring and Control (US$2.56 million)**

This component will cover four areas: (a) Internal Forest Control; (b) Forest Law Enforcement Monitoring and Reporting; (c) Forest Cover Monitoring; and (d) Independent Monitoring and Management Audits. These will install a capacity for the forest administration to have current and reliable data on key developments and trends in the sector. It will support GOL’s Natural Resource Monitoring and Planning Center (NRPMC) in MAF and provide for oversight independent assessment by the Science, Technology and Environment Agency (STEA). Environmental Research Institute (ERI) assisted by International Experts. The project will support acquisition of computers, mapping facilities, satellite imagery, and independent monitoring services, as well as financing training and technical assistance.

**Component 4: Project Management (US$1.86 million)**

This component would facilitate efficient project implementation and coordination and collaboration with various government agencies at central, provincial and district levels as well as undertaking project monitoring and ensuring effective collaboration and cooperation with relevant other projects, donors and non-governmental organizations. The main activities are developing a project coordination and management mechanisms, including the establishment of national and provincial Steering Committees and Establishing of Province Implementation Units in each of the project provinces; overall project management and coordination; project monitoring and evaluation (M&E), including project impact studies; financial management system at NAFES and provincial project/PAFES offices; procurement; facilitating supervision missions; various baseline and impact studies; annual financial audits; reporting. A mid-term review would be carried out during the third year of the project implementation. The project will provide support for M&E, including TA for systems development, training, improving facilities, financing independent audits and forest certification (initially), and carrying out special studies.

<table>
<thead>
<tr>
<th>Component</th>
<th>Indicative Costs (US$M)</th>
<th>% of Total</th>
<th>Bank-financing (US$M)</th>
<th>% of Bank-financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Services for Sustainable Forest Management</td>
<td>0.99</td>
<td>6.0</td>
<td>0.70</td>
<td>7.1</td>
</tr>
<tr>
<td>Sustainable Forest Management and Village Development</td>
<td>11.04</td>
<td>67.1</td>
<td>7.37</td>
<td>74.4</td>
</tr>
<tr>
<td>Forestry Sector Monitoring and Control</td>
<td>2.56</td>
<td>15.6</td>
<td>1.12</td>
<td>11.3</td>
</tr>
<tr>
<td>Project Management</td>
<td>1.86</td>
<td>11.3</td>
<td>0.71</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>16.45</strong></td>
<td><strong>100.0</strong></td>
<td><strong>9.90</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td><strong>Total Financing Required</strong></td>
<td><strong>16.45</strong></td>
<td><strong>100.0</strong></td>
<td><strong>9.90</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Percentages may not add due to rounding.
2. Key policy and institutional reforms supported by the project:

In relation to the project, Government has prepared a Letter of Forest Management Policy (Annex 12) covering a large range of policy and institutional issues facing forestry. Particular emphasis is given to creating an enabling environment for participatory forest management. Indicated reforms will ensure Village Forestry Associations an appropriate degree of involvement in management and commercial aspects of forestry, access to fair and equitable conflict resolution mechanisms, and viable revenue sharing arrangements. Reforms and institutional measures will also be sought that will demonstrate and strengthen Government’s forest law enforcement program. The actions outlined address problems with excess forest industry capacity and state-owned logging operations and must include measures, which will increase transparency and accountability in the sector through regular sector monitoring reporting and public disclosure.

3. Benefits and target population:

Proposed Project Area.

3.1 For the field implementation, it is estimated that the project will work in eight production forests covering all together an estimated 528,000 ha in four (4) provinces and eighteen (18) districts. This includes 270,000 ha initially covered by previous projects.
Potential National Production Forest Areas to Be Covered by the Project

<table>
<thead>
<tr>
<th>Name</th>
<th>Province</th>
<th>Districts</th>
<th>Area, ha</th>
<th>Number of villages</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing sites</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dong Phousoi</td>
<td>Khammouane</td>
<td>Xeubangfai, Mahaxai, Xaibouathong</td>
<td>110 000</td>
<td>74</td>
<td>FOMACOP village forestry pilot site, lowland forests</td>
</tr>
<tr>
<td>Dong Sithouane</td>
<td>Savannakhet</td>
<td>Songkhon, Thapangthon</td>
<td>150 000</td>
<td>74</td>
<td>FOMACOP village forestry pilot site, lowland forests</td>
</tr>
<tr>
<td>Dong Kapho</td>
<td>Savannakhet</td>
<td>Phin, Phalanxei, Xonbuly</td>
<td>24 000</td>
<td>20</td>
<td>LSFP JFM pilot site, lowland forests, expanded from original size of 9 600 ha</td>
</tr>
<tr>
<td><strong>New sites</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dong Khating/Nongkapat</td>
<td>Khammouane</td>
<td>Mahaxai, Xaibouathong, Boualapha</td>
<td>77 000</td>
<td>49</td>
<td>Integration of Dong Khating/Nongkapat, Naphakeo, and Phou Dinso lowland forests</td>
</tr>
<tr>
<td>Lao Ngam</td>
<td>Salavan</td>
<td>Lao Ngam, Khongxedon, Vapy, Salavan</td>
<td>76 000</td>
<td>76</td>
<td>Integration of Lao Ngam and Thong Khian lowland forests</td>
</tr>
<tr>
<td>Phou Talava</td>
<td>Salavan</td>
<td>Salavan, Toomlan, Ta Oi</td>
<td>36 000</td>
<td>15</td>
<td>Integration of Phou Talava and Thong Lavi upland forests</td>
</tr>
<tr>
<td>Xilivang</td>
<td>Champassak</td>
<td>Khanasombon, Puchiang</td>
<td>28 000</td>
<td>21</td>
<td>Lowland forests</td>
</tr>
<tr>
<td>Phatumphon</td>
<td>Champassak</td>
<td>Phatumphon</td>
<td>27 000</td>
<td>25</td>
<td>Lowland forests</td>
</tr>
<tr>
<td><strong>4 provinces</strong></td>
<td><strong>18 districts</strong></td>
<td></td>
<td><strong>528 000</strong></td>
<td><strong>354</strong></td>
<td>Lowland forests</td>
</tr>
</tbody>
</table>

**Beneficiaries.** Main project beneficiaries will be about 100,000 villagers involved in field implementation, and the Government through improved quality of forest management and improved rent capture and revenue collection. Other direct beneficiaries will include district, provincial and national forestry, rural development, and other government staff, who will receive support and training. Out of 354 villages, an estimated 190 will be directly involved with forest management. The other villages are adjacent to the production forests and would very likely be involved in forest protection activities. In areas, where these adjacent villages have traditionally enjoyed access to natural forests in other village territories, ways of allowing this system to continue will be promoted. In addition, villages that do not have good access to natural forests will receive special benefits through targeted support through the Village Development Sub-component.

**Benefits.** The project is anticipated to have primarily positive social and environmental impacts, especially as concerns the primary beneficiaries, the villagers. The project is intended to promote more sustainable management of the forests, enhancing livelihood security for local people. Main benefits would be:

- Forest products will be harvested at maximum sustainable levels without degrading the forest resources, which will provide benefits to the current and future populations. Timber harvesting with
high retention of large trees in a stand would lead to minimal changes in species composition and stand structure, and minimal habitat disruption;

- Protection of important social and cultural values such as spirit trees, sacred forests and other cultural assets through villager participation in tree selection;
- A participatory land-use and forest management planning process which would: (a) resolve land use, (b) clarify land tenures and resource use rights, and (c) ensure greater consultation, fairness and consistency in land allocation and forest regulation;
- Access to community development services, training and improved village revenues reducing dependence on natural forest resources (wildlife and NTFPs);
- Incidences of improper logging practices and illegal logging would be reduced helping Government maximize rent capture by reducing logging wastes and illegal log flows;
- The project helps to alleviate poverty in rural areas by promoting economic development and empowerment of villagers; and
- Significant in situ biodiversity conservation of low elevation evergreen/semi-evergreen and dry deciduous forests, all of which are poorly represented in NBCAs, through the light "ecological footprint" of the adopted low-impact forest management approach.

4. Institutional and implementation arrangements:

National level arrangements. Responsibility for forestry issues is distributed among numerous agencies at both national and local levels. Consistent with the Government's policy of decentralization, project implementation will be largely decentralized although the project will be centrally coordinated. At the National Level, a Project Steering Committee (PSC), led by MAF will be established to provide overall policy and implementation guidance, and periodically review implementation performance. Because activities run across different ministries and requires policy reforms and action in other ministries, the PSC will also include representatives of Ministry of Finance, STEA, and Ministry of Commerce.

A Project Management Office (PMO) at NAFES will be in charge of overall project coordination and management both at the national and province level, and will be responsible for centralized procurement, financial management, monitoring and reporting. MAF and DOF, under the direction of the Project Steering Committee, will also be responsible for implementation of national level project activities related to policy and legal issues, establishment of the PFA, and forest sector monitoring. A National Project Coordinator (NPC) and other project management staff will be based at NAFES. NAFES will run the regional training center for PSFM in Savannakhet.

Natural Resource Planning and Monitoring Center (NRPMC) of MAF, DOF and STEA would take care of the remote sensing based forest monitoring and forest law enforcement reporting. STEA will be responsible for monitoring issues associated with the environmental impact of forest activities based on information and satellite images regularly sent by MAF and DOF. STEA will also undertake cross-checking of satellite images.

Provincial level arrangements. Field implementation would be a direct responsibility of each province. A Province Project Implementation Unit (PPIU) would be set in each of the Project Provinces under PAFES and headed by a Provincial Project Director (PPD). PPIU would be responsible for coordinating implementation of the component dealing with participatory sustainable forest management and village development, including coordination of field implementation of sub-components and activities related to PFA demarcation, monitoring and control as well financial management of provincial project funds.

The four provincial training stations should be run by the respective PAFES. Province and district forest sections, including FMUs, together with organized villagers will be responsible for implementing
sustainable forest management in project forest areas. Village development related activities would be coordinated and implemented under the respective PAFES and DAFO. Village development will be implemented in close collaboration with the Provincial and District Departments of Planning (responsible for village development plans). The village development activities will also involve collaboration with other ongoing rural development projects in the project sites, whether they are implemented directly by government, other donor-assisted projects, mass organizations, or non-governmental organizations (NGOs), especially with respect to extension support for food security and income-generating activities. An Operational Manual has been drafted as part of project preparation and will be finalized as a condition of effectiveness.

Financial Management and Disbursement

Arrangements of accounting system and audit. National Agriculture and Forestry Extension Service (NAFES) will be responsible for overall financial management functions for the project. A Finance Unit of PMO under NAFES would ensure flow of funds to each component, supervise the financial management of the central and provincial units and be responsible for consolidating financial reports and audits and reporting to the government and the Bank. Project records and accounts would be maintained centrally by NAFES. The accounting system will be computerized and processed by the existing ACCPAC accounting software. Supporting documentation will be made available at NAFES for subsequent audit by Bank staff and independent auditors. An independent external auditor acceptable to the Bank will be appointed to audit the project financial statements on an annual basis.

The most demanding element of financial management system would be the implementation of Village Development Sub-projects and the processes involved in reviewing, verifying and approving sub-projects as well as identification the most appropriate procurement method under the sub-projects. It needs to establish a financial management and accounting system to control the flow of funds at each level at which the sub-project will operate. The necessary and simple reporting and monitoring features will be built into its system to track the use of project proceeds implemented by communities at the village and district levels. Such process was designed and evaluated during appraisal.

Funds flow. IDA funds will be channeled through a Special Account. In line with the GOL decentralization policy on financial management, MOF shall authorize the establishment of a Special Account (SA) for the project to be operated by the Ministry of Agriculture and Forestry (MAF) through NAFES. In this case, at central level, NAFES will operate two bank accounts comprising: (a) a Special Account denominated in US dollars to receive funds from IDA; and (b) a KIP (local currency) account to receive funds from government budgetary allocations. At provincial level, each Provincial Agriculture and Forestry Extension Service (PAFES) will operate at least a KIP bank account to operate project funds, regardless of project components. The Special Account will be opened at the Bank of the Lao People's Democratic Republic (the Borrower's Central Bank), and the provincial bank accounts shall be opened at a bank acceptable to the Association. Disbursement of thirty (30) day advances in local currency from the Special Account will be permitted to enable provincial units to conduct routine operations on the basis of approved work plans.

Technical Assistance

Technical assistance will be mobilized to help develop systems and to provide training to increase local capacity. Both long and short-term technical assistance will include both advising and training functions. Long term international advisors will be primarily concerned with advising on forest management and rural development while short-term advisors/trainers will provide both training and advice. There will be three long-term advisors, out of which two will work throughout the project. Regional short-term
technical assistance used for training in procurement and financial management is included.

Grant financing of forest management and village development technical assistance is expected to be provided under a cofinancing arrangement with the Government of Finland which will undertake consultant selection. A total of 543 months of advisers are estimated to be needed according to terms of reference provided in the Project Implementation Plan at a total estimated cost of about US$5.7 million equivalent. Technical assistance is summarized in Annex 11.

The IDA Credit would support limited amounts of additional technical assistance on project management, financial management systems, procurement and audits.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

Alternatives to the present design included components aimed at parks and protected areas (National Biodiversity Conservation Areas), plantation establishment, and alternatives to slash and burn agriculture. These alternatives have been rejected on the basis of unsatisfactory previous experience, existing projects supported by other agencies (industrial timber plantations by Asian Development Bank (ADB), agricultural development projects (IDA and other various agencies) and on the basis that weaknesses in the production forestry sub-sector are currently leading to pressures on protected areas and other resources that will be insurmountable without reform. A design involving parallel development of state production forest management and village forestry was rejected because GOL policy is to avoid emphasis on state-led management and because GOL proposed to formulate a single general approach to participatory forestry that could be adapted to local circumstances. The problems with the “no-project” alternative have been discussed earlier in Chapter B under Main Sector Issues.

An alternative to the participatory sustainable forest management approach proposed by the project could be adoption of the concession management system used elsewhere in the region. Most of the present timber-producing countries in Southeast Asia have opted for a system of private industrial forest concessions as the main instrument of commercial forest management. Industrially-oriented wood production has been traditionally practiced in Lao PDR but it has not been based on a concession system. Few of the potential benefits of industrial concession systems have been realized elsewhere. Typically, ill-conceived investment policies have usually created processing capacity greatly in excess of sustainable yield. Increasing demands for wood have led to reduced harvesting cycles, premature and multiple re-entries of felling coupes, and a steady erosion of cut-constraints and retention standards - all of which have resulted in significant forest depletion. Although these problems are in principle manageable, GOL policy is to avoid concession development and the proposed participatory approach promises more desirable outcomes.

Inclusion of a tranched policy-based element was considered based on experience under an earlier Bank-financed project, which showed that continuous policy leverage is needed to compliment investment support. Because of the inclusion of forest policy conditionalities into the Financial Management Structural Adjustment Credit, it was determined to streamline the current operation to focus on investment support alone.
2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project</th>
<th>Latest Supervision (PSR) Ratings (Bank-financed projects only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank-financed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Village Forestry</td>
<td>Forest Conservation and Management Project (FOMACOP)</td>
<td>Implementation Progress (IP): U</td>
</tr>
<tr>
<td>Rural Development</td>
<td>District Uplands Development Project</td>
<td>Development Objective (DO): U</td>
</tr>
<tr>
<td>Village Forestry/Illegal</td>
<td>Nam Thuen II Hydroelectric Project Partial Risk Guarantee</td>
<td></td>
</tr>
<tr>
<td>Logging/Protected Areas Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural Reforms (including village</td>
<td>Financial Management</td>
<td></td>
</tr>
<tr>
<td>forestry)</td>
<td>Structural Adjustment Credit</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>Agricultural Development Project</td>
<td></td>
</tr>
<tr>
<td>Other development agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish International Development Agency</td>
<td>Lao-Swedish Forestry Project</td>
<td></td>
</tr>
<tr>
<td>GTZ</td>
<td>Lao-German Forestry Project Finland (FOMACOP Extension Phase)</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>Industrial Tree Plantation Project</td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>Non Timber Forest Products</td>
<td></td>
</tr>
<tr>
<td>IUCN</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

The project follows extensive Bank experience in the sector and a recently completed project, FOMACOP. The FOMACOP Implementation Completion Report (ICR), particularly, enumerated important lesson that will be incorporated into project design. The were also reviewed in the Bank/Sida/Government of Finland Production Forest Policy Review and were discussed extensively with GOL. Some of the main lessons learned are:

**Project Design**

- Project design should provide realistic targets and timelines for the achievement of the objectives within the project period. It should not be premised on the assumption of future project support, i.e., subsequent projects.
- Project design needs to provide effective integration between the various project components and sub-components.
- Even for a process-oriented project, it is vital that a logical framework, with clear objectives and indicators, be part of the project formulation, and be adequately appraised.
Policy and Institutional Reform

- The Government policy framework and institutional arrangements need to be adequately analyzed during project design, to fully understand the implications of proposed model development and ensure willingness to modify policy in light of pilot experience.
- It is essential to ensure that Government regulations and policy provide an adequate enabling context for project activities.
- Providing finance, through an investment project, as a means to facilitate policy and institutional changes will not work.
- If a project is designed to pilot new policy reforms, it is essential that the project helps in creating a policy forum (if none exists) and dialogue carried out to address critical policy issues.
- When the project objective involves improvement of a policy and legal framework, the project design needs to include resources to assist with this process.

Participatory Forest Management and Village Development

- Villagers must be involved in decision-making in all aspects of Participatory Sustainable Forest Management (PSFM) related to their own livelihood and their participating in the project.
- Village-based forest management must be seen to benefit, not only rural communities, but also the government, through more efficient collection of royalties and taxes, improved forest protection and sustainable management, and enhanced economic development.
- Villagers must have decision-making powers in timber sales based on consensus by all participants.
- Benefit-sharing arrangements must be negotiated and agreed to by all participants, and elevated for neutral conflict resolution in the case of disagreements.
- Training and technical support must be provided to villagers for participatory planning, monitoring, and periodic updating of village development plans. Village development plans need to be based upon clear priorities and strategies for addressing poverty reduction and village development established by the villagers themselves.
- Villages must be responsible for the planning and use of village development funds and village forest revenue but appropriate and transparent systems must be in place for fund administration, accounting and auditing.

Forest Management Plans and Agreements

- There must be full understanding by all parties of the nature of approved forest management plans and forest management agreements. These documents must be seen to have legal standing; specifying the rights, roles, responsibilities, and obligations of all participants in participatory and use planning, forest inventory, forest management, annual operational planning, timber sales, forest conservation, and participatory monitoring. These plans and agreements may only be changed by negotiated consensus.
- Compliance monitoring programs must be established that can neutrally evaluate the performance of all participants - government, villagers and contractors - and can lead to the enforcement of compliance with plans and agreements by all participants.
- Equitable, fair and transparent conflict resolution mechanisms must be established to deal with complaints and grievances from all participants and must incorporate the legal authority to halt any disputed activity while the issue is being resolved.
- The management agreement must specify how the partners will undertake annual negotiations on the net benefits to be shared, and what conflict resolution mechanisms are to be used if the need should
arise.

- Once the forest management plans and annual operational plans have been approved, they should not be subject to further interference or change. Harvesting levels should be based on management plans and not on separate administrative quotas or permits.

4. Indications of borrower commitment and ownership:

GOL has engaged in a frank and rigorous dialogue on sector policy issues and supports project preparation. GOL has acknowledged serious shortcomings in its approach to forest management, including recognition of problems with illegal logging. MAF has taken an active interest in the development of the project concept and has become increasingly proactive in articulating a strategy toward participation and villager benefit sharing. MAF has also now endorsed independent certification of the sustainability of villager-based forestry operations and is actively seeking donor support.

Government's previous approach to the sector and its previous willingness to reverse undertakings toward, for example, use of open public timber auctions and villager participation and benefit from timber revenues, raise concerns about the durability and depth of commitment to reformed policies in forestry.

5. Value added of Bank support in this project:

While various donors have been and are involved in the forestry sector, the Bank has taken leadership in raising the difficult and contentious issues of production forest policy and management. The Bank’s perspective on these issues, which brings together concerns on Government revenues, poverty reduction, sustainable forestry and governance, is uniquely balanced and recognized by Government and other stakeholders. Community forestry is particularly relevant to the emergence of a strong civil society and without Bank involvement, development of this aspect will slow or reverse. Through the provision of the IMF PRGF, the Government is committed to ongoing sector policy and strategy consultations with the Bank and the proposed project shall provide a mechanism for operation undertakings and commitments.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):
- Cost benefit NPV=US$ million; ERR = 19.7 % (see Annex 4)
- Cost effectiveness
- Other (specify)

The project would yield an IRR of about 19.7%. The IRR would decrease to 15.7% if all costs would increase by 20% and to 15.6% if benefits would be delayed by two years. The IRR would increase to 23.7% if certified logs would be produced, assuming price premiums of 10% and current level of costs associated with forest certification. The analysis considered only the quantifiable benefits related to timber production. If other benefits, e.g. conservation of resource base of NTFPs, etc., are considered then the economic benefits would be greater.

2. Financial (see Annex 4 and Annex 5):
NPV=US$ million; FRR = % (see Annex 4)

Fiscal Impact:
Aside from benefit flows to participating village communities from the sale of timber and non-timber forest products, the project will contribute to enhancement and stabilization of Government forestry (timber) revenues. These consist of royalties and other fees (set by the Ministry of Commerce as discussed in Section A 2.3); and revenues that accrue to provincial and district units. Royalties are administratively determined with inadequate reference to border price equivalents and the Government has committed to reforms as described in the Letter of Forest Management Policy (Annex 12).

3. Technical:

The technical model of forest management to be promoted under the project was tested and demonstrated under FOMACOP and shown to be sustainable and viable in forest types common throughout the proposed project area. Research and studies provided for in the project will establish appropriate guidelines and practices in other forest types before expansion into these areas.

4. Institutional:

Responsibility for various aspects of forest policy is distributed across different agencies and levels of Government. This contributes to enormous problems of accountability, transparency and governance.

4.1 Executing agencies:

The project will be executed by National Agriculture and Forestry Extension Services (NAFES) under the direction of the Ministry of Agriculture and Forestry. A Project Steering Committee, also including representatives of other concerned ministries and agencies (Commerce, Finance, Science, Technology and Environment) will provide direction and guidance and will be an expansion of the Steering Committee that has led project preparation. The Department of Forestry (DOF) will be responsible for technical aspects of project implementation and will be the principle implementing agency for the Support Services for Sustainable Forest Management and the Forest Sector Monitoring and Control components. The Science Technology and Environment Agency (STEA) will be involved in the Sectoral Monitoring and Control Component. At the provincial and field level, project implementation will be led by the Provincial Agriculture and Forestry Extension Service (PAFES) units of each participating province.

For all agencies, the work to be conducted under the project are extensions and refinements of their current and ongoing intended functions and amount to capacity building and systems development aimed at overcoming limitations identified in earlier projects and during project preparation. As indicated under Strategic Context (B 2.5) the capacity limitations of these agencies are serious and recognized constraints and will present challenges during project implementation. Technical assistance provided under the project will compensate for some of the institutional weaknesses as will the experience of some staff based on previous projects.

4.2 Project management:

A Project Management Office (PMO) in the NAFES will be responsible for project management and implementation, including financial management, procurement, overall project coordination and implementation monitoring. Implementation of field operations will be decentralized with some procurement and financial management at the provincial level, and in the case of village development sub-projects at the District and community level. NAFES is a recently established institution and has
been structured to house project coordination and implementation units responsible for a number of national agriculture and rural development projects under the responsibility of MAF. These include the IDA-financed Agricultural Development Project, ADB Industrial Tree Planting Project and several other large projects. The designation of NAFES as the location of the PMO is in line with MAF policy to centralize administrative aspects of project operations while decentralizing to provinces and technical agencies (in this case DOF) technical and field implementation. Until, however, NAFES develops as a genuine center of competence, serious capacity limitations need to be anticipated.

4.3 Procurement issues:

The unit that will support procurement aspects to PMO in NAFES is lacking staff who are knowledgeable in Bank and international procurement, but there are staff experienced with local procedures. For the ongoing IDA project, procurement specialized expertise was engaged to assist on all procurement matters from the preparation of tender documents, bidding processing, bid evaluation of contract award. Through the use of specialized consultants at least first six months for streamlining and strengthening of the PMO, procurement capabilities will be improved. For the current project a Procurement Consultant is needed to build up the administration unit within the NAFES through hands-on training and identification of a training program. To mitigate limited foreign language skills to the extent possible, procurement activities to be carried out by the PAFES should be in national language for NCB and shopping procedures and shall be under monitoring of the PMO which requires prior review of all important steps in the procurement process.

4.4 Financial management issues:

The CFAA has been prepared by the Bank and the report was shared with the authorities in mid 2002. The overall fiduciary risk in Lao PDR is considered to be high despite elaborate built-in controls within the government financial management system. There is insufficient transparency related to public finances and the general attitude towards fiscal discipline is not strong. The budget process is not yet transparent and public access to government financial information is limited. These weaknesses are compounded by an inadequate awareness of modern practices of internal control in the public sector. While an elaborate control system is in place, involving many pre-approval and checking processes, it needs to be made more effective. The government’s decentralization initiative needs to be supported with a sufficiently robust institutional framework that clearly defines the new responsibilities at lower levels. Technical capacity of staff at these levels needs to be strengthened. The oversight functions and the National Auditor Office’s need improvement. The accounting and auditing profession and institutions remain undeveloped. To address these deficiencies, the government has agreed to implement several recommendations of the Public Expenditure Review (PER) and CFAA. The Financial Management Capacity Building project as well as the government initiative supported by ADB are expected to bring the fiduciary risk to an acceptable level.

At the level of the Project, the financial management system for the external funded project remains weak and need substantial improvement. A number of key issues and weaknesses regarding the Bank funded projects were identified as following: (a) inconsistent and inadequate financial management standards, procedures and software in each PIU; (b) delays to project implementation resulting from management of Special Accounts by MOF; (c) delayed audit and lack of consistent external audit standards and procedures; (d) PIU accounting departments that have been poorly staffed and equipped at start-up; (e) poor internal control procedures and absence of internal audit in line agencies; and (f) lack of financial management capacity at provincial and district levels.
Based on an initial review of financial management arrangement of the proposed project undertaken during pre-appraisal mission in July and September 2002, the project will face fiduciary risks due to weak control environment as a result of low salary and compensation levels of civil servants which make it difficult to attract and retain well qualified and motivated staff. The project financial management capacity at provincial level is weak and counterpart fund arrangement is lacking particularly at provincial level. The review concluded that the project would meet minimum Bank financial management requirements subject to the following actions completed and implemented before start of project implementation: (a) finalize organization structure of the financial management and accounting section within the NAFES with an adequate number of mix skilled and experiences staff who understand the relevant accounting concepts and government regulations at both national and provincial level, (b) develop account system and financial procedure manual applicable for the project with chart of account capable to capture projects data by provinces, components, procurement category and funding sources (c) update project financial management manual applicable for the project and provide trainings to project staff, (d) finalize funds flow and financial control and procedures on participatory Forest Management and Village Development under sub-projects (e) complete reporting requirements to report regularly and more frequency in agreed format that helps management for timely monitoring and decision-making and meets the Bank requirements: Financial Monitoring Reporting (FMRs), and (f) install equipment and software ready for testing functionality of the system.

5. Environmental:

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

The environmental and social issues in the project have been addressed in two steps: first, a social and environmental assessment at project preparation and design; and second, an objective environmental and social impact assessment (ESIA) based on the completed design. The approach to deal with environmental and social issues was to make a clear distinction between environmental and social assessment to inform project design, and an ESIA to inform project appraisal and approval.

Forestry operations can have significant and diverse environmental impacts including soil erosion, siltation of waterways, alteration in wildlife habitat, modification of forest structure and composition, access to hunting, land use conversion and other effects. These are highly site specific and dependent on the quality of planning and implementation, timing of works and other considerations. Uncontrolled, poorly planned and unmonitored operations, such as those that currently predominate in Lao PDR, have overwhelmingly negative environmental consequence. These impacts affect, most strongly, local populations through alteration to water sources, non-timber forest products (including wild game and naval stores), fuel wood and timber and religious and spiritual sites. Other stakeholders include environmental interests, the scientific community, tourism related interests who variously benefit from the relative natural integrity of forest resources in Lao PDR. The project aims to improve planning and control and to introduce, through village forestry and through a stronger regulatory mechanism, incentives to promote their adoption. This would aim to reduce the worst damage from forestry operations in the without project case, but would not entirely eliminate impacts.

In line with IDA requirements an environmental and social assessment of the project was commissioned from an independent specialist. From an environmental perspective, the project should have major positive benefits if implemented as designed. The few potential environmental issues identified are manageable with provisions already incorporated in project design. The National-level Sustainable
Forest Management Support Services Component will include enabling regulations for effective and equitable participatory forest management and benefit-sharing, establishment of production forest areas, development of a Laos Code-of-Best-Forest-Practice and provision of substantial training to DOF, PAFO and DAFO staff in sustainable forest management. This component should establish conditions and financial incentives for effective and equitable participatory forest management, limit rates of unplanned deforestation, and provide a firm basis for credible, science-based, long-term sustainable forest management.

The Sustainable Forest Management and Village Development Component will include development of Village Management Agreements that will take the form of contracts between villagers and government, and Village Forest Management Plans that provide a "blueprint" for participatory management implementation. Harvesting controls involve very light cutting intensities (1-2 trees/ha, < 12 m³/ha per felling cycle) and very high retention standards. Log extraction utilizes existing village roads wherever possible and lightly-slashed, lightly-used temporary "skid" trails. The light "ecological footprint" of village participatory forestry provides the potential for:

- significant in situ biodiversity conservation of low elevation evergreen/semi-evergreen and dry deciduous forests, all of which are poorly represented in NBCAs;
- the creation of buffers around, and connectivity between, existing NBCAs in some areas;
- the incremental introduction of sustainable management and use of NTFPs and wildlife (a priority expressed by villagers to both the mission and WCS surveyors);
- zoning to protect wetlands, gallery forests, mineral licks, perennial river pools and channels and other critical habitats;
- the protection of snags, wildlife trees, coarse woody debris, fruit and nut species, pollinators and seed dispersers and other ecological keystones;
- the recovery of depleted forests ecosystems; and
- the protection of important social and cultural values such as spirit trees, sacred forests and other cultural assets.

The Monitoring and Control Component should provide a national forest sector monitoring and reporting system to generate the information needed to evaluate and modify management practice. This will incorporate program implementation monitoring, compliance monitoring and environmental condition monitoring. Compliance monitoring activities should lead to improved enforcement of regulatory compliance, better forest practices and enhanced revenue collection. Participatory monitoring of forest health and condition and village prosperity and welfare will reinforce awareness of the benefits of sustainable forest management and provide a vehicle for tapping the substantial traditional knowledge of local communities in sustainable management and forest conservation.

Possible negative environmental impacts could arise, but are expected to be minimal in relation to the environmental benefits. Such impacts might include:

- The adopted forest management system calls for frequent (e.g. every seven years) but low intensity interventions in a forest, which may cause increased disturbance, especially to wildlife.
- Harvesting in upland areas on slopes may cause erosion unless adequate precautions are taken.
- Possibility exists of minor environmental impacts arising from village development projects.

The possible negative impacts from village development projects will be dealt with by a simple screening process. Simple impact management guidelines for the different types of projects may also be
contemplated. This strategy would follow the system adopted in the Poverty Reduction Fund Project.

5.2 What are the main features of the EMP and are they adequate?

The Project Implementation Plan is, *inter alia*, the EMP. Environmental impacts and mitigation measures related to site specific operations planned and supported under the project will be monitored by the implementing units and overseen by the Sectoral Monitoring and Control Component. The monitoring system will allow monitoring the impacts of forest management operations on the environment. It will be based on both a participatory village/PFA-based biodiversity monitoring, integrated into the forest management system and project effectiveness monitoring. The latter type of monitoring will require carrying out a biodiversity baseline survey and development of appropriate indicators. The project will design an environmentally friendly but cost-efficient method for harvesting in upland areas. The safest approach is to zone as conservation areas those lands that are too steep, unstable or fragile to log safely. Harvesting intensity in upland areas is not to be increased on economic grounds because greater harvesting intensity usually means more site disturbance and residual stand damage, and a greater density of skid trails and extraction roads (unless cable-yarding systems are employed), all of which are environmentally damaging in steeper lands.

5.3 For Category A and B projects, timeline and status of EA:
   Date of receipt of final draft: November 2002

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

The focus of public consultation, has been three-fold: first, to improve project design (i.e. to give communities input to design and to gauge both community support for, and capacity to implement, the project); second, to provide a basis for the final project disclosure; and third, to provide baseline socio-economic information against which to monitor the achievement of project objectives. Communities living near and using specifically targeted forest areas (sites for the first years of the project have been pre-selected during preparation) have been consulted through workshops and social surveys. Communities affected in subsequent operations will be consulted during project implementation using similar approaches.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The Environmental Assessment has identified trend and condition indicators to be monitored during the life of the project and forest management planning guidelines will identify performance indicators to be monitored as part of forest operational control.

6. Social:
6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

As part of the environment and social assessment process described above, consultations were undertaken in the project areas including a broad sample of local communities (26 villages in new project
areas and 79 villages in FOMACOP sites), particularly villages with ethnic minorities (e.g. Taoi, Souay and Katang ethnic groups). Based on findings from the social assessments and consultations conducted thus far and observations made during field visits, a number of issues have been identified that are addressed in project design and implementation to ensure that ethnic minorities, that may be vulnerable to the development process due to their social and cultural identity distinct from the Lao ethnic group, do not suffer negative impacts of the Project and that they receive social and economic benefits that are appropriate to their particular cultures and circumstances.

Communities within the project area vary in terms of social organization, culture, land use practices, food security, Lao language abilities, access to resources, gender roles and participation in local development planning processes. Some communities, particularly vulnerable and marginalized ethnic minorities, pose some challenges and risks in relation to the project; these include, but are not limited to:

- Traditional land use practices, including NTFPs and rotational agriculture, and cultural practices, e.g. spirit forests, which may be adversely affected;
- Varying level of Lao language ability among villagers effect the level of participation in development processes of ethnic minorities, particularly women;
- Weaker capacity of particular local communities to participate in development activities, that may provide for unequal participation and project benefits among different communities or among villagers within a particular village;
- Weak capacity of PAFO and DAFO staff to work with ethnic minorities, including lack of local language skills, and gender and cultural sensitivity;
- Government programs that do not pay sufficient attention to the traditional – often environmentally sustainable – practices of local ethnic communities, particularly the land allocation program which aims to stabilize or minimize shifting cultivation.

The participatory and voluntary nature of project activities should mean that the risk of serious social impacts will be minimized, and more than offset by potential project opportunities. The approach advanced by the project will directly contribute to expanded local control over resources and increased benefit from forestry operations. Village forestry, as piloted under previous projects involve introduction of formal processes of consultation, decision-making and conflict resolution within local communities and between communities and public authorities and agencies. These are intended to, and generally do, lead to increased resource productivity and local incomes, but can involve exacerbated tensions and conflict.

Commercial forest management approaches, especially as currently practiced in Lao PDR, can have serious adverse social impacts on local communities, primarily through disruption of customary resource access and alteration of the resource base. By introducing explicit consideration of social issues into commercial forest management and planning, the project will prescribe mitigation measures and, in some cases, proscribe commercial operations where adverse impacts would be considered too severe and unjustified. Other potential negative social impacts have been identified, e.g. the apparent resistance of many government staff to village administrations having their own development funds and to village participation in log sales; the burden of project participation on villagers’ overall work schedules, and the possible impact on their other activities; and the exclusion of vulnerable groups such as women and ethnic minorities.

These potential negative social impacts are to be managed through the project design and social safeguards. Land allocation programs and village forest management plans in the project will not be used as a mechanism to limit traditional rotational cultivation, if these agricultural practices are found to be sustainable. This issue must be dealt with at the time of participatory land-use planning, which must
be based on a real appreciation of soil capability. Local farmers must be allowed to employ their traditional rotational farming methods on those lands that are zoned for agricultural production. Care will be taken during village forest planning to ensure that sufficient land is available to allow appropriate fallow periods.

Based upon the experience with the past pilots, conflict resolution mechanisms will be established, which will provide support for enforcement of the management plans, contracts, and other agreements. The implementation regulations under the Prime Ministerial Decree on Sustainable Forest Management will specify provisions for conflict resolution mechanisms. Such conflict resolution mechanisms must allow for legal authority to immediately halt any disputed activity in the forest, while the issue is being resolved. Implementing regulations are currently being drafted and they should be completed prior to effectiveness.

The participatory process will pay particular attention to issues pertaining to women and ethnic minorities, including collection of more site specific information using participatory methods, and identification, in close cooperation with vulnerable ethnic minorities and women, of their particular needs and priorities that should be incorporated into the community development activities and forest management arrangements. These are described in the Ethnic Group Development Plan, and summarized in the annex on social safeguards.

No land acquisition and involuntary resettlement is expected. However, the project includes activities that potentially could have adverse impacts in terms of land acquisition and restriction of access to resources. The project will support upgrading of existing roads, training facilities and village development activities which may include small-scale investments in infrastructure. To adequately address the rehabilitation and compensation of possible affected people, GOL and the project have prepared a Resettlement Policy Framework for mitigating loss of access to land, assets and natural resources (summarized in the annex on social safeguards).

6.2 Participatory Approach: How are key stakeholders participating in the project?

Local residents and community leaders are involved through participatory processes, under the guidance of Government staff and project financed technical assistance, in assessment of forest resources to define, delineate and demarcate areas that form discrete logical forest management units that can be brought under the effective control of formally structured Forest Management Areas. Written plans and contracts regarding the specific areas, define the basis for the conduct of operations subject to compliance with standards of practice, revenue sharing terms and other considerations. Participation by individuals within the community is voluntary and ranges from: involvement in consultative meetings; managerial roles in the VFO (including management of funds and revenues from timber sales); forestry work performed on a wage basis (trail clearance, tree marking, inventory and basic harvest planning); utilization for sale or domestic use of nontimber forest products; forest protection and patrolling; and involvement in identification, construction and use of village projects financed from net timber sales proceeds.

The proposed planning package will be designed to: ensure identification of affected stakeholders; establish mechanisms for informed consultation; provide meaningful opportunity for their involvement in planning and operations; and negotiation of compensation and other forms of benefit sharing. The process would involve standards for public disclosure and notification.
6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

NGOs (whose role is limited in Lao PDR) would be supported under the project to work with Government in the formation and support of VFOs. NGOs could also work independently with established VFOs or, within the policies to be agreed upon under the project, support the formation of new VFOs. NGOs were contracted during preparation to assess biodiversity constraints and opportunities related to improved planning and control of forest management, and to conduct site-specific consultations.

Public disclosure of the results of sectoral monitoring supported under the project would be required under the project. Transparency of this kind would be a new feature of the Lao forestry sector and would be in advance of most other sectors.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

In view of the risks and challenges discussed above, project preparation included consultations and development of appropriate, participatory design features and a set of social safeguard provisions and guidelines, including:

- Disclosure of the Draft Environment and Social Impact Assessment (ESIA) report in country (December 2002);
- Consultations with key stakeholders in the project areas, e.g. in connection with the disclosure of the ESIA report and draft safeguards documents, including local communities, government authorities, and PAFO and DAFO staff;
- Preparation of an Ethnic Group Development Plan disclosed in country (December 2002);
- Preparation of a Resettlement Policy Framework disclosed in country (December 2002).

These have been incorporated into the Operations Manual and were confirmed during negotiations. The Ethnic Group Development Plan and Resettlement Policy Framework are summarized in the annex on social safeguards.

6.5 How will the project monitor performance in terms of social development outcomes?

A baseline socio-economic survey will be conducted during the first year of implementation and systematic and special studies are planned as part of project management and the EMP. Implementation of the Ethnic Group Development Plan and Resettlement Policy Framework will be supervised and monitored by PIU and the respective DAFO, including participatory monitoring and evaluation as well as external evaluations. IDA will also monitor these activities during regular supervision missions.
7. Safeguard Policies:

7.1 Are any of the following safeguard policies triggered by the project?

<table>
<thead>
<tr>
<th>Policy</th>
<th>Triggered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Natural Habitats (OP 4.04, BP 4.04, GP 4.04)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Forestry (OP 4.36, GP 4.36)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Cultural Property (OPN 11.03)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Indigenous Peoples (OD 4.20)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Safety of Dams (OP 4.37, BP 4.37)</td>
<td>Yes No</td>
</tr>
<tr>
<td>Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*</td>
<td>Yes No</td>
</tr>
</tbody>
</table>

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

The project would not directly finance logging and is otherwise in compliance with OP4.36 which calls for the Bank to assist borrowers in addressing policy and institutional constraints limiting sustainability in the forest sector. Attention to impacts on forests arising from Bank projects in other sectors in Lao PDR are being addressed directly through those projects and will be reinforced through the policy commitments to be sought herein. In addition, see Section 6.4 above for guidelines and policies incorporated into the Project Implementation Plan.

F. Sustainability and Risks

1. Sustainability:

Lao forestry is currently on a decidedly unsustainable trajectory. Reforms and capacity to be built through the project would aim to reverse, or at least slow, self destructive tendencies within the sector. These would work at several levels:

**Stand Level.** Measures introduced through the project would improve prospects for sustainable forestry operations at the level of the individual forest stand. These would primarily be through the effective introduction of rate of cut constraints consonant with the growth potential of specific parcels and, further, with the restriction of harvesting to sites suited (socially as well as physically) to timber production;

**Forest Management Entity Level.** The project would support incentives and revenue arrangements that would provide the basis for maintenance of forest management as an ongoing concern. In addition to guaranteeing the commercial autonomy of VFOs, the program would put in place conflict resolution mechanisms and other arrangements to ensure sustainability. For public sector management, the program would establish a genuine public forest management apparatus, the maintenance of which would, ultimately, be well within the revenues generated. This may not be fully achieved within the life of the current operation and would justify continued investment support; and

**Policy Sustainability.** Sector reform is needed because vested interests have been able to capture lucrative rents flowing from the current distorted policy environment. These interests can be expected to
oppose reform and to seek to reverse reforms. Policy-based disbursement under FMAC is particularly linked to the development of a village forestry subsector that will ultimately provide substantial ongoing revenue flows to the public budget. Under the expected sequence of adjustment operations the revenue potential of village forestry will have been demonstrated and should have built a constituency for maintenance of sound policies, especially in central economic agencies and among elements favoring pro-rural poor development strategies. The visibility of village forestry revenues in the budget will facilitate monitoring of the maintenance of conducive policies by IDA and other agencies (e.g. IMF).

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

The project follows a disappointing conclusion to FOMACOP in which Government commitment was the fundamentally missing ingredient. Considerable efforts have been made to establish a meaningful dialogue on forest policy through sector work and engagement of GOL officials in project design. Nevertheless, commitment to sector reform is a critical risk.
<table>
<thead>
<tr>
<th>Risk From Outputs to Objective</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentives for government staff are adequate</td>
<td>S</td>
<td>Ongoing supervision and leverage granted by the policy-based disbursements</td>
</tr>
<tr>
<td>Governance framework provides sufficient oversight, accountability and control</td>
<td></td>
<td>Village forestry planning process incorporates land allocation and land use considerations</td>
</tr>
<tr>
<td>Village land use objectives are consistent with sustained forest management</td>
<td>M</td>
<td>Design of indicators based on international good practice piloted results.</td>
</tr>
<tr>
<td>Internal village social dynamics are suitable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data and information applied to sector planning and development</td>
<td>M</td>
<td></td>
</tr>
<tr>
<td>Indicators are meaningful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data collection is unbiased (or bias can be detected and corrected)</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Risk From Components to Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance is adequate and coordinated (likely to be grant co-financed)</td>
</tr>
<tr>
<td>Governance issues prove manageable</td>
</tr>
<tr>
<td>Political and bureaucratic interference in VFO operations minimized</td>
</tr>
<tr>
<td>Controls and incentives within administrative system prove adequate for supporting collection of data of satisfactory quality</td>
</tr>
</tbody>
</table>

| Overall Risk Rating | S |

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

Despite substantial risks within the project, the project is not as risky as the current trajectory of the Lao forestry sector and its implications for the economy and the rural poor. Project risks are largely managed through leverage on policy and institutional issues through the policy-based component.

3. Possible Controversial Aspects:

Forestry issues are associated with the proposed Nam Theun 2 Hydroelectric (NT2) Project Partial Guarantee operation. This project is not directly related to the NT2, but may be associated with civil society opposition.

The earlier FOMACOP suffered long delays between Appraisal and Board Approval due to NGO criticism and disputes. There have been no indications of such concerns and the pursuit of local
disclosure and consultation with respect to the present project has eliminated objective basis for protests. Forestry is a contentious sector and all Bank operations in the sector are subject to intense scrutiny. This project will be among the first forestry projects to be processed under the Bank's new Forest Strategy. The project does not pursue the logging financing options made available under the new Strategy (i.e. direct financing of logging). Nevertheless, controversy could arise.

G. Main Loan Conditions

1. Effectiveness Condition

(a) Regulations on Sustainable Management of Production Forest Areas, satisfactory to the Association, which include specific provisions to enable the involvement of local communities in production forest management, have been adopted by the Borrower through its Ministry of Agriculture and Forestry;

(b) a Project Management Office shall have been established, satisfactory to the Association, and a Project Manager, a Project accountant, and a Project procurement specialist in NAFES have been employed;

(c) a Provincial Coordination Unit in the Provincial Agriculture and Forestry Office of each Project Province shall have been established, satisfactory to the Association;

(d) Project accounting systems for NAFES and the PAFO in each of the Project Provinces, satisfactory to the Association, have been established and accountants in the PAFO of each Project Province have been employed and trained in the use of the Project accounting software and in the Project accounting and computer procedures set out in the Operations Manual;

(e) the Operations Manual and Financial Management Manual, satisfactory to the Association, have been duly approved and adopted; and

(f) all conditions precedent to the effectiveness of the FINNIDA Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

2. Other [classify according to covenant types used in the Legal Agreements.]

Main Implementation Covenants

The Borrower shall:

(a) establish and maintain until completion of the Project, a Project Management Office in the Borrower's NAFES with functions, responsibilities and resources satisfactory to the Association, and managed and staffed with qualified and experienced personnel in adequate number, including a qualified and experienced Project accountant and Project procurement specialist, and headed by a qualified and experienced national Project Manager;

(b) establish and maintain until completion of the Project, a Provincial Coordinating Unit in the Provincial Agriculture and Forestry Office of each Project Province, with functions, responsibilities and resources satisfactory to the Association, and managed and staffed with qualified and experienced personnel in adequate number, including a qualified and experienced Provincial Project Coordinator, a Project procurement specialist and an accountant trained in the use of the Project accounting software and in the Project accounting and computer procedures set out in the Operations Manual;
(c) issue new licenses for the establishment or operation of any new timber processing mills, only when an equivalent capacity is dissolved and processing efficiency is improved, satisfactory to the Association, or at such time as the raw material capacity of the timber processing industry reaches a level that is environmentally and economically sustainable, as such level shall be determined satisfactory to the Association;

(d) prohibit any entities or enterprises from engaging in logging activities in the PFAs planned and operated under the Project, except where there is free and open competition, in a manner and substance satisfactory to the Association;

(e) by July 1, 2004, conduct log sales in Dong Phousoi, Dong Sithouane, Dong Kapho, Dong Khating/Nongkapat, Lao Ngam, Phou Talava, Xilivang, and Phatumphon exclusively pursuant to an open, competitive log sales system, in a manner and substance satisfactory to the Association;

(f) ensure that PFA logging volumes, size, and species composition of the harvest are in accordance with those prescribed in the relevant management plan;

(g) prohibit timber sales or harvest activities under the Project unless said activities are carried out pursuant to a village forest management agreement between the Borrower and the relevant village, in a manner and substance satisfactory to the Association;

(h) prohibit timber harvesting activities in areas outside of the scope of a Village forest management agreement in Dong Phousoi, Dong Sithouane, Dong Kapho, Dong Khating/Nongkapat, Lao Ngam, Phou Talava, Xilivang, and Phatumphon, unless the relevant Project Province Governor has approved the undertaking of such timber harvesting activities in a designated infrastructure area, as such area is administratively determined by the relevant Project Province authority;

(i) the Borrower shall, by December 1, 2004, prepare and furnish to the Association for its review and comments, under terms of reference acceptable to the Association, a time bound action plan on forest management standards, guidelines and procedures, including a national Code of Forest Management Practice and thereafter taking into account the Association’s views and comments thereon, implement said plan, in a manner and substance satisfactory to the Association;

(j) the Borrower shall prepare and furnish to the Association for its review and comment by December 1, 2004 a time bound action plan on the national-level sustainable management of PFAs, under terms of reference satisfactory to the Association, and thereafter taking into account the Association’s views and comments thereon, implement said action plan, in a manner and substance satisfactory to the Association; and

(k) prepare, under terms of reference satisfactory to the Association, and furnish to the Association for its review and comments, by December 1, 2003, a time bound action plan on the establishment of Village forestry committees and associations in each District Village, and thereafter taking into account the Association’s views and comments thereon, implement said action plan thereafter, in a manner and substance satisfactory to the Association.

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
1. b) Not applicable.

2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.

3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

4. The following items are lacking and are discussed under loan conditions (Section G):

   Regarding the proposed conditions for project effectiveness, the Borrower is well advanced in securing compliance and should pose no obstacle to earlier effectiveness of the project:

   (a) Regulations on Sustainable Management of Production Forest Areas, have been drafted and consultations with the Association as to their sufficiency are ongoing. The Government has also committed to these in relation to the IDA-financed Financial Management Adjustment Credit program;

   (b) Project manager candidates have been identified by the Borrower;

   (c) Project procurement specialists are in place in NAFES and are available to be assigned to the project following Credit approval;

   (d) Accounting specialists are in place in NAFES and will be assigned and given additional training and support following Credit approval;

   (e) Project accounting systems for NAFES and the PAFO will be implemented for the project based on systems piloted and being strengthened under the IDA-financed Agricultural Development Project;

   (f) The Operations Manual, has been drafted and reviewed by the Association and builds upon experience and lessons from the IDA-financed Poverty Reduction and Agricultural Development Projects; and,

   (g) Arrangements for the FINNIDA Grant Agreement are well advanced with Requests for Proposal issued to a short list of firms.

I. Compliance with Bank Policies

1. This project complies with all applicable Bank policies.

2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

   William B. Magrath
   Team Leader

   Mark D. Wilson
   Sector Manager/Director

   Ian C. Porter
   Country Manager/Director
## Annex 1: Project Design Summary

**LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT**

<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>Data Collection Strategy</th>
<th>Critical Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector-related CAS Goal:</td>
<td>Sector indicators: Increased area under sustainable forest management as indicated by the coverage of management plans and areas certified as sustainably managed</td>
<td>Sector/ country reports: Country Economic Memoranda  Public Expenditure Review  Rural and Forestry Sector Studies  Forest sector monitoring system  Periodic surveys and poverty assessments  Environment and resource management data  Policy reviews and sectoral dialogue</td>
<td>Government commitment to poverty reduction is consistent and compatible with the Association's.  Public Expenditure System is effective and efficient in channeling revenues (including forest revenues) to poverty reducing activities</td>
</tr>
</tbody>
</table>

| Project Development Objective: | Outcome / Impact indicators: Regulations covering all key aspects of SFM approved and applied. Improved revenue generation and benefit-sharing systems providing incentives for SFM practices in place & used.  Number and area coverage of management and Annual Operations Plans;  Number and area of forest management units fulfilling the certification criteria & indicators;  Reduction in illegal land conversions and logging operations;  Improvements and maintenance of forest ecosystem health (structure and composition);  Increased availability of subsistence and economic NTFPs and wildlife resources. | Project reports:  Map available on nationwide PFA's;  Management plans;  Baseline socio-economic, forest and biodiversity surveys;  Independent audits;  Deforestation statistics;  Case tracking system;  Supervision reports;  Annual Operations Plans;  Operations Monitoring Results. | Government at all levels is committed to decentralized SFM.  Government at all levels is committed to decentralized SFM  Political will to apply objective forest industry licensing criteria and to reduce excess capacity. |

<p>| (a) Policy, legal and incentive framework enables the expansion of PSFM throughout the country. | (b) The country’s priority natural production forests in the project areas are brought under participatory, sustainable management (PSFM). | (c) Villagers’ well-being and livelihoods improved through benefits from sustainable forestry and community development efforts. | Benefits from SFM are shared fairly  Genuine political will and commitment to poverty reduction, decentralization and... |</p>
<table>
<thead>
<tr>
<th>Output from each Component: 1. Support Services for Sustainable Forest Management</th>
<th>1.1 Sectoral Policy Reform Support</th>
<th>Output Indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory and incentive framework allowing active village participation in various aspects of SFM and log sales in place</td>
<td>Implementing regulations and instructions on various aspects of PSFM developed, approved and applied</td>
<td>Government decrees, implementing regulations and instructions</td>
</tr>
<tr>
<td></td>
<td>Procedures for transparent, competitive log sales and wood pricing and fair benefit-sharing system developed, approved and applied</td>
<td>Progress and supervision reports</td>
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<td></td>
<td></td>
<td>Policy studies</td>
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<tr>
<td>Supervision reports.</td>
<td>(from Outputs to Objective)</td>
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<tr>
<td></td>
<td></td>
<td>Adequate capacity to implement policy nation-wide</td>
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<tr>
<td></td>
<td></td>
<td>Roles and functions of MAF/DOF, NAFRI, and NAFES at national level and PFS, PAFES, DFS, FMTU, FSEW, and VFO can be clarified</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Conflict resolution mechanisms need to be specified in implementing regulations, administrative</td>
</tr>
<tr>
<td>1.2 Establishment of the Permanent National Production Forest Area</td>
<td>Methodology, procedures and criteria for PFA establishment finalized and approved</td>
<td>Issued government procedures PM declaration on the PFA system Progress reports</td>
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<tr>
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</tr>
<tr>
<td>The PFA system established, legally recognized and demarcated in the project provinces</td>
<td>FIPD, provincial and district staff trained in methodology and procedures</td>
<td>Adequate consultations will take place at all levels</td>
</tr>
<tr>
<td>Strategic plan to and detailed program for demarcation of remaining PFA’s approved</td>
<td>PFAs mapped throughout the country and recognized legally in the project areas</td>
<td></td>
</tr>
<tr>
<td>1.3 Forest Management Guidelines and Procedures</td>
<td>Forest management guidelines, practices and procedures consolidated/developed and issued as a Lao Code of Forest Management Practice and related guidelines and training materials; Forest management code of practice, and forest management guidelines and procedures to be found in PAFO, DAFO &amp; other relevant institutions.</td>
<td>Issued government procedures and guidelines Progress reports</td>
</tr>
<tr>
<td>Forest management code of practice, and forest management guidelines and procedures available and disseminated to relevant authorities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Support to Strengthening SFM Capacity</td>
<td>Human resource plan, incl. and in-service training program Comprehensive two-year curriculum available Regional training capacity for PSFM in Savannakhet and four provincial training stations established under NAFES/PAFES No. of NAFES/PAFES, DOF, PAFO and FMU staff trained in PSFM Capacity increase according to evaluation reports</td>
<td>Skills assessment Progress reports Adequate staffing within MAF agencies</td>
</tr>
<tr>
<td>Strengthened government capacity to provide forest management services at national, province, district and village level</td>
<td>Growth and yield studies based on PSPs and volume</td>
<td>NAFRI work plans and research reports</td>
</tr>
<tr>
<td>Project research integrated with NAFRI’s research</td>
<td></td>
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<tr>
<td>activities and PSP system institutionalized at NAFRI</td>
<td>equation studies in NAFRI</td>
<td>Forest management plans</td>
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</tr>
<tr>
<td>2. Sustainable Forest Management and Village Development</td>
<td></td>
<td>FRMIS</td>
</tr>
<tr>
<td>2.1 Key natural production forests in project provinces under sustainable management providing products and services for the market and to meet household needs</td>
<td></td>
<td>Supervision mission</td>
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<td></td>
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<td>Progress reports</td>
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<td>Certification assessment reports</td>
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<td></td>
<td>Routine PAFO monitoring reports</td>
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<td>Audit reports</td>
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<td></td>
<td></td>
<td>Periodic field inventory reports and post-harvest assessments</td>
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<td></td>
<td>Permanent sample plot info and long-term forest regeneration study</td>
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<tr>
<td>2.2 Village organization capacity strengthened and forest revenue and project funds used to implement village development plans to meet villagers priority needs</td>
<td>Forest management plans</td>
<td>-</td>
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<tr>
<td></td>
<td>FRMIS</td>
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<td></td>
<td></td>
<td>Supervision mission</td>
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<td>Progress reports</td>
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<td></td>
<td></td>
<td>Certification assessment reports</td>
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<tr>
<td></td>
<td></td>
<td>Routine PAFO monitoring reports</td>
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<td>Audit reports</td>
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<td>Periodic field inventory reports and post-harvest assessments</td>
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<td>Permanent sample plot info and long-term forest regeneration study</td>
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<td></td>
<td>Village development guidelines, rules and procedures in place</td>
<td>Progress reports</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>VFO records</td>
</tr>
<tr>
<td></td>
<td>Village development funds established in each village of a PFA</td>
<td>PAFES training records</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>Baseline studies and follow-up socio-economic surveys</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>Supervision reports</td>
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<tr>
<td></td>
<td>-</td>
<td>Annual qualitative beneficiary</td>
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</tbody>
</table>
### 3. Sectoral Monitoring and Control

Efficient forest sector control and monitoring and improved forest law enforcement systems in place and operational

<table>
<thead>
<tr>
<th>No. of village development plans developed and implemented</th>
<th>System manuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of villagers trained in various aspects of village development (disaggregated by gender, ethnicity, poverty)</td>
<td>SIAS and CTS and related regular reports</td>
</tr>
<tr>
<td>Numbers and patterns of membership and leadership in VFOs (% female, % ethnic minorities, % poor)</td>
<td>Internal and external monitoring reports</td>
</tr>
<tr>
<td>Changes in livelihood and welfare of project communities and individual households (disaggregated by gender of household head, ethnicity, poverty)</td>
<td>Progress reports</td>
</tr>
<tr>
<td>No. of projects funded through revenue from SFM</td>
<td>Assessment reports</td>
</tr>
<tr>
<td>No. of projects funded through grant support</td>
<td>Annual audit of use of funds</td>
</tr>
</tbody>
</table>

- **Satellite Image Analysis Software (SIAS) based forest cover monitoring system established and functioning**
- **LERS and CTS established and functioning**
- **Institutional and technical guidelines for cover monitoring and law enforcement reporting**
- **X no. STEA, MAF/DOF, PAFO and PSO staff trained in SIAS and CTS**
- **Standards, methods and data management system established for forest and ecological condition as well as social monitoring**
- **Internal control and reporting system focusing on forest management and timber and revenue flows**

- **Government is committed to forest law enforcement and enhanced transparency**
- **Harvesting is made everywhere area specific**
- **Adequate incentives are provided for carrying out effective law enforcement**
- **Government allocates enough staff to carry out control and monitoring functions at STEA, DOF/MAF and PSOs**
### 4. Project Management

Effective decentralized implementation of the project supported by a good administrative and M&E system providing information in a timely manner to project management, Steering Committee and financing agencies.

<table>
<thead>
<tr>
<th>Sub-components:</th>
<th>Inputs: (budget for each component)</th>
<th>Project reports:</th>
<th>(from Components to Outputs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Services for Sustainable Forest Management</td>
<td>$0.99 million</td>
<td>Financial Management Reports</td>
<td>Technical assistance is adequate and coordinated (likely to be grant co-financed)</td>
</tr>
<tr>
<td>Sustainable Forest Management and Village Development</td>
<td>$11.04 million</td>
<td>Procurement Reports</td>
<td>Governance issues prove manageable</td>
</tr>
<tr>
<td>Sectoral Monitoring and Control</td>
<td>$2.56 million</td>
<td>Progress Reports</td>
<td>Political and bureaucratic interference in VFO operations minimized (Policy Condition)</td>
</tr>
<tr>
<td>Project Management</td>
<td>$1.86 million</td>
<td>Financial Management Reports</td>
<td>Controls and incentives within administrative system prove adequate for supporting collection of data of satisfactory quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurement Reports</td>
<td>Independent agencies and contractors function unimpeded</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Progress Reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Monitoring Reports</td>
<td>Controls and processes function adequately</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special Studies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Independent agencies and contractors</td>
<td></td>
</tr>
</tbody>
</table>
Annex 2: Detailed Project Description

LAO PEOPLE’S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

Main Design Features and Implementation Principles (for details see the Project Preparation Report and Project Implementation Plan)

The project will link improvements in the macro policy environment for forest development with large-scale field implementation. At the national level, the project will help in (a) improving the policy and regulatory framework to support PSFM and enhance its contribution to the national economy and sustainable livelihood development; (b) establishing a permanent national natural forest production area (PFA) system; (c) developing various guidelines and procedures and instructions and human resource capacity to implement them; and (d) developing control and monitoring systems and capacity aimed to enhance transparency and accountability. In the field, the developed policies, guidelines and codes of management practices, will be put into practice through introducing participatory sustainable management linked to village development. Field implementation of PSFM and village development will provide an opportunity to gain valuable experiences, which will be fed back to improve the regulatory system, and various guidelines and training manuals.

Participatory Forest Management and Village Development

Participatory, sustainable forest management is to encompass various management objectives, including sustainable utilization of timber and NTFPs both for subsistence and commercial use, conservation and protection and tree planting (where ecologically, technically and financially feasible). Forest management will take place within a broader framework of land resource planning, which will include meeting land requirements for agriculture and allowing traditional rotating agriculture in selected areas, when fallow periods are long enough.

Village development involves increased decision-making power by villagers over their environment, enhanced capacity for self-help, building of village-level organizations, and implementation of development activities based on the needs and priorities of villagers. As such, institutionalizing participatory forest management, including the establishment of VFOs, is closely linked to village development. For natural forests to be sustainably managed, the villagers living in, and adjacent to, these forests need to share in the responsibilities and benefits. Rural villagers have long-term interests in seeing the forest sustainably managed, as their daily lives rely upon healthy forest ecosystems and the range of environmental services and natural resources that flow from the forests. Villagers are also better able to monitor the day-to-day activities that are ongoing near their residences than are government officials who only can visit these forests periodically.

Main Operational Features of the Proposed Participatory Forest Management System

Organizing villagers and district staff for participatory forest management. District Forest Offices will organize Government staff as Forest Management Units (FMU) in each district that includes one or more FMAs. The main function of the FMUs will be putting PFAs under sustainable management. Village Administrations (VA) of participating villages will organize Village Forestry Organizations (VFOs). VFOs will be organized in every village participating in the management of a sub-FMA. Management of each sub-FMA would be undertaken by FMU with the participation of one or more VFOs. The functions, rights, and responsibilities of FMU, VFO and other primary stakeholders, such as PAFO, in the management of a sub-FMA will be defined, agreed to, and secured in a Forest Management Agreement.
The FMU and VFOs belonging to a sub-FMA will manage the designated area together based on the roles described in the Forest Management Agreement and in accordance with a formally approved forest management plan (FMP). Villagers will be actively involved in forest management (boundary demarcation, land-use mapping and planning, forest resource inventory, management planning, harvesting and planting), recognizing that the degree of their involvement and decision-making power will depend on the task and scope of work in relation to their capabilities.

Forest management planning. Forest management planning will take place within a broad natural resource management and land-use planning framework, which will pay attentions e.g. to biodiversity conservation issues at the landscape level. District forest management plans will be prepared as an integration of FMA management plans. An FMA will be divided into sub-FMAs, comprising one or several village territories, to attain continuity and a more equitable distribution of income among villages and to improve efficiency in forest management. Land-use planning and demarcation of FMAs and sub-FMAs will be based on explicit criteria and a participatory process, which addresses the needs of local communities for land, soil capability, and recognizes the traditional village boundaries and management systems concerning especially NTFPs and also rotating agriculture (when it is carried on a sustainable basis). An FMA (of productive forest) will vary in size depending on the actual situation from relatively small areas up to large areas of more than 50,000 ha. Criteria for selecting forest areas to be incorporated into the PFA will have to be developed during the very early stages of the project.

Technical forest management principles to ensure sustainability. Forest management is part of overall forest land resource management, incorporating zoning as a means to put timber and NTFP resources to best use following clear management objectives and principles. In production forest zones, the management system will combine an economically viable level of wood production with high retention of trees and tree species to conserve biodiversity and the value of forests as resource bases for NTFPs and amenities. Low-impact/low-intensity forest management system mimicking natural ecological processes and structures will be adopted, building on the past implementation experiences in Savannakhet and Khammouane. The system is characterized by short cutting cycles (5-10 years) that allow a spreading of the annual harvest over a large area, resulting in high retention of large trees. Rules and a system for monitoring, and controlling the use of NTFPs and hunting will be part of the forest management system.

Regenerating and degraded forests should be identified for rehabilitation to recover commercial potential. Rehabilitation will be mainly through assisted natural regeneration, management of grazing and fire. When ecologically, technically and financially feasible, trees will be planted. Areas suitable for planting will be identified and treated following guidelines produced by the ADB plantation project.

Operations in production forests will be conducted in accordance with a Code of Sustainable Forest Management Practice to be formulated under the project. Regulating institutions (DOF/PAFO) will monitor and control operations and their compliance with the Code and draft national criteria and indicators for sustainable forest management. The project will also support the piloting of forest certification in order to assess the merits of such exercise in Lao PDR. Forest certification will not only confirm that the management is sustainable from social and environmental viewpoint, but will also help to secure markets and higher prices for certified products.

Log sales and benefit sharing. Log sales will be competitive, market-oriented, and transparent involving villagers and using a method that aim at maximizing revenue generation. Sales decision will be based on a transparent decision-making process amongst members of the sales working group, which will include
authorized VFO representatives. Log sales revenue will be used to pay royalties and taxes, costs of logging and transport to the place of sale, and shares of management stakeholders commensurate to the level of their inputs, providing them with incentives to do their work efficiently and adopt sustainable practices.

The share remaining after paying taxes and harvesting/transport costs will be used for (a) financing forest management operations and office costs of the Forest Management technical Units (FMUs); and (b) supporting village development through establishing Village Development Funds (VDF). The FMU will manage its share and use funds to finance participatory forest management operations, including surveys and control and office costs, as well as innovative forest protection and conservation schemes that would benefit villages with no commercial forest adjoining the FMAs.

Village funds from sustainable forest management will be used to finance village development activities to the benefit of the entire village in accordance with a village development plan. Forest revenue will complement village development financial support from the district budget and from the project (during the initial years). In the long run, villages’ forest revenues will likely play a major role in financing village development, because the revenues will be based on villagers’ own actions, providing benefits year after year.

Villagers’ capacities to more effectively engage in development of their own villages, and to use effectively the development opportunities provided through sustainable forest management will be enhanced. As the project seeks to promote poverty alleviation, village-level projects will involve not only village-level infrastructure projects, but also projects promoting income-generation, food and livelihood security for poor households. Villagers themselves will prepare development plans. Village development planning and implementation and their integration to district activities will build on existing institutional arrangements and government initiatives.

The share of net revenue accruing to villagers will be placed in a discrete village development account, whose use will be publicly disclosed. The funds will be used, based on decisions collectively made by the village administration, for community or rural development activities based on villagers’ own needs. Based on previous experiences a net benefit of USD 15 per cubic meter appears to be needed to compensate for villagers’ management and protection inputs and provide them adequate benefit to undertake meaningful village development activities. Villagers will also benefit directly through compensation (wages for labor), for operational activities related to sustainable forest management such as pre-harvest inventory, clearing of access trails, felling trees, forest road maintenance, etc.

Conflict resolution mechanisms. The Village Forest Management Agreement (VFMA) is the main instrument specifying the rights, roles and responsibilities of the villagers, FMU and other government stakeholders. Based on past experiences, it is expected that conflicts may arise regarding the agreement. Government’s bargaining power regarding contract enforcement is by definition strong. At present the laws and regulations do not provide for the villagers to appeal to any independent authority, such as an ombudsman or mediator, if they have a problem with government failing to live up to its terms of the agreement, and/or government deciding to change the agreement, such as the benefit-sharing. Conflicts may also occur among different types of stakeholders such as between a villager (forest worker) and the VFO or FMU, or between villages e.g. over boundary disputes, access to the forest, etc. Conflicts could also occur amongst villagers pertaining to other elements of the project, such as village development, the use of village forest revenue, or ethnic minority rights.
By Component:

Project Component 1 - US$0.99 million

Support Services for Sustainable Forest Management

This component will have four sub-components:

Sub-component 1.1: Sectoral Policy Reform Support

This will assist MAF and Ministry of Commerce (MOC) in developing remaining regulations and ministerial/departmental instructions covering the principles for PSFM, establishment of the PFA, benefit sharing and conflict resolution mechanisms. The project will provide support for disseminating relevant laws and regulations and providing related training to key stakeholders at national, province and district level. Support will be provided to help the GOL consult with stakeholders on implementation of its Letter of Sectoral Development Policy, with focus on action aimed at implementing the approved key principles for participatory sustainable forest management. This sub-component will also support introduction of market-oriented log sales and pricing systems.

Sub-component 1.2: Establishment of the PFA System

This sub-component will support DOF/MAF identify, demarcate both on the map and on the ground all potential production forests, on the basis of agreed criteria. Determination of the PFA will take place within a broader macro-level forest land use and natural resource framework addressing cross-sectoral issues such as infrastructure development and other land requirements. Mapping will rely on a methodology that uses Spot satellite images, GIS and GPS tools in mapping, supported by a participatory process involving province and district staff and villagers. During the second stage of production forest area demarcation, villagers will be actively involved in boundary demarcation so that the traditional village boundaries and customary uses will be recognized. In addition, support will be provided for the preparation of a strategic plan and detailed program for bringing the remaining priority production forests under sustainable management.

Sub-component 1.3: Forest Management Systems and Guidelines

Under this sub-component technical guidelines for planning, implementation, and monitoring of PSFM will be developed. Many of the needed technical guidelines already exist, but need to be improved, consolidated, and turned into MAF-issued guidelines and procedural instructions.

The main activities include:

- Development or consolidation of guidelines and training manuals on:
- Piloting and monitoring the application of National C&I as part of forest management planning and implementation in the project areas
- Forest certification.

Sub-component 1.4: Strengthening Sustainable Forest Management Capacity

The project will support key support services for sustainable forest management, building up capacity for applied research, human resource development and consolidating the experiences in PSFM with the view of sharing them with other projects and institutions. National Project Management Office (NPMO) will
be responsible for implementation this component in active cooperation with other agencies. MAF and DOF will take the lead in policy, legal and organizational development. Forestry research will be carried out in active cooperation with the NAFRI and DOF. Where feasible, the training program for PSFM and village development will be developed in connection with the Project's regional training center in Savannakhet and its provincial training centers, under NAFES.

FIPD will play a key role in the implementation of the PFA sub-component. After the necessary capacity building and national level preparations for field work, FIPD, PAFO and DAFO staff will work together on PFA allocation and demarcation on the ground.

**Project Component 2 - US$11.04 million**

**Sustainable Forest Management and Village Development**

This component is divided into two closely inter-related sub-components: Participatory Sustainable Forest Management, and Village Development. The component will be implemented in three different conditions: already existing pilot areas in lowland production forests in Savannakhet and Khammouane, new lowland forest areas in the four project provinces, and an upland pilot area in Salavan. In the existing pilot areas, villagers have already been organized and management plans have been prepared and implemented and the project will emphasize consolidation and institutionalization. On the other hand, there has been no pilot project in Salavan nor in Champassak. Furthermore in upland areas of Salavan socio-economic, cultural and environmental conditions differ greatly from lowland areas.

**Sub-component 2.1: Participatory Sustainable Forest Management**

The PSFM system for lowland production forests will be adapted to each of four new sites, Dong Khating/Nongkapat in Khammouane, Lao Ngam in Salavan, and Xilivangven and Pathumphon in Champassak. In general, few changes are anticipated, consisting mainly of adjustments to differences in the number of villages, distribution of different forest types, and predicted forest growth. In new villages where fluency in the Lao language is limited, the training will be modified accordingly. The basic model for implementing PSFM will also be adapted to and piloted in an upland production forest with a view to expanding its implementation in other upland production forests in the country in the future. The PSFM system designed for lowland production forests is, in most of its parts, applicable in upland production forests. However, modifications will be necessary in some aspects (e.g. logging method and road network; cutting intensity; cutting cycle and annual coupes; canopy openings and regeneration methods; overall silvicultural system; and socio-cultural modifications). Piloting will be done in Phou Talava production forests. The adjacent Thong Lave pine forest will be combined with Phou Talava so that a variant of the upland system can be developed for pine forests.

PAFO trainers from Khammouane, Salavan, and Champassak will be trained in the PSFM regional training center in Savannakhet, after which they will return to their respective provinces and organize the training of district staff under the guidance of national advisers. The training facility used by FOMACOP in Khammouane will be restored for use in the training there. A similar facility will be constructed in Salavan and Champassak. These facilities will also house the offices of PAFES, which will operate the training facilities.

In Khammouane, training of district staff members who will look after the new site will be combined with those who will look after the existing village forestry site. Provincial and district staff members who have had training in village forestry will be provided refresher training in PSFM during the wet season of
the first year. A batch of staff members from the four districts covering Dong Phousoi and Dong Khating/Nongkapat, who have not had any previous training in village forestry, will be provided training to start in the first year of the project. Fourteen extension teams will be formed, with each team responsible for 5 villages. In Salavan, training of district staff in the management of lowland and upland production forests will be combined in a single batch. The extension teams that will be formed can cover the number of villages that will actually be involved in PSFM, provided that the villages participating in Lao Ngam Production Forest are covered in two batches, a smaller second batch of villages following two years after the first batch. In Champassak the number of staff teams that will be formed will be able to cover the villages around the production forests of Xilivangven and Phatumphon.

The initial implementation schedule for the field implementation of this sub-component is provided in the Project Implementation Plan.

Sub-Component 2.2: Village Development

The Village Development Sub-component will support village development planning, the preparation and implementation of village development projects, and associated training and participatory monitoring and evaluation. Such projects will initially be supported by a Village Development (VD) grant, but then will be supported by the villagers’ share of the forest revenues. The project will provide two types of support for village development projects. First, the project will provide direct investments, or VD grants, which will average US$ 8,000 per village over the life of the project. Second, the project will provide technical assistance and training to ensure that the village development projects, whether funded by the project itself, or through the village’s share of the forestry revenues, are feasible and sustainable (in technical, social, economic and environmental terms), well-designed and well-implemented.

Similar village development activities will be implemented in all sites (former pilot sites, expanded lowland forest sites, and pilot upland forest), although they will be adapted to each area: Development of guidelines and procedures; Training in village organizing and village development; Village organization; Village development planning; Village development financial management; Implementing village development plans and projects. Village Forestry Committee, or Association, will have the responsibility for collaborating with the Forest Management Technical Unit on participatory sustainable management of the Forest Management Area. As such, the VFO will have the role of mobilizing and organizing the village labor to participate in forestry activities. The wages for such labor are to be paid each year by the FMLJ to the VFO, which will, in turn, pay the forest workers. The village development activities will fall under the jurisdiction of the general Village Administration.

The project will work with villagers to support their efforts to prepare, or update, simple village development plans. This village development planning will build upon any work that may have already been done in the village, either through the GOL efforts to implement PMO No. 1, or through other projects and programs. The planning work will be done in close cooperation with district authorities.

Village development will use participatory techniques to identify villagers’ development needs and to help them prepare their own development plans. The aim will be to develop realistic plans, which will use villagers’ own resources, projected forest revenues, and other sources of funding. The village development plans are to be prepared by the villagers, with technical assistance and training from the project and district and provincial staff. Where village development plans already exist, they will be reviewed and updated.

The village development planning process will involve broad-based participation of all groups within the
village, including women, ethnic minorities, and poorer households. The planning process will include sensitivity training with respect to gender, ethnicity, and poverty issues. Therefore, the plans and projects proposed should meet all social safeguards, and ensure equitable participation of vulnerable groups.

The village development plan will contain specific actions or projects identified to address key priorities. The action plan will identify who will be responsible for undertaking which activities, what inputs are required, including training and extension support, and the projected time when the activity or project will be undertaken. A village development plan must include the planned village development projects, whether they are to be funded by the project directly, by the villagers’ share of the forest revenues, or by other sources.

The project will also be supporting land use planning and forest management planning efforts. The land use planning is part of a national program promoting land use planning and land allocation. The project’s approach will be to work with villagers first to develop, or review and update, and use plans, and then to develop forest management plans. To the extent possible, these two plans will then serve as inputs into the village development planning process. In other words, the village development plans should take into consideration the available local resources, including land and forest, and their planned uses, as one of the major starting points for analysis of alternatives for village development.

Each village development plan would need to be submitted to the District Coordination and Planning Office for review, and finally to the Chief of District Administration for approval. Once approved, the village would be authorized to undertake specific development projects within the village plan. The annual plans of all the villages in each district will be summarized and submitted to the province level once per year.

Prior to submission to the District, any project proposals will be reviewed and cleared by both Farming Systems Extension Worker of DAFES having lead responsibility for the facilitating village development in that particular village and by the Provincial Village Development Advisor. They will ensure that the proposals will meet funding eligibility criteria and social and environmental screening. The relevant District agencies will review proposal for technical feasibility. Once the District’s relevant technical specialists have approved a proposal, then it will pass the proposal to the District’s Planning and Cooperation Department. After approval by the planning authorities, it will go to the District Chief for final approval, and the Provincial Project Implementation Unit (PPIU) shall release funds to the village for project implementation.

Criteria for choosing village development projects would include:

- Degree of benefit to the entire village community or majority of the households, but particular attention will focus on the participation and benefits of the poorer households
- Contribution to enhanced food security on the household level
- Contribution to enhanced livelihood security, and/or promote income-generation on the household level
- Contribution to rural (social) infrastructure projects, such as schools, clinics or roads.
Villagers will prepare a simple written proposal for their requests for village development grants, which must also include a proposal how villagers contribute to the project e.g. providing labor or material inputs or even part of the finance. The technical assistance team will develop a simple format for this purpose, which will include the eligibility and screening criteria. The proposals must also meet criteria for technical feasibility and sustainability, such as provisions for ongoing maintenance. The eligibility criteria for the first year of implementation have been specified, subject to annual review and possible revision. A negative list has been developed for projects not eligible for VD grants.

All project-supported village development investments will be provided as grants. Project funds will not be used to establish revolving funds or micro-credit schemes. If the villagers wish to establish revolving funds with their share of the forest revenues, then the project will provide technical assistance and training. In addition to material inputs, the grants can also be used to cover related training or consultants.

In line with GOL’s overall policies for decentralization, the villagers will be responsible for managing their own forest revenues for development. Procedures and guidelines will also be clearly established for financial management, i.e., bookkeeping, a village bank account for forestry revenues, any revolving funds created, etc. Each village will have its own account for its forestry revenues, which will be obtained from the benefit sharing of the net revenues from the timber sales. Villages may have separate (general) village development funds, or other bank accounts, but the forestry revenues will be handled separately, to simplify bookkeeping, accountability and transparency, and auditing. The project will provide training in basic financial management, bookkeeping and operating village revolving funds. It will assist villagers to establish financial mechanisms for village development, such as opening bank accounts and establishing revolving funds.

The funds for village development projects will be disbursed from the National Project Management Office to the Provincial Implementation Units (PPIUs), and from there to the villages. For the village development grant projects, community procurement will be utilized. The villagers will be given the option of either: (a) being given the funds directly, in order to implement their development project(s), or (b) working with the district to contract necessary procurement of services and equipment.

The Village Development advisors and staff will work closely with the senior project management (National Project Manager and Chief Technical Advisor) to promote equitable and effective participation of all villagers in all relevant project activities, and to especially ensure that women, ethnic minorities, and the poor are able to participate in, and receive benefits from, the project. To ensure that these committees adequately involve women, and respond to women's development needs and interests, at least one-third of the committee members be women. Project management will also evaluate the feasibility of designating a certain proportion of development assistance directly to women’s groups or women’s projects. These participation efforts will be guided by the project’s social safeguard documents.
In the case of disputes at a village level, it will be the responsibility of Village Administration officials to solve the issue, but if satisfactory resolution is not obtained, then the parties can appeal to district and/or provincial authorities for assistance. If a problem occurs between villages, such as a dispute over village boundaries, then normally the district authorities would mediate a resolution. In the case where a problem arises between the villagers and government, such as between one or more VFOs and the Forest Management Unit, then the parties should have the right to mediation by a neutral third party, such as the provincial court.

Problems relating to the project’s implementation procedures, and environmental and social safeguards (including ethnic minority and resettlement issues), will be handled as follows:

(i) As a first stage, affected or concerned persons will present, verbally or in writing, their complaints to provincial project staff or advisors, who will have to provide a documented response to the claimants within fifteen days. Reports on each complaint and subsequent measures taken must be given to the Provincial VD Advisor, with routine summaries sent to the Project Management Office (PMO) as attachment to regular/monthly reports.

(ii) If the claimants are not satisfied with the decision, the case may be submitted to the National Project Management Office in Vientiane, as well as to local authorities (e.g. the Provincial Assembly). Specified authorities should record receipt of complaints and reply to the claimants within fifteen days. Claimants will be exempted from any administrative or legal charges associated with pursuing complaints. The national project management team must record reports on each complaint and subsequent measures taken.

The implementation schedule for village development activities is shown in the Project Implementation Plan. Certain general activities will be carried out at the same time throughout the project area. The implementation schedule for other village activities will vary by location. For the existing pilot SFM sites, i.e., Dong Sithouane, Dong Phousoi, and Dong Kapho, villages already are receiving a share of the forest revenues and already have ideas about village development, if not village development plans. Therefore, this group of villages will be the first to begin. Expansion into other lowland forests and the pilot upland forest will commence later. The village development schedule takes into consideration the PSFM implementation schedule.

Project Component 3 - US$ 2.56 million

Forestry Sector Monitoring and Control

This component will support the establishment of a national forest sector monitoring and reporting system, including detecting and reporting unauthorized forest operations; strengthening routine DOF, PAFO and DAFO forest control operations and related information systems. It will also strengthen forest law enforcement capacity and institute an industry licensing system based on long-term allowable cut and processing quality and efficiency. In addition, the implementation of this component will be linked to the project M&E system.

The component will cover systems development, training, technical assistance and field implementation of proposed control and monitoring systems, including mobilization of mobile monitoring units. The project will support GOL’s initiative to develop a Natural Resource Monitoring and Planning Center (NRPMC) in MAF. In the context of this project, NRPMC will act as distributor of satellite imagery to concerned organizations, including STEA, and will together with STEA, carry out random cross-checking of forest monitoring and control analyses performed by FIPD.
This component covers four areas: (a) Internal Forest Control; (b) Forest Law Enforcement Monitoring and Reporting; (c) Forest Cover Monitoring; and (d) Independent Monitoring and Management Audits:

**Internal Forest Control**

This addresses internal control of forest management including timber transportation, timber trade, and control of access to allocated forest area; and forest law enforcement including monitoring of unauthorized activities as part of routine DOF, PAFO and DAFO forest operations linked to forest management. The purpose of internal control of forest management is to supervise, follow-up and record the forest management activities from establishment of forest management units up to post-harvest measures. In areas where long-term forest management plans have not yet been prepared, the control is targeted at the stages from pre-harvest inventory to 2nd landing measurement and grading. Control activities will be carried out by government forestry staff (MAF/DOF, PAFO, DAFO) and also by village forestry organizations (VFO). The aim is to facilitate and help decision making, organizing, scheduling and following-up the implementation of forest management process at operational level (VFO, DAFO, PAFO) and to provide consistent information to upper level organizations and decision-makers (DOF, MAF). The monitoring of unauthorized activities are targeted at revealing and detecting (a) illegal harvesting of timber and NTFPs, (b) illegal change of land use (e.g. shifting cultivation, road construction), and (c) illegal hunting and collection of endangered, rare or threatened species of forest flora and fauna. The monitoring is implemented by field observations of law monitoring authorities during duty trips in field and observations and notification of villagers and other stakeholders. All the illegal activities detected during routine PAFO and DAFO operations are to be reported through the Forest Law Enforcement and Reporting System (LERS).

The project activities will comprise the definition, specification and appointment of the tasks and responsibilities of MAF, DOF, PAFO and DAFO and their staff for implementing the proposed internal control and law enforcement procedures. At the national level, MAF will be responsible for the coordination, development, training and information dissemination of law enforcement procedures. The Technical Division under DOF will be responsible for coordination, development, training and information dissemination of internal control procedures.

PAFO's Forestry section will be responsible for operational monitoring of legal requirements of forest management process and illegal activities within province area and supervising and coordinating district level activities. It will also have the responsibility for organizing training and disseminating information on monitoring and forest legislation to DAFO forestry staff. DAFO Forestry Unit has the operational responsibility for the forests within district area. The Forestry Unit supervises the forest management operations carried out by own staff and contractors. The operations are to be followed-up continually through the forest management process. DAFO's Forestry Unit will also control timber trade, transportation, and access to forest within district. DAFO has the responsibility to notify PAFO law monitoring staff on observed illegal activities.

Implementation of this would be started in 2004 one year after the launch of the project. This is because internal control is so closely linked to implementation of forest management operations on the ground. In one year the field component would have made enough progress to allow linking forest management operations and their control with each other.

**Forest Law Enforcement Monitoring and Reporting System (LERS)**

This will be the link between internal forest control, including routine forest law enforcement, and forest
cover monitoring. LERS will provide MAF/DOF, STEA, and PAFOs with a system, procedures and facilities to systematically record, analyze and report illegal or suspected illegal activities occurring in PFAs, NBCAs, and other forest lands. Any unauthorized or illegal activities identified through the FCMS or during internal control operations, along any activities detected by other means, will be recorded through the LERS for systematic follow up by the law enforcement authorities. Standardization in reporting, recording and analyzing will enable law enforcement authorities to keep track of the status of investigations of unauthorized or illegal activities once detected, and thus to conduct better structured, more systematic, and hence more efficient follow ups on them. It will further enable the compilation of timely and meaningful summary reports on the law enforcement situation to political decision makers. This will result in greater transparency of and awareness about the general law enforcement situation, and may solicit stronger political support for law enforcement, thereby improving the thoroughness of law enforcement.

The LERS will consist of institutional and technical guidelines for law enforcement reporting and a computerized Case Tracking System (CTS). The CTS will make it possible to keep track of reported individual unauthorized or illegal activities occurring throughout the country and compilation of statistical law enforcement reports. Individual investigation case reports will be recorded in the CTS for further processing and analysis. Statistical law enforcement reports will form the foundation for analyzing violation and enforcement problems, a better identification and understanding of developing trends, patterns and profiles; and program planning, budgeting, and other management decisions related to law enforcement. The compilation of statistical law enforcement reports can be done in most combinations desired, e.g. summarizing incidents reported and enforcement activities performed by location and type of violation, volume removed, value of resource or property damage caused, court disposition, and restitution to the GOL. Reports can further be compiled for a particular geographic area (province) and a particular type of area (PFAs, NBCAs, and other forest lands).

Overall responsibility for the technical coordination and operation of the LERS will be with MAF/DOF. However, other institutions, such as the PAFOs, STEA, and the PSOs will use the system independently, with equal rights to report and record cases and to access information stored in the CTS. An independent auditor, through regularly reviewing the law enforcement reporting, will provide the GOL objective and factual information of achievements by the institutions that operate the LERS.

Inter-institutional crosschecks will ensure the accuracy and completeness of the law enforcement reporting. They will take place through periodic exchange and updating of the data recorded in the CTS between all involved institutions (e.g. STEA reporting their recorded cases to MAF/DOF, and vice versa). Statistical law enforcement reports to political decision makers, to the international donor community, and to the general public will be compiled and distributed as follows:

- MAF/DOF as well as STEA will conduct an analysis and summary of all recorded cases and will report to the PMO, the NA, the international donor community, and the general public. Different reports may be issued for different target groups.
- Using information provided by MAF/NRPMC and STEA, an independent evaluator will conduct a sample-based analysis of all recorded cases and will report to the findings to the GOL.

Implementation of this would start by mid-2003 in accordance with the schedule presented in the Project Implementation Plan.

Forest Cover Monitoring

This deals with the establishment of a Forest Cover Monitoring System (FCMS) consisting of (a)
Institutional and Technical Guidelines for Forest Cover Monitoring (FCM) and (b) Satellite Image Analysis Software (SIAS). The institutional and technical guidelines will cover responsibilities in forest cover monitoring; procedures for the procurement; preparatory processing and structured visual analysis of satellite images; procedures for field and aerial surveillance; data exchange across institutions involved in operating the FCMS; and reporting to GOL authorities, the international donor community, and to the general public.

The project will develop a SIAS based on already tested approaches in other countries to guide operators through the structured visual analysis of satellite images and record the results of this analysis. Information generated through the SIAS will be used as the basis for reporting on forest/land cover changes and other environmental issues, will guide mobile field inspection units, and will feed into the LERS. The satellite images will be distributed not only to government organizations involved in operation of the SIAS, but to any other Lao government or non-government entities interested in using them, as far as the satellite operator’s copyright regulations permit. By distributing the satellite images to as many organizations as possible, the optimum use of this comparatively expensive material for the maximum benefit of the country will be ensured, beyond the mere operation of the SIAS. Thus, a wide range of other applications may benefit from using the satellite images, such as general land use planning, forest management, or monitoring of the progress made with the stabilization of shifting cultivation and with the establishment of new plantations. In order to make the images accessible also to users, who do not have access to computers or to the appropriate software, MAF and FIPD might offer printing them at cost price as a service to other organizations.

The project will also support mobile field inspection units, equipped with suitable means of transportation such as off-road motorbikes will complete the monitoring on the ground. The units will be guided by information derived from satellite images, and by reports received from third parties.

**Independent Monitoring and Management Audits**

Internal monitoring, forest cover monitoring and law enforcement reporting are all activities carried out by Lao organizations. The project will pay due attention to strengthening the national capacity to undertake these tasks reliably and efficiently through supporting related systems development and training. Although the last two mentioned monitoring systems have some features of independence it will be important to carry out additional external, and independent monitoring e.g. through audits every year or every second year. The implementation of this is not very costly or resource intensive. This is very important because, Lao forest authorities have both very limited financial resources and inadequate quantity and quality of human resources among own staff and operators to conduct thorough and reliable audits.

The project will finance contracting independent evaluations. Because no such capacity exists yet in Lao PDR, these must be contracted to international organizations or companies with a proven track-record in auditing. An independent expert, through regularly reviewing the law enforcement and related reporting and forest cover monitoring, will provide the GOL objective and factual information of achievements by the institutions that operate the LERS and the FCMS. These same advisors can also carry out management audits aimed at verifying the compliance with prescribed forest management specifications and standards. These types of audits are expected to improve efficiency and effectiveness of monitoring, improve the quality of forest management and enhance good governance. Although these would be carried out by international organizations, it will be important to make the monitoring unit of MAF/DOF responsible for providing audit services. A monitoring framework and related manual or guidelines must be developed and a limited number of staff trained in forest management auditing. The same staff should provide local assessor services to international certification organizations.
The project will also support forest certification and chain of custody verifications, which are voluntary operations. 

Forest certification is an option for external monitoring, which enables independent assessment of the status of forest, quality of forest management, and reliability and credibility of internal control and law enforcement procedures. In chain of custody verification, the logistic timber procurement process from forest to processing mill is monitored. The specialized, accredited certification bodies are implementing the monitoring audits for forest certification and chain of custody (COC) verification.

**Project Component 4 - US$1.86 million**

**Project Management**

This component would facilitate efficient project implementation and coordination and collaboration with various government agencies at central, provincial and district levels as well as undertaking project monitoring and ensuring effective collaboration and cooperation with relevant other projects, donors and non-governmental organizations. The main activities are developing a project coordination and management mechanisms, including the establishment of national and provincial Steering Committees and Establishing of Province Implementation Units in each of the project provinces; overall project management and coordination; project monitoring and evaluation (M&E), including project impact studies; financial management system at NAFES and provincial project/PAFES offices; procurement; facilitating supervision missions; various baseline and impact studies; annual financial audits; reporting. A mid-term review would be carried out during the third year of the project implementation. The project will provide support for M&E, including TA for systems development, training, improving facilities, financing independent audits and forest certification (initially), and carrying out special studies.

**Project Area**

For the field implementation, it is estimated that the project will work initially in eight production forests covering all together an estimated 528,000 ha in four (4) provinces and eighteen (18) districts (Annex 3). This includes 270,000 ha of old project areas. Participatory, sustainable forest management has already been initiated under previous pilot projects in three production forests – Dong Phousoi, Dong Sithouane, and Dong Kapho. As a result, two provinces and 79 villages already have some experience in carrying out participatory forest management and village development activities, and villagers are already organized into VFOs. These areas already have a land-use and/or management plan, which reduces the overall scope of the project. Annex 3 provides information on forest resources and biodiversity. Annex 6 contains data on socio-economic factors.

Implementation of modified PSFM system will be expanded in Khammouane and two southern provinces, Salavan and Champassak, in lowland production forests where the model is readily applicable. In Savannakhet there is no more room for expanding the implementation of PSFM, since its lowland production forests are already fully covered by operations in Dong Sithouane and an enlarged Dong Phousoi. Together, the area of commercial lowland production forests to be put under sustainable participatory management in these four provinces will cover about three-quarters of the country’s lowland production forests with commercial potential.

**Beneficiaries.** Main project beneficiaries will be villagers, which will be involved in the field implementation, and the Government through improved quality of forest management and improved rent capture and revenue collection. Other direct beneficiaries will include district, provincial and national forestry, rural development, and other government staff, who will receive support and training.
The proposed project area covers 354 villages. At this stage of planning, it is not possible to determine
the actual number of project villages for two main reasons. First, the exact extent of forests to be covered
by the project will be determined in more detail during the early stages of project implementation.
Second, village participation in the project is to be voluntary. Based on FOMACOP experiences, the
actual number of project villages was reduced by 20% down to about 290 villages with a population of
some 100,000 -105,000 people. This figure includes 122 new villages and 168 old villages in eight
production forest areas.

Out of these 290 villages an estimated 190 will be directly involved with forest management. The other
villages are adjacent to the production forests and would very likely be involved in forest protection
activities. In areas, where these “outside” villages have traditionally enjoyed access to natural forests in
other village territories, ways of allowing this system to continue will be promoted. In addition, villages
that do not have good access to natural forests will receive special benefits through targeted village
development support.
Annex 3: Estimated Project Costs

LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

### Project Cost By Component

<table>
<thead>
<tr>
<th>Component</th>
<th>Local US $million</th>
<th>Foreign US $million</th>
<th>Total US $million</th>
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<tbody>
<tr>
<td>Support Services for Sustainable Forest Management</td>
<td>0.19</td>
<td>0.74</td>
<td>0.93</td>
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<tr>
<td>Sustainable Forest Management and Village Development</td>
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<td>Sectoral Monitoring and Control</td>
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<td>Project Management</td>
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<td><strong>8.83</strong></td>
<td><strong>15.13</strong></td>
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<tr>
<td>Physical Contingencies</td>
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<tr>
<td>Price Contingencies</td>
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<td><strong>Total Project Costs</strong></td>
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<td><strong>9.57</strong></td>
<td><strong>16.45</strong></td>
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</tbody>
</table>

**Total Financing Required**

<table>
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<tr>
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<th>Local US $million</th>
<th>Foreign US $million</th>
<th>Total US $million</th>
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### Project Cost By Category

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<td>Goods</td>
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<td>Village Development Project Grant</td>
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<tr>
<td>Incremental Operating Cost</td>
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<tr>
<td>Training and Workshop</td>
<td>0.37</td>
<td>0.31</td>
<td>0.68</td>
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<tr>
<td><strong>Total Project Costs</strong></td>
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<td><strong>9.57</strong></td>
<td><strong>16.45</strong></td>
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</table>

Totals do not correspond due to rounding

Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 16.45 (US$m). Therefore, the project cost sharing ratio is 60.18% of total project cost net of taxes.
Annex 4: Cost Benefit Analysis Summary

LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

Summary of Benefits and Costs:

The project is anticipated to have primarily positive social and environmental impacts, especially as concerns the primary beneficiaries, the villagers. As designed, the project is intended to promote more sustainable management of the forests, which will result in enhanced livelihood security for local people. Main envisaged benefits are:

- Forest products will be harvested at maximum sustainable levels without degrading the forest resources, which will provide benefits to the current and future populations. Timber harvesting with a high level of retention of large trees in a stand would lead to minimal changes in species composition and stand structure and minimal disruption of faunal habitats.
- Protection of important social and cultural values such as spirit trees, sacred forests and other cultural assets through villager participation in tree selection.
- Participatory land-use and forest management planning process has good potential to: (a) resolve land use, (b) clarify land tenures and resource use rights, and (c) ensure greater consultation, fairness and consistency in the application of land allocation programs and forest regulations and policies.
- Access to community development services, training and improved village revenues may, over the longer term, reduce village dependence, and thus the pressures, on natural forest resources (wildlife and NTFPs).
- Incidences of improper logging practices and illegal logging would be reduced thereby allowing the Government to maximize rent capture from reduced logging wastes and illegal log flows.
- The project helps to alleviate poverty in rural areas by promoting economic development and empowerment of villagers, through:
  - Managing the forests more sustainably, thereby maintaining the flow of environmental services and conserving the resource bases of timber and NTFPs, which are important in villagers’ daily subsistence (customary use rights) and as sources of village livelihood;
  - Providing employment to villagers in forest management operations;
  - Providing a share of forest revenues for village development and rural enterprises;
  - Building villagers’ knowledge and skills, empowering them to more effectively take on responsibility for guiding their own self-development; and through participatory monitoring and evaluation, taking important steps towards ensuring transparency and building good governance.
- The light “ecological footprint” of the adopted low-impact forest management approach provides the potential for:
  - significant in situ biodiversity conservation of low elevation evergreen/semi-evergreen and dry deciduous forests, all of which are poorly represented in NBCAs;
  - the creation of buffers around, and connectivity between, existing NBCAs in some areas;
  - the incremental introduction of sustainable management and use of NTFPs and wildlife;
  - maintenance of aquatic health (in forest pools, streams, mineral licks and marshes) and ecosystems that support NTFPs; and
  - the protection of snags, wildlife trees, coarse woody debris, fruit and nut species, pollinators, seed dispersers and other ecological keystones.
Valuation of benefits. An important benefit of PSFM is that forest products would be harvested at maximum sustainable levels without degrading the forest resources. Using a sustainable annual yield of 0.9 m$^3$/ha as a basis for estimating the annual allowable cut (AAC), the 195,000 ha of commercial forests in the nine (including Dong Khanthung) production forests would yield about 175,500 m$^3$ of timber. To extract this volume, under the with-project scenario some 219,500 m$^3$ of tree volume would have to be cut if logging losses were equivalent to 25% of extracted volume. Under the without-project scenario the corresponding volume would be 280,800 m$^3$ if logging losses were equivalent to 60% of extracted volume. The volume that would be over cut, i.e. 61,425 m$^3$, would be worth US $2.45 million assuming that the amount of timber lost is worth some US $40/m^3$ (or 50% of the estimated stumpage value). This amount represents the main part of the incremental annual benefit of the project in 30 years over the without-project scenario. Incremental benefits from existing pilot village forestry sites have been included in the analysis because without the project the existence of overwhelmingly large areas of unmanaged forests would put pressure on managed forests to revert back to their former unmanaged state.

Valuation of costs. The cost flow includes the total costs of the SFM field implementation component including technical assistance, investments and incremental operating costs such as salaries, per diems and O&M. Village development investments and salaries of permanent government staff were excluded from the cost flow. Sector and country-wide costs related to the establishment of the PFA system and sectoral monitoring and control have been included proportionately in the profitability analysis using cost allocation shares of 25% and 60%, respectively.

Main Assumptions:

Benefits that are difficult to quantify, e.g. biodiversity conservation, or where information is lacking, e.g. relationship between sustainable harvest of NTFP and forest degradation from over-logging, have not been included in the analysis. The analysis suggests that there is no need to quantify and value environmental benefits.

Replacement costs of vehicles and equipment were included in the cost flow over the thirty-year analysis period assuming full replacement after every five years.

Sensitivity analysis / Switching values of critical items:

Assessed financial viability. The main finding of the analysis is that the project would yield an IRR of about 19.7%. The IRR would decrease to 15.7% if all costs would increase by 20% and to 15.6% if benefits would be delayed by two years. The IRR would increase to 23.7% if certified logs would be produced, assuming price premiums of 10% and current level of costs associated with forest certification. As mentioned above, the analysis considered only the quantifiable benefits related to timber production. If other benefits, e.g. conservation of resource base of NTFPs, etc., are considered then the economic benefits would be greater than shown.
## Annex 5: Financial Summary

**LAO PEOPLE'S DemoCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT**

Years Ending
June 30

<table>
<thead>
<tr>
<th>IMPLEMENTATION PERIOD</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
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<tbody>
<tr>
<td>Total Financing</td>
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<td>4.4</td>
<td>4.2</td>
<td>3.3</td>
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<td>IBRD/IDA</td>
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<td>2.8</td>
<td>2.6</td>
<td>1.7</td>
<td>1.2</td>
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<td>Government</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Central</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Provincial</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Co-financiers</td>
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<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Project Financing</td>
<td>3.2</td>
<td>4.4</td>
<td>4.2</td>
<td>3.3</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Main assumptions:

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- 56 -
Annex 6(A): Procurement Arrangements

LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

Procurement
Procurement of all works and goods to be financed under Sustainable Forestry Project will follow the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated January 1995 and revised in January and August 1996, September 1997, and January 1999.

Consultant services financed under the Credit will be procured in accordance with provisions stipulated in the Credit Agreement and the “Guidelines for Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (Consultant Guidelines).

The Government has requested parallel co-financing (amounting US$6 million) under a grant from Government of Finland (GOF). Procurement of goods and consulting services with this financing source, will follow the corresponding GOF procurement rules.

STANDARD BIDDING DOCUMENTS:

The Bank’s standard bidding documents for goods, works, standard evaluation reports and standard request for proposals for consulting services will be used under the Project. A standard quotation solicitation form and contract form for goods will be developed for procurement under shopping procedures.

Summary of Procurement Assessment Capacity

National Procurement Capacity and Issues

The key issues affecting procurement that were identified prior to the recent CPAR, were: slow progress in procurement reform; increasing delegation of procurement responsibility to the provinces; weak project implementation capacity, both at national and local levels; a perception that World Bank procurement guidelines and procedures are unnecessarily burdensome.

Fiduciary risk in procurement in Lao PDR has lessened over the last 5-6 years since the introduction of procurement legislation and accompanying rules and regulations. However, it is still rated high on account of, among other things: the absence of a functioning and well-staffed Procurement Management Office; gaps in the regulatory framework; a shortage of qualified and experienced Government staff; low public sector salary scales leading to absenteeism, conflict of interest and project delays; overly-frequent rotation of Government staff disrupting overall efficiency of Government offices; distortions caused by participation of SOEs that may not be eligible under the Bank’s guidelines. Insufficient overall skills in project management and contract administration, which requires specific training programs for Government staff involved in implementing projects on a broader scale than merely procurement training.

Implementation of the recommendations in the CPAR are expected to reduce risks over time and, on the Bank’s side, continuing attention to strong project design and supervision and in-depth investigation of cases of alleged fraud and corruption, will assist in achieving an improved fiduciary environment.
CPAR recommendations are grouped by three priorities. First, the Procurement Management Office (PrMO) should become a functional entity as soon as possible, appropriately located within MOF. The Government has now agreed to this as part of the conditionalities for the release of the second tranche for the FMAC (3677-LA). Second, the Government (through the PrMO) and the Bank, together with other donors, should jointly design and implement a structured procurement training program for staff involved with procurement, of how to implement, in an efficient manner, Government and donor procurement procedures. Third, as the rate of growth of the private sector increases, the efficiency of Government departments handling private sector procurement-related matters such as the issue of import licences, needs to keep pace and a fully functional PrMO should provide assistance in this area.

Agency Procurement Capacity

World Bank procurement accredited staff carried out an assessment of the procurement capabilities of the project’s implementing agencies implementing unit. The draft assessment report was discussed with the implementing agencies during in June - September 2002. The final report will be available in project files. The main findings and course of actions are as follows:

- Overall capacity of the implementing units involved with procurement is “weak” and the associated risks are in the “high” category.
- Procurement of all consultancy services, building renovation, vehicles, office equipment, field equipment and consumables in the central office financed by the IDA will be undertaken by the National Project Management Office (NPMO) in NAFES. The NAFES which is the central unit in Ministry of Agriculture and Forestry, has benefited from technical assistance by experienced foreign consultant under the on-going project, Agricultural Development Project (ADP) financed by the IDA. Their capacity is quite weak and they represent a high risk. Since, similar technical assistance is planned under this project.
- Procurement activities for works and consumables in the provincial offices will be undertaken by PAFOs which are the provincial branches of the Ministry of Agriculture and Forestry (MAF) in each of four selected provinces, namely; Khammouane, Savanakhet, Salavan and Champasak. In addition, the Village Development Sub-projects which will be done through community participation, will be monitor and supervision by the PAFOs in the four provinces. The PAFOs began to handle procurement for IDA-funded activities under the Forest Management & Conservation Project (FOMACOP) which closed in December, 2000. But most of the staff are not familiar with English language. And most of staff who dealing with FOMACOP have been moved to work for other tasks.
- Mitigation measures to address the risks includes: (a) the Operational Manual will be prepared and adopted to assist NPMO & PAFO’s staff in the implementation of procurement under the IDA’s procedures (prior to Effectiveness); (b) provision of specialized consultants with excellent procurement knowledge and experience (prior to Effectiveness); (c) procurement training programs will be performed by the World Bank Office, Bangkok & Vientiane before the project start-up and additional procurement training will be conducted on, as need basis during the first year of project implementation (prior to Effectiveness and during first year); and (d) the NCB documents used by NAFES for ADP will be adopted to this project but for better understanding by the contracting industry and the local supervising staff, the documents will be translated in local language (throughout project).
- National laws and regulations are mostly consistent with the IDA’s procurement guidelines except for the following items relating to NCB for which the current draft CPAR required these provisions to be addressed in the Development Credit Agreement:
  (a) no preference whatsoever will be given to a domestic bidder over foreign bidders or to an SOE over a non-SOE;
  (b) awards shall be made on the basis of the lowest evaluated bid, and any bid award based upon
a point system, or any other criteria other than the lowest evaluated bid, shall be deemed invalid;
(c) bids will not be automatically rejected for lack of effective competition solely on the basis of
the number of bidders or because all bid prices substantially exceed the budget allocated and the
provisions of paragraph (j) of Article 4 of the IRRs 1639/MOF will apply only as hereby modified
by the provisions on rejections of bids set forth in paragraphs 2.59-2.62 of the Guidelines;
(d) SOEs in the Borrower's country may participate only if they can establish that they: (a) are
legally and financially autonomous, and (b) operate under commercial law. No dependent agency
of the Borrower shall be permitted to bid or submit a proposal for the procurement of goods or
works under the Project;
(e) The Borrower shall not require bidders or potential bidders to register as such with the
relevant authority of the Borrower as a condition of bidding; and
(f) The IDA reserve the right to require that, in contracts financed by an IDA credit, it requires
the suppliers and contractors to permit the IDA to inspect their accounts and records relating to the
performance of the contract and to have them audited by auditors appointed by the IDA.

Procurement Methods

1. Procurement of Civil Works:

   National Competitive Bidding (NCB): Procurement of civil works for office buildings and road
upgrading for village development, amounting between $25,000 and $100,000 will be procured through
NCB procedures. NCB procedures are favored over ICB procedures because the small value of these
contracts is unlikely to attract foreign competition. However, foreign contractors will not be excluded
from participating. To perform the works, NCB procurement document will be prepared and submitted to
IDA for concurrence. The aggregate amount for this procedure will be less than US$1.46 million, of
which $1.2 million will be financed by IDA.

   Procurement of Small Works: Renovation of provincial offices, estimated to cost less than $25,000
each will be contracted with the fixed price contracts awarded on the basis of quotations obtained at least
three reputable domestic contractors in response to a written invitation. The invitation shall include a
detailed description of the works, including basic specifications, the required completion date, a basic of
agreement acceptable to IDA, and relevant drawings, where applicable. The contract amount estimated
for renovation of offices is $45,000.

2. Procurement of Goods:

   International Competitive Bidding (ICB): Procurement of goods for computers, printers, office
equipment, field equipment, minibuses and tractors with contracts estimated to cost above $50,000 will
be procured through ICB procedures. In the evaluation of bids, a domestic price preference margin equal
to 15% of the CIF bid price of imported goods, or the actual custom duty and imported taxes, whichever
is lower, will be allowed for domestically manufactured goods. The aggregate amount through this
procedure is around US$0.60 million.

   International or National Shopping. Goods such as software packages, furniture and consumables
materials estimated to cost less than $50,000 equivalent per contract, up to an aggregate amount not to
exceed $0.75 million, may be procured under contracts awarded on the basis of international and/or
national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the
Guidelines.
Contracts will be awarded on the basis of quotations obtained from at least three qualified suppliers in two different countries for international shopping procedures and at least three domestic suppliers when the national shopping method is adopted. Request for quotations will include a detailed description and quantities of goods, basic specification as well as the desired delivery time and place and an acceptable form of contract. The qualified firm offering the lowest evaluated price quotation will be contracted.

Procurement through United Nations; Inter – Agency Procurement Service Office (IAPSO): In order to meet the needs of the National Project Management Office for administrative works, the vehicles and motorcycles for administrative works will be purchased through IAPSO. The total amount of the contracts will be around US$1.4 million.

Direct Contracting. This method of purchase will be used for specific satellite imagery, most of which are proprietary and obtainable only from one source i.e. Landsat imageries which is an organization representing the United States Government. The aggregate amount through Direct Contracting will not exceed $45,000.

3. Consulting services:

Selection Based on Consultants’ Qualifications (SBCQ). SBCQ procedures will be used to select the consultants for independent forest control and monitoring, system and law enforcement evaluators, and external financial audit. The estimated contract amount of both these services is less than $100,000. Consultants with the most appropriate qualifications and references may be selected from a shortlist based on requested expression of interest from qualified firms, all in accordance with paragraph 3.7 of the guidelines. The aggregate amount of these contracts procured through SBCQ procedures is $0.13 million.

Individual Consultants, including procurement adviser and construction engineering adviser(s), will be selected in accordance with paragraphs 5.2-5.4 of the guidelines.

4. Village Development Project Grants:

It is desirable to execute village development works through community participation in procurement. This procedure will be done to (a) call for the participation of local communities; (b) increase the utilization of local know-how and materials; (c) employ labor–intensive and other appropriate technologies. The details procurement procedures will be considered and adapted to reflect the requirement. Initially, the PAFO/DAFO staff will be (a) advising villagers on how to determine the most efficient and effective method for construction and procurement (e.g. either through community force account or when appropriate, community–managed tender to a private construction firm(s); (b) assisting villagers to manage construction (for Community Force Account) or to supervise works undertaken by a contractor; (c) supervising local facilitators in contract supervision, village implementation or management of construction, procurement of equipment and materials etc.; (d) project reporting on technical progress and problems and the certification of completed works.

The Operation Manual provides details and steps for the villagers to follow including the requirement for record keeping for IDA’s post review. For Bank approval, the final Operational Manual will be cleared by a Bank Procurement Specialist or Procurement Accredited Staff to ensure that adequate safeguards are incorporated, including public advertisement, an appropriate level of prior review, supervision of provincial procurement and post review by the Bank.
The amount allocated for sub-projects under the IDA credit is $2.73 million.  

5. **Training & Incremental Operating Costs:**

The project will finance training & incremental operating costs incurred by 4 provincial offices and the NF'MO. The incremental costs will include payments for utilities, rental, transportation, travel related subsistence, vehicles and motorbikes maintenance, office equipment maintenance, fuel, e-mail connection fee, office supplies, etc., excluding staff salaries. Procurement for these services will follow Government regulation in accordance with principles and procedures satisfactory to IDA. The aggregate amount of training is estimated to be $0.7 million, and the incremental costs of the project are estimated at the equivalent of $3.1 million.

Procurement methods (Table A)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>ICB</th>
<th>NCB</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>0.00</td>
<td>1.46</td>
<td>0.04</td>
<td>0.00</td>
<td>1.50</td>
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<td>Civil Works</td>
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<td>(1.32)</td>
<td>(0.04)</td>
<td>(0.00)</td>
<td>(1.36)</td>
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<tr>
<td>2. Goods</td>
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<td>Vehicles and Equipment</td>
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<td>(0.00)</td>
<td>(2.17)</td>
<td>(0.00)</td>
<td>(2.77)</td>
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<tr>
<td>3. Services</td>
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<td>5.36</td>
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<tr>
<td>Consulting Services</td>
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<td>(0.00)</td>
<td>(0.27)</td>
<td>(0.00)</td>
<td>(0.27)</td>
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<td>4. Village Development Project Grant</td>
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<td>2.73</td>
<td>0.00</td>
<td>2.73</td>
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<td>(0.00)</td>
<td>(2.73)</td>
<td>(0.00)</td>
<td>(2.73)</td>
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<tr>
<td>5. Incremental Operating Cost</td>
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<td>2.70</td>
<td>0.36</td>
<td>3.06</td>
</tr>
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<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(2.70)</td>
<td>(0.00)</td>
<td>(2.70)</td>
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<td>6. Training and Workshop</td>
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<td>0.68</td>
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<tr>
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<td>(0.00)</td>
<td>(0.07)</td>
<td>(0.07)</td>
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<tr>
<td>Total</td>
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<td>(1.32)</td>
<td>(7.98)</td>
<td>(0.00)</td>
<td>(9.90)</td>
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1/ Figures in parentheses are the amounts to be financed by the IDA Credit. All costs include contingencies.

2/ Includes goods to be procured through international/national shopping, consulting services, village development sub-projects, training and incremental operating costs.
### Table A1: Consultant Selection Arrangements (optional)
(US$ million equivalent)

<table>
<thead>
<tr>
<th>Consultant Services Expenditure Category</th>
<th>QCBS</th>
<th>OBS</th>
<th>SFB</th>
<th>LCS</th>
<th>CQ</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost</th>
</tr>
</thead>
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<td>A. Firms</td>
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<td>0.00</td>
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<td>B. Individuals</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.16</td>
<td>0.00</td>
<td>0.16</td>
</tr>
<tr>
<td></td>
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<td>(0.00)</td>
<td>(0.00)</td>
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<td>(0.00)</td>
<td>(0.16)</td>
<td>(0.00)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>Total</td>
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<td>0.00</td>
<td>0.13</td>
<td>0.16</td>
<td>5.07</td>
<td>5.36</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.11)</td>
<td>(0.16)</td>
<td>(0.00)</td>
<td>(0.27)</td>
</tr>
</tbody>
</table>

*Including contingencies*

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed
Figures in parentheses are the amounts to be financed by the Bank Credit.
Prior review thresholds (Table B)

Table B indicates the thresholds for prior review. The Bank will conduct prior review of procurement documents and actions in accordance with procedures set forth in paragraph 2 of Appendix 1 to the Procurement Guidelines for:

- all works contracts costing more than or equal to US$25,000 and the first contract of small works under price comparison for each year;

- all goods contracts costing less than or equal to US$50,000, the first goods contract per province per year procured through shopping and all goods contracts procured through Direct Contracting;

- all consulting contracts costing more than or equal to US$100,000 for firms, the first consultant contract for firms for each year costing less than US$100,000, and all contracts above US$50,000 for individuals.

The total amount of contracts/procurements subject to prior review is US$3.44 million, or 35 percent of the value of the Credit.
### Table B: Thresholds for Procurement Methods and Prior Review

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value Threshold (US$, thousands)</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>&gt;25</td>
<td>NCB</td>
<td>All contracts ($1.46); First contract per year ($0.03).</td>
</tr>
<tr>
<td></td>
<td>&lt;25</td>
<td>Small Works</td>
<td></td>
</tr>
<tr>
<td>2. Goods</td>
<td>&gt;50,000</td>
<td>ICB</td>
<td>All contracts ($0.6); The first contract per Province per year (0.75); N/A</td>
</tr>
<tr>
<td></td>
<td>&lt;50,000</td>
<td>IS/NS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All</td>
<td>IAPSO</td>
<td>All contracts ($0.40).</td>
</tr>
<tr>
<td></td>
<td>All contracts</td>
<td>Direct Contracting</td>
<td></td>
</tr>
<tr>
<td>3. Services (a) Firms</td>
<td>&gt;100,000</td>
<td>SBCQ</td>
<td>All (Not Foreseen)</td>
</tr>
<tr>
<td></td>
<td>&lt;100,000</td>
<td>SBCQ</td>
<td>The first contract per year ($0.10);</td>
</tr>
<tr>
<td>(b) Individual</td>
<td>&gt;50,000</td>
<td>Selection of Individual Consultants</td>
<td>All ($0.10)</td>
</tr>
<tr>
<td></td>
<td>&lt;50,000</td>
<td></td>
<td>None</td>
</tr>
<tr>
<td>4. Village Development sub-projects</td>
<td></td>
<td>Community Participation</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>5. Training &amp; Incremental Operating Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total value of contracts subject to prior review:** US$3.44 million (35 percent of the Credit)

**Overall Procurement Risk Assessment:** High

**Frequency of procurement supervision missions proposed:** One every 4 months (for the first year and one every six month for the year later) months (includes special procurement supervision for post-review/audits)

**Proposed post review ratio:**

Considering the high volume of sub-projects and the risk of the project: 1 in 5 contract up to the Mid-Term Review (if found satisfactory – reduce to 1 in 10 contracts thereafter).

Thresholds generally differ by country and project. Consult "Assessment of Agency's Capacity to Implement Procurement" and contact the Regional Procurement Adviser for guidance.
Financial Management

1. Summary of the Financial Management Assessment

Country Issues. The CFAA has been prepared by the Bank and the report was shared with the authorities in mid 2002. The overall fiduciary risk in Lao PDR is considered to be high despite the fact that there are elaborate built-in controls within the government financial management system. There is insufficient transparency related to public finances and the general attitude towards fiscal discipline is not strong. The budget process is not yet transparent and public access to government financial information is limited. These weaknesses are compounded by an inadequate awareness of modern practices of internal control in the public sector. While an elaborate control system is in place, involving many pre-approval and checking processes, it needs to be made more effective. The government’s decentralization initiative needs to be supported with a sufficiently robust institutional framework that clearly defines the new responsibilities at lower levels. Technical capacity of staff at these levels needs to be strengthened. The oversight functions and the National Auditor Office’s need improvement. The accounting and auditing profession and institutions remain undeveloped. To address these deficiencies, the government has agreed to implement several recommendations of the PER and CFAA. The proposed Financial Management Capacity Building project as well as the government initiative supported by ADB are expected to bring the fiduciary risk to an acceptable level.

At the level of the Project, the financial management system for the external funded project remains weak and need substantial improvement. A number of key issues and weaknesses regarding the Bank funded projects was identified as following a) inconsistent and inadequate financial management standards, procedures and software in each PIU; b) delays to project implementation resulting from management of Special Accounts by MOF; c) delayed audit and lack of consistent external audit standards and procedures; d) PIU accounting departments that have been poorly staffed and equipped at start-up; e) poor internal control procedures and absence of internal audit in line agencies; and f) lack of financial management capacity at provincial and district levels.

Risk Analysis. An assessment of financial management arrangements of the proposed Sustainable Forestry for Rural Development project was carried out during pre-appraisal mission in July 2002, field visit in September 2002 and updated during appraisal. Fiduciary risks relating to financial management and the internal control framework were identified and discussed and would be mitigated through the proposed system. Those include low salary and compensation levels of civil servants which make it difficult to attract and retain well qualified and motivated staff. The review concluded that the project would meet minimum Bank financial management requirements subject to the following actions:

1. finalize organization structure of the financial management and accounting section within the NAFES with an adequate number of mix skilled and experiences staff who understand the relevant accounting concepts and government regulations at both national and provincial level,
2. develop account system and financial procedure manual applicable for the project with chart of account capable to capture projects data by provinces, components, procurement category and funding sources,
3. update project financial management manual applicable for the project and provide trainings to project staff,
4. finalize funds flow and financial control and procedures on participatory Forest Management and Village Development under sub-projects
5. complete reporting requirements to report regularly and more frequency in agreed format that helps management for timely monitoring and decision-making and meets the Bank requirements: Financial Monitoring Reporting (FMRs),

6. install equipment and software ready for testing functionality of the system.

Financial Management Arrangements. NAFES will be the unit responsible for overall financial management functions for the project. NAFES has recently taken over financial management of Agricultural Development Project (ADP), an IDA project (CR.3509-LA) and has been in transitional period to improve the system to meet with IDA requirements. Several actions and training program are being carried out gradually and are expected to be complete by effectiveness of this project. The system design for the ADP project is applicable for the proposed project with minor modification.

Accounting system. The Financial Management Procedures Manual, which describes flow of funds, responsibilities and delegation of authorities, disbursement procedures, internal controls, accounting policies and procedures, transaction flows and reporting procedures as well as project budget preparation procedures was already developed as part of Project Operation Manual (POM) of the ADP project. The manual is adequate for the project except the procedures for a) foreign exchange transactions particularly procedures for recording and translation payments/contract made in local currency and conversion for replenishment from US Dollar Special Account and b) sub-project disbursements.

It has been determined that the existing ACCPAC accounting software will be used for data processing and generate financial reports. The configuration will be added into the system to process separately. The chart of account will be modified to enable producing financial reports as per the Bank and statutory requirements. However, as ACCPAC is reliable software acceptable to the Bank, the configuration and chart of account can be designed upfront based on the system specification. In addition, additional equipment and software license should be procured for the proposed project.

Financial Reporting and Monitoring. All World Bank-financed projects appraised from January 1, 2002 are required to provide the Bank with Financial Monitoring Reports (FMRs). The format of the reports was agreed at Negotiations.

Audit arrangement. An external auditor acceptable to the Bank, will be appointed same as ADP project. However, the scope of audit and reports requirements will have to be identified and discussed before effectiveness.

Funds Flow. In general, the funds channeling from the Association to NAFES and from NAFES to participating provinces will not differ from what was designed for ADP project. However, some need to be modified to match with procurements arrangements. In case of civil work, good and equipment are decentralized to procure at provincial level, proper arrangement for flow of fund will have to be modified. The Village sub-project payments will match with funding method and procurement arrangement under sub-projects. IDA funds will be channeled through a Special Account. In line with the GOL decentralization policy on financial management, MOF shall authorize the establishment of a Special Account (SA) for the project under the responsibility of the Ministry of Agriculture and Forestry and operated by NAFES. In this case, at central level, NAFES will operate two bank accounts comprising: 1) a Special Account denominated in US dollars to receive funds from IDA; and 2) a KIP (local currency) account to receive funds from government budgetary allocations. At provincial level, each Provincial Agriculture and Forestry Extension Service (PAFES) will operate at least a KIP bank account to operate project funds, regardless of project components. The Special Account will be opened at a National Bank of Lao PDR and the provincial bank accounts shall be opened at a commercial bank acceptable to Association.
For funds flow to participating provinces, it is proposed that project accounts will be opened and managed by the PAFES financial officers. Each project account will have an initial allocation disbursed from Special Account equivalent to two months of IDA's share of projected expenditures and will be replenished monthly. The evidence for payments shall be recorded and retained at the provinces while the reports summarizing total payments during the month shall be prepared and sent for replenishments on a revolving fund basis. All replenishment will be accompanied by the depository banks showing all transactions during the months, statement of bank reconciliation and the reports summarizing total payments during the month.

Although the proposed arrangements provide flexibility and efficiency for fund transfers, NAFES will need to establish an accounting system and control procedures to control the flow of funds at each level where the project will operate. The necessary and simple reporting and monitoring features will be built into its system to track the use of project proceeds implemented by communities at district and village levels. Regular monitoring and internal auditing functions need to be built up to verify transactions along the line from central level through provincial, district and village levels. Such control procedures will be documented in the Project Finance and Administration Manual.

Financial Management Capacity of NAFES. NAFES is a new institution under Ministry of Agriculture and Forestry and still in early stages of establishing itself. It is anticipated that it will have units at both the provincial and district levels. The appraisal mission reviewed the FM capacity of NAFES and noted that substantial improvements are required to make NAFES ready for handling multiple external financing projects.

The structure. The NAFES accounting organization will need to be revised to ensure capability for managing multiple projects and fully utilization of resources and equipment for concerning projects. It lacks a unit responsible for monitoring and oversight functions. The duties are not fully segregated among accounting and treasury functions. The team also noted that the line supervision among project accounting staff and the project director and the department head is not quite clear.

Staffing. Staffing will have to be upgraded in term of numbers and skills in project accounting and financial management. Provincial accountants at PAFES and DAFES should be trained in order to have adequate project accounting skills with relevant qualification and experiences. The remuneration package for staff working for the project and per diem rate at the field should be considered and documented in the policy.
Financial Management Action Plan: To assure that the project financial management arrangements are in place before the project starts, the following financial management action plan was agreed at negotiations:

<table>
<thead>
<tr>
<th>Actions</th>
<th>Responsible</th>
<th>Complete By</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 \textit{Financial Management Organization.} Establish National Project Coordination Office \newline At provincial level: ensure that a PIU in each PAFO at every participating province are established.</td>
<td>MAF</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>2 \textit{Staffing} Appoint adequate number of mix skilled and experienced accounting staff with qualifications acceptable to IDA, who understand the relevant accounting concepts and government regulations at both national and provincial level \newline At national level: at least 3 staff to work on project accounting, treasury and monitoring of provincial accounting functions \newline At provincial level: at least 2 staff in each province working on accounting and treasury functions.</td>
<td>MAF</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>3 \textit{Project Financial Management System} Develop project chart of account capable to capture projects data and generate reports by provinces, components, disbursement and procurement category, and funding sources. \newline Streamline the existing project provincial financial system and disbursement procedures of PAFOs under supervisory of NAFES.</td>
<td>NAFES</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>4 \textit{Project Financial Management Manual and Staff Training} Update the existing project financial management manual of ADP to be applicable for the project and acceptable to the Bank. \newline Provide project financial management trainings to project staffs</td>
<td>NAFES</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>5 \textit{Accounting software} Upgrade the existing ADP accounting software to be capable for producing quarterly Financial Monitoring Reports (FMRs) and annual financial statements for the project in a format agreed with the Bank. \newline Adopt the project financial manual and acquire equipment (computer and printers) and install the upgraded software for the project.</td>
<td>NAFES</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>7 \textit{External Audit} An independent auditing firm, acceptable to the Bank, appointed to perform annual audits of project financial statements according to TOR acceptable to the Bank.</td>
<td>NAFES</td>
<td>June 30, 2004</td>
</tr>
</tbody>
</table>

**Supervision plan.** The supervision of the project will include close monitoring of the FM related aspects implemented by the NAFES. Quarterly FMRs are to be submitted to the Bank within 45 days after the end of each quarter. Bank supervision is planned at least once every four months during the first year and twice a year for the years thereafter.
2. Audit Arrangements

NAFES will be responsible for ensuring that the annual financial statements are audited and forwarded to the Bank. The audit would be carried out by an independent auditor appointed under terms of reference acceptable to the Bank. As was early noted, the audit environment in Lao PDR is weak; therefore a qualified private international auditing firm should be selected to conduct the audit of the project according to international auditing standards. This auditing firm would have to be acceptable to the Bank and selected through a competitive process following the Bank’s procurement guidelines (QCBS).

The auditor will be required to express opinions on: (a) The project financial statements; (b) whether the Special Account funds have been correctly accounted for and used in accordance with the Credit Agreement; and (c) the adequacy of supporting documents and controls surrounding the use of the Statements of Expenditures as a basis for disbursements. The management letter addressing internal control of the project is required in addition to basic opinion on the financial statements. The audited financial statements and management letter will be submitted to the Bank within six months after the end of each fiscal year.

3. Disbursement Arrangements

Disbursements from the IDA Credit will be made based on the traditional system (from the Special Account with reimbursements made based on full documentation and against Statements of Expenditure (SOE), and direct payments from the Credit Account).

Allocation of credit proceeds (Table C)

The proposed Credit will be disbursed against the project components shown in Table C. It is expected that the proceeds of the Credit will be disbursed over a period of five years.
Table C: Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Works</td>
<td>1.20</td>
<td>90% of expenditures</td>
</tr>
<tr>
<td>Goods (including Vehicles and Equipment)</td>
<td>2.40</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally.</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>0.27</td>
<td>88% of expenditures</td>
</tr>
<tr>
<td>Village Development Projects including Training Workshops</td>
<td>2.45</td>
<td>100% of expenditures</td>
</tr>
<tr>
<td>Incremental Operating Costs</td>
<td>2.43</td>
<td>95% in FY 2003/04, FY 2004/05, and FY 2005/06; 80% in FY 2006/07; 70% in FY 2007/08; and 60% in each Fiscal Year thereafter</td>
</tr>
<tr>
<td>Training</td>
<td>0.07</td>
<td>100%</td>
</tr>
<tr>
<td>Unallocated</td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td><strong>Total Project Costs with Bank Financing</strong></td>
<td><strong>9.90</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9.93</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Use of statements of expenditures (SOEs):**

Some of the proceeds of the Credit are expected to be disbursed on the basis of Statements of Expenditure as follows: (a) civil work contracts costing less than $25,000 equivalent each; (b) goods contracts costing less than US$50,000 equivalent each; (c) service contracts for individual consultants costing less than $50,000 equivalent each and service contracts for firms costing less than $100,000 equivalent each; (d) goods, works and services under Village Development Projects; and (e) incremental operating costs.

Disbursements for services and goods exceeding the above limits will be made in accordance with respective procurement guidelines and provisions in the Credit Agreement against submission of full documentation and signed contracts.

The documentation supporting SOE disbursements will be retained by the NAFES and PAFES during the life of the project and one year after the receipt of the audit report for the last year in which the last disbursement was made. These documents will be made available for review by the auditors and Bank supervision missions. The SOE documents will be audited annually by independent auditors acceptable to the Bank. Should the auditors or Bank supervision missions find that disbursements have been made that are not justified by supporting documentation, or are ineligible, the Bank will have the right to withhold further deposits to the Special Account. The Bank may exercise this right until the Borrower has refunded the amount involved or (if the Bank agrees) has submitted evidence of other eligible expenditures that offset the ineligible amounts.
Special account:

To facilitate timely project implementation and credit disbursement, NAFES, under MoF’s authority and approval, will establish and operate a Special Account at the Central Bank of Lao PDR, on terms and conditions satisfactory to IDA including appropriate protection against set off, seizure and attachments. The account would be denominated in US dollars. The Special Account (SA), which would cover the IDA share of eligible expenditures in all disbursement categories, would have an authorized allocation of US$800,000 equivalent with an initial withdrawal of US$300,000 equivalent to be withdrawn from the Credit Account and deposited in the SA. When the disbursed amounts and commitment totals from the Credit reaches SDR 3 million equivalent, the initial withdrawal will be increased to the authorized allocation. The Special Account should be replenished on a monthly basis to assure liquidity of funds or when the account is drawn down by 20 percent of the initial deposit, whichever comes first. All replenishment applications will be accompanied by reconciled bank statements from the depository bank showing all transactions in the Special Account. The Special Account will be audited annually by independent auditors acceptable to IDA.
Annex 7: Project Processing Schedule
LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

<table>
<thead>
<tr>
<th>Project Schedule</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to prepare the project (months)</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>First Bank mission (identification)</td>
<td>05/07/2001</td>
<td>05/07/2001</td>
</tr>
<tr>
<td>Negotiations</td>
<td>03/17/2003</td>
<td>05/07/2003</td>
</tr>
<tr>
<td>Planned Date of Effectiveness</td>
<td>06/01/2003</td>
<td>09/24/2003</td>
</tr>
</tbody>
</table>

Prepared by:
William B. Magrath

Preparation assistance:
The Borrower was assisted in preparation by grants from the Governments of Japan and Finland.

Bank staff who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Speciality</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Magrath</td>
<td>Task Team Leader</td>
</tr>
<tr>
<td>Guzman Garcia-Rivero</td>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>Svend Jensby</td>
<td>Social Safeguards</td>
</tr>
<tr>
<td>Nina Masako Eejima</td>
<td>Lawyer</td>
</tr>
<tr>
<td>Enrique Crousillat</td>
<td>Country Manager</td>
</tr>
<tr>
<td>Linda Schneider</td>
<td>Country Anchor</td>
</tr>
<tr>
<td>James B. Carle</td>
<td>Forestry Specialist (FAO)</td>
</tr>
<tr>
<td>James Smyle</td>
<td>Peer Reviewer</td>
</tr>
<tr>
<td>Peter Jipp</td>
<td>Peer Reviewer</td>
</tr>
<tr>
<td>Nipa Sirribuddhamas</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Chinnakorn Chantra</td>
<td>Procurement Officer</td>
</tr>
<tr>
<td>Rosa Muleta</td>
<td>Disbursement Officer</td>
</tr>
<tr>
<td>Evelyn Bautista-Laguidao</td>
<td>Program Assistant</td>
</tr>
<tr>
<td>Cecilia B. Tan</td>
<td>Team Assistant</td>
</tr>
<tr>
<td>Malarak Souksavat</td>
<td>Program Assistant (Field)</td>
</tr>
<tr>
<td>Brenda Phillips</td>
<td>Quality Control (EASRD)</td>
</tr>
<tr>
<td>Arlene Reyes</td>
<td>Quality Control (EASRD)</td>
</tr>
</tbody>
</table>
Annex 8: Documents in the Project File*

LAO PEOPLE’S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

A. Project Implementation Plan

Ministry of Agriculture and Forestry, Lao PDR. Sustainable Forestry and Rural Development Project (3 Volumes), September 13, 2002

1. Project Preparation Report
   A. Public Consultation Plan and Summary of Its Implementation
   B. Review of Production Forestry Related Legislation
   C. Prime Minister’s Decree on Sustainable Management of Production Forest Areas
   D. Principles for Village Participation and Other Key Principles in Participatory Sustainable Management of Production Forests
   E. Participatory Forest Management, Village Development and Poverty Reduction
   F. Biodiversity and Sustainable Forest Management in Lao PDR
   G. Forest Industries in Lao PDR
   I. Institutional Structure and Human Resources in the Forestry Sector
   J. List of Relevant Projects

2. Project Implementation Plan


4. Working Papers

B. Bank Staff Assessments

Country Procurement Assessment Report (CPAR)
Financial Management Assessment Report
Country Financial Accountability Assessment (CFAA), 2002
Financial Management Adjustment Credit (FMAC), Memorandum of the President (MOP), 2002
Public Expenditure Review (PER), 2002
Project Appraisal Document (PAD), Agricultural Development Project (ADP)
Project Appraisal Document (PAD), District Upland Development Project (DUDCP)
Implementation Completion Report (ICR), Forest Management and Conservation Project (FOMACOP)

C. Other

John Dick and Paula Williams, An Environmental and Social Impact Assessment for the Sustainable Forestry for Rural Development Project (Fordev), September 19, 2002.

*Including electronic files
# Annex 9: Statement of Loans and Credits

**LAO PEOPLE’S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT**  
21-May-2003

## Difference between expected and actual disbursements

<table>
<thead>
<tr>
<th>Project ID</th>
<th>FY</th>
<th>Purpose</th>
<th>Original Amount in US$ Millions</th>
<th>IBRD</th>
<th>IDA</th>
<th>GEF</th>
<th>Cancel</th>
<th>Undisb.</th>
<th>Orig Frm Rev'd</th>
</tr>
</thead>
<tbody>
<tr>
<td>PO68069</td>
<td>2002</td>
<td>LA-Fin Mngt Adj-Cr (FMAC)</td>
<td></td>
<td>0.00</td>
<td>17.00</td>
<td>0.00</td>
<td>0.00</td>
<td>11.45</td>
<td>14.41</td>
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<tr>
<td>PO77826</td>
<td>2002</td>
<td>LA-Poverty Reduction Fund Project</td>
<td></td>
<td>0.00</td>
<td>19.34</td>
<td>0.00</td>
<td>0.00</td>
<td>20.64</td>
<td>-0.30</td>
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<td>PO77827</td>
<td>2002</td>
<td>LA-Fin. Management Capacity Building Cr.</td>
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<td>0.00</td>
<td>8.50</td>
<td>0.00</td>
<td>0.00</td>
<td>9.17</td>
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<tr>
<td>PO65973</td>
<td>2001</td>
<td>LA-Agricultural Development Project</td>
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<td>15.69</td>
<td>0.00</td>
<td>0.00</td>
<td>17.71</td>
<td>-0.77</td>
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<tr>
<td>PO64821</td>
<td>2001</td>
<td>LA-Road Maintenance</td>
<td></td>
<td>0.00</td>
<td>25.00</td>
<td>0.00</td>
<td>0.00</td>
<td>12.92</td>
<td>-0.75</td>
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<tr>
<td>PO59305</td>
<td>1999</td>
<td>LA DIST UPLAND DEV</td>
<td></td>
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<td>2.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.08</td>
<td>0.16</td>
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<tr>
<td>PO42237</td>
<td>1999</td>
<td>LA-Provln. Infrastr</td>
<td></td>
<td>0.00</td>
<td>27.90</td>
<td>0.00</td>
<td>0.00</td>
<td>12.83</td>
<td>5.84</td>
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<tr>
<td>PO44973</td>
<td>1998</td>
<td>LA-SOUTHERN PROVINCE RE</td>
<td></td>
<td>0.00</td>
<td>34.70</td>
<td>0.70</td>
<td>0.00</td>
<td>9.99</td>
<td>5.49</td>
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<tr>
<td>PO42210</td>
<td>1997</td>
<td>LA-HWY Improv III</td>
<td></td>
<td>0.00</td>
<td>48.00</td>
<td>0.00</td>
<td>0.00</td>
<td>2.55</td>
<td>4.94</td>
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<td>PO04208</td>
<td>1996</td>
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<td></td>
<td>0.00</td>
<td>20.73</td>
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<td>0.00</td>
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</tr>
<tr>
<td>PO04202</td>
<td>1995</td>
<td>LA-HEALTH SYSTEM REFORM &amp; M</td>
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<td>0.00</td>
<td>19.20</td>
<td>0.00</td>
<td>0.00</td>
<td>5.90</td>
<td>7.46</td>
</tr>
</tbody>
</table>

Total: 

|              | 0.00 | 238.96 | 0.70 | 0.00 | 112.85 | 46.71 | 11.77 |

- 74 -
LAO PEOPLE'S DEMOCRATIC REPUBLIC
STATEMENT OF IFC's
Held and Disbursed Portfolio
Jun 30 - 2002
In Millions US Dollars

<table>
<thead>
<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Committed</th>
<th></th>
<th>Disbursed</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>IFC Loan</td>
<td>IFC Equity</td>
<td>IFC Quasi</td>
<td>IFC Partic</td>
</tr>
<tr>
<td>1998</td>
<td>SEF BAFCO</td>
<td>0.77</td>
<td>0.00</td>
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<tr>
<td>1998</td>
<td>SEF Endeavor</td>
<td>0.15</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>1998/00</td>
<td>SEF Setha</td>
<td>0.18</td>
<td>0.00</td>
<td>0.00</td>
<td>0.18</td>
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<tr>
<td>2001</td>
<td>SEF Villa Santi</td>
<td>1.15</td>
<td>0.00</td>
<td>0.00</td>
<td>1.15</td>
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<tr>
<td></td>
<td>Total Portfolio</td>
<td>2.25</td>
<td>0.00</td>
<td>0.00</td>
<td>2.25</td>
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</table>

<table>
<thead>
<tr>
<th>Approvals Pending Commitment</th>
<th>IFC Loan</th>
<th>IFC Equity</th>
<th>IFC Quasi</th>
<th>IFC Partic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 Sepon</td>
<td>12.00</td>
<td>4.00</td>
<td>0.00</td>
<td>17.50</td>
</tr>
<tr>
<td>2002 UABL River Barge</td>
<td>15.00</td>
<td>5.00</td>
<td>5.00</td>
<td>21.00</td>
</tr>
<tr>
<td>2002 Saluitia RI</td>
<td>0.00</td>
<td>0.00</td>
<td>0.33</td>
<td>0.00</td>
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<tr>
<td>2001 MSF BLINC</td>
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<td>27.00</td>
<td>9.00</td>
<td>5.33</td>
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### Annex 10: Country at a Glance

**LAO PEOPLE'S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT**

#### POVERTY and SOCIAL

<table>
<thead>
<tr>
<th>Year</th>
<th>Lao PDR</th>
<th>East Asia &amp; Pacific</th>
<th>Low-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.3</td>
<td>1,828</td>
<td>2,511</td>
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</tbody>
</table>

#### Key Economic Ratios and Long-Term Trends

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1981-91</td>
<td>-10.8</td>
<td>-8.5</td>
<td>-6.1</td>
<td>0.3</td>
<td>146.2</td>
<td>141.7</td>
<td>-182.5</td>
<td>21.8</td>
<td>22.1</td>
<td>22.85</td>
<td>7.8</td>
<td>7.7</td>
<td>228.9</td>
<td>2000</td>
<td>2001</td>
<td>2001-05</td>
<td></td>
</tr>
<tr>
<td>1991-01</td>
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<td>-8.5</td>
<td>-6.1</td>
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<td>146.2</td>
<td>141.7</td>
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<td>7.8</td>
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<td>2000</td>
<td>2001</td>
<td>2001-05</td>
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#### Structure of the Economy

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>(% of GDP)</td>
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</tr>
<tr>
<td>Agriculture</td>
<td>58.2</td>
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<td>Industry</td>
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<td>Services</td>
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<td>25.7</td>
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<tr>
<td>Private consumption</td>
<td>25.2</td>
<td>25.2</td>
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<tr>
<td>General government consumption</td>
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<tr>
<td>Imports of goods and services</td>
<td>25.2</td>
<td>25.2</td>
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#### Growth of Investment and GDP (%)

**Note:** 2001 data are preliminary estimates.

*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.*
Lao PDR

PRICES and GOVERNMENT FINANCE

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<tr>
<th></th>
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<tr>
<td><strong>Domestic prices</strong> (% change)</td>
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<tr>
<td>Consumer prices</td>
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<td>27.1</td>
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<tr>
<td>Implicit GDP deflator</td>
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<tr>
<td><strong>Government finance</strong> (% of GDP, includes current grants)</td>
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<tr>
<td>Current revenue</td>
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<td>18.2</td>
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<tr>
<td>Current budget balance</td>
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<td>9.8</td>
<td>8.8</td>
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<tr>
<td>Overall surplus/deficit</td>
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<td>-5.3</td>
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TRADE

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<tbody>
<tr>
<td><strong>(US$ millions)</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total exports (fob)</td>
<td></td>
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<td>351</td>
<td>350</td>
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<tr>
<td>Wood products</td>
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<td>Agriculture</td>
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<tr>
<td>Manufactures</td>
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<tr>
<td>Total imports (cif)</td>
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<td>568</td>
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<tr>
<td>Food</td>
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<tr>
<td>Fuel and energy</td>
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<td>Capital goods</td>
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<td>Export price index (1995=100)</td>
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<td>Import price index (1995=100)</td>
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<td>Terms of trade (1995=100)</td>
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BALANCE OF PAYMENTS

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<tr>
<td><strong>(US$ millions)</strong></td>
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<tr>
<td>Exports of goods and services</td>
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<td>133</td>
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<td>Imports of goods and services</td>
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<td>253</td>
<td>608</td>
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<tr>
<td>Resource balance</td>
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<tr>
<td>Net income</td>
<td>-1</td>
<td>-73</td>
<td>-68</td>
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<tr>
<td>Net current transfers</td>
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<td>Current account balance</td>
<td>-111</td>
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<td>Financing items (net)</td>
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<td>189</td>
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<td>Changes in net reserves</td>
<td>8</td>
<td>-32</td>
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<td><strong>Memo:</strong></td>
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<tr>
<td>Reserves including gold (US$ millions)</td>
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<td></td>
<td>702.5</td>
<td>7,887.6</td>
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<td>Conversion rate (DEC, local/US$)</td>
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<td>702.5</td>
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EXTERNAL DEBT and RESOURCE FLOWS

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<tbody>
<tr>
<td><strong>(US$ millions)</strong></td>
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<tr>
<td>Total debt outstanding and disbursed</td>
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<td>1,875</td>
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<td>IBRD</td>
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<tr>
<td>IDA</td>
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<td>Total debt service</td>
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<td>IBRD</td>
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<tr>
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<td>Composition of net resource flows</td>
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<td>Official grants</td>
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<td>Official creditors</td>
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<td>Private creditors</td>
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<td>Principal repayments</td>
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<td>Net flows</td>
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<td>Net transfers</td>
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- 77 -
## Technical Assistance Requirements

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<th>Position</th>
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<tr>
<td><strong>International Technical Assistance</strong></td>
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<tr>
<td><em>Long-term:</em></td>
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<tr>
<td>Chief Technical Adviser</td>
<td>48</td>
</tr>
<tr>
<td>Forest Management Adviser</td>
<td>45</td>
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<td>Village Development Adviser</td>
<td>41</td>
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<td>Forest Management Control and Law Enforcement Adviser</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td><strong>158</strong></td>
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<td><em>Short-term:</em></td>
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<tr>
<td>Forest Land-Use Classification Adviser</td>
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<tr>
<td>Satellite Image Interpretation and GIS Adviser</td>
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<tr>
<td>Forest Resource Information System and Database Adviser</td>
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<td>Low Impact Logging Adviser</td>
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<td>Silvicultural Systems Adviser</td>
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<td>NTFP Management Adviser</td>
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<tr>
<td>Biometry Adviser</td>
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<tr>
<td>Wildlife monitoring, anthropologist/social scientist, M&amp;E, unspecified)</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td><strong>76</strong></td>
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<tr>
<td><strong>Regional Technical Assistance</strong></td>
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<tr>
<td>Participatory Forestry Adviser</td>
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<td>Micro-credit and Revolving Funds Adviser</td>
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<td><strong>Sub-total</strong></td>
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<td><strong>Local Technical Assistance</strong></td>
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<tr>
<td>Provincial Village Development Coordinator (3x)</td>
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<td>Provincial Participatory Forestry Advisor (3x)</td>
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<tr>
<td>Unspecified</td>
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<td><strong>Sub-total</strong></td>
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<td><strong>TOTAL</strong></td>
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Subject: Forest Management Policy

Dear Sir,

First of all, allow me, on behalf of the Ministry of Agriculture and Forestry (MAF) and of all our staff, to convey to you, your family and colleagues our best wishes for a very successful and enjoyable year. Under this continued spirit of constructive engagement and mutual understanding between our two sides, we trust that our Ministry and the World Bank will be able to further strengthening the fruitful cooperation we have had to date and embark on new joint collaborative projects in the areas of agriculture and forestry. May I also take this opportunity to express our appreciation for the valuable support extended by the World Bank, to-date, to the development of our sector.

Mr. Kassum,

As you know, MAF and the World Bank have been collaborating on the development of a proposal for the Sustainable Forestry and Rural Development Project and formal Negotiations are scheduled to begin around the end of April 2003, on an International Development Association Development Credit to support project implementation. We are most pleased with the assistance that we have received so far from the World Bank and look forward to a continued constructive engagement on both sides and a meaningful collaboration and partnership. As the current work is moving forward, I would like to take this opportunity to present to you very briefly an up-date of the Government of Lao PDR policy approach to forest resource management and to assure you of the commitment of my Government to sound, sustainable and economically and socially responsible stewardship of the country’s forests.

Importance of Forests

The Lao PDR is particularly blessed with valuable, productive and ecologically unique forests, which cover nearly half the country's area. These forest resources play a central role in supporting both rural livelihoods and the national economy. Rural people, who comprise about...
80 percent of the population of Laos are generally highly dependent on forests, especially as sources of food, raw materials, revenue for sustaining subsistence livelihood and traditional medicines. Villagers may obtain half of their income and also half of their dietary protein from non-forest products and it is often the poorest that depend most heavily on forest resources in times of scarcity. Forests also contribute some 7-10 percent of Lao GDP and 15-20 percent of non-agricultural GDP. They supply between one third and one half of total export earnings and although current royalty collection rates are low, forest royalties in the mid-nineties made up some 20 percent of GOL revenues.

As well as providing for the direct needs of the population, the nation's forests indirectly support economic development through the protection they provide for soils, watersheds and water resources. Forests in watershed areas are essential for water and soil conservation and help prevent floods, droughts and sedimentation. They also secure stable water supplies for drinking, sanitation and revenue generating activities such as fishing, irrigation and power generation.

Furthermore, Lao forests provide an invaluable home for a diverse and unique collection of flora and fauna. Many plant and animal species previously widespread in Continental Southeast Asia are now dependent on the foothold that the country's forests provide. With respect to mammals, birds and other vertebrate and invertebrate groups, a recent review reported that of 1,140 species in Lao PDR, 319 are of national or global conservation significance. In addition, two or three species previously unknown to science are found in the country every year.

Trends in Forest Cover and Condition

Out of a total land area of almost 23 million hectares, potentially productive forests cover some 47 percent. This is still a relatively high incidence of coverage by World and Regional standards. However, this figure represents an alarming rate of decline from the estimated 70 percent in 1940 to 64 percent in the mid-sixties. Our Ministry is in the process of undertaking a new land-use survey to evaluate the present figures and more updated information of our productive forests, in order to critically assess the situation of forest use and management in the last 15 years and shape the future direction and focus of forest use, production, conservation and management.

Along with past decline in forest cover, we are also confronted by forest degradation and the adverse social, economic, and environmental impacts with which it is associated. The effects are especially severe for the poorest segments of the Lao population, particularly women and ethnic groups, whose livelihoods are often closely tied to the health of surrounding forests. Forest degradation, which encompasses decreases in stocking densities, changes in species composition and size structure, and reduction in wildlife and plant populations, is in many areas as important as actual deforestation.

Fundamental Causes

The decline in forest cover experienced since a few decades has resulted partly from necessary conversion of forestlands for agriculture and infrastructure development and also to unsustainable practices in forest areas. Several of the factors leading to the current situation have already been dealt with by the Government. These include: continued formulation and implementation of sets of Implementing Regulations for the Forestry Law and some other legal
instruments, such as Decree 59 on the Sustainable Management of Production Forests. With regard to trade issues on forest products, the Government has agreed, in principle, on moving towards a market-driven price and marketing system as our long-term aim. As you may be already well aware of, the Ministry of Commerce is working closely with our Ministry and World Bank to develop a support programme to address the existing knowledge limitations of developments in the regional and international markets, in the trade of forest products. On another ground, under the FMAC Programme, the Government has continued its engagement in restructuring public enterprises working in the forestry sector. Other unsustainable impacts affecting the health and extent of the nation’s forests which are being addressed include the practices of pioneering shifting cultivation and clearing of land for opium production.

There remain, however, several issues to be addressed in the coming months and years. As it was already mentioned to the World Bank in the past, the Government of the Lao PDR is in full agreement to improving forest management and utilization. It is policy that logging cannot be undertaken without forest management plans and sound codes of practices. However, currently our knowledge and capacity to institute sound forest management plans and associated codes of practices are limited and we, therefore, have requested World Bank kind assistance in the matter.

Governance issues have also played a part in allowing some of the negatives sides of the current situation to develop. Institutional capacity to plan, manage and control forestry development is very limited both in terms of the number and quality of staff and the availability of budgetary and material resources. Various donors including the World Bank, the Asian Development Bank and the Swedish, Japanese, Finnish and German Governments have contributed a great deal of support to compensate for resource constraints and have also assisted in providing further training for existing staff. Efforts have also been made with the help of these actors to strengthen legislative and regulatory frameworks that have not previously been given the support necessary to implement sustainable forest management. Many of the measures taken are, however, still in their infancy and have yet to be fully implemented. The National Assembly passed the Forestry Law in 1996, and the Prime Minister’s Implementation Decree was issued in the closing days of 1999. Annual implementation orders have been progressively filling gaps as they are noticed, but there is still some way to go to achieve a unified framework covering sustainable management of forests and natural resources. Additional studies in this direction are being performed with the support of the World Bank and SIDA, and results are expected to go a long way to reducing existing legislative gaps.

Community participation in forestry

Again, as it was already stipulated in the past to World Bank, the Government of the Lao PDR is, in principle, in full agreement with the policy principle that villagers in forest areas, organized in village forestry associations or other forms of appropriate groupings, should participate in forestry planning and operations at the field level, within the dispositions of the Prime Minister’s Order on Decentralization, and share in the benefits derived there from. In the proposed collaborative project in sustainable production forestry management, on participation, we will be planning different alternatives in order for target villages to be involved in every planning activity and actual operations, working together with DAFOs within the framework defined in the Order on Decentralization 01/2000, with remuneration commensurate with their effort. The operations would be carried out under the forest management plans drawn by both the villages and the DAFOs. It is planned for also that in the project, due to poor management and
technical capacity, specific resources would be allocated to strengthening DAFOs and the village associations’ capacity.

The preparation of the Forestry Strategy to Year 2020 will help to build a stronger foundation for progressively more effective Government interventions in the sector, with particular emphasis on strengthening the role of forestry in poverty alleviation.

Forest Development Objectives and Strategy

Based on these experiences and taking into consideration the lessons of international experience, the Government of the Lao PDR is involved in a continuing, flexible process of improving the management of its forest sector and of the implementation of forestry programs and projects. The Government has set two development goals to achieve by 2020, the first being to graduate from least developed country status and the second to eradicate poverty. Development of the forestry sector and implementation of sustainable forest management is of key importance to attaining these goals. The Government’s objectives and strategy for forestry are nested within and consistent with the overall National Socio-economic Development Plan, the Poverty Reduction Program in preparation, the Rural Development Program and the Agriculture Development Strategy. Through our efforts across the Government, we are seeking to:

- Stabilise or increase forest cover and conditions;
- Bring industrial wood processing capacity in line with scientifically determined annual allowable harvest levels;
- Conserve within NBCAs and other areas representative forest ecosystems, habitats and endangered species;
- Ensure protection of water resources and critical infrastructure through forest conservation;
- Make efficient use of revenue generated from forestry to the development of other sectors of the economy, accordingly to government development priorities. This includes also resource contribution to rural poverty alleviation programs.
- Ensure sustainable management of non-timber forest products and their contribution to rural livelihoods;
- Decentralise to Provinces and Districts an important part of responsibility for natural resource management and administration, subject to oversight by the Central authorities and accountability;

To achieve these goals, the Government is and will continue to:

- Develop the necessary legislative, regulatory and institutional framework;
- Build capacity at all levels for forest management;
- Apply these skills and resources in bringing forests under scientifically planned and socially accountable management;
- Introduce appropriate market oriented log sales and wood industry reforms;
- Increase the participation of villagers in land-use planning and resource management including conservation and commercial production;
- Strengthen the wood supply base by promotion of tree planting tailored to local social and environmental conditions;
- Increase transparency and openness of natural resource policy and disseminate information on results and outcomes more broadly, such as changes in forest cover, forestry revenues, harvest levels, plantation establishment and management actions;
- Promote sustainable rural development and growth of agricultural production through extension of methods appropriate to local social and environmental conditions.
- Strengthen the capacity to control illegal activities including logging, hunting and wildlife/NTFP trade.

*Specific Accomplishments to Date*

I am pleased to report that despite the challenges that remain, the Government of the Lao PDR has made substantial progress in tackling the problems of forest development in Lao PDR. Beginning with the National Forestry Congress in 1989 and through the Tropical Forestry Action Plan in 1991, the Government has initiated construction of a sound and strong legal framework for forestry. After issuance of several Prime Minister’s decrees concerning forest management and conservation, a comprehensive Forest Law was passed by the National Assembly and put into force in 1996. This Law provides the legal basis for sustainable forest management and amongst others things provides clear definitions and objectives concerning five categories of forest: protection, conservation, production, regeneration and degraded forests. The Law also outlines the responsibilities, and rights of various levels of Government in forests management and makes provision for village resource use and traditional rights. Through a series of Ministerial Implementing Regulations and other forest related laws such as the Land Law and the Environment Protection Law we have established a basic legal framework for forest management in a relatively short period. The implementing regulations include the following:

- Control of Harvesting of Trees and Non-Timber Forest Products (MAF No. 221/2000, 13 Oct 2000),
- Control of Processing Factories of Wood and Non-Timber Forest Products (MAF No. 261/2000, 30 Nov 2000),
- Management of National Biodiversity Conservation Areas and Wildlife (MAF No. 524/2001, 7 Jun 2001),
- Management of Village Forest (MAF No. 535/2001, 18 Jun 2001),

The legal framework now provides for such important matters as controlling unplanned expansion of industrial wood processing capacity, limiting harvests of wood to areas under sustainable forest management plans, recognition of community participation to forest management and development and their traditional rights and access to use of trees and other forest and non timber forest products, conservation and protection of watersheds and biodiversity and promotion of technically and environmentally sound tree planting.

We have also established the National Agriculture and Forestry Research Institute (NAFRI) and the National Agriculture and Forestry Extension Services (NAFES) in the Ministry of Agriculture and Forestry. These organisations are respectively concerned with research into forestry and forest management, and extension of forestry and agricultural methods to promote sustainable use and management of forest resources. In the Department of Forestry we have built capacity in remote sensing, GIS, planning and inventory in the Forest Inventory and Planning
Division which will work together with the new Center for Information and Statistics, established in MAF and having priority responsibility for Natural Resource Planning and Monitoring to monitor national forest cover. In the Science, Technology and Environment Agency, capacity to independently monitor national forests will be increased to facilitate greater transparency in the forestry sector and improved accountability to lawful stakeholders.

Recent Steps taken

As you know, in relation to the World Bank-financed Financial Management Adjustment Credit (FMAC), we have produced ‘Principles for Village Participation and Other Key Principles in Sustainable Participatory Management of Production Forests’ and PM Decree 59 on Sustainable Management of Production Forest; we are now preparing ministerial implementing regulations for this Decree. These principles and legislation provide a sound basis for establishment and management of production forest with participation of local people in all aspects including zoning, planning, logging, log sales and benefit sharing according to agreements between local authorities and villages, under the supervision of district authorities. Implementation of this new management scheme enhanced by capacity strengthening will ensure not only transparent, science based sustainable production forest management but also rural development centred on village level planning and revenue generation from participation in forest management activities. This is directly contributing to the National Programme in Eradication of Poverty, to which World Bank is also providing financial and technical assistance.

Future Policy Challenges

We realise that continued effort is needed across the range of policy, legislative, and capacity building challenges that face us. In particular, we recognise the need to (i) improve the performance of the wood industry in Lao PDR, including the need to restructuring the sector to the required extent, in order to bring processing capacity into closer accord with the sustainably raw material supply; (ii) revise the system for harvest determination based on a more sustainable supply; (iii) promote tree planting and management to strengthen the wood supply base with clearly targeted owners, markets and investment schemes based on experience from existing plantation management and promotion methods; (iv) control unsustainable harvest and export of NTFPs by unregulated traders and promote sustainable participatory management and processing of NTFPs; (v) prevent encroachment, illegal activities and biodiversity degradation in NBCAs by law enforcement, capacity building and assisted participation of villagers in poverty eradication and conservation activities.

Role of the Sustainable Forestry and Rural Development Project

The project now under discussion will support implementation of measures central to the reform program described. It will provide the driving force for identification, delineation, demarcation and initial management of the National Production Forest Area. It will expand the area covered by sustainable forest management plans to about 528 000 hectares and will enable over 100 000 people to directly participate in and benefit from forest management. It will also support measures to monitor and control forest sector activities, thereby ensuring adherence to Government policy and guaranteeing responsiveness to the rights of legitimate stakeholders. We see this project as an important new beginning to our partnership in the forest sector and we will hope to receive further support based on the lessons learned from successful implementation.
Support from other Partners

In the Sustainable Forestry and Rural Development Project, we are very grateful for the grant support that will be generously provided by the Government of Finland for technical assistance. This builds on previous support from Finland for the Forest Management and Conservation Project, for Criteria and Indicators, for Independent Third Party Certification and for other projects. We have also been fortunate to receive strong support over many years from the Governments of Sweden, Germany, Denmark and Japan, as well as from the UNDP, FAO, and the Global Environment Facility. We also appreciate the valuable conservation based inputs necessary for sustainable forest management that have been provided by other international institutions such as IUCN and NGOs like WWF and WCS. The interest and generosity of foreign partners has contributed, to a significant extent, to increase our awareness of the global significance of the forests of Lao PDR and strengthen our capacity for sound stewardship of the resource. Please be assured that we will continue to strive to demonstrate our appreciation for this assistance through careful project implementation and steady improvement of natural resource management.

In conclusion, Mr. Kassum, let me thank you and the World Bank once again for your support and assistance in the forestry sector. While the challenges we face are great, the importance and potential of marshalling our forest resources for the development of the Lao PDR and for sustainable poverty reduction is too important to risk failure.

sincerely,

Mr. Sihathong Rasphone
Vice-Minister for Agriculture and Forestry

The Office of the Prime Minister
The Committee for Planning and Cooperation
The Ministry of Finance
The Ministry of Commerce
The Ministry of Industry and Handicraft
The Ministry of Justice
The Ministry of Foreign Affairs
World Bank Office, Vientiane

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Additional Annex 13: Summary of Social Safeguards
LAO PEOPLE’S DEMOCRATIC REPUBLIC: SUSTAINABLE FORESTRY FOR RURAL DEVELOPMENT PROJECT

The Sustainable Forestry for Rural Development Project (FORDEV, or the Project) is anticipated to have positive impacts for local villagers, including ethnic minorities. They will benefit in terms of sharing in the revenues from timber harvests, village development grants, as well as having opportunities to earn wages for labor in forestry activities. Villagers will also benefit from improved management of the forests, which will assure sustainable production of forest resources and environmental services upon which rural livelihood depend. As each village will decide itself upon its participation in forestry activities and prepare its village development projects, their participation will reflect the needs and wishes of each village.

Few, if any, adverse social impacts are expected as a result of the Project. As participation in project activities will require some commitment of time, primarily during the dry seasons, it could affect the time that villagers have to participate in other income-generating activities. As the project will assist villagers with village development projects, there is a small risk that some villagers could lose assets. It is also recognized that bringing forests under sustainable management may mean restrictions being placed on certain uses that villagers have been making of the forests. In addition, project preparation identified a number of issues concerning ethnic minorities.

To address these potential impacts, and in compliance with World Bank policies on Indigenous Peoples (Operational Directive 4.20) and Involuntary Resettlement (Operational Policy 4.12), an Ethnic Group Development Plan and a Resettlement Policy Framework have been prepared. These two instruments are inter-related and are integrated into the general planning cycle of the project, particularly the Sustainable Forest Management and Village Development Component. The two documents have been fully disclosed and will be included in the Project Implementation Plan. They are summarized below.

Ethnic Group Development Plan

Ethnic minorities in Laos are disadvantaged in terms of greater poverty, less access to development (such as roads, schools, and health clinics), and a lower literacy in the Lao language than the Lao and Tai-Kadai ethnic groups. They are also, in many cases, vulnerable to be disadvantaged in the development process as they are culturally, socially and economically distinct from the dominant Lao and Tai-Kadai ethnic groups, who in most cases are the decision makers at national, provincial and district level. FORDEV has been designed, however, to take these issues into account in its management, extension and training strategies. In addition, the Ethnic Group Development Plan provides additional measures and activities to support the participation of ethnic minorities in ways that are deemed culturally appropriate, and to ensure that they do not suffer adverse impacts from project activities.

Ethnic Minorities in Lao PDR

One of the main characteristics of the Lao PDR is its complex cultural diversity. Although there have been varying numbers estimated for ethnic groups, there is a general agreement to categorize ethnic groups in Lao PDR into four ethno-linguistic groups:

- the Lao-Tai (also referred to as Tai-Kadai), which includes the dominant ethnic Lao group (about 30 percent of the total population of Lao PDR) and lowland Tai speaking groups (about 35 percent);
- Austro-Asiatic, including the Mon-Khmer ethnic minorities (about 23 percent);
- Hmong-Mien, including the Miao-Yao (about 7.4 percent); and
- Chinese-Tibetan (also referred to as ‘Sino-Tibetan’), which includes Chinese and Tibeto-Burman ethnic
minorities (about 2.7 percent).

The official terminology for describing the diverse population of Lao PDR is “ethnic groups” as described in the 1991 Constitution and reflected in the 1995 census. In the late 1950s, the former government had categorized the population into three major groups, the Lao Loum (lowlanders), Lao Theung (midlanders), and Lao Soung (highlanders). This classification was adopted for political purposes, to stress how all ethnic groups were part of the Lao nation and also to simplify a complex situation. It has been abandoned on a national level, i.e., in the 1991 constitution and 1995 census, but is still used by some provincial authorities. Chamberlain (1996) lists 236 ethnic groups that have tentatively been identified. The census recognized 47 main ethnic groups or categories and 149 sub-groups; the last revision of this list by the Lao Front for National Construction contained 49 ethnic groups, and over 160 subgroups (not yet ratified by the National Assembly).

The Ethnic Minorities Committee under the National Assembly is responsible for drafting and evaluating proposed legislation concerning ethnic minorities, as well as lobbying for its implementation and the implementation of socioeconomic development plans. Ethnic minority research is the responsibility of the Institute for Cultural Research under the Ministry of Information and Culture. The lead institution for ethnic affairs is the mass (political) organization, the Lao National Front for Construction (LNFC), which has a Department for Ethnic Affairs.

World Bank policy Application

Based on the national legislation and the characteristics for identifying indigenous peoples that are covered by the World Bank’s indigenous peoples policy in relation to specific World Bank-assisted investment lending, it has been determined that the World Bank's policy will apply to ethnic minorities belonging to the Mon-Khmer and Hmong-Mien ethno-linguistic groups present in the project areas, including the Makong, Katang, Tri, Suoay, Ta Oy, Lavé and the Pacoh (other Mon-Khmer and Hmong-Mien ethnic minorities may be present in the project areas and will be identified during project implementation). The policy does not apply to Lao-Tai ethnic groups. However, traditional practices and customary rights of Lao-Tai ethnic groups (e.g. the Phou Thay ethnic group as well as the Lao ethnic group) will also be incorporated into project implementation, but they will not be receiving additional support as described in the Ethnic Group Development Plan.

Ethnic minorities in the Project Areas

More than one-third of the population in the four project provinces is estimated to belong to non-Lao-Tai ethnic groups covered by the World Bank’s indigenous peoples policy. In three of the four provinces, they comprise 40 percent or more of the total population. Ethnic minorities within the project areas vary in terms of social organization, culture, land use practices, food security, Lao language abilities, access to resources, gender roles and participation in local development planning processes. Some communities, in particular vulnerable and marginalized ethnic minorities, present particular issues in relation to the Sustainable Forestry project. These concerns include, but are not limited to:

- Potential changes to traditional and current land use practices, including harvesting of NTFPs and upland rice cultivation (shifting cultivation or rotational agriculture), that might affect local communities adversely;
- Cultural practices, e.g. spirit forests - which need to be recognized in preparation of forest management plans and their implementation;
- Varying level of Lao language ability (both written and spoken) among villagers, including women and other groups within a given village, effect the level of participation in development processes;
Weaker capacity of particular local communities to participate in development activities, which may require additional project assistance to provide for equal participation and project benefits among different communities or among villagers within a particular village;

Weak capacity of PAFO and DAFO staff to work with ethnic minorities, including lack of local language skills and gender and cultural sensitivity;

Government programs that do not pay sufficient attention to the traditional - often environmentally sustainable - practices of ethnic communities, particularly the land allocation program that aims to stabilize or minimize shifting cultivation.

**Development Plan for Ethnic Minorities**

The overall objective for the Ethnic Group Development Plan is to build on the relative advantages and potentials of the different ethnic minorities and to ensure that they do not suffer adverse impacts of the Project and that they receive benefits in a manner that is culturally appropriate to their particular circumstances. The Plan provides an overall framework of the policy, strategy, and process to be followed. It does not spell out in detail the specific activities with each individual ethnic group or village, since such details will be worked out during project implementation, through the participatory processes for land use, forest management, and village development planning. However, to provide the foundation for all ensuing planning and project development a few key actions and implementation arrangements have been identified to be implemented specifically under the Plan; primarily short ethnography, training activities and the involvement of the Lao Front for National Construction (at national level, its Department of Ethnic Minority Affairs).

The Ethnic Group Development Plan describes the legal, cultural and socio-economic context surrounding ethnic minorities in Lao PDR, particularly pertaining to land tenure and natural resource use. The Plan describes measures, institutional arrangements and budgetary needs that addresses the particular needs and circumstances of ethnic minorities. Finally, the Plan prescribes a process during project implementation that provides for:

(a) collection of more site specific information on ethnic minorities through participatory methods;

(b) the informed participation of all members of ethnic minorities covered by the Plan;

(c) identification, in close cooperation with the given ethnic minorities, of their specific needs and priorities to be incorporated into site specific community development activities and forest management agreements;

(d) procedures for participatory monitoring and evaluation of project activities and their benefits and impacts on ethnic groups; and

(e) complaint mechanisms.

To ensure appropriate implementation based on a good understanding of the different issues pertaining to particular ethnic minorities and particular areas, baseline information will be collected on ethnic groups, which precedes the general data collection activities during project implementation, such as socio-economic surveys, PRAs, and land use and village development planning. The initial information collection will include the following:

(a) a detailed ethnic survey and mapping of the project areas;

(b) acquisition of relevant studies that have already been carried out for those ethnic minorities in the project areas;

(c) short ethnography on ethnic minorities undertaken by an experienced anthropologist together with Lao counterparts. The ethnography will identify issues of general cultural, social and economic relevance as well as particular issues relating to forest practices, such as ethno-forestry and ethno-ecology, that is, local
taxonomies and classification systems of forests and the environment. The ethnography will also identify
relative strengths and potentials of the ethnic minorities, especially indigenous knowledge, which will feed
into the planning process for both forest management and village development plans.

The baseline information and ethnography will provide specific recommendations and material for
participatory project planning; training exercises; further site-specific data collection needs pertaining to
ethnic minorities to inform sustainable forest management particularly the Village Forest Management
Agreements (VFMAs) as well as village development activities to be carried out with villages; and
particular capacity building activities for ethnic minorities. More specifically, the following outcomes are
expected:

(a) a set of recommendations for ensuring that the participatory planning process deals appropriately with
issues relating to ethnic minorities who may otherwise be excluded or marginalized from project activities;
(b) a training plan (and materials) for project staff concerning ethnic minorities and gender (e.g. cultural
awareness and sensitivity raising, understanding of ethnic group issues related to forest management and
village development); and
(c) a set of recommendations of how to address issues of varying ethnic minorities in sustainable forest
management activities (e.g. Forest Management Agreements), including traditional knowledge and practices
that may enhance sustainable forest management or that needs additional recognition and protection.

The Project is not in a position to directly establish land titles for ethnic minorities as there is no personal
ownership of land in Laos. Land use rights are allocated under the mandate of the land and forest allocation
program, which has shown to have adverse impacts on ethnic minorities, particularly in regards to its
emphasis of stabilizing or eradicating shifting cultivation. Instead, the Project will assist in enhancing land
tenure security for local communities by establishing land use plans that recognize traditional practices, such
as shifting cultivation, that are environmentally sustainable. The Project will support collaboration between
government staff and villagers to prepare land use plans and forest management plans, as well as village
development plans and projects. The land use plans will be based upon the recognition of customary rights,
including village boundaries and will make provisions for local uses, such as shifting cultivation, sacred
forests, burial grounds, spirit trees, and other important sites and resources within the forest (e.g. NTFP).

An important aspect of addressing rural poverty will be to empower the villagers, through building their
skills for village-level organization and management, and participatory planning, implementation, and
monitoring and evaluation of development efforts. For ethnic minorities with limited fluency in spoken
and/or written Lao, efforts will be made to provide training in functional literacy. Audio-visual materials in
local languages will be prepared as needed.

Training for project staff will be provided on issues concerning ethnic minorities, cultural and gender
sensitivity. This training will be based on the advise from the anthropologist TA and ethnographic studies,
and will be provided in parallel with the overall training program for the Project. However, given its
particular nature, the training will be provided by experts outside MAF all the way down to the district level.
The entity for providing this training will be identified by the anthropologist TA.

The Project will ensure that, in areas with ethnic minorities, the local and district units working on these
components will have ethnic minority staff and/or ethnic minority representatives to help in the
implementation. Appropriate local institutions will be used to assist the implementation of project activities
as identified in the baseline information collection process. In most cases, this is most likely to be the
representatives of the Lao Front for National Construction. NGOs may also be involved as needed.
Roles and Responsibilities

The Project's technical assistance team will be responsible for working with GOL counterparts and villagers to implement the Ethnic Group Development Plan. The National Project Manager and Chief Technical Advisor will have overall responsibility for ensuring that the Plan is implemented. More specific responsibility for day-to-day activities will lie with the Village Development Advisor, the Participatory Forestry Advisor, and the Provincial Village Development Coordinators, and Provincial Participatory Forestry Advisors. The Lao Front for National Construction will be involved in the implementation and monitoring of the Plan at national (through its Department for Ethnic Affairs), provincial and district levels as appropriate. Detailed arrangements will depend on the local circumstances and the villages included in the Project.

At project start a short-term consultant (anthropologist) will be recruited to coordinate, under the guidance of the TA team, the initial ethnic group survey and ethnographic studies. Also at project start, a research institute, preferably Lao, will be recruited to undertake, together with the anthropologist, the initial survey, studies and training activities.

Complaints Mechanism and Monitoring and Evaluation

It is possible, and indeed likely, that problems, complaints, and/or conflicts may arise with respect to the project as a whole, and village development activities, in particular. Certain issues, such as the compliance with national law, regulations, and forest management agreements, are to be addressed through legal and regulatory provisions. Prime Ministerial Decree No. 59 specifies in Article 15 provisions for resolution of disputes. Further clarification of the procedures to be followed will be specified in the forthcoming implementing regulations. The description of traditional legal systems will be a part of the initial ethnographic studies and will identify additional conflict resolution mechanism appropriate in the various project areas.

The Project's monitoring and evaluation system will include participatory monitoring and evaluation, which will include village self monitoring of its own village development projects. Villagers will also be involved in monitoring of the forest management activities. The Project will commission external evaluations which will include assessments of the effectiveness of the Ethnic Group Development Plan and its implementation. External monitoring of ethnic issues will also be undertaken during the periodic Supervision Missions of the Project. NGOs, the Lao Front, the Institute for Cultural Research or other relevant organizations may also be involved in supervision and M&E activities.

Resettlement Policy Framework

The magnitude of adverse impacts from FORDEV is anticipated to be very marginal. Based on available information, no land acquisition and involuntary resettlement is expected. However, the Project will support upgrading of some existing roads and other infrastructure not yet identified, and some villages may choose to spend village development funds on construction of village infrastructure. Thus, it is possible that during the course of implementation some land and/or assets may need to be acquired. If people do lose access to land or other assets, some compensation may need to be paid to displaced persons.

It is furthermore possible that the Project may impact upon villagers' access to natural resources, which may have some negative impacts on their livelihood. Although the Project will be supporting participatory sustainable management of natural production forests, based on customary rights, it is possible that some involuntary restrictions of natural resource access may result, which could impact upon peoples' livelihood. These impacts would have to be mitigated.
To adequately address the mitigation and compensation of the people who could possibly be affected by the acquisition of land, loss of assets or natural resources, or impacts upon their livelihood under the Project, the Government of the Lao PDR and FORDEV have prepared a Resettlement Policy Framework for mitigating loss of assets, resources, and potentially adverse livelihood impacts, consistent with policies of the Lao People's Democratic Republic, as well as the World Bank's Involuntary Resettlement Policy (Operational Policy 4.12).

The principle objective of the Policy is to ensure that all displaced persons will be compensated for their losses at replacement cost and provided with rehabilitation measures to assist them to improve, or at least maintain, their pre-project living standards and income-earning capacity. The Policy Framework describes the principles, eligibility criteria of displaced persons, entitlements, compensation, legal and institutional framework, modes of compensation and rehabilitation, people's participation measures, grievances procedures and monitoring that will guide the compensation, resettlement and rehabilitation of the displaced persons.

General Strategy

FORDEV has been designed as a participatory approach to sustainable forest management and related village development activities. Therefore, the project has been designed to minimize loss of access to natural resources and adverse impacts upon livelihood. The project preparation has involved extensive consultation with a wide range of stakeholder and beneficiary representatives, including a broad participation of villagers.

The preparation or revision of management plans for the natural forests will follow a participatory approach, in which the roles of the local villages in the management of the forests will be strengthened, and appropriate measures identified with the villagers to enhance the sustainability of natural resource-based livelihood activities and to manage pressures on the natural resources. Alternative income-generating and food security activities will be implemented. These measures will be supported through the participatory land use planning, forest management, and village development planning and implementation processes. All project villages, and all households within those villages, will be eligible for participation.

In general, the Government of Lao PDR manages all land on behalf of the national community. Villagers are permitted to harvest forest resources for customary and subsistence use, but any harvesting of forest resources, such as timber and non-timber forest products, for commercial sale requires permission and payment of royalties to the Government. Certain activities that may have once been customary have been limited, such as hunting of endangered wildlife species. Thus, some traditional sources of villagers' livelihood have already been restricted by the Government and/or by the growing scarcity of such resources due to over-exploitation. To the extent possible, the forest management plans would avoid inclusion of any new restrictions on the customary use of natural resources by local communities that might adversely affect their livelihood, beyond those needed to ensure the sustainability of the natural resources.

The Village Development activities will include Village Development Projects, to be funded initially by FORDEV, and later by the villagers' share of the forest revenues from their participation in sustainable management. As the aim of the village development effort is to make meaningful contributions to poverty reduction, the top priorities for VD Projects will be to support activities related to food-security and income-generation. Proposals for VD Projects related to construction of village infrastructure, such as schools, will be given lower priority. It is only the latter types of VD projects where acquisition of land or assets may become an issue. It is expected that such cases will be relatively rare, but should they arise, this policy is to be followed with respect to identification of displaced persons and measures taken to provide...
them assistance or compensation.

Legal Framework

The legal context in Lao PDR has been changing rapidly over the last few years. The Constitution was introduced in 1991, forestry and water resources laws in 1996, and land law in 1997. While they are subject to interpretation, the various legislative initiatives provide a legal foundation for the consideration of resettlement and compensation.

For instance, the forestry law states, that “Individuals and organizations having received forest and forest land allocations from the State for their preservation and management shall be entitled to compensation and interest, such as the use of wood, gathering of forestry produce, etc.” (Article 7). The land law states that “The State protects the legal rights and benefits of those who have effectively received the right to use land including the right to transfer it” (Article 5); that “When it is necessary to use an individual’s land in the public interest, the State must make appropriate compensation for damages” (Article 70); and that “In determining damages, there must be a Committee comprised of representatives of interested parties to determine the value of the damages” (Article 71).

Definition of displaced persons

The displaced persons include the following persons to be identified by the baseline information collected for each of the Project’s infrastructure investments, Forest Management Agreements, and the Project Village Development grants to support village development projects where there is land, property or asset acquisition (permanently or temporarily):

(a) persons whose houses and other structures are in part or in total affected by the project;
(b) persons whose agricultural/residential and commercial land is in part or in total affected by the project;
(c) persons whose businesses are affected in part or in total by the project;
(d) persons whose crops (annual and perennial) and trees are affected by the Project;
(e) persons whose other assets are affected by the project; and
(f) persons whose current livelihood situation is affected from restrictions to access to resources.

Principles and Objectives

The principles outlined in the Lao legislation and the World Bank’s Operational Policy 4.12 on Involuntary Resettlement have been adopted in preparing this Policy framework. In this regard the following principles and objectives would be applied:

(a) acquisition of land and other assets, and resettlement of people will be minimized as much as possible;
(b) all displaced persons are identified in the project impacted areas as of the date of the baseline surveys. They are entitled to be provided with rehabilitation measures sufficient to assist them to improve or at least maintain their pre-project living standards, income earning capacity and production levels. Lack of legal rights to the assets lost will not bar the displaced person from entitlement/compensation to such rehabilitation measures;
(c) The rehabilitation measures to be provided are: (i) cash compensation at replacement cost without deduction for depreciation or salvage materials for houses and other structures; ii) agricultural land for land of equal productive capacity acceptable to the displaced person; (iii) replacement of residential and commercial land of equal size acceptable to the displaced person; and (iv) transfer and subsistence allowances;
(d) Replacement residential and agricultural land will be as nearby as possible to the land that was lost, and acceptable to the displaced person. "Agricultural land for land of equal productive capacity" means that the land provided as compensation should be able to produce the same or better yield the displaced person was
producing on his/her previous land. The production should be in the planting season immediately following the land acquisition. It can be for a future period if transitional allowance equal to the household's previous yield is provided to the displaced person household while waiting for the land to get back to the same productivity as the previous land;

(e) Plans for acquisition of land and other assets and provision of rehabilitation measures will be carried out in consultation with the displaced persons, to ensure minimal disturbance; and

(f) The compensation, resettlement and rehabilitation activities will be satisfactorily completed before a no objection from the World Bank will be provided for award of contract of civil works for activities requiring a full Resettlement Plan or a partial Resettlement Plan.

Infrastructure Projects (Component 1)

In cases where the impact of land and property acquisition by a given project activity under Component 1 is minor, a Partial Resettlement Plan for each such project activity will be prepared by the respective Provincial Project Implementation Unit (PIU) and submitted to the World Bank for its concurrence. The Partial Resettlement Plan will include: (a) an inventory; (b) a socioeconomic survey; (c) detailed compensation and entitlement information; (d) payment and rehabilitation schedule; and (e) cost estimate and funding source. Forms are attached to the Framework and included in the Project Implementation Plan. The Partial Resettlement Plan will be implemented and compensation completed satisfactorily before an approval can be provided by the NPMO for award of civil works contract under each activity.

In cases where the impact of land and property acquisition by a given project activity under Component 1 is significant, a full Resettlement Action Plan (RAP) for each such project activity will be prepared by the respective PIU in accordance with the provisions of this Policy. The RAP will be submitted by the National Project Management Office (NPMO) to the World Bank for its concurrence. Each RAP will include: (a) description of the civil work related, and location and scope of the land acquisition; (b) an inventory; (c) a socioeconomic survey; (d) detailed compensation and entitlement information; (e) implementation and rehabilitation activities; (f) community participation; (e) grievance procedures; (f) arrangements for monitoring and evaluation, (g) implementation schedule and; and (h) cost estimate and funding source.

Village Development Projects (Component 2)

Land acquisition under this component will be kept to an absolute minimum and no person will be involuntarily displaced under the Village Development component. Sub-projects may not fund the acquisition of land under any conditions: it cannot approve the use of grant funds for any purchase or rental/lease agreement with any group or individual. However some land acquisition or relocation may occur on a voluntary basis or with compensation (possibly in-kind) provided by the village.

Subproject proposals that would require demolition of houses or acquire productive land, permanently or temporary, must be carefully reviewed by District Staff and approved by the Provincial Project Office. In cases with compensation for land acquisition, District Staff will confirm that no satisfactory alternative is available and ensure that the following means of compensation are agreed to and provided before works are undertaken:

(a) replacement of land with an equally productive plot or other equivalent productive assets;
(b) materials and assistance to replace fully solid structures that will be demolished;
(c) replacement of damaged crops, at market value; and
(d) other acceptable in-kind compensation.

In cases with voluntary contribution, District Staff must ensure that voluntary contributions are made with the prior knowledge that other options are available (e.g. compensation), and are obtained without coercion.
or duress.
For both types of land acquisition (voluntary or against compensation), a description of the resettlement or land acquisition impact must be included in the subproject proposal (including a description of the persons affected; impacts involved, e.g. land, trees, crops, houses and other structures; and agreements reached, e.g. nature and amount of compensation).

**Process Framework for Restrictions to Resources**

In rare occasions, it is possible that the Project may impact upon villagers' access to natural resources, which may have some negative impacts on their livelihood. The Project will be supporting participatory sustainable management of natural production forests, based on customary rights. However, in preparing the management plans for these forests, it is possible that some involuntary restriction of natural resource access may impact upon peoples' livelihood. For villages participating in forest management such potential, but unlikely, impacts are mitigated through the Village Development grant that they will be receiving as well as through the revenues from sustainable forest production. No further actions are required for these villages.

Although highly unlikely, some villages may choose not to participate in the project. These villages will maintain their customary rights to forest resources, however, some restrictions to access to resources may occur. In such cases, these villages will receive compensation and mitigation from the project, by way of village development grants and assistance, or by way of compensation from the respective Forest Management Area. Compensation may be provided to the village as a whole or to affected persons within the village.

The Provincial Project Office will be responsible for determining the specific arrangements in consultation with the affected persons. The arrangement will be described in a *Plan of Action*, which is approved by the National Project Management Office. The Plan shall include the following elements: (a) description of the persons affected; (b) type of impacts; (c) value of resources lost over a five year period involved; (d) agreements reached (e.g. nature and amount of compensation); and (e) arrangements for their implementation.

**Institutional Arrangements**

The FORDEV National Project Management Office (NPMO) has the overall responsibility for implementing the Policy and ensuring that all compensation, resettlement and rehabilitation activities are satisfactorily completed before submitting requests for no objection from the World Bank for award of civil works contracts. The NPMO will facilitate the discussions between the province and the Governor's Office regarding compensation for land acquired for the sub-projects. It will monitor the Provincial Implementation Unit's work to ensure that the activities are carried out in a satisfactory manner, and it will ensure that reports are submitted to the World Bank on a regular basis.

The Provincial Implementation Unit (PIU) is responsible for obtaining all relevant completed displaced person inventory and socio-economic surveys for the infrastructure activities in its province. It will prepare the compensation package for displaced persons according to the Resettlement Policy and in cooperation with the appropriate provincial agencies and the Governor's Office. The PIU will monitor the proper implementation by DAFO regarding consultation with displaced persons and the payment of compensation and other entitlements. It is also responsible for organizing the orientation and training on this policy for the concerned DAFO staff and the Village Head so that they can carry out the Resettlement instruments, consultation with displaced persons and implement the payment of compensation and other rehabilitation entitlement to displaced persons in a timely manner and as agreed.
The DAFO, under the guidance of the PIU, is responsible for the following activities: information dissemination about the Project and the Resettlement Policy Framework, consultation with displaced persons, payment of compensation and other rehabilitation entitlements to displaced persons in a timely manner. It should report to the PIU if there are any problems with the Resettlement instruments and implementation.

Complaints and Grievances

Each displaced person (per household) will be fully informed by the relevant DAFO and/or Village Committees of their entitlements/compensation and rehabilitation choices under the resettlement instrument. After compensation, each displaced person household will sign an acceptance letter.

Complaints and grievances related to any aspect of the Resettlement Policy Framework, including the determined quantities and price of the lost assets, will be handled as follows:

(a) As a first stage, affected or concerned persons will present, verbally or in writing, their complaints to provincial project staff or advisors, who will have to provide a documented response to the claimants within fifteen days. Reports on each complaint and subsequent measures taken must be given to the Provincial Project Office, with routine summaries sent to the Project Management Office (PMO) as attachment to regular/monthly reports.

(b) If the claimants are not satisfied with the decision, the case may be submitted to the National Project Office in Vientiane, as well as to local authorities (e.g. the Provincial Assembly). Specified authorities should record receipt of complaints and reply to the claimants within fifteen days. The national project management team must record reports on each complaint and subsequent measures taken.

Displaced persons will be exempted from all taxes, administrative and legal fees.

Supervision, Monitoring and Evaluation

Implementation of requirements, e.g. Resettlement Plans, under the Policy Framework will be regularly supervised and monitored by the respective DAFO and PIU. The findings will be recorded in quarterly reports to be furnished to PMO. The World Bank team will also monitor these activities in its regular supervision missions during the period of project implementation. Provincial monitoring will obtain feedback from displaced persons to see if there has been compliance with the Resettlement Policy Framework. Key monitoring indicators have been identified and included in the Framework.
Increased participation of women, ethnic minorities, and poor households in forest management activities and in leadership roles in VFOs.

Village Forestry Organization (VFO) is the umbrella term that encompasses Village Forestry Committees (VFC) and Village Forestry Associations (VFA).

Outcome/Impact Indicators

- Improvements in forestry revenue-generation and benefit-sharing equity;
- Number and area of forest management units fulfilling certification criteria;
- Reductions in illegal land conversions and logging and better compliance with management plans;
- Improvements and maintenance of forest ecosystem health and increased availability of subsistence and economic NTFPs and wildlife resources; and
- Improved household-level food security, community infrastructure and number of people benefiting from development projects.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)  
Document number: 19098-LA  
Date of latest CAS discussion: April 20, 1999

The Bank’s Country Assistance Strategy (CAS) goal in Lao PDR is poverty reduction. The CAS focuses on assisting in: (a) stabilizing the economy and returning the country to a stable and sustainable growth path; (b) deepening structural reforms in the regulatory environment, capacity building, financial sector and state-owned enterprises SOEs; (c) focusing on a social service delivery and infrastructure development; and (d) investing in rural development and natural resource management. In the natural resource sectors, the CAS aims at assisting to remove distorted policies, improving technology, and ensuring appropriate forest management practices to achieve environmental sustainability.

2. Main sector issues and Government strategy:

Lao forestry has been in disarray. On the basis of detailed sector work, presented in World Bank/Sida/Government of Finland, Lao PDR: Production Forestry Policy, Status and Issues for Dialogue (June 11, 2001) and the Bank’s long engagement in village forestry and biodiversity conservation in Lao PDR, putting order to the commercial exploitation of forestry is the priority. This involves attention to seven major sets of interrelated concerns:

2.1 Policy and Legal Framework

The Forest Law (1996) provides broad framework for sustainable forest management, including management planning and forest operations that, in principle, permit villages to participate in sustainable management of forests. However, although the law allows different type of management approaches, policies, as well as regulations and orders (e.g. Prime Minister Order (PMO 10, PMO 11, and PMO 15) narrowly restrict participation in forest management and do not provide the rights and incentives needed for villagers to be involved in the management of production forest (especially in log sales and sharing of financial benefits). Recent PM Decree 59 on Sustainable Management of Production Forests (May 2002) represents a step forward. The next challenge will be appropriate Implementing Regulations and Ministerial instructions. Agreement in principle has been reached on these under the Financial Management Adjustment Credit program and new Regulations are expected before Effectiveness.