



**FOR OFFICIAL USE ONLY**

Report No: 153807-LA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON AN

EMISSION REDUCTION CREDITING PROJECT

IN THE AMOUNT OF UP TO \$42 MILLION

FROM THE

CARBON FUND OF THE FOREST CARBON PARTNERSHIP FACILITY

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

NORTHERN LAOS EMISSION REDUCTIONS PAYMENTS PROJECT (P165751)

December 11, 2020

Environment, Natural Resources and Blue Economy Global Practice  
East Asia and Pacific Region

CURRENCY EQUIVALENTS  
(Exchange Rate Effective July 31, 2020)

Currency Unit = Lao Kip (LAK)

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LAK 9,044 = US\$1

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FISCAL YEAR  
January 1 - December 31

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## ABBREVIATIONS AND ACRONYMS

BSP	Benefit Sharing Plan
CCEFCF	Canadian Clean Energy and Forest Climate Facility
COVID-19	Coronavirus Disease 2019
CO <sub>2</sub> , tCO <sub>2</sub> e, MtCO <sub>2</sub> e	Carbon dioxide, also expressed as tons of carbon dioxide equivalent (tCO <sub>2</sub> e) and million tons of carbon dioxide equivalent (MtCO <sub>2</sub> e)
CSA	Climate-Smart Agriculture
DAFO	District Agriculture and Forestry Office
DoF	Department of Forestry (under MAF)
DOFI	Department of Forest Inspection (under MAF)
EGPF	Ethnic Group Policy Framework
ER	Emission reductions
ERC	Emission reduction crediting
ERPA	Emission Reductions Payment Agreement
ERPD	Emission Reductions Program Document
ESMF	Environmental and Social Management Framework
EU	European Union
FCPF	Forest Carbon Partnership Facility
FGRM	Feedback and Grievance Redress Mechanism
FIP	Forest Investment Program
FIPD	Forest Inventory and Planning Division
FLEGT	Forest Law Enforcement, Governance and Trade
FLR	Forest landscape restoration
FMT	FCPF Facility Management Team
FPF	Forest Protection Fund (formerly The Forestry and Forest Resource Development Fund)
F-REDD	Sustainable Forest Management and REDD+ Support Project (JICA)
GCF	Green Climate Fund
GDP	Gross domestic product
GEF	Global Environment Facility
GFL	Northern Lao Governance, Forest Landscapes and Livelihood (GFL) program
GIZ	German Agency for International Cooperation
GoL	Government of Lao PDR
ha	Hectare
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
I-GFL	Implementation Plan for the Governance, Forest Landscapes and Livelihoods, funded by the Green Climate Fund (GCF)



IPF	Investment Project Financing
JICA	Japan International Cooperation Agency
KfW	German Development Bank
Lao PDR	Lao People's Democratic Republic
LENS2	Second Lao PDR Environment and Social Project
MAF	Ministry of Agriculture and Forestry
MMR	Measurement, Monitoring and Reporting
MOF	Ministry of Finance
MoNRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MRV	Measurement, Reporting and Verification
NDC	Nationally Determined Contributions
NFI	National Forest Inventory
NFMS	National Forest Monitoring System
NGGS	National Green Growth Strategy
NGO	Nongovernmental Organization
NRS	National REDD+ Strategy
NRTF	National REDD+ Task Force
NSEDP	National socio-economic development plan
NTFPs	Non-timber forest products
PAFO	Provincial Agriculture and Forestry Office
PDO	Project Development Objectives
PF	Process Framework
PMU	Program Management Unit
POM	Project Operation Manual
PRAP	Provincial REDD+ Action Plan
REDD+	Reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forests, and the enhancement of forest carbon stocks
RPF	Resettlement Policy Framework
SESA	Strategic Environmental and Social Assessment
SFM	Sustainable forest management
SOP	Standard Operating Procedures
SUFORD-SU	Scaling Up Participatory Sustainable Forest Management project
TWG	Technical Working Group
UNFCCC	United Nations Framework Convention on Climate Change
VFM	Village forest management
VFMA	Village Forest Management Agreements
WB	World Bank



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## DATASHEET

### BASIC INFORMATION

Country	Project Name	
Lao People's Democratic Republic	FCPF Carbon Fund: Lao PDR Northern Laos Emission Reductions Payments Project	
Project ID	Financing Instrument	Environmental Assessment Category
P165751	Investment Project Financing	B-Partial Assessment

### Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
11-Dec-2020	31-Dec-2025
Bank/IFC Collaboration	
No	

### Proposed Development Objective

To make payments to the Program Entity for measured, reported and verified Emissions Reductions (ER) from reduced deforestation, forest degradation and enhancement of forest carbon stocks (REDD+) in six Lao PDR provinces and to distribute ER payments in accordance with an agreed benefit sharing plan (BSP).



## Components

### Component Name

Cost (US\$, millions)

N/A

## Organizations

Borrower: Lao People's Democratic Republic

Implementing Agency: Ministry of Agriculture and Forestry (MAF)

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

Total Project Cost	42.00
Total Financing	42.00
of which IBRD/IDA	0.00
Financing Gap	0.00

### DETAILS

#### Non-World Bank Group Financing

Trust Funds	42.00
The Forest Carbon Partnership Facility – Carbon Fund	42.00

## INSTITUTIONAL DATA

### Practice Area (Lead)

Environment, Natural Resources & the Blue Economy (ENB)

### Contributing Practice Areas

Climate Change, Governance



**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	High
7. Environment and Social	High
8. Stakeholders	Substantial
9. Other: Financial, COVID-19	Substantial
10. Overall	<b>High</b>

**COMPLIANCE****Policy**

Does the project depart from the CPF in content or in other significant respects?

☐ Yes    ☒ No

Does the project require any waivers of Bank policies?

☐ Yes    ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36	✓	
Pest Management OP 4.09	✓	
Physical Cultural Resources OP/BP 4.11	✓	



Indigenous Peoples OP/BP 4.10	✓
Involuntary Resettlement OP/BP 4.12	✓
Safety of Dams OP/BP 4.37	✓
Projects on International Waterways OP/BP 7.50	✓
Projects in Disputed Areas OP/BP 7.60	✓

### Legal Covenants

Name	Frequency
Program Entity shall monitor and report to the Trustee on the implementation of the Safeguards Plans during Reporting Periods	Annually
Program Entity shall monitor and report to the Trustee on the implementation of the Benefit Sharing Plan	Six (6) months after receipt of the first Periodic Payment and annually thereafter

### Description of Covenants:

In addition to Section 5.01(b)(i) of the ERPA General Conditions, the Program Entity shall monitor and report to the Trustee on the implementation of the Safeguards Plans and Benefit Sharing Plan during Reporting Periods. The Program Entity shall monitor and report to the Trustee on the implementation of the Safeguards Plans annually after the date of the ERPA. The Program Entity shall first monitor and report to the Trustee on the implementation of the Benefit Sharing Plan six (6) months after receipt of the first Periodic Payment and annually thereafter. The Program Entity may coordinate the annual monitoring and reporting of the Safeguards Plans and the Benefit Sharing Plan, provided that the Program Entity notifies the Trustee and the Trustee accepts such coordinated timelines. The Trustee reserves the right to initiate a separate monitoring of the implementation of the Safeguards Plans and/or the Benefit Sharing Plan annually after the date of the ERPA by an independent Third Party monitor. Sections 9.01(g) and (k) as well as Section 9.05(d) of the General Conditions shall apply to such Third Party monitor *mutatis mutandis*.

### Conditions of Effectiveness

- i. Submission of a Final Benefit Sharing Plan which, based on the advanced draft version of the Benefit Sharing Plan provided by the date of the ERPA, takes into account specific guidance to be provided by the Trustee, following consultations with FCPF Carbon Fund Tranche A/B Participants, on the outstanding issues that need further clarification in the final version of the Benefit Sharing Plan; and
- ii. Submission of evidence, in form and substance satisfactory to the Trustee, demonstrating that the ER Program Measures that generated the ERs during the period from January 1, 2019 until the date of the ERPA were implemented in a manner consistent with the Safeguards Plans.



## I. STRATEGIC CONTEXT

### A. Country Context

1. **The Lao People's Democratic Republic (Lao PDR) achieved rapid growth and significant poverty reduction between 2005 and 2015, though inequality widened.** Lao PDR's gross domestic product (GDP) grew over 7 percent per year over the past decade, but experienced a historical low of 5.7 percent in 2019, owing mainly to natural disasters (floods, droughts, a caterpillar infestation) which primarily affected the agricultural sector. Economic growth has been heavily concentrated in urban areas, while in rural areas and among ethnic minorities high levels of poverty and inequality prevail. The majority of Lao PDR's population of 7.1 million lives in rural and remote areas, which contain nearly 90 percent of the poor population. The poverty rate declined from 34 percent in 2003 to 23 percent in 2013, reaching 18.3 percent in 2019. Yet, the Gini coefficient increased from 32.5 to 38.8 during the same period, reflecting lower gains for the bottom 40 percent. The Coronavirus Disease 2019 (COVID-19) is placing an added economic burden on the country, with 2020 GDP growth expected to be -1.8 to 1.0 percent compared to the pre-COVID-19 estimate of 6 percent growth. Poverty is estimated to increase by 1.4 to 3.1 percent in 2020 compared to a 0.6 percent decline in a no-pandemic scenario, eroding some earlier gains in poverty reduction.<sup>1</sup>
2. **The impact of COVID-19 has worsened the long-standing structural vulnerabilities of Lao PDR, stemming from a growth model reliant on debt-funded, large infrastructure investments with generous tax concessions, unfavorable trading arrangements, and limited foreign exchange (forex) earning capacity.** The fiscal deficit is projected to increase to 7.5–8.8 percent of GDP from 5.1 percent of GDP in 2019. Debt levels are expected to increase to 65–68 percent of GDP from 59 percent of GDP in 2019. With rising external debt service payments (approximately US\$1.2 billion in 2020) and low forex reserves (just under one month of import cover expected in 2020), Lao PDR has insufficient buffers to absorb shocks. The extent of the macroeconomic effects of COVID-19 will depend on the duration, pervasiveness, and severity of the outbreak.
3. **The political and social environment has remained stable, but challenges persist in the implementation of key reforms.** Implementation of key reforms remains a challenge owing to limited capacity and a complex political economy. The Government of Lao PDR's (GoL's) top priorities include maintaining macroeconomic stability, advancing green growth, further reducing poverty, improving the investment climate, protecting the environment, and strengthening disaster response and preparedness. In 2019, the National Assembly adopted several resolutions to provide legal back up for and enhance the performance of the GoL and judiciary bodies. The National Assembly is asking for more accountability and the curbing of corruption.

### B. Sectoral and Institutional Context

4. **Use of natural resources and environmental assets has largely driven Lao PDR's economic growth and will continue to do so in the near future.** Key economic activities underpinning Lao PDR's economy include agricultural expansion, hydropower, mining, and logging. While these activities provided important economic gains, they have also resulted in significantly higher rates of natural resource depletion and environmental degradation. Up to 80 percent of the country's forests are degraded to varying degrees. The

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<sup>1</sup> World Bank. 2020. *Lao PDR Poverty Assessment 2020: Catching Up and Falling Behind*.



management of forest resources significantly impacts Lao PDR's economic growth and development prospects, including its goals for poverty alleviation, shared prosperity, livelihoods, job opportunities, disaster risk reduction, and climate change.

5. **Natural capital is a major source of wealth for the country, and forest degradation affects the poor disproportionately.** Although forest cover declined 3.6 percent between 2005 and 2015 to 58 percent, Lao PDR still has one of the highest portions of forest cover among countries in the region. Nearly half of Lao's total wealth is in its natural capital, estimated at \$149 billion in 2018.<sup>2</sup> Lao PDR's Forest Strategy emphasizes the country is endowed with valuable, productive and ecologically unique forests which are not only a vital economic resource but provide essential contributions to the nutrition and income of the rural population and, in particular, the rural poor. Forests also provide a habitat for the nation's rich natural biodiversity and protect its soils, watersheds and water resources. Some 70 percent of the population is heavily reliant on the forest for timber, food, fuel, fiber, shelter and medicines. In rural areas, forests provide one of the few available economic activities and non-timber forest products (NTFPs) often provide a significant source of household income, even more so in times of economic stress. Forests are important for the mitigation of disasters such as flood, drought, storm damage, and erosion. Accordingly, natural resource depletion, environmental degradation and climate change have severe development implications, and their costs disproportionately affect the poor and other vulnerable groups.<sup>3</sup>
6. **The annual cost of deforestation is estimated at 1.6 percent of GDP, and forest degradation at 1.1 percent (a combined cost of \$464 million)<sup>4</sup>. Forest health is critical to the country's green growth aspirations across sectors.** With the enactment of the 2030 National Green Growth Strategy (NGGS) in 2019 and other recent improvements in the policy framework, Lao PDR has been making progress in shifting its growth framework to build long-term wealth and resilience by carefully managing natural capital. Good management of forested watersheds is vital to a secure clean water supply, while reducing flood risk and erosion (as Lao PDR generates nearly all of its electricity from hydropower, which is an important source of foreign revenue). In addition, the country continues to introduce forest sector reforms that aim to facilitate private sector participation in industrial plantations, smallholder plantations, downstream industries and nature-based tourism from conservation forests including the country's first two national parks.
7. **Forests are critical for Lao PDR to recover from COVID-19.** The economic slowdown from COVID-19 will have a negative effect on rural livelihoods, highlighting the significance of forest landscapes as a safety net for rural people. Lack of jobs has increased migration to the rural areas and natural resources might face more pressure than before. These economic challenges can be addressed by promoting a green recovery from natural resource-based jobs, livelihoods, and resilience, as emphasized in the draft Ninth National Socio-Economic Development Plan for 2021–25 (NSED). Going forward, the forest estate will be the main engine to boost the post COVID-19 recovery, through the largely untapped job potential from sustainable plantation forestry, nature-based tourism, and village forestry.<sup>5</sup> Forest landscape and environmental management projects will help improve the resilience of people – enhancing rural livelihood opportunities,

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<sup>2</sup> Valuing Lao Landscapes: A Province, District and Household Level Analysis of Natural Capital in Khammouane Province. (World Bank, 2020)

<sup>3</sup> Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. (World Bank, 2020)

<sup>4</sup> Based on GDP in 2017, Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. (World Bank, 2020)

<sup>5</sup> Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. (World Bank, 2020)



protecting natural assets critical for the rural poor's development prospects and creating better environmental health outcomes.

8. **Lao PDR has embarked on an ambitious reform agenda for the forestry sector to achieve more sustainable, resilient, and inclusive economic growth.** The management of the forest estate is undergoing rapid change catalyzed by the 2019 Forestry Law, 2016 Prime Minister's Order 15 (halting logging and timber exports), and large-scale private investment in plantation forestry. The sector is working to introduce systems for legal certified wood (i.e., "good wood") and for increasing private sector investment in plantations and related industries. This investment has already begun to happen, necessitating the need for a strong sector-wide focus on maintaining and sustaining the resource base. At the same time, the protected area system is being reformed and strengthened with new management policies and parks now in place.<sup>6</sup> In 2019 new policies were introduced on Environmental and Social Impact Assessment and Strategic Environmental Assessment, complementing emerging new policies on forest plantation development. Reforms are also reflected in the draft Ninth National Socio-Economic Development Plan for 2021–25 (NSED) and Eighth NSED (2016–2020); the localization of Sustainable Development Goals; Water Law (2017); Land Law (2019); Lao PDR Tourism Strategy 2006–2020; National Strategy on Climate Change 2013–2020, Climate Change Action Plan 2013–2020, and 2015 Nationally Determined Contribution (NDC) to the Paris Agreement; the emerging National REDD+ Strategy (NRS) to 2025, NRS Vision to 2030; the National Master Plan on Land Allocation; and NGGS for 2030.
9. **The Forestry Strategy to 2020 set an ambitious target for increasing forest cover to 70 percent (16.6 million hectares) by 2020, which was echoed in the 2019 Forestry Law.** Achieving this target entails enhancements of carbon stocks and avoided deforestation in over 6 million hectares (ha) of natural forest areas, and an ambitious target of 500,000 ha of planted forests. The GoL also consolidated all production and conservation forest management responsibilities under the Ministry of Agriculture and Forestry (MAF). The Government has prohibited all export of logs and unfinished timber and is checking for and seizing illegal timber (Prime Minister's Order 15 of 2016). The Forestry Law also now allows "village forest management" and expansion of commercial tree plantations. These and other measures aim to bring its forests under more sustainable management. The reduction in illegal logging and trafficking can also increase government revenues. The government further recognizes the need to support the Lao people to access timber for local use and processing, and for NTFPs. Rural poverty and livelihood improvement are central to addressing any land-use related issues in Lao PDR.
10. **In addition to its domestic priorities for achieving sustainable forest management and conservation, Lao PDR also embraces its international responsibility to contribute to climate change mitigation through improved forest management and land use.**<sup>7</sup> Reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forests, and the enhancement of forest carbon stocks (REDD+) figures prominently in Lao PDR's NDC, which aims to reduce greenhouse gas emissions by 60–69 million tons of carbon dioxide equivalent (MtCO<sub>2</sub>e). Improved forest

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<sup>6</sup> The Government has prioritized the development of a national park system, including the six protected areas situated within the six provinces in the Northern Highlands ecoregion. These sites are important because they protect internationally and nationally significant biodiversity and sustain the livelihoods of 333 ethnically diverse villages. With limited government funding resulting in low management presence, these protected areas are extremely vulnerable to encroachment and illegal logging, particularly as the majority of the sites lack boundary demarcation.

<sup>7</sup> With its relatively low population, Lao PDR will be more impacted by climate change than a contributor to it.



management and land use will also generate co-benefits from the role good forest and land cover plays in reducing flooding, drought, erosion, and water quality.<sup>8</sup>

### The Government's Emission Reductions Program

11. **To address the above challenges more strategically, the Government proposed the implementation of a comprehensive program to reduce emissions (ER program) from forests in the northern part of the country.** This program is referred to by the government as the Northern Lao Governance, Forest Landscapes and Livelihood (GFL) program and is comprised of six northern provinces,<sup>9</sup> an area of 8.1 million hectares.
12. **The northern region has historically been the poorest and most rural region of the country,** despite having been the target of many poverty reduction programs and projects (e.g., the National Growth and Poverty Eradication Strategy, Northern Uplands Development Program, and others). Recently, poverty rates in the north have dramatically improved, with the poverty rate falling substantially from 31 percent in 2013 to 20.7 percent in 2019. Nonetheless, the northern region still has some of the highest share of poor households in the country (Oudomxay and Luang Prabang provinces account for 8.7 percent and 7.7 percent of poor households, respectively) due to large populations and high poverty incidence.<sup>10</sup> Traditional shifting agriculture is prevalent throughout the mountainous northern landscape, which is also home to over 20 ethnic groups.
13. **The GFL program area constitutes approximately one third of both the country's geographical and forest area with a population of 1.8 million people<sup>11</sup> and the dominant land use designation is forest.** Each province in the GFL program area shares an international border with one of the surrounding countries of Thailand, Myanmar, China, and Vietnam. Northern Lao PDR is characterized by remoteness, difficult accessibility, limited infrastructure, unique ethnic minority communities, and a persistent prevalence of poverty, as well as extensive degradation and forest loss. The area hosts important watersheds feeding major tributaries, including the Mekong River.
14. **Approximately 40 percent of the country's deforestation from 2005-2015 took place in six provinces in northern Lao PDR.**<sup>12</sup> Shifting cultivation is the greatest single proximate driver of deforestation and forest degradation across all provinces in the project area, responsible for 22 percent of forest disturbances greater than 5 hectares in size. Agricultural land expansion (19 percent) and plantation agriculture development (13 percent) are also significant contributors. Other drivers include road construction (12 percent), selective logging (10 percent) and the establishment of tree plantations (7 percent).<sup>13</sup> GoL consultations suggest agricultural expansion and shifting cultivation are regarded as having relatively high importance across all six provinces. Houaphan, Sayaboury and Luang Prabang provinces contain the districts with the highest rates of deforestation and forest degradation within the ER program accounting area and

<sup>8</sup> Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. (World Bank, 2020)

<sup>9</sup> Bokeo, Houaphan, Luang Namtha, Luang Prabang, Oudomxay and Sayaboury

<sup>10</sup> World Bank. 2020. *Lao PDR Poverty Assessment 2020: Catching Up and Falling Behind*.

<sup>11</sup> Population and housing census 2015. The total population (1,767,291) in the six northern provinces is distributed as follows: Bokeo (179,243), Houaphan (289,393), Luang Namtha (175,753), Luang Prabang (431,889), Oudomxay (307,622), Sayaboury (381,376)

<sup>12</sup> The trend is approximately 72,000 ha/year.

<sup>13</sup> The combined area of deforestation and forest degradation in the ER program area in 2005-2015 was approximately 72,000 ha/year, compared to a national average of 181,000 ha/year. Approximately 40 percent of total national deforestation and degradation takes place within the selected six provinces.



contain the remaining forest areas most at risk of deforestation and forest degradation. Going forward, the new railway that will become operational in 2021 and run from the South through Luang Prabang to the Chinese border may also affect forest integrity along the railway corridor.

15. **The Government's GFL program is designed as a strong, strategic and scalable foundation for addressing the key drivers of deforestation and forest degradation, working across key land-use sectors to encourage more sustainable agriculture practices, forest management, and forest rehabilitation.** The programmatic approach pursued by the Government is comprised of a combination of priority policy actions, improvements in forest management practices and measures to reduce pressure from the agriculture sector. The four program components are: a) Strengthening enabling conditions for REDD+; b) Climate-smart agriculture (CSA) and sustainable livelihoods; c) Sustainable forest management (SFM); and d) Program management (see summary in Annex 4).
16. **The cost of implementing the GFL program is estimated at \$136.5 million and is largely secured through on-going and pipeline operations under preparation.** This amount is financed by multiple sources including a range of complementary Bank-supported investment projects and development partner financing.<sup>14</sup>
  - a) **A cornerstone of the program is the Implementation Plan for the Governance, Forest Landscapes and Livelihoods (I-GFL) funded by the Green Climate Fund (GCF).** Overseen by the German Agency for International Cooperation (GIZ), it supports the implementation of the ER program activities, sharing an identical target area and accounting system. Of the 51 districts in the six provinces, 28 districts have been selected for GCF project support, covering 72 per cent of the remaining high-carbon stock area. The GCF-supported project will be implemented from 2020 to 2028 in three intended phases, with \$24 million secured for the first phase.<sup>15</sup>
  - b) **The World Bank's portfolio of projects across all six northern provinces amounts to approximately \$100 million** (74 percent of program financing, inclusive of the ER payments of up to \$42 million from this project), including the International Development Agency (IDA)/Forest Investment Program (FIP) operation "Scaling Up Participatory Sustainable Forest Management" (SUFORD-SU; P130222, extended to August 31, 2021 with additional financing from IDA), the on-going Second Lao PDR Environment and Social Project (LENS2; P128393) operation that finances large protected areas including in the north, and the new IDA/Global Environment Facility (GEF)/Canadian Clean Energy and Forest Climate Facility (CCEFCF)-financed Lao Landscapes and Livelihoods Project (P170559/P171406) proposed for the current World Bank fiscal year to succeed SUFORD-SU and LENS2.
  - c) **Development partners are coordinating effectively to align their resources for the necessary underlying investments.** The remaining project financing is filled by various operations financed by development partners, including German Development Bank (KfW), Asian Development Bank, International Fund for Agricultural Development (IFAD), and Japan International Cooperation Agency (JICA). The Government's contribution is in kind, in the form of staff and facilities. Additional parallel

<sup>14</sup> The total volume of finance that is invested in ongoing projects and planned initiatives in GFL provinces and at the national level to improve forest governance is \$327 million. Of this, \$141 million will be deployed in the GFL project area either in all or some of the six provinces, and \$200 million will overlap directly with the GFL implementation period and complement project activities.

<sup>15</sup> Approved on November 14, 2019. Project 1 will run from mid-2020 to mid-2024, Project 2 from 2022 to end of 2029 and Project 3 from mid-2024 to end of 2029. Project 1 and Project 3 address the three provinces of Houaphan, Sayaboury and Luang Prabang. These provinces contain the districts with the highest rates of deforestation and forest degradation within the ER-P accounting area and contain the remaining forest areas most at risk of deforestation / forest degradation. In addition, the geographical locations of these three provinces enable connectivity of forest ecosystems at a landscape level.





private sector investments are not reflected but are anticipated to help finance the implementation and achievements of the GFL program.

Annex 7 contains a detailed table of all projects, locations, objectives, funding sources and timing.

17. **The Bank, through the Emission Reductions (ER) payments described in this appraisal document, will provide payments for results in the form of verified reductions of greenhouse gas emissions.** Unlike traditional investment project financing, the individual activities that comprise the Government's program are largely financed through the portfolio of investment operations listed above. The emission reductions generated by this portfolio will be the basis of the ER payments under this operation. The proceeds from verified ER payments will be shared according to an agreed Benefit Sharing Plan (BSP).
18. **This operation builds on grant resources from the Forest Carbon Partnership Facility (FCPF), which put in place a framework for the ER program.** The Government has utilized two FCPF grants to develop a strategic approach to REDD+, strengthen national systems (notably forest monitoring and safeguards), broaden stakeholder engagement (including civil society, ethnic groups, private sector) and to develop the comprehensive jurisdictional-level approach to reduce emissions in the six northern provinces (see Annex 1). With this technical assistance, MAF led and facilitated the development of a proposal in the form of an Emission Reductions Program Document (ERPD) that was accepted by the FCPF Carbon Fund in June 2018.<sup>16</sup>

### C. Relevance to Higher Level Objectives

19. **The proposed ER payments are in line with the World Bank Group Country Partnership Framework (CPF) 2017-2021** (Report Number 110813, April 24, 2017). Sustainable management of forests and REDD+ have been incorporated into the Government's highest-level development plan, the 8th National Socio-economic Development Plan (2016-2020), and Lao PDR's NDC under the Paris Agreement. Specifically, the overall objective of reducing emissions from forests hinges on policies and measures promoted by the Government. These align with the three focus areas of the CPF: supporting inclusive growth, investing in people, and protecting the environment, as well as objectives to address challenges related to sustainable natural resource management, poverty and inequality, vulnerability to natural disasters growth, and eliminating extreme poverty.
20. **The operation fits into the Bank's sector-wide approach and is aligned with the Bank's COVID-19 recovery priorities, and corporate commitments on forests, climate change and gender.** See Annex 10 for a complete list of Bank projects in the forest and climate change sector. In line with the Bank's forest sector portfolio, the project helps to establish the forest management framework necessary to sustainably manage the forest landscape, critical for Lao PDR's recovery from COVID-19. While corporate requirements to undertake an assessment of climate co-benefits do not apply, it is expected that climate co-benefits generated by this project would be assessed as very high.
21. **A gender analysis was conducted and the Gender Action Plan ensures gender aspects are mainstreamed to enhance equal access and opportunities for women to benefit from project activities.** While the Project's results framework does not include the monitoring of gender actions, the Gender Action Plan

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<sup>16</sup> The Carbon Fund is designed to be a REDD+ pilot fund, and to aid countries in leveraging climate finance under the UNFCCC and potential carbon markets going forward. Further information is contained in Annex 1.





includes specific indicators for monitoring and evaluation.<sup>17</sup>

22. **The operation is part of a broader engagement of the Bank to support the GoL's transition towards a greener economy.** The Government is pursuing a greener growth model that seeks to expand forest cover to 70 percent, eliminate poverty, create jobs, support local industry and scale up participatory sustainable forest management and forest restoration. Business as usual in the forest estate is no longer viable for Lao PDR's economy and people to thrive. Lao PDR's recent policy reforms, institution-building and community engagement are all critical. They build the foundation for sustainability of the Lao forest estate and the many sectors and people that depend on this estate – including tourism, agriculture, energy, water and fisheries, wood products manufacturing, as well as durable poverty reduction efforts. The ER program has the potential for transformative impact. Addressing the policy failures and sector governance issues could result in broader mainstreaming of sustainable forest management and community participation in natural resource management. Where change can be successfully demonstrated by the ER program in the northern provinces it can act as a guide toward successful implementation in the rest of the country. The six northern provinces could potentially generate 34-37 percent of the emission reductions targeted as part of Lao PDR's NDC.<sup>18</sup> It also helps reduce climate risks such as flooding, landslides, and erosion.
23. **There has been a strategic shift in Bank support to forests and land use given the recent sector reforms.** The Bank's support currently includes the IDA-supported Green Growth Development Policy Financing (DPF) series, FCPF REDD+ Readiness technical assistance (TA), and investment project financing (IPF) from IDA, the Global Environment Facility (GEF), and the Forest Investment Program (FIP) of the Climate Investment Funds. This first-generation project-oriented approach focused on participatory sustainable forest management (SFM), reforestation and decentralized village-led forestry pilots, village livelihoods, capacity development, and development of forest management plans. The next-generation programs are based on a more integrated landscape approaches and investment convergence that would generate multiple benefits from production, protection and conservation forests and other land uses. One element of the operation is the results-based financing component which complements the Development Policy Financing, IPF activities, and TA by bringing an additional financial incentive to the mix of Bank and partners' support.

## II. PROJECT DESCRIPTION

### A. Project Development Objective (PDO)

#### PDO Statement:

24. To make payments to the Program Entity for measured, reported and verified Emission Reductions (ER) from reduced deforestation, forest degradation and enhancement of forest carbon stocks (REDD+) in six Lao PDR provinces and to distribute ER payments in accordance with an agreed benefit sharing plan (BSP).<sup>19</sup>

<sup>17</sup> In line with Guidance to Task Teams for the formulation of the PDO and PDO indicators for ERPA operations Guidance issued by Environment and Natural Resources Operations and Strategy Unit (GENOS), all FCPF Carbon Fund ER programs have the same three indicators in the Results Framework.

<sup>18</sup> Based on the estimated 22.6 MtCO<sub>2</sub>e of emission reductions and removals over the 7-year life of the Government's Program (2019-2025).

<sup>19</sup> The PDO is in accordance with Guidance to Task Teams for the formulation of the PDO and PDO indicators for ERPA operations issued by Environment and Natural Resources Operations and Strategy Unit (GENOS).



## PDO Level Indicators

25. The achievements of the PDO will be measured through the following set of indicators:<sup>20</sup>
- (i) Volume of CO<sub>2</sub> Emission Reductions that have been measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund (tCO<sub>2</sub>e);
  - (ii) Amount of payments made by the FCPF Carbon Fund for CO<sub>2</sub> Emission Reductions generated by the Program (\$);
  - (iii) Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan (Yes/No).

## B. Project Components

26. **The project is the FCPF Carbon Fund's transaction with Lao PDR to pay for verified ERs generated in the six northern provinces.** Given that this operation provides results-based payments, it does not have components as investments operations.<sup>21</sup> Rather it is organized as a process that includes (A) Verification of and payment for measured and reported ERs generated by the Government's GFL program; and (B) Distribution of the ER payments according to a Benefit Sharing Plan (BSP). Specifically:

**(A): Verification of and payment for measured and reported ERs.** The basis for payments under the Emission Reductions Payment Agreement (ERPA)<sup>22</sup> are verified ERs reported by the Program Entity (in this case, jointly represented by the Ministry of Finance (MOF) and MAF). In the ERPA accepted by Carbon Fund Participants in June 2018, Lao PDR detailed an approach to measure emissions in the 8.1 million ha of the six northern provinces, the accounting area over which the change in the rate of emissions will be estimated during the ERPA term. This approach is consistent with how baseline emissions (Reference Level)<sup>23</sup> were estimated and was rigorously assessed by an independent Technical Advisory Panel (TAP) against the requirements stipulated in the Carbon Fund Methodological Framework.<sup>24</sup> The Program Entity agreed to submit two ER Monitoring Reports during the term of the ERPA, which will trigger an independent verification

<sup>20</sup> The PDO indicators are in accordance with the above guidance issued by GENOS.

<sup>21</sup> The operation follows Bank Guidance on Emission Reduction Crediting (formerly Carbon Finance) Projects under Investment Project Financing June 2, 2020

<sup>22</sup> The instrument for the operation is an Emission Reductions Payment Agreement (ERPA). The ERPA is a legal document in which Laos and the Bank (as the trustee and implementing agency of the FCPF) agree on the commercial terms of the payment for Emission Reductions (ERs), including volume, price, conditions of effectiveness and any agreed payment options. The ERPA is structured in two separate legal agreements, one for each of the two tranches of the FCPF Carbon Fund. For simplicity, this document refers to both agreements jointly as 'ERPA'. Specifically, Tranche A is designed to be a commercial window that transacts on tradeable carbon assets whereas tranche B is designed to provide incentive payments for recipient countries (Tranche B has approximately 95 percent of the current fund capitalization). It is important to note that most commercial terms, notably the term and reporting period for the ERPA, are the same for both ERPAs and verification follows the same process. A key difference is whether ERs are retained by the Program Entity (e.g., to be accounted for as part of the NDC) or the Carbon Fund (for possible transaction in the future).

<sup>23</sup> The Reference Level (RL) is 8.5 MtCO<sub>2</sub>e/year, which is the sum of the average annual emissions from deforestation and forest degradation (10.5 MtCO<sub>2</sub>e) as well as removals or sequestration of carbon from the enhancement of forest carbon stocks (-2.0 MtCO<sub>2</sub>e), as observed during the 2005-2015 Reference Period.

<sup>24</sup> [https://www.forestcarbonpartnership.org/sites/fcp/files/FCPF%20Carbon%20Fund%20Methodological%20Framework%20revised\\_%202020\\_Final\\_Posted.pdf](https://www.forestcarbonpartnership.org/sites/fcp/files/FCPF%20Carbon%20Fund%20Methodological%20Framework%20revised_%202020_Final_Posted.pdf)



process using the agreed technical standards in the Carbon Fund Methodological Framework, respectively. The verified volume of ERs, combined with the unit price agreed in the ERPA, will then translate into corresponding ER payments. As part of this transaction, ERs will be transferred from the Program Entity to the FCPF Carbon Fund via a centralized carbon registry (Carbon Assets Trading System) managed by the World Bank, acting as Trustee of the FCPF Carbon Fund. The Program Entity has agreed with the Carbon Fund that the ERs paid for under Tranche B of the ERPA will be retransferred back to Lao PDR, thus enabling Lao PDR to use the retransferred ERs for reporting purposes under their NDC. A detailed description of the Emission Reduction Crediting (ERC) aspects is presented in Annex 2.

**(B): Distribution of the ER payments according to the BSP.** The proceeds from verified ER payments will be shared according to an agreed BSP, designed based on the criteria in the Carbon Fund Methodological Framework and in a manner that is acceptable to the World Bank. The BSP describes the distribution mechanism, funds flow and rules of allocation of proceeds to agreed beneficiaries.

The GoL has developed an advanced draft BSP. Following review by the World Bank,<sup>25</sup> the advanced draft BSP was accepted by the Carbon Fund Participants in June 2020.<sup>26</sup> The advanced draft BSP was made public by the GoL on June 30, 2020, satisfying this FCPF requirement prior to signature. A final BSP (finalizing arrangements and responding to Carbon Fund Participants' feedback) will become a condition of effectiveness to be met within 12 months of ERPA signature. Further detail on the BSP is contained in Annex 5.

## C. Project Costs and Financing

27. **The estimated volume of ERs to be generated by the GFL program** for the 2019-2025 period is approximately 16 MtCO<sub>2</sub>e of emission reductions and removals, of which 11 MtCO<sub>2</sub>e would be potentially transferrable to the FCPF Carbon Fund<sup>27</sup> for the two agreed Reporting Periods (2019-2024).<sup>28</sup> Carbon Fund ER payments are results-based and the actual performance determined after ER reporting and verification may be higher or lower than estimated. Accordingly, Lao PDR is offering ERs of 8.4 MtCO<sub>2</sub>e to the Carbon

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<sup>25</sup> Through a Quality Enhancement Review (QER) in October, 2019

<sup>26</sup> A draft BSP was formally reviewed by the World Bank and was then revised and re-submitted to the FCPF Facility Management Team (FMT) in May 2020 to confirm that it met the requirements of an *advanced* draft. Subsequently, the FMT shared the BSP with FCPF Carbon Fund Participants for their confirmation that they did not have any fundamental issues with the BSP that would prevent entering into an ERPA, which was confirmed on June 25, 2020.

<sup>27</sup> After discounting for statistical uncertainty in ER estimates and setting aside ERs into a reversal buffer to manage reversal risk (non-permanence of emission reductions). See ERPD Section 11 and 12.

<sup>28</sup> The Program Entity proposes to include retroactive ERs under the ERPAs from the period of January 1, 2019. For this, safeguards due diligence is required, however, it will not be completed prior to ERPA signature. During Negotiations the Trustee, proposed that the retroactive period can be included in the ERPAs and as a condition of effectiveness to reflect the pending safeguards due diligence. The condition of effectiveness has been added to Schedule 2 of the ERPAs and requires the submission of evidence by the Program Entity to demonstrate that the ER Program measures generating retroactive ERs were implemented in a manner consistent with the Safeguards Plans.



Fund<sup>29</sup> at a carbon price of \$5/tCO<sub>2</sub>, which could amount to a total volume of ER payments of up to \$42 million.<sup>30</sup> (See Table 1) The ERPA terms for the program were agreed during negotiations and subsequently approved by Carbon Fund Participants on a no-objection basis (October 30, 2020). The ERPA stipulates that in the event the ER Program generates Additional ERs (ERs in excess of the Contract ER Volume in a Reporting Period) the Parties agree to grant a Call Option for up to 2.6 million such additional volumes of ERs (the Maximum Option Volume).<sup>31</sup>

**Table 1: Estimated volume of ERs<sup>32</sup>**

ERPA Term 2020-2024)	Reference Emission Level	Reference Level Removals	Ex-ante estimated Emissions (20%) <sup>33</sup>	Ex-ante estimated Removals (57%) <sup>34</sup>	Total ex-ante estimated ERs	Set-aside for buffers and conservativeness (32%) <sup>35</sup>	Total ERs without set-aside for buffer and conservativeness	ERs offered to the Carbon Fund
<i>MtCO<sub>2</sub>e</i>								
Annual	10.5	-2.0	8.4	-3.1	3.2	1.0	2.2	1.68
Total	52.5	-10.0	42.0	-15.5	16.0	5.0	11.0	8.4

**28. Advance Payment.** To cover the costs associated with the inception phase of the Project, and prior to the first ER payment, the GoL agreed with the Carbon Fund on an 'Upfront Advance Payment' of \$3 million. The Upfront Advance Payment would be used to cover early stage operational costs of the Department of Forestry (DoF under MAF) and its provincial and district offices, as well as improve the staff capacity for ER program management. The Upfront Advance Payment would be debited against the verified ER payments reported for the first Reporting Period and will only be made upon meeting all conditions of effectiveness. In the event that the Upfront Advance Payment cannot be recovered in full from the Periodic Payments, the World Bank as Trustee for the Carbon Fund may request prompt repayment of the outstanding Upfront Advance Payment amount.

<sup>29</sup> The GoL signed a letter of intent (LOI) for 8.4 MtCO<sub>2</sub>e based on earlier estimates included the ERPD. Based on more recent estimates, the GoL has indicated a potential to deliver a larger volume of ERs (2.6 million Additional ERs) to the Carbon Fund.

<sup>30</sup> The amounts listed in this PAD are subject to the performance of the Government's GFLL program.

<sup>31</sup> For the call option, the Exercise Price is \$6 per transferred Additional ER for tranche A and subject to negotiation for tranche B (on a pro-rata basis).

<sup>32</sup> The GoL's estimates are based on a 5-year ERPA term, 2020-2024. The estimated volume of ERs does not include retroactive ERs under the ERPAs from the period of January 1, 2019. Safeguards due diligence is required to confirm that the ER Program measures generating retroactive ERs were implemented in a manner consistent with the Safeguards Plans.

<sup>33</sup> A reduction emission of 20 percent compared to reference emission level (section 13 in ERPD).

<sup>34</sup> An increase in removals of 57 percent compared to reference emission level (section 13 in ERPD).

<sup>35</sup> Ratio of discount calculated from an estimated 4 percent conservativeness factor for removals and emissions due to deforestation and forest degradation (excluding RV), the 15 percent conservativeness factor for emissions from forest degradation associated with RV and also for emissions from selective logging and the 23 percent reversals buffer (as quantified in Sections 11 and 12 in ERPD).



#### D. Project Beneficiaries

29. **ER payments will be distributed according to an agreed BSP, which outlines the arrangements by which beneficiaries will receive monetary or non-monetary benefits.**<sup>36</sup> These beneficiaries include:

- a) Government agencies (at all levels- national, province, and district) are eligible to receive benefits in recognition of their role in ER program implementation. Monetary benefits are allocated to cover operational costs, such as expenditures related to the technical support (e.g., measurement, reporting and verification (MRV), safeguards), and administrative and financial management of the ER Program. Non-monetary benefits in the form of capacity building and institutional strengthening further support program implementation.
- b) Rural forest-dependent communities, (hereinafter named as communities): including community-based institutions, farmer groups, cooperatives, women enterprise groups. Non-cash benefits are allocated to provide incentives for communities to achieve emission reductions, and to implement long-term strategies in protecting forest and improving community livelihood.<sup>37</sup> Monetary benefits are also allocated to cover operational costs of the Village Development Committees and non-monetary benefits (capacity building and institutional strengthening) further support ER program implementation.
- c) Participants in pilot initiatives: defined as Private Companies, Civil Society Organizations known as Non-profit Associations (NpA), and Education and Research Institutions. The purpose of pilot initiatives is to incentivize the development of scalable and sustainable intervention options (e.g., in SFM or CSA) that address the critical drivers of deforestation and their underlying causes. Both monetary and non-monetary benefits are allocated to improve the private companies' capabilities in managing forest and land, or to compensate NpAs in providing facilitation and skills for communities' capacity building, and Education and Research Institutions providing analysis and research.

30. Communities will benefit the most as they have the most significant role in reducing emissions. An estimated 42,000 rural households, totalling approximately 254,000 people, are projected to benefit from the GFL program. These figures represent approximately 20 percent of the total rural population across the six provinces. 50 percent of these beneficiaries are expected to be women. Indirectly, the project is expected to benefit an additional 412,000 people (32 percent of the rural population) in the six provinces. A significant number of beneficiaries will be from non-Lai-Tai ethnic groups who live in and adjacent to conservation and

<sup>36</sup> The categories of beneficiaries are considered in the context of i) roles and responsibilities; ii) policy and regulation development, and administration by government agencies; iii) being legal rights holders of the land or forest resources in which emission reductions take place; and, iv) directly investing capital and/or labor into REDD+ activities.

<sup>37</sup> Non-monetary benefits include: i) Training in managing funding for community and facilitating communities (e.g., awareness, conflict resolution, etc.); ii) Capacity building/training and equipment for FLR, SFM, CSA, and livelihoods opportunities for communities; iii) Forest law enforcement, including patrolling, equipment, and capacity building/training; iv) Development projects (e.g., health, education, public facilities) that do not contribute to deforestation and forest degradation; v) Additional livelihood support for community businesses, including capacity building/training, equipment, market access, or agricultural inputs; vi) Secure land tenure; vii) Improved productivity from access to agricultural extension services such as farmer field schools.



protected areas.<sup>38</sup> In addition, at least 280 small and medium enterprises in the forestry and agricultural sectors are expected to benefit from the project, supporting the transformation towards deforestation-free forest and agricultural landscape management. The project is expected to build the capacities of at least 1,086 government staff members working mainly in the agricultural and forestry sectors.<sup>39</sup>

31. **A summary of the BSP is provided in Annex 5.** Benefits, beneficiaries and benefit sharing arrangements are provided in the BSP (a separate document that forms an integral part of the ERPA).<sup>40</sup>

## E. Rationale for Bank Involvement and Role of Partners

32. **The ER program is seen as an important programmatic component of Lao PDR's National Green Growth Strategy (NGGS) and policy and investment agenda for the forestry sector to achieve more sustainable, more resilient, and more inclusive growth.** It complements past and current programmatic engagement by the Bank and projects in the sector with the potential for transformative impact. The Government has been working on REDD+ Readiness preparation since it joined the FCPF in 2007, working with the World Bank as the Facility's Trustee as well as its Delivery Partner.<sup>41</sup> Unlike first-generation carbon funds that principally co-financed small-scale forest projects, the FCPF Carbon Fund aims to support its partner countries in scaling-up and implementing low-carbon forest strategies for large jurisdictions (as an interim step towards national implementation) to incentivize low-carbon investments in land use and forests.
33. **The ER program builds on investments that contribute to the reduction of emissions.** The GoL has prepared a detailed outline of activities to be implemented with support from several development partners such as the World Bank (including IDA and GEF), GIZ (with financing from GCF and German Ministry of Economic Cooperation and Development (BMZ)), KfW, JICA, as well as International Fund for Agricultural Development (IFAD), Asian Development Bank and CCEFCF through associated investment projects. The GoL is now preparing to mobilize funds for implementing in addition to its own fiscal and indirect contribution. In addition, as noted above, private sector investment is now starting to scale throughout the country, especially in the south and central areas, but could be expected to move north as the policy environment continues to improve and as the high-speed rail line opens in late 2020 between Kunming, and Singapore, transforming Luang Prabang as a northern hub of economic activity. Three private sector companies have expressed interest in contributing to the ER program and the Bank is encouraging the GoL to establish options and opportunities for leveraging this interest.

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<sup>38</sup> These estimates are based on the estimates from the Provincial REDD+ Action Plans.

<sup>39</sup> These numbers pertain to the life of the I-GFLL program, funded by GCF and implemented by GIZ, 2020-2028.

<sup>40</sup> Carbon Fund Participants accepted an advanced draft BSP prepared by MAF, which has been publicly disclosed by MAF and on the World Bank external website (Report number 150433). This document will be finalized by MAF following the signing of the ERPA.

<sup>41</sup> The FCPF Readiness Grant contributed to enabling conditions (e.g., analytical studies, capacity building, and consultation processes at the national and sub-national levels). The activities financed by the FCPF in support of the REDD+ Readiness Program do not include on the ground implementation.



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

34. **This project is based on experience in forestry and natural resources management projects, and similar operations in other countries.** The Bank brings significant value given its long engagement in Lao PDR's forest sector including being the delivery partner under the FCPF a REDD+ Readiness Grant (P125082, extended to June 2022).
35. **The project also incorporates the findings of the Bank's analytical work and experience gained during the REDD+ readiness phase.** While the Government continues to reform the forestry sector, weak forest governance remains a barrier to productivity and sustainability. For REDD+ to work, there must be high-level support and high-level engagement from relevant sector line ministries, sectoral local governments, and technical teams. Strong and continuous communication activities, regular coordination of activities and harmonization among all the different sectors on land-use is critical for implementation of REDD+. Continuous meetings where decision-makers meet, plan, and decide on implementation modalities for cross-sectoral activities are crucial. Using the already existing structures of the government will also facilitate REDD+ implementation. On the ground, agroforestry is an important potential intervention to mitigate degradation of forest quality and agricultural lands, while Village Forestry can play a substantive role in implementing SFM. The livelihoods of rural communities depend upon forest, so they have a vested interest to manage them well for following generations if empowered to do so.<sup>42</sup>
36. **The project also incorporates lessons learned with respect to safeguards.** Past and ongoing programs have provided valuable lessons that show that there is continued need to strengthen institutional and community capacities for understanding and implementing environmental and social policies; processes for identifying risks and impacts, and process for monitoring and evaluation; alternative livelihoods development and sustainability. Sustainable alternative livelihoods approaches emphasize the importance of assets (human, financial, social, physical and natural), mediated through policies and institutions, including markets, in enabling households successfully to enhance their livelihoods and reduce risk and threats of deforestation and forest degradation. The lessons learned have been taken into consideration for designing mitigation measures in the related project safeguard instruments.
37. **The design of this operation has benefited from other similar jurisdictional programs in other regions that seek results-based financing from the FCPF Carbon Fund.** These include ERPAs signed in Chile, Cote d'Ivoire, Democratic Republic of Congo, Ghana, Mozambique, Indonesia and Vietnam, and advanced preparations in several other countries. The experience of these programs and the active exchange of lessons across task teams has resulted in a degree of consistency in how *ex post* ER payments relate to underlying investments, the results and monitoring framework, and the approach to safeguards and benefit sharing. The measurement and reporting of ERs, which is a principal responsibility of the Program Entity, and the independent Third Party verification commissioned by the Bank, follows a rigorous and internationally accepted Methodological Framework, which was designed with the input of many countries participating in the FCPF and on the basis of their experiences and capacities in monitoring forests.

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<sup>42</sup> Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. (World Bank, 2020)





### III. IMPLEMENTATION ARRANGEMENTS

#### A. Institutional and Implementation Arrangements

38. **As the authorized entities to sign the ERPA, MOF and MAF have joint responsibility to meet the requirements of the ERPA.**<sup>43</sup> MOF and MAF have been the focal ministries for Bank-financed investments over the past several decades.
39. **MAF will lead the implementation of the ER program** through coordination and collaboration with other relevant agencies at all relevant administrative levels. At the central level, the ER program will be implemented by the REDD+ Division of the Department of Forestry (DoF), under MAF. A national Project Management Unit (PMU) will be established. Oversight is provided by the National REDD+ Task Force (NRTF).<sup>44</sup> The REDD+ Division also acts as the Secretariat to the NRTF. At the provincial level, Provincial REDD+ Offices (PRO) within the Provincial Agriculture and Forestry Offices (PAFO) will implement provincial activities in line with the Provincial REDD+ Action Plan (PRAP). They will act as Secretariat to support the Provincial REDD+ Task Forces (PRTFs), and house the provincial PMUs. Additional specificity on the implementation and coordination arrangements is needed at the sub-provincial level. During Appraisal,<sup>45</sup> it was agreed that district and village level implementation would rely on existing government systems, endeavoring to simplify arrangements as much as possible. The institutional arrangements are detailed in Annex 6.
40. **The same institutional arrangements will manage the I-GFLL.** This will include the joint staffing of the national and provincial PMUs using resources from both the GIZ-led project, as well as the resources available from the extended FCPF readiness preparation grant. See Figure 1 below.

<sup>43</sup> MAF is the designated national authority and has authority to sign the ERPA. This is supported by a legal assessment that demonstrates that MAF holds the sovereign rights and title to ERs, and the ability to transfer title to ERs to the Carbon Fund (a key requirement of the ERPA). An inter-ministerial process prior to Negotiations confirmed the Government's agreement to proceed with ERPA signature with MOF as co-signatory to the ERPAs.

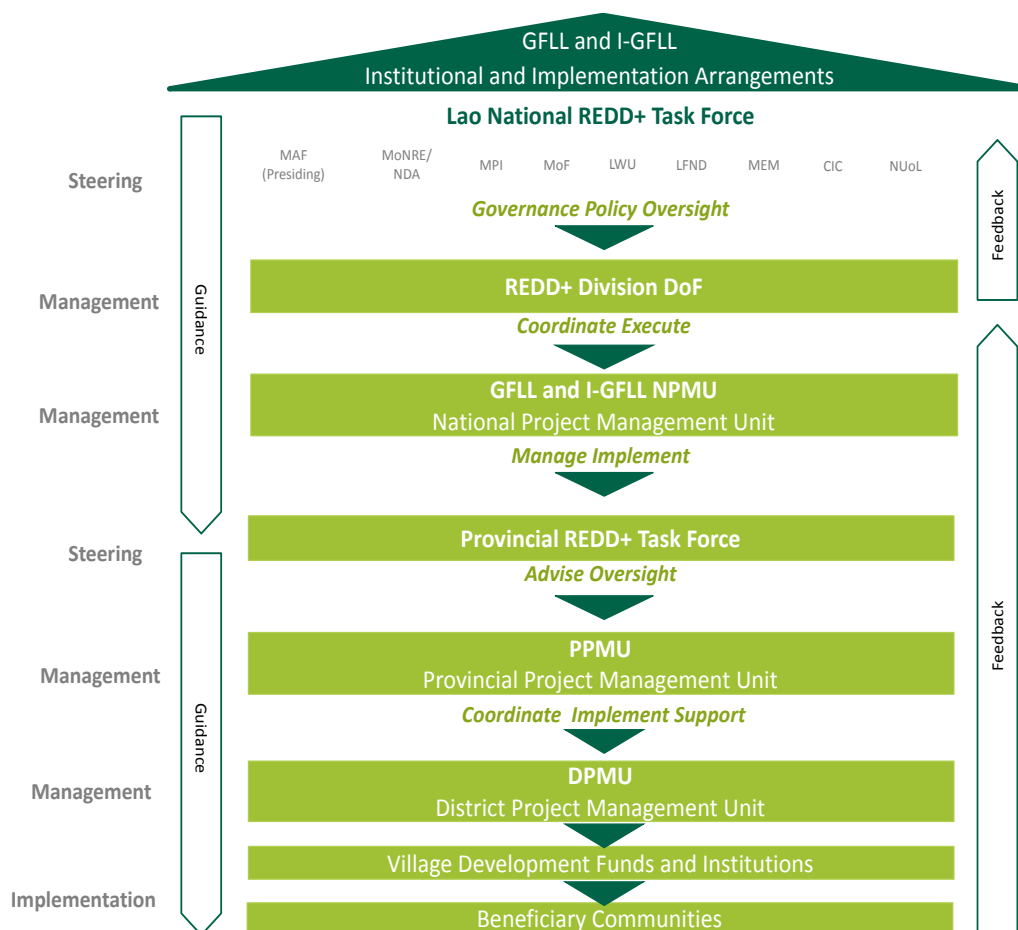
<sup>44</sup> Prime Minister Decree No. 06 of January 08, 2011, established MAF's role as the coordinator of the National REDD+ Task Force (NRTF). The NRTF was established in 2008 as a multi-sector and inter-ministerial mechanism responsible for the development and implementation of REDD+ in Lao PDR. The NRTF is hosted by MAF with the Vice Minister of MAF as the chairperson of the NRTF and the Director General of DoF as the deputy chairperson. Comprised of 12 ministries, members of the Task Force represent diverse sectors of agriculture, forestry, land use planning, finance, investment, law and justice, and energy and mines, and include representatives from the Ministry of Natural Resources and Environment (MoNRE), MOF, Ministry of Planning and Investment (MPI), Ministry of Justice (MoJ), Ministry of Energy and Mines (MEM). In addition, the Lao Front for National Development (LFND), Lao Women's Union (LWU), the National University of Laos (NUoL), and the Lao National Chamber of Commerce and Industry (LNCCI) are also members of the NRTF.

<sup>45</sup> A Virtual Appraisal Mission was conducted March 16-27, 2020.





Figure 1. Organizational structure for implementation<sup>46</sup>



41. **The BSP will be administered and managed by the Forest Protection Fund (FPF).** The governance structure for FPF consists of Board of Directors,<sup>47</sup> which oversees the financial management and monitoring of the FPF, and a FPF Secretariat, which support the Board and undertake the day-to-day fund management. While the FPF has the legal mandate to distribute ER payments, it will require capacity strengthening to meet fiduciary standards. See discussion in section VI (key risks). If adequate financial management capacity and systems are not in place, the funds flow arrangements currently used at DoF for the on-going FCPF Readiness grant will be used as an interim arrangement to manage the Upfront Advance Payment.

<sup>46</sup> The National REDD+ Task Force members include MAF: Ministry of Agriculture and Forestry; MoNRE/NDA: Ministry of Natural Resources and Environment, the National Designated Authority to the UNFCCC; MPI: Ministry of Planning and Investment; MoF: Ministry of Finance; LWU: Lao Women's Union; LFND: Lao Front for National Development; MEM: Ministry of Energy and Mines; CIC: Lao National Chamber of Commerce and Industry; NUoL: National University of Laos (NUoL).

<sup>47</sup> The Board of Directors (BOD) is chaired by MAF's Deputy Minister, with members from relevant MAF departments, MOF, Office of the Prime Minister, and MoNRE.



42. **Safeguards implementation**, including the Environmental and Social Management Framework (ESMF), is the responsibility of the National REDD+ Task Force. A national level project-specific Social and Environmental Safeguards Unit (SESU) will be established, supported by two sub-national cluster units in Luang Namtha and Luang Prabang (each supporting three provinces).
43. **MAF, as the executing agency, has overall responsibility for monitoring, measurement and reporting (MMR) of ERs.** DoF will compile all technical data related to project components and implementation. NRTF will have oversight over policy decision-making and will be responsible for inter-ministerial coordination. At the provincial level, Provincial Agriculture and Forestry Offices (PAFO) and District Agriculture and Forestry Offices (DAFO) will undertake primary roles on monitoring in their administrative territory.
44. **The monitoring of funds distribution**, with respect to rules and safeguard plans, will be primarily conducted by the FPF. Key institutions that have significant reporting roles are DoF, the Forest Inventory and Planning Division (FIPD), and Department of Forest Inspection (DOFI, under MAF), and PAFOs and DAFOs at the subnational level. The FPF will also monitor the use of proceeds against ER plans (based on PRAPs) proposed and reported by beneficiaries, with coordination from DoF at the national level and with PAFO/DAFO at the provincial/district level.
45. **Responsibility for safeguards monitoring and reporting**, in accordance with the provisions in the agreed safeguards package, will be with the REDD+ Division, DoF through the SESU. Safeguards updates and reports will be also approved by the NRTF.
46. **Institutional capacity is weak and sustained technical and financial support is needed to successfully implement the program.** The Bank and other development partners will continue to provide technical support, particularly the implementation of safeguards and strengthening of measurement and monitoring capacity to report and deliver ERs, as well as share benefits. Gap filling measures are built into the capacity building plan. Capacity needs and risk management are further discussed in section vi and Annex 6. A gap assessment of the FPF was undertaken in early 2019 and a capacity building plan to improve FPF financial management is included as part of the BSP.
47. **A detailed Project Operational Manual (POM)** providing specific implementation procedures for the ERPA is being prepared. The POM will be finalized in time for the operational processes to be in place and allow for staff to be trained in the procedures prior to the Upfront Advance Payment and first ERPA transfer.<sup>48</sup>

## B. Results Monitoring and Evaluation Arrangements

48. The monitoring and evaluation of results will be performed as follows:

- a) **Reporting Periods.** MAF will coordinate measurement and reporting of ERs and submit ER

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<sup>48</sup> The POM is under development and expected to be final by ERPA effectiveness. The ERPA will become effective with a final BSP and completion of the safeguards due diligence for retroactive ER Payments. The effectiveness conditions must be met within 12 months of ERPA signature, however the GoL is working on finalizing these documents, including the POM, which are expected in coming months.



Monitoring Reports during regular Reporting Periods specified in the ERPA. The agreed Reporting Periods are 2019-2021 and 2022-2024,<sup>49</sup> followed by verification and respective ER payments. The standard provision in the General Conditions is for the Program Entity to submit ER Monitoring Reports within 45 days from the end of the Reporting Period. Lao PDR needs additional time for satisfactory completion and submission of the two ER Monitoring Reports. The first ER Monitoring Report is expected to take 12 months to compile (December 2022) and 10 months for the final ER Monitoring Report (June 2025), due to technical constraints in acquiring and processing satellite imagery. The actual disbursement of ER Payments would occur following the verification of results for the respective Reporting Period (in 2023 and 2025).

- b) **ER Monitoring Reports.** ERs generated will be measured in MtCO<sub>2</sub>e/year and represent the key metric for receiving results-based payments under the ERPA, coinciding with the main PDO indicator. The baseline for the indicator will be the Reference Level endorsed by Carbon Fund Participants. ERs will be monitored through the measurement, collection, compilation and recording of all relevant data and parameters necessary for estimating ERs in the Accounting Area, as described in the ER Monitoring Plan and in accordance with the Carbon Fund Methodological Framework. The I-GFLL project, in cooperation with development partners (JICA, GIZ, SilvaCarbon), funds a dedicated technical assistance package for the MMR system. The Monitoring Plan is included in Annex 8.
- c) **Verification.** All ERs generated in the Accounting Area during each Reporting Period are verified by an independent reviewer contracted by the World Bank, acting as Trustee of the FCPF Carbon Fund.
- d) **ER Transaction Registry.** The GoL has indicated that it will use the centralized registry (Carbon Assets Trading System) development and managed by the World Bank, as the Trustee of the FCPF Carbon Fund, for the issuance and recording of verified and buffer ERs from the Program. Each ER transaction will be recorded to avoid double counting and/or claiming of the transacted ERs, documenting the issuance, serialization, acquisition, holding, retirement, cancellation and/or transfer of ERs generated by Lao PDR.
- e) **BSP Reports.** The Program Entity will submit three BSP Reports to the Carbon Fund. The first BSP report will be submitted six months after the Upfront Advance Payment, and annually thereafter. The first BSP report will cover the use of Upfront Advance Payment. Subsequent BSP reports will reflect on the implementation of the BSP, with the final report being submitted in June 2025.<sup>50</sup> Reports will include expenditures for operational costs, performance-based ER programs implemented by beneficiaries, and the status of the performance buffer, amongst other relevant information.
- f) **Interim Progress Reports.** Implementation progress, including performance indicators for each mitigation measure, implementation of Safeguards Plans, and implementation of the BSP will be monitored through regular Bank implementation support missions (at least twice per year) and will be documented in Interim Progress Reports, in form and substance satisfactory to the Bank. Additional indicators, such as those for gender integration in the Gender Action Plan, will be

<sup>49</sup> Reporting Period 1 is January 1, 2019 – December 31, 2021. Reporting Period 2 is January 1, 2022-December 31, 2024. Due diligence for compliance with social and environmental safeguards for retroactive ERs is currently being performed by the Program Entity.

<sup>50</sup> The specific timing of the final BSP report will need to be discussed with the government to ensure all reporting is completed within the life of the Program (prior to Carbon Fund closure December 31, 2025), and presented in the final BSP.



monitored as outlined in the ESMF.<sup>51</sup> Preliminary performance indicators for the mitigation measures are included in the ERPD. It is important to note that given the size of the Accounting Area, the remoteness of many locations and their limited accessibility during major portions of the year due to the rainy season, effective supervision is risky, time-consuming and costly and thus requires adequate resources and planning.

- g) **Non-Carbon Benefits.** The Program Entity will provide information on its efforts to generate and/or enhance Priority Non-Carbon Benefits as part of each ER Monitoring Report and Interim Progress Report. See the ERPD for a list of the expected socio-economic, environmental and governance Non-Carbon Benefits.
- h) **Financial reporting.** The Program Entity agreed to submit to the Bank the entity's quarterly financial report no later than 45 days of each quarter end, and financial statements will be audited annually by the State Audit Organization.

### C. Sustainability

49. **The ER program has several design elements to support its sustainability and replicability, and the Lao PDR's GFLM measures are aligned with national sectoral policies and international commitments (NDC).** To meet the Government's forest sector goals, significant new policies have been promulgated, including those supported by the Green Growth DPO (Timber Legality Assurance system, SFM certification, protected area policy). Key reforms include the 2019 Forestry Law, 2019 Land Law, 2017 Water Law (establishes river basin management as the key planning approach in the country) and the EU FLEGT reforms. Interventions have been developed in alignment with these key national policies and contribute to implementing the draft NRS in the six northern provinces. The REDD+ agenda and other developments such as the United Nations Framework Convention on Climate Change (UNFCCC) NDC process have strengthened the Government's commitment to the forestry sector.
50. **The ER program also builds on and supports implementation of national and sub-national policies and initiatives in the provinces.** The GFLM program will be an early major step in Lao PDR's transition from REDD+ readiness to implementation and results-based payments. The program design sets the framework for implementing the NRS in a decentralized manner at sub-national level. While strategically defined at the province level and executed at the district and village level, the project contributes to improving the national institutional and regulatory systems in manners that facilitates its replication and up-scaling toward an eventual nationwide initiative.
51. **The Program employs a participatory process with major forest stakeholders** at the national and provincial levels throughout the preparation and validation process, and the benefit sharing arrangements can help incentivize sustainable forest management. An integrated landscape management approach, implemented through related investment activities, targets the drivers of deforestation by recognizing the link between land use, agricultural development, natural resource management and governance, both in terms of institutional management and practical implementation. Social sustainability will be supported through

<sup>51</sup> Section 9 of the GFLM ESMF outlines the Gender Action Plan (GAP) that presents clear targets, quotas, gender design features and quantifiable performance indicators to ensure women's participation and benefits.



related investment activities by focusing on promoting alternative livelihoods. Environmental sustainability will be supported by reducing pressure on natural forests through a combination of related investment activities ER payments through the BSP. Forest protection will be promoted through land-use planning, law enforcement, and the promotion of agriculture and forestry sector interventions.

## IV. PROJECT APPRAISAL SUMMARY

### A. Technical, Economic and Financial Analysis (if applicable)

#### Technical

52. **The design of the ER program complies with the requirements of the Carbon Fund Methodological Framework, as well as with the UNFCCC REDD+ framework.** The Methodological Framework includes a series of technical criteria (38) and indicators (78) built around five sections, namely: (i) level of ambition; (ii) carbon accounting; (iii) safeguards; (iv) sustainable program design and implementation; and (v) transactions. The UNFCCC REDD+ framework includes a set of interrelated decisions that are reflected in the Paris Climate Agreement. As part of the Carbon Fund business process, a Technical Advisory Panel rigorously assessed Lao PDR's ERPD and came to the overall conclusion that the technical design is sound and meets Methodological Framework requirements.<sup>52</sup> Appraisal confirmed that DoF is putting in place the necessary capacity building and operating procedures to report on emissions going forward against the same standard and is improving systems (such as data management and standard operating procedures) that ensure quality and will allow rigorous independent verification of results.
53. **Similarly, the BSP was rigorously assessed against the requirements of the Methodological Framework, FCPF Facility Management Team (FMT) guidance,<sup>53</sup> as well as Bank fiduciary requirements.** During preparations the Bank confirmed the BSP was prepared through a consultative and transparent process and designed to ensure all relevant contributors to emission reductions receive benefits from the ER program. Where operational gaps exist, the associated capacity building plan to improve the BSP was found to be adequate (see also section on financial management). Following appraisal, MAF produced an advanced draft BSP, which was reviewed by Carbon Fund Participants and the Facility Management Team. This confirmed their agreement in principle with how MAF intends to manage and distribute future ERPA payments and considered the advanced draft BSP a sufficient basis for final EPRA signature.<sup>54</sup>

<sup>52</sup> The assessment process included several reviews of the ERPD and supportive documents and was initiated March 2018 with a country visit. The Technical Advisory Panel (TAP) found that the technical design fully met 55 criteria and indicators, while five mostly minor criteria were not met. (An additional 18 are not applicable at this stage as they mostly relate to verification and transactions during the ERPA). The sole indicator that was considered a major non-conformity relates to the forest definition. The other non-conformities were considered minor (a final benefit sharing plan, and formal legal provisions on carbon rights and ability to transfer of title to ERs), and the Government has since submitted appropriate documents and legal assessment that address these points. A final version of the ERPD was accepted by the Carbon Fund for inclusion in the portfolio in June 2018.

<sup>53</sup> [https://www.forestcarbonpartnership.org/sites/fcp/files/2019/Sep/FCPF%20Guidance%20Note%20on%20Benefit%20Sharing%20for%20ER%20Programs\\_2019.pdf](https://www.forestcarbonpartnership.org/sites/fcp/files/2019/Sep/FCPF%20Guidance%20Note%20on%20Benefit%20Sharing%20for%20ER%20Programs_2019.pdf)

<sup>54</sup> A final BSP (finalizing arrangements and responding to CFP feedback) will become a condition of effectiveness (to be met within 12 months of ERPA signature). See Annex 5.



## Economic and Financial Analysis

54. **Since the ERPA provides payments for verified ERs on an *ex post* basis, a traditional economic and financial analysis is not applicable.** However, the Government performed an analysis of the activities included in the ER program design to assess the economic benefits and financial viability and estimate the payments that need to be leveraged from the ERPA. This analysis found that the GFL program<sup>55</sup> including its associated investment projects, were estimated to cost \$136.5 million over the timeframe 2019-2025 and will generate economic benefits worth \$227 million (see ERPD Annex 9).<sup>56</sup>
55. **The financial analysis** was carried out on two levels: a) at the farm/forest level, where representative 1-ha farm and forestry models were developed using a consistent timeframe of 10 years<sup>57</sup> to demonstrate the attractiveness and profitability of agriculture and forestry activities; and b) at the level of the GFL program to demonstrate the overall costs and benefits between 2019 and 2025. The overall Financial Rate of Return is 14.4 percent after 7 years and results in a positive Net Present Value (NPV) of \$6 million. This analysis indicates that the financial returns justify the investment. Further non-market benefits will strengthen the case for investments.
56. **In the economic analysis** costs remain the same as in the financial analysis, however, the additional economic benefits of the program of reduced greenhouse gas emissions and enhanced removals by sinks were imputed.<sup>58</sup> With a carbon price of \$5/tCO<sub>2</sub>, the economic analysis results in a Net Present Value (NPV) of \$227 million and Economic Rate of Return of 365 percent after 7 years. With an assumed social value of carbon of \$30/tCO<sub>2</sub>, the Net Present Value (NPV) jumps up to \$1.09 billion.<sup>59</sup> This demonstrates the significant economic benefits and justifies the investment in the program. Also, the economic analysis demonstrates that the benefits of reduced emissions and enhanced removals by sinks significantly outweigh other program benefits, and that results-based payments of \$5/tCO<sub>2</sub>e represent only a fraction of the social value of carbon. Moreover, other environmental and social benefits of the project, such as provision ecosystem services, are not factored into the analysis. Combined, this supports the direction of national and international REDD+ investments.
57. **Appraisal confirmed that that financing for the GFL is largely secured through on-going and pipeline operations under preparation.** Complementary donor-supported investments in ongoing projects and planned initiatives in GFL provinces and at the national level total approximately \$327 million (See Annex 7). Of this, \$141 million will be deployed in the GFL program area either in all or some of the six provinces, and \$200 million will overlap directly with the GFL implementation period and may also complement

<sup>55</sup> The life of the GFL is 7 years, extending beyond the ERPA term.

<sup>56</sup> In the financial analysis a discount rate of 10 percent is used, and the economic analysis uses a social discount rate of 6 percent.

<sup>57</sup> The 10-year period was selected to also reflect the long-term investment and the delayed benefits which are typically in the forestry sector.

<sup>58</sup> Two major approaches were used to integrate the social value of carbon into the program: a) World Bank Group guidance on "Social Value of Carbon in Project Appraisal" (2014) recommends to use a shadow price of social value of carbon at \$30/tCO<sub>2</sub> in the year 2020; b) a carbon value of \$5/tCO<sub>2</sub> reflecting the expected Carbon Fund results based payment price.

<sup>59</sup> See Guidance on the Preparation of Financing Plan Emission Reduction Programs (World Bank, 2017)

[https://www.forestcarbonpartnership.org/sites/fcp/files/2019/July/FCPF%20Guidance%20Note%20on%20the%20Preparation%20of%20Financing%20Plan%20of%20ER%20Programs\\_2018.pdf](https://www.forestcarbonpartnership.org/sites/fcp/files/2019/July/FCPF%20Guidance%20Note%20on%20the%20Preparation%20of%20Financing%20Plan%20of%20ER%20Programs_2018.pdf)



project activities. The World Bank is providing about \$300 million for ongoing and proposed projects in Lao PDR, of which \$100 million is estimated to directly support the objectives of the GFL ER program in the six GFL provinces (See Annex 10). Additional private sector investments are not reflected but are anticipated to help finance the implementation and achievements of the GFL ER program.

58. **The operational costs of the ER program are \$7.3 million during the period 2020-2025.** Operational costs will be covered in three ways: \$1 million from the FCPF Readiness Grant; \$3 million Upfront Advance Payment under the ERPA; and, results-based payments under the ERPA. See Annex 7.

### Legal aspects of ER title

59. **A detailed legal assessment concluded MAF holds the sovereign rights and title to ERs and has authority to sign the ERPA and ability to transfer title to ERs (a key requirement for the ERPA).** The legislative framework includes the Constitution of Lao PDR, its Land Law, and its Forest Law, and there are specific articles that vest responsibility with MAF (the ERPD, ESMF, BSP provide an overview of these laws and articles). Independent legal opinion provided by the Lao Bar Association concluded that the assessment note is in line with current laws and regulations of Lao PDR. It formalizes the conclusion of the assessment note that MAF has full and complete rights to transfer of ER titles that will meet the legal requirements of the ERPA. To avoid any legal risk and competing claims relative to carbon rights, sub-agreement contracts are foreseen with private partners when planting trees. MAF will enter into sub-agreement contracts stating that MAF is authorized to transfer the legal ownership and title to ERs to the FCPF Carbon Fund.<sup>60</sup> An inter-ministerial process prior to negotiations confirmed the GoL will be represented by MOF and MAF as co-signatory to the ERPA.

## B. Fiduciary

### Financial management

60. **An assessment was performed on the adequacy of the implementing agency's financial management system to produce timely, relevant and reliable financial information on Project activities in accordance with the agreed BSP.** The assessment was based on information obtained from a gap assessment for FPF conducted in early 2019<sup>61</sup> and a self-assessment on FPF financial management system conducted in January 2020. Based on review of these documents and the BSP, it was concluded that the FPF currently lacks operational capacity and will require substantial capacity building to meet the World Bank fiduciary standards. The assessment made, and Appraisal confirmed, the following recommendations:

- a) Capacity building of existing staff and increasing the number of accounting/finance staff with relevant expertise. It was indicated in the self-assessment that staff number, expertise and

<sup>60</sup> Schedule 5 of the ERPA contains the principle terms of sub-project agreements.

<sup>61</sup> Gapare, N and Long, S., 2019. Capacity Needs and Gap Assessment for Feasibility Study for the GCF Funding Proposal "Implementation of the Lao PDR Emission Reductions Program through improved Governance and Sustainable Forest Management" UNIQUE Forestry and Land Use.





- experience in financial management is lacking. The FPF will recruit, at both central and provincial levels, adequate and experienced financial management staff/technical assistance to provide support and oversight of financial management aspects of ER payment utilization by beneficiaries. The second capacity assessment of FPF should also include a review of human resources needs.
- b) Develop an operational manual, including clear procedures on financial management describing budgeting, funds flow/disbursement, internal controls, accounting, financial reporting and audit/oversight that will apply at the level of FPF and provinces. The operational manual will be ready by early 2021 (tentatively February). Staff will be trained in these procedures prior to the Upfront Advance Payment being transferred.
  - c) Budgeting, accounting and financial reporting at beneficiary level will also be developed and training provided before the release of ER payment to beneficiaries. This is currently not apparent in the BSP on how beneficiaries will report on the use of funds and to ensure funds are used for the purpose intended in the BSP. The contract between FPF and beneficiaries should include a clause on eligibility of the use of ER payment.
  - d) Financial statement audit will be done annually by the State Audit Organization in accordance with terms of reference agreed with the Bank. The audit report will also be publicly disclosed.
61. **These actions will be undertaken as part of the Capacity Building Plan, financed by FCPF Readiness grant (extended to 2022).** It is expected that recommendations (a) and (b) will be completed within the first quarter of 2021, undertaken as part of the Capacity Building Plan. The MAF will work closely with the World Bank to monitor progress, including through regular technical and supervision missions. The World Bank will conduct fiduciary assessments of the FPF (interim assessment in February 2021, and a full assessment in June 2021), to ensure that the fund meets World Bank and FCPF requirements prior to the Upfront Advance Payment in 2021 and first results-based payment in 2023. The June 2021 assessment is a 'cut-off point' for making the decision on whether the FPF is in a position to receive and distribute ERPA benefits in accordance with the BSP.
62. **If adequate financial management capacity and systems are not in place, the GoL has proposed an interim or contingency arrangement** which uses the current arrangements under the FCPF Readiness grant. During Appraisal, the World Bank confirmed that the financial management staff, procedures and funds flow mechanism currently used at DoF for the on-going FCPF Readiness grant are adequate to manage an Upfront Advance Payment (to cover a portion of the operational costs) and stressed that current financial management staffing arrangements, including consultant support, will be maintained throughout implementation.

## Procurement

63. **The World Bank's Procurement Regulations do not apply under the Project.**<sup>62</sup> No procurement activities are expected to verify and provide results-based finance for the performance of the Government's program in reducing emissions. Once the dedicated payment is made to the GoL against results in reducing emissions, it becomes government revenue to be used following their own procedures including their own

<sup>62</sup> See Bank Guidance on ERC projects under IPF, June 2, 2020.





procurement procedures. The GoL will utilize the revenue from verified ER payments according to the agreed BSP.

### C. Safeguards

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

64. **In line with the Bank's safeguard policies, the ER program is classified as "Category B" and the following Bank safeguard policies are triggered:** Environmental Assessment (OP/BP 4.01); Natural Habitats (OP/BP 4.04); Pest Management (OP/BP4.09); Forest (OP/BP 4.36); Physical Cultural Resources (OP/BP 4.11); Indigenous Peoples (OP/BP 4.10); and Involuntary Resettlement (OP/BP 4.12).

65. **A participatory Strategic Environmental and Social Assessment (SESA) was carried out in compliance with the Bank's safeguard policies, particularly OP/BP 4.01, to integrate environmental and social considerations at an early stage in GFL program design.** The aim was to identify, avoid, and mitigate key risks and impacts, and to provide recommendations for the design of the National REDD+ Strategy, a large portion of which is implemented through the GFL program. The SESA process was conducted at the national level in a participatory manner and involved assessments and consultations in selected provinces.

66. **Based on the SESA, an ESMF was developed.** The ESMF includes an assessment of the government's safeguards institutional and legal frameworks and proposes gap filling measures for addressing policy measures and institutional strengthen relating to social and environmental risks and impacts for the ER program interventions. In addition, an Ethnic Group Planning Framework (EGPF), a Resettlement Policy Framework (RPF) and a Process Framework (PF) were prepared. These instruments will serve as the basis for addressing and mitigating potential social and environmental risks and impacts associated with the ER program and will be applied to all subprojects/activities financed under the GFL. The World Bank reviewed and cleared the **final SESA, ESMF, PF, RPF and EGPF** prior to the World Bank's Decision Meeting (March 3, 2020). The ESMF includes a budgeted capacity building and technical assistance program, and Appraisal



confirmed that the GoL's capacity building plan adequately addresses the safeguards capacity building needs for different stakeholders to implement the ESMF and to monitor and report on its implementation.

## Social

67. **The activities included in the GFLL program design support participation of forest-dependent communities and are not expected to cause significant negative impacts.** The main social concerns relate to security of land tenure, access to resources and improvement to livelihoods, lack of recognition of customary land use and rights, gender issues, access restriction or loss of livelihoods due to changes in land use and clarification of forest and land boundaries through demarcation, and inequitable participation and benefit sharing. Regarding loss of access to land or other resources, while not anticipated, if such restrictions were to occur they are addressed through the ESMF, RPF and PF. The GFLL program includes measures such as Village Forest Management Agreements (VFMAs) to strengthen village communities' legal rights to use and benefit from forest-land and resources; land use mapping and village titling, as well as targeted livelihood incentives. These are promoted in particular locations. The use and registration of rights through such instruments will function to strengthen the legal basis for customary practices of land and resource access and use. Implementation of these activities will involve strong engagement of the rural population, with attention paid to forest communities and ethnic groups in the planning processes and benefit sharing, especially of non-carbon benefits. A gender analysis in the ER program area was conducted and the Gender Action Plan includes specific indicators for monitoring and evaluation to ensure gender aspects are mainstreamed and to enhance equal access and opportunities for women to benefit from project activities. Indicators on gender integration will be monitored and reported on as part of ESMF implementation.

## Environment

68. **This operation is classified as Category B** since it mainly consists of actions and measures aimed at reducing the rates of deforestation and degradation to protect and conserve forests in the areas of intervention. As such, the environmental impacts of the GFLL program are expected to be overwhelmingly positive. Not only as a sink for carbon but also for the many environmental services forests provide such as watershed protection, provision of important habitats, sustainable source of NTFPs and other forest-based livelihoods. Any potential environmental impacts and risks stemming from the implementation of on-the-ground activities are expected to be limited, localized, manageable and revisable with mitigation measures. The main concerns relate to potential loss of critical natural habitats; conversion of natural forests into plantation; loss of forest to infrastructure; invasive species, forest fires and soil erosion; health and safety issues due to the increased inappropriate use of dangerous pesticides and herbicides, and oil and water contamination from dangerous pesticide-related wastes. The ESMF contains a description of the environmental risks associated with the strategic actions and mitigation measures of the GFLL program, as well as applicable environmental national legislation and gaps related to the World Bank Operational Policies, and institutional responsibilities for environmental assessment and impact screening criteria.



## Safeguards consultations, disclosure, and implementation

69. **Public consultation.** The GFL program's design- including preparation of the program document, SESA, ESMF, RPF, EGPF, PF is the outcome of a comprehensive stakeholder consultation process from the central to the village cluster level. Its preparation has taken place concurrently with the National REDD+ Program, especially its NRS and SESA, and the six provinces' respective processes of developing their PRAPs.<sup>63</sup> These consultations commenced in 2016 and included technical consultations with the six REDD+ Technical Working Groups (TWG), strategic consultations with the NRTF, existing sector coordination mechanisms, workshops with civil society organizations, private sector, and development partners, and consultation meetings with representatives of provinces, districts, and *kumban* (village cluster). Additional consultations on the RPF, EGPF, PF, and the ESMF were conducted in 2019. The feedback from the consultations have been incorporated into the program design and the final versions of the program safeguard instruments.
70. **Disclosure of safeguard documentation.** The final safeguard documents in English were publicly disclosed on the World Bank's external website on April 28, 2020. The final documents, including a simplified version in the local language, are publicly available online on DoF's website and made available in hard copy following standard practices for the disclosure of safeguard documents for World Bank-financed projects.
71. **Safeguard implementation, institutional arrangements and monitoring.** Reporting on the safeguard instruments will be an integral part of monitoring and evaluation (M&E). For each level of activity implementation (i.e., central, provincial, district and village levels), corresponding to the annualized plans for the PRAPs and other sectoral plans, a monitoring framework including implementation plans and budgets will be developed by the central PMU, working closely with the two cluster Social and Environmental Safeguards Units (SESUs) and each provincial PMU during the inception phase. The data to be collected is specified in the ESMF. MAF will be responsible for implementing and monitoring the program environmental and social safeguard instruments (ESMF, RPF, EGPF, RP) at the central level, through its NRTF supported by the Safeguard TWG. MAF will be responsible for self-reporting of the compliance with the safeguard instruments. At the Program level, the specialized safeguard staff of the central PMU (under MAF) will review the safeguard implementation progress, take actions as necessary, and report the results as part of the Program safeguard monitoring report to be submitted to Bank on a 6 months and yearly basis. Close consultation with the Bank on specific issues will be maintained. At the field level the provincial PMUs will be responsible for safeguards implementation, monitoring, supervision, and reporting. At subproject (activity) level, the respective safeguard staff in the (provincial PMUs) will be responsible for monitoring and monthly reporting. A REDD+ web-portal is currently under design, and it is envisaged that relevant and

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<sup>63</sup> From 2016, the six provinces engaged in their respective processes of developing their PRAPs, the main planning tool for ensuring that relevant investment activities will be aligned to the GFL program. For the PRAP preparation in the six provinces, consultation meetings were held in all 50 districts and 50 selected *kumban*, engaging with provincial and district staff, and village representatives. Targeted consultations with ethnic groups were also conducted using the nation Ethnic Group consultation Guidelines. Apart from the PRAP processes, consultations held with the provinces, including ethnic groups, have discussed relevant, including: land and resources tenure arrangements; institutional arrangement for implementation; non-carbon benefits; environmental and social impacts from interventions; and benefit sharing. Consultations have been conducted based on the principles of free prior and informed consultation (FPIC), aiming for full and effective consultations with particularly local level stakeholders, and in line with guidelines to conducting stakeholder consultations at the provincial and lower levels.



appropriate data related to safeguards monitoring would be made available on this web-portal. A Third Party monitoring consultant will be mobilized by MAF and retained until the end of the program. The World Bank will conduct system-level safeguards supervision. This will include periodic spot checks in the Accounting Area to ensure compliance. This will be accompanied by independent Third Party monitoring paid for by FCPF FMT.

72. **Capacity building.** Strong focus will be put on building systemic capacity within the Government in environmental and social risk management. The central PMU, with support from the World Bank safeguards team, will conduct series of training on safeguards instruments for the national level environment and social safeguards staff continuing into the early phase of implementation after ERPA signature. These trainings will be extended to the provincial and district levels. It is expected that specific training on the project's safeguard instruments will be focused on staff and other stakeholders at the local level where most decisions on resource management are taken.
73. **Safeguards due diligence for retroactive ER Payments.** Due diligence of ERs generated before ERPA signature (from January 1, 2019) will need to be conducted as part of the qualifying process for retroactive ER payments. The due diligence will confirm whether the systems are in place with development partners' projects to screen, evaluate and manage project activities to ensure that they were implemented in a manner consistent with the World Bank's safeguards policies and the ESMF for the GFL. A detailed guidance note for the due diligence was shared by the World Bank team during project appraisal. The GoL has employed a group of individual national and international consultants to help with the due diligence. The required due diligence confirming safeguards compliance for the retroactive period will not be completed prior to ERPA signature due to the COVID-19 outbreak, and the current restrictions on conducting the necessary consultations. Safeguards due diligence is included in the ERPAs as a condition of effectiveness and requires the submission of evidence by the Program Entity to demonstrate that the ER Program measures generating retroactive ERs were implemented in a manner consistent with the Safeguards Plans.

#### **Safeguards approach for related investment activities**

74. **The safeguards approach is consistent with Operations Environmental and Social Review Committee guidance,**<sup>64</sup> reflecting that the specific activities of the GFL program includes a wide range of investment activities, financed and carried out through: Government programs; Bank financed IPF investments; support of bi-laterals (KfW, JICA, and GIZ, Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), and EU); and potential relevant private sector investments. The ERPA payments would be reinvested to scale up and complement existing investments and help shape the direction of other related investment.
75. **For investment project activities financed and implemented under the supervision of the World Bank in the Accounting Area** (including investments in sustainable forest management under the IDA/FIP SUFORD-

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<sup>64</sup> Operations Environmental and Social Review Committee Memo on Forest Carbon Partnership Facility (FCPF): Managing Safeguards in the FCPF Emission Reduction Phase issued on November 14, 2017 and Supplemental Briefing Note: Managing Environmental and Social Risks for the FCPF Emission Reductions Programs (April 22, 2019).



SU operation and a potential future IDA/GEF/CCEFCF-financed Lao Landscapes and Livelihoods Project (P170559/P171406), the World Bank task teams for those activities are responsible for reviewing and clearing the safeguard instruments and ensuring that those instruments are consistent with the ESMF for the ER program through periodic supervision. These activities are treated as standard IPF projects, and the World Bank, as Trustee of the FCPF, will not have any role in supervising these activities.

76. **For ongoing ER program activities financed and implemented by others (government, bilateral donors, and private sector through their respective projects), the World Bank, as Trustee, conducted due diligence as part of appraisal.** Appraisal confirmed that the ER program only includes activities that are consistent with the ESMF. Appraisal also confirmed there are systems in place to screen additional activities that may later be included in the ER program during implementation, to ensure that they will be implemented in a manner consistent with the ESMF.<sup>65 66</sup> During the ER program implementation, the World Bank, strictly in its role as Trustee, will review the reports from the Program Entity (self-reporting) and Third-Party monitoring, to determine whether the Program Entity has implemented the ESMF. However, the World Bank, as Trustee, is not responsible for ensuring the compliance of these individual activities with the ESMF. For activities in the Accounting Area which may in some way contribute to emission reductions but are included in the ER program design (not mentioned in the ERPD) are not considered part of the GFL program, and the World Bank would bear no responsibility for review or oversight either at the transaction or program level.

#### Feedback and grievance redress mechanism (FGRM)

77. The resolution of claims and complaints arising from REDD+ will take place through existing grievance and redress systems. At the village level, the Village Mediation Unit (VMU), a village level institution that involves traditional and spiritual leaders and has a proven track record for resolving minor conflicts will be used. The program will develop grievance registration forms for use by complainants and record by VMU and will strengthen the capacity of VMUs especially on gender equity and their knowledge of the project including on safeguard requirements. Grievances that cannot be resolved at the village level will be brought to the district level, where they will be reviewed and investigated. In case of strong or unresolved grievances, such as land grabbing cases, these will be referred to the Provincial REDD+ Task Force (PRTF) for resolution. Grievances that cannot be solved at the provincial level will be sent to the NRTF. Complainants are also allowed to report their grievances directly to the National Assembly. In parallel to the project grievance mechanism, the participants in the GFL can raise concerns through the participatory monitoring and evaluation process and seek for resolution at the district level meeting where consultants hired directly by the project will also participate. They will also be encouraged to report any outstanding grievances to annual technical audit team which includes expertise in social issues. In addition, the judicial system of regional,

<sup>65</sup> The ESMF states that future projects financed by bilateral donors that are located within the ER program area and contributing to the program objectives need to adopt and follow the safeguards of the ER program by signing a memorandum of understanding (MoU). Alternatively, MAF will conduct a due diligence to determine if the bilateral donors' safeguard policies are being implemented properly. If the above due diligence concludes that the donor project applies their safeguard policies properly, emission reductions (ER) benefits from these interventions can be included in the ER program's Benefit Sharing Plan (BSP).

<sup>66</sup> A major portion of the ER program will be implemented by GIZ with finance provided by the GCF. The GIZ proposal was approved by the GCF Board on November 13, 2019. The proposal included the draft final safeguards instruments prepared for the GFL and will use these during implementation, thereby ensuring compliance with the ESMF.



provincial, and national courts (and accompanying law enforcement authorities) or the legislative system (with appeals to the Provincial Assembly or National Assembly) can also be utilized when the existing channels at village and district levels fail to address grievances. The approach for resolving grievance depends on the type of problem.

#### World Bank supervision of BSP implementation

78. The World Bank, as Trustee of the FCPF, will review the BSP reports from the Program Entity (self-reporting), and any other available information as relevant (e.g., through the feedback and grievance redress mechanism) to determine whether the Program Entity has implemented the BSP (i.e., the Program Entity has distributed the Monetary and Non-Monetary Benefits in accordance with the agreed BSP, and implemented any safeguards measures and capacity building, as described therein) and whether an ERPA payment can be made to the Program Entity in whole or in part. The World Bank, as Trustee, is not responsible for ensuring the implementation of the BSP on the ground.<sup>67</sup>

### V. GRIEVANCE REDRESS SERVICES

79. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit <http://www.inspectionpanel.org>.

### VI. KEY RISKS

80. **The overall risk of the operation is high.** Overall, Lao PDR is well-positioned to advance from REDD+ Readiness to implementation in subnational jurisdictions, while continuing to fine-tune and improve key elements of the national REDD+ framework. Through an intensive analytical and stakeholder consultation process during preparation, Lao PDR has identified the critical issues relevant to REDD+ and has developed adequate processes and structures to address them during implementation. However, the extent of macroeconomic and program specific impacts from the COVID-19 pandemic remain uncertain. There are inherent political and governance risks linked to the willingness of GoL to continue reforms, and competing development priorities in hydropower and mining could impact the results of the program. Other macroeconomic factors, including the decision to freeze government staffing, have implications for the

<sup>67</sup> Operations Environmental and Social Review Committee Supplemental Briefing Note: Managing Environmental and Social Risks for the FCPF Emission Reductions Programs (April 22, 2019).



sustainability of the operation. Given the generally low capacity of MAF, several key risks arise from reliance on Government systems to:

- a) ensure that identified resources allocated by Government programs and development partners are used to implement the activities laid out in the program design;
- b) perform repeated and consistent measurements of emissions across the entire ERPA accounting area;
- c) ensure compliance with environmental and social requirements at the jurisdictional level and for results-based payments; and,
- d) to monitor the effective, transparent and timely distribution of ERPA proceeds to beneficiaries.

81. **High or substantial risks are assigned to all risk categories.** A detailed description of the risks and mitigation measures is provided below.

82. **Political and Governance (S).** This rating reflects the existence of vested interests but within an institutional framework that is modernizing. Recent efforts by the authorities include the continued enforcement of Prime Minister Decrees on illegal logging and banning timber exports; the 2019 Forestry Law which opens production forest areas to **sustainable** private commercial plantation investment on degraded land and promotes village-centered forestry; on-going governance reforms in cooperation with the EU; certification by the Forest Stewardship Council of 108,000 ha for SFM; and cancellations of two proposed hydropower dams adjacent to conservation forests. These and other efforts signal a departure from earlier practices and the wish to rely more on a market economy and the rule of law, which can deliver significant payoffs in the long term. Program success is linked to the commitment of the GoL to continue reforms in the context of limited capacity and a complex political economy. Possible limitations in the ability to extract rents in the forest sector could affect the quality and pace of reform efforts, slowing down their implementation. The ER program helps mitigate these risks by (a) leveraging this ERC transaction to provide the financing only on verified delivery of net reduced emissions, (b) routing financing through a BSP that includes strong fiduciary, accountability and reporting mechanisms, and (c) complements the ERC with support from a broader framework of a portfolio of World Bank and partner-financed operations that together support Government to: (i) build capacity on governance, policy and regulatory oversight, (ii) design and implement monitoring and accountability mechanisms, (iii) strengthen MAF to plan and implement participatory SFM and citizen engagement.

83. An additional issue is that hydropower, mining, roads, and rail are cornerstones of Lao PDR's growth strategy, although the country is seeking ways to green its development pathway. The 8th NSEDP sets out a target to complete fifteen hydropower plants, and more recently the intention to develop one coal-powered thermal plant has been announced. The development plans of the country also identify mining as a priority development area. Because these types of activities frequently result in deforestation and degradation, the Government's GFL ER program needs to ensure that their development goes hand-in-hand with strategic environmental and social assessment, good practice land use planning and responsible stewardship of the forests, including legality assurance for timber coming from the infrastructure sites (such activities under GFL components 1.1, 1.2, and 1.3 are described in the ERPD). The social and environmental impact of





investments from hydropower and mining in the ER program area are addressed in the safeguards package. Following the SESA, the ESMF, EGPF, RPF, and PF all address issues of avoidance, and if this is not possible, mitigation of such impacts. Moreover, strong policy and investment dialogues underpinned by the Bank-financed Green Growth DPO series, and the on-going SUFORD-SU and LENS2 IPFs have contributed to better government-led ESIA processes that have mitigated infrastructure threats to, for example, Nam Et Phou Louey National Park in the ER program Accounting Area. All three of these operations appear in the portfolio of complementary investments to the ERPA. The government also enacted the National Green Growth Strategy 2030 last year, which, along with the NDC and new Forestry Law, is one of the main inputs into the development of the country's next 5-year plan. Looking forward, a hydropower Strategic Environmental Assessment is planned by the Ministry of Energy and Mines (MEM) and Ministry of Natural Resources and Environment (MoNRE). This is an example of how the Bank's engagement across multiple sectors and instruments help to mitigate risk and the client achieve ER program objectives.

84. **Macroeconomic (H).** Fiscal slippages and failure to control debt build up and to address financial sector risks can cause instability and undermine the Government's appetite for maintaining forest sector reforms post-project, but there is little risk to project investment activities. Risk mitigation is being undertaken by the Government via an ambitious macroeconomic stabilization program, with support of the Green Growth DPO series and a financial sector program supported by the Bank. More broadly, the forest sector reforms supported by SUPSFM and the Additional Finance should eventually help increase revenues from sustainable private sector investment in commercial plantations and related downstream industries. More critical for the sustainability of the program are the implications of the GoL directive freezing government staffing. In the absence of government resources, the program will have to rely on donor funds for adequate operational and technical capacity. This is not unique to the program and applies to all investments in Lao PDR. Fortunately, overall program financing is expected to cover ER program costs. There is a small gap in cash flow in the early years of ER program implementation. This will in part be covered through the readiness grant extension to 2022 and the remainder by the Upfront Advance Payment from the Carbon Fund.
85. The Coronavirus Disease 2019 (COVID-19) is placing an added economic burden on the country. The longer term impact of COVID-19 remains uncertain but low levels of foreign reserves and limited fiscal space increase the vulnerability to adverse shocks – such as the domestic and global slow-down and limited progress on building buffers, reducing debt, and addressing financial sector stability. In addition, the current restrictions due to COVID-19 may slow down early implementation (for example the ability to hold meetings, trainings and conduct fieldwork or stakeholder consultations).
86. **Sector Strategies and Policies (S).** While the GoL is reforming the forestry sector (with notable efforts in revisions to the Land Policy, Land Law, Forestry Law), weak forest governance and limited technical capacity remain the main underlying sources for substantial risk. A key factor for the GFLL program to deliver on its results in Component 3 (forestry), and Component 2 (agriculture), includes the attraction of sustainable and coordinated investments. However, inefficient concession licensing and industry regulation, illegal logging, unsustainable forest management and forest conversion, evasion of fees, taxes and royalties, and inconsistent enforcement of regulations and laws hamper the efficacy of investments and create a difficult environment for expansion of private sector investments.





87. In particular, weak forest and land management, and concession management, have resulted in poor coordination and spatial planning, violation of protected area boundaries, allocation of concessions in areas that overlap with the forest estate or land otherwise legitimately occupied by local people, threats to the livelihoods of forest-dependent people and customary communities. Compliance with laws and regulations, and willingness to prosecute offenders, remain weak. In combination, these have resulted in limited or stalled investments by legitimate, international forest enterprises with a sound corporate, social and environmental track records. Major delays continue to affect finalization and passing of key legislation (which in turn delay updating of regulations). These factors are exacerbated by weak institutional capacity and human resource and budgetary constraints in the sector, which have been historically compensated by international support and technical assistance.
88. To mitigate these risks, Component 1 of the GFL – building on previous efforts through the FCPF readiness grant – includes institutional capacity building and cross-sectoral coordination and cooperation. Inclusive land use planning is a cornerstone of the government’s program (Component 1.3), which is promoted by several projects supporting the GFL, such as SUFORD-SU (WB), LENS2 (WB) and I-GFL (GIZ).
89. **Technical Design of Project (H).** This rating is due to the possibility that Government may not be in position to report in the timeframe and with the quality expected by the FCPF Carbon Fund, or satisfactorily implement the BSP, across the large jurisdiction covered by the GFL ER program and this ERC transaction. The results-based financing will be provided on the basis of periodic Government-reported emission reductions. To do this, the Program Entity needs to rely on its forest monitoring system and national forest inventory, both which have been strengthened with donor support in recent years to operationally report on REDD+ results. At the same time, Government capacity remains weak and reliant on donor-funded technical assistance and funding. Also, for payment to be made through the ERPA, reported emissions have to meet a rigorous technical standard (Carbon Fund Methodological Framework), which is designed to generate a high-quality asset (ERs) with a high degree of environmental integrity and transparency.
90. To mitigate these risks, the implementation of the Government’s program will be accompanied by a technical support program to enable the Program Entity to regularly report on the ERPA and BSP. Resources have been secured to provide technical assistance to further enhance the Government’s readiness to report on emissions, including upgrading necessary hardware, standard operating procedures and technical improvements to methodologies. Such technical assistance is closely coordinated with other development partners supporting Lao institutions. Options to streamline technical preparation and approval processes are being explored by the GoL to shorten the length of time to prepare requisite reports (allowing more time for quality improvements). See related discussion in Annex 8. Also, regular and frequent World Bank supervision missions, especially during the first phase of implementation, will help identify implementation issues and trigger mitigating measures.
91. **Institutional Capacity for Implementation and Sustainability (H).** Institutional technical capacity remains low which is a High risk. This rating relates to the capacity of MAF to implement the activities without sustained technical and financial support. MAF has recently made important institutional changes in efforts



to improve administrative efficiency of the forestry sector. The technical, managerial and financial capacity limitations for implementing REDD+ within government institutions at national and sub-national has been highlighted repeatedly. The capacity concern is not only for REDD+ but other associated programs and development agendas, such as the NSEDP-8 2016-2020 and the upcoming 9<sup>th</sup> five-year plan, National Green Growth Strategy (NGGS) 2030, Forestry Strategy, Agricultural Strategy to 2025, NDC, and Vision 2030 and many other sub-sector strategies.

92. A particular concern is the currently low capacity of the FPF and its role in distributing future ER payments. Significant capacity building will be necessary to enable the FPF meet World Bank fiduciary requirements. In addition to the budget allocated under the Readiness grant, the I-GFLL and JICA-funded Sustainable Forest Management and REDD+ Support Project (F-REDD) project will also support the FPF in improving its governance structure, developing standard operating procedures (SOPs), manuals and internal guidance documents that meet international fiduciary and safeguards standards required to receive the Carbon Fund payments and host all national REDD+ funding. FPF staff will be provided with on-the-job training and capacity development support to build the needed skills. As noted previously, MAF will work closely with the World Bank to monitor progress, including through regular technical and supervision missions. The World Bank will conduct fiduciary assessments of the FPF to ensure that the fund meets World Bank and FCPF requirements prior to the Upfront Advance Payment and first results-based payment. The June 2021 assessment is a 'cut-off point' for making the decision on whether the FPF is in a position to receive and distribute ERPA benefits in accordance with the BSP. The GoL has proposed using the funds flow arrangements currently used at DoF for the on-going FCPF Readiness grant as an interim arrangement to manage the Upfront Advance Payment, or contingency in the event sufficient capacity is not sufficient to receive and distribute the results-based payments.
93. Also, to address capacity constraints to implement safeguards, the Bank will continue to provide technical support on the implementation of safeguards frameworks. A budget has been estimated for the implementation of the ESMF and covers the specific resources needed for staffing and capacity building efforts to implement specific safeguard aspects. Arguably the highest priority – common to almost all agencies and at all levels of government – is strengthening monitoring and evaluation systems, including operating procedures to report and ultimately deliver on project objectives. This and other gap filling measures to address weaknesses in institutional capacity are built into the capacity building plan. Furthermore, the current REDD+ readiness grant is focused on capacity-building at the provincial and lower levels.
94. **Fiduciary (H).** Fiduciary risk is high given the limited track record of MAF's FPF to manage the volume of resources that would be expected from ER payments. There is a relatively moderate risk that ER payments will not be used for the intended purpose, i.e., as pre-agreed in the BSP. However, for the FPF to assume the role of managing income from results-based payments starting in 2023, additional capacity is necessary and the BSP outlines a full capacity building strategy, including an already approved budget available through the FCPF REDD+ Readiness grant. The objective of the capacity building plan will be to ensure that FPF is fit-for-purpose to receive advance and results-based payments and meets the fiduciary requirements of the ERPA. See related discussion under Institutional Capacity for Implementation and Sustainability.



95. **Environment and Social (H).** The preparation of the country's approach to environmental and social safeguards has advanced and was the subject of intense work over the last couple of years. The interventions that are promoted to reduce emissions, if successful, will have positive environmental and social benefits from improved management of forest. However, there are challenges in cross-sectoral cooperation to promote an integrated approach to achieving ERs in the target areas and to implement the agreed-upon environmental and social measures at the national and provincial levels. One potential risk is that the GFLL interventions create unexpected indirect adverse impacts, which could include potential social tensions or conflict around forest boundaries, lack of meaningful engagement of ethnic groups, and conversions of natural forest into plantations leading to possible restrictions access at the implementation stage (component 1.3, 1.4, 2.2, 3.2, 3.3 activities). Risks could occur, for example, if lack of land tenure security were to undermine commitments to maintain land under forest cover for long time periods. Environmental risks could also occur from soil erosion, loss of soil fertility, pest and disease infestation, conversion of natural forests, loss of biodiversity and habitat fragmentation, invasive plants, fire risk, irrigation systems, cash crops, fodder and livestock production systems, use of pesticides, or feeder roads under the implementation of CSA models (Component 2.2); as well as hydrology impacts, and mono-species from tree plantations in SFM and forest landscape restoration (FLR) (components 3.2, 3.3). In addition, capacity weaknesses at the national and local levels to implement the safeguards instruments may cause a disproportionately higher demand for Bank supervision and support to the client during implementation.
96. Risk management will be addressed through the safeguards plans: the ESMF, EGPF, RPF, and PF. Each contain detailed analysis of the possible negative social and environmental risks and impacts associated with the ER program interventions, and corresponding mitigation measures. As mentioned above, the Bank will continue to provide support, while the budget for ESMF implementation covers the specific resources needed for staffing and capacity building efforts to implement specific safeguard aspects.
97. **Stakeholder (S).** The Government's program involves a diverse and geographically dispersed group of actors. Relevant stakeholders at the national, provincial and local levels, as well as forest communities, and nongovernmental organizations (NGOs) were engaged to identify ER interventions and their potential for social and environmental risks and impacts. Consultations took place during the design of the ER program, as well during the national REDD+ readiness process, and were conducted in accordance with the principle of Free Prior and Informed Consultation. These included targeted consultations using focus group discussions with ethnic minorities, whose livelihoods depend on forests and agriculture, with special attention given to gender and youth inclusion. Given the overall positive impacts from the program in the northern provinces, key stakeholders expressed support for its objectives. Nonetheless, engaging the local stakeholders throughout implementation and monitoring poses a challenge. Potential risks include issues associated with the need for security of tenure and improved livelihoods, sustainable collection of NTFP (predominately done by women), increased access to land titling and land certificates, and sustained engagement and consultation in program preparation and implementation.
98. The EGPF lays out the framework to effectively engage with ethnic groups and local communities throughout the implementation of the program. Free prior and informed consultation (FPIC) and community engagement



procedures that include ethnic groups, women and poor will help mitigate against potentially risks, such as land and access losses, or failure to recognize environmental, high conservation or cultural values during land use planning (components 1.3, 1.4, 2.2, 3.2, 3.3). The ER program allocates resources for dissemination of information and continuous stakeholder consultation. In addition, stakeholders have opportunities for redress and outlined in the FGRM.

99. During Appraisal it was agreed that in the short-term it may be difficult or impossible to conduct necessary consultations in light of the current restrictions due to the COVID-19 outbreak. The longer-term impacts of the COVID-19 pandemic remain uncertain and will be monitored for potential implications for stakeholders and the ER program. Remote supervision techniques will also be used, as appropriate.
100. **Other risks: Financial (S), COVID-19 (S).** The financial risk is Substantial, given that some of the resources for the upfront implementation of the ER program are still being mobilized and programmed by development partners, including the World Bank (see Annex 7 and 10). The Government's contribution is in-kind (cost of providing staff and facilities) and there is a high degree of reliance on external assistance. Most public programs in Lao PDR are eternally financed which is an inherent risk to most investments in Lao PDR. The risk for this Project is that individual projects in the portfolio may not materialize or deliver. Accordingly, the Bank support has generally focused on alignment of finance and coordination with development partners. On the Bank side, new financing has been secured from IDA and through Additional Financing to the SUFORD-SU project (P130222), and new financing from IDA, CCEFCF and the Global Environment Facility (GEF) is in the pipeline for the Landscapes and Livelihoods Project now under preparation (P170559), including activities that have the potential to significantly contribute to emission reductions in the program area. This risk moderated due to the fact that the World Bank financing alone provides the majority (74 percent) of crucial investments, with only about 9 percent (or estimated \$12 million) of the total ER program costs expected from the Lao Landscapes and Livelihoods under preparation.
101. The risk from COVID-19 is Substantial. If there is a resurgent wave of COVID-19 and associated travel restrictions, implementation of the ERC, specifically the BSP, will experience slowdowns in mobilizing villages, inability to directly supervise safeguards on the ground, and other limitations being felt throughout the portfolio in Lao PDR and the world. To mitigate this risk, the team will rely on remote supervision and missions as much as possible, building on emergent lessons gained during March-October 2020 in supervision of other operations in Laos.



## VII. RESULTS FRAMEWORK AND MONITORING

## Results Framework

COUNTRY: Lao PDR

**Project Development Objective:** The objective of the ER program is to make payments to the Program Entity for measured, reported and verified Emission Reductions (ER) from reduced deforestation, forest degradation and enhancement of forest carbon stocks (REDD+) in six Lao PDR provinces and to distribute ER payments in accordance with an agreed benefit sharing plan (BSP).

## Project Development Objective Indicators

Indicator Name	Unit of Measure	Baseline	End Target	Frequency <sup>68</sup>	Data Source/ Methodology	Responsibility for Data Collection
<b>Name:</b> Volume of CO <sub>2</sub> Emission Reductions measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund	tCO <sub>2</sub> e (million)	0	8.4	2x (2023, 2025)	ER Monitoring Report	MOF, MAF
<b>Name:</b> Payment by the FCPF Carbon Fund for CO <sub>2</sub> Emission Reductions generated by the Program	\$ (million)	0	42	3x (2021, 2023, 2025)	Carbon Assets Trading System	World Bank
<b>Name:</b> ER payments distributed in accordance with agreed Benefit Sharing Plan	Yes/No	No	Yes	3x (2021, 2023, 2025)	BSP Report ER Monitoring Report	MOF, MAF

<sup>68</sup> Refers to calendar year January – December.



## Target Values

### Project Development Objective Indicators

Indicator Name	Baseline	YR1 (2020) <sup>69</sup>	YR2 (2021)	YR3 (2022)	YR4 (2023)	YR5 (2024)	YR6 (2025)	End Target
Volume of CO <sub>2</sub> Emission Reductions measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund	0	0	0	0	3.4	0	5	8.4
Payment by the FCPF Carbon Fund for CO <sub>2</sub> Emission Reductions generated by the Program	0	0	3 <sup>70</sup>	0	14	0	25	42
ER payments distributed in accordance with agreed Benefit Sharing Plan	No	n/a	Yes <sup>71</sup>	n/a	Yes	n/a	Yes	Yes

<sup>69</sup> Refers to calendar year January – December.

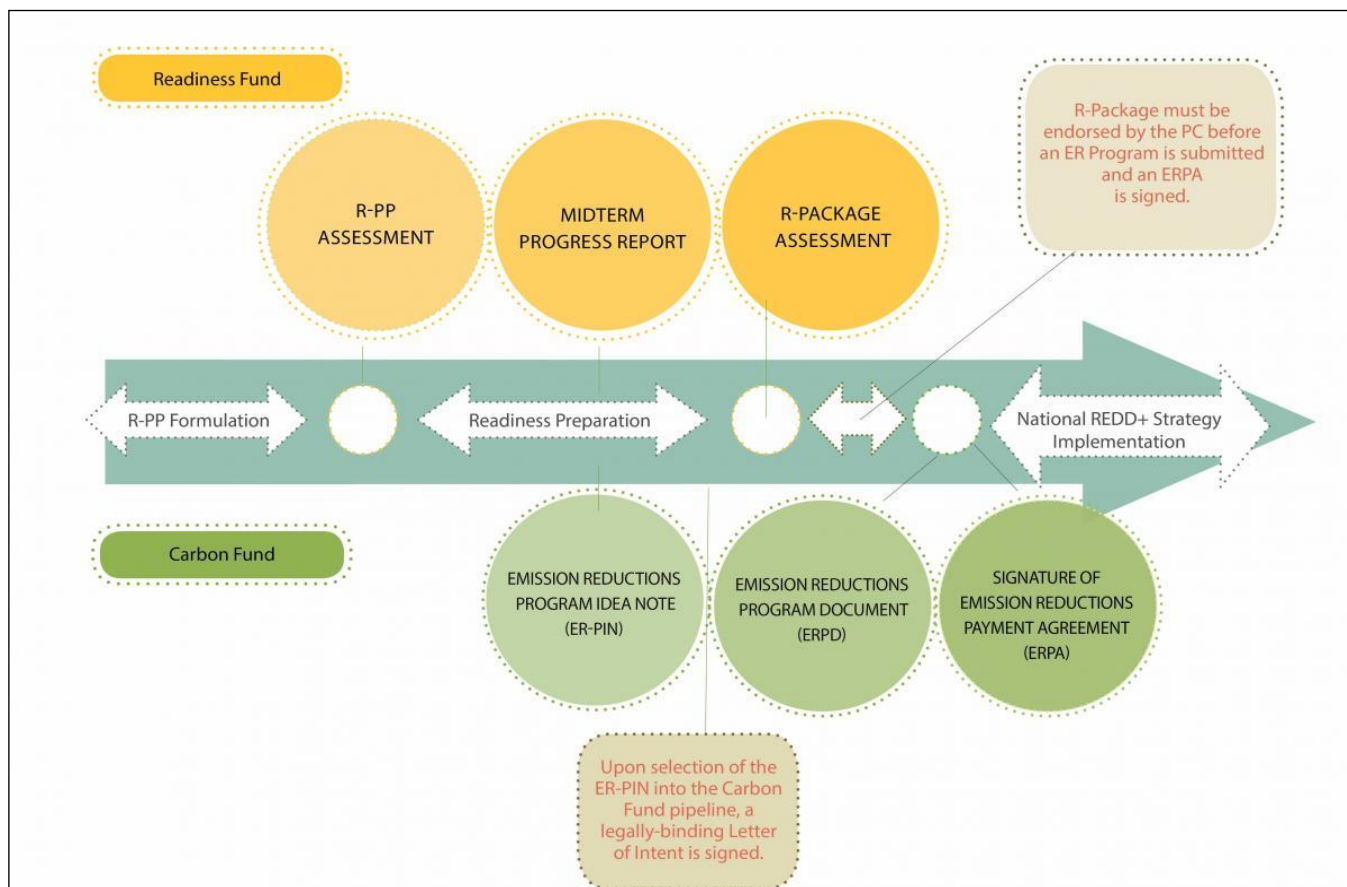
<sup>70</sup> This Upfront Advance Payment, paid upon effectiveness, is debited against first payment for verified ERs in 2023.

<sup>71</sup> This Upfront Advance Payment, paid upon effectiveness, is to be used as per BSP to cover critical operational costs.

## ANNEX 1: Lao PDR's participation in the FCPF

1. The FCPF is a global partnership of countries, business and civil society with the objective to help build the capacity in IBRD and IDA member countries to reduce emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks (commonly referred to as REDD+). The Facility became operational in June 2008, and the World Bank is the Facility's Trustee as well as one of its Delivery Partners. The FCPF currently comprises 46 partner developing countries (17 in Latin America and the Caribbean, 18 in Africa, and 11 in the Asia-Pacific Region) and 17 financial contributors from both the public and private sectors. It houses the FCPF Facility Management Team (FMT) that is responsible for the operation of the Facility.
2. The FCPF has two separate yet complementary funding mechanisms - the Readiness Fund and the Carbon Fund.
  - a) The Readiness Fund supports developing countries in preparing themselves to participate in a future, large-scale, system of positive incentives for REDD+. This includes: adopting national REDD+ strategies; developing forest reference emission levels (FRELs); designing measurement, reporting, and verification (MRV) systems; and setting up REDD+ national management arrangements, including proper environmental and social safeguards.
  - b) The Carbon Fund supports performance-based payments for REDD+ interventions at the jurisdictional level in countries that have made significant progress in their REDD+ readiness investments. Such payments are made based on the level of reduction of carbon emissions generated through REDD+ interventions.
3. The Government of Lao PDR has been working on REDD+ Readiness preparation since it joined the FCPF in 2007. It received a \$200,000 for preparing a REDD+ Readiness Preparation Proposal (R-PP) which was submitted to the FCPF in December 2010. A subsequent Readiness Grant agreement (P125082) with the FCPF for \$3.6 million in 2014 enabled the development of core readiness activities (institutional arrangements, consultation, strategy, MRV). See Figure A1.1 for milestones under the FCPF.
4. Laos prepared an Emission Reductions Project Idea Note (ER-PIN) in September 2015. After addressing the key issues raised by the Carbon Fund Participants, Laos's Project Idea Note was included in the Carbon Fund pipeline through a Letter of Intent (LOI) signed with the World Bank (represented by the Country Director) in September 2016 and received a (Bank-executed) \$650,000 preparation grant (TF0A3829). Consistent with this two-phase structure of the FCPF, the Readiness Preparation process has been executed in parallel with the preparation of the Emission Reductions Program (ERP) under the Carbon Fund.





**Figure A1.1: Milestones under the FCPF Readiness and Carbon Funds**

5. In October 2016, Laos presented a Mid-Term Report (MTR) on the progress made with its Readiness activities to the FCPF, acknowledging that there was still a financial gap to fully implement its REDD+ Readiness phase. To finalize the readiness activities, the Government requested and was granted additional funding from the FCPF Readiness Fund. Following the World Bank due diligence process, Laos signed an Additional Readiness Preparation Grant Agreement in March 2018, in the amount of \$4.575 million, for a two-year period, from March 2018 through June 2020. An extension of the Readiness Grant to June 2022 was approved in June 2020.
6. In February 2018, Lao PDR's Readiness Package (R-Package) was approved at the 25th Meeting in Washington. The FCPF Charter stipulates that a country needs to have its Readiness Package endorsed by the Participants Committee (PC) of the FCPF before the country can submit an ERPD to the Carbon Fund for its consideration. The Readiness Package thus is a major milestone under the FCPF process and comes at the transition from REDD+ readiness to piloting performance-based activities.
7. A draft ERPD was submitted in February 2018 for technical review by the Technical Advisory Panel (TAP), before a revised ERPD was submitted to Carbon Fund Participants for feedback. A final version of the ERPD was submitted to the Carbon Fund in May, 2018 for selection into the portfolio during the 18th Meeting of the FCPF Carbon Fund Participants, in June, 2018.
8. The complete documentation related to Lao PDR's mid-term report (MTR), Readiness Package (R-Package) and ERPD, can be found at: <https://www.forestcarbonpartnership.org/country/lao-pdr>.



## ANNEX 2: Emission Reduction Crediting Aspects

1. **The instrument for the operation is an Emission Reductions Payment Agreement (ERPA).** Specifically, the World Bank as the Trustee and implementing agency of the FCPF Carbon Fund pays for ERs that meet a set of standard technical requirements defined in the Carbon Fund Methodological Framework and are consistent with international good practice. As per the international framework for REDD+ agreed as part of the Paris Climate Agreement, Lao PDR prepared an emissions baseline based on estimates of observed change in forest cover and quality and intends to use national systems (national forest inventory and satellite-based forest mapping) to measure and report future emissions during program implementation. Payments under the ERPA will be made upon the independent verification of ERs, and confirmation that safeguard instruments and the BSP are implemented as agreed.
2. For this operation, the geographic area of the six northern provinces is the **Accounting Area** over which the change in the rate of emissions will be estimated during the ERPA term. Accordingly, Laos has estimated a **Reference Level** that corresponds to this jurisdiction. The Reference Level is the historical average of net emissions from deforestation and forest degradation as well as removals (sequestration of carbon) from the enhancement of forest carbon stocks,<sup>72</sup> observed during the 2005-2015 reference period, equaling 8.5 MtCO<sub>2</sub>e/year<sup>73</sup> (±26 percent).<sup>74</sup> The approach used for the Reference Level Accounting Area is mostly consistent with Lao PDR's Reference Level submitted to the UNFCCC.
3. The **ERPA** is a legal document in which Lao PDR and the Bank (on behalf of FCPF Carbon Fund) agree on the commercial terms of the payment for ERs, including volume, price, conditions of effectiveness and reporting periods. ERPA General Conditions were approved by the FCPF Participants Committee on November 1, 2014. The formal negotiations of the ERPA Commercial Terms follow Appraisal. However, as per the Carbon Fund business process, the formal and final negotiations of the ERPA Commercial Terms followed a period of pre-negotiations during which both parties – the FCPF FMT and the Program Entity – exchanged their initial expectations on the Commercial Terms. This process was concluded on June 2, 2020 when the FMT confirmed the agreement with the commercial terms proposed by MAF. The ERPA terms for the program were agreed during negotiations and subsequently approved by Carbon Fund Participants on a no-objection basis (October 30, 2020).
4. **MOF and MAF are the designated representatives of the Program Entity and will co-sign the ERPA.** As per the ERPA General Conditions, the representatives of the Program Entity are authorized by the GoL to implement the program and enter into an ERPA with the World Bank. MAF has the ability to transfer the title to ERs to the Carbon Fund. A detailed legal assessment concluded MAF holds the sovereign rights and title to ERs and has authority to sign the ERPA and ability to transfer title to ERs. Independent legal opinion concluded that the assessment note is in line with current laws and regulations of Lao PDR. It formalizes the conclusion of the assessment note that MAF has full and complete rights to transfer of ER titles that will meet the legal requirements of the ERPA.

<sup>72</sup> Defined by the GoL as activities of restoration and reforestation. The program does not include activities for conservation of forest carbon stocks or sustainable management of forests.

<sup>73</sup> The RL is the net sum of average annual emissions 10.5 MtCO<sub>2</sub>e and average annual removal -2.00 MtCO<sub>2</sub>e.

<sup>74</sup> The results of the uncertainty assessment for emissions and removals show that overall weighted uncertainty is 26 percent.



### ANNEX 3: Drivers of Deforestation and Forest Degradation

1. The characterization of drivers was shaped by three approaches to analyzing drivers, namely: a) wall-to-wall mapping based on change detection using remote sensing; b) a spatial drivers analysis based on tree cover loss data; and, c) stakeholder consultations at provincial and local levels. See ERPD for details. A summary of key drivers and the major barriers to addressing the drivers is provided below and in Figure A3.1.

#### **Key driver #1: Loss of forests to permanent agriculture and tree crops**

2. Permanent agriculture is a major driver of deforestation in the ER program provinces. Permanent agricultural expansion can be categorized largely into encroachment by small holders, and conversion of forests into agricultural plantations, particularly for cash crops (including maize, rubber, banana, sugar cane, jobs tear, among others). It is characterized by expanding agriculture in upland ecosystems, due to the high competition for flat agricultural land for paddy rice. As described below under shifting cultivation (Key driver #2), cash crops are also cultivated through shifting cultivation practices in some areas, making the distinction between pioneering shifting cultivation and agricultural expansion for cash crops somewhat artificial.

#### **Key driver #2: Loss of forests/trees to shifting cultivation landscapes**

3. In the context of the six provinces of the ER program area, shifting cultivation is a practice that is associated with subsistence by growing populations, and most often with upland rice, but can also occur on other crops – including cash crops. The primary issue (as regards REDD+) with shifting cultivation is its ‘pioneering’ nature, i.e., encroachment into previously uncultivated forests. Also, the continuous use of these upland shifting cultivation plots (as opposed to rotational practices) with shortened fallow periods reduces the chance of regenerating back into the forest status. The use of slash-and-burn practices also leads to deforestation and degradation due to uncontrolled forest fires.

#### **Key driver #3: Loss of forests/trees to infrastructure and other developments**

4. Infrastructure drivers (mining, roads and hydropower) have a complex interface in driving both deforestation and degradation and overlap as cornerstones of national economic growth. While the development of infrastructure, especially roads and electricity lines, has limited direct impact on deforestation, the largest impact is the role of improved infrastructure as an underlying cause of degradation and deforestation by improving access to previously remote places. Hydropower and mining accounted for one fourth of total GDP growth for the period 2001-2015 and were major foreign currency earners. Mining products accounting for over 58 percent of the total export value during the period 2011-2015.<sup>75</sup> On one hand, most of these projects are implemented through some form of ‘endorsement’ by the Government and hence they can be viewed as planned conversion. However, there are concerns and challenges to ensure the Government endorsement go through the full set of due procedures prescribed in the legal framework.

#### **Key driver #4: Unsustainable and illegal wood harvesting and other drivers of forest degradation**

5. Illegal logging for commercial purposes is considered one of the main drivers of forest degradation. Within the ER program area, illegal logging is particularly an issue along the borders, where a thriving timber market and increasingly stringent national forest regulations have driven up prices for natural timber species. The full extent of illegal logging is unclear, but it has a major impact in forested landscapes in the provinces. In the district-level consultations, most districts identified illegal logging as one of the

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<sup>75</sup> Lao PDR, 2015. 8th NSEDP.



main drivers of forest degradation, and as a priority activity to be addressed. Various other activities contribute to the current rates of unsustainable wood extraction including legal commercial logging, small-scale local logging, and wood fuel extraction. While these activities undoubtedly have an impact on forest resources, the scale is thought to be substantially smaller than that of illegal logging.

### Major barriers to addressing drivers

- Barriers to addressing drivers are complexly interlinked with many of the underlying causes, particularly those associated with institutional and policy contexts. In this regard, many of the barriers that have prevented drivers from being addressed in the past have been identified in the section above, under each of the drivers. In addition, the economic growth imperative of the country, weak inter-sectoral coordination and monitoring against plans, and challenges in law enforcement have acted as obstacles in addressing the deforestation and degradation drivers.

### A3.1: Summary of the drivers, underlying causes and agents for the ER program area

Underlying Causes -->		Demo-graphic	Economic		Agro-Technological			Policy & Institutional				Cultural
Direct drivers	Agents	Population Growth & Migration	Demand/ market forces	Lack of alternative livelihoods / poverty	Low productivity	Soil/ Land Degradation	Infrastructure development	Inadequate land tenure	Poor governance & law enforcement	Inadequate land use planning	Gov't development policies	Traditional practices
Shifting cultivation	Villagers	↑	↑	↓	→	↑	↑	↓	→	↑	→	→
Cash crop and tree crops (rubber)	Villagers & Companies	↑	↑	↓	↓	↑	↑	↓	↑	↑	↑	
Unsustainable Harvesting of Wood Products	Villagers Companies Gov't	↑	↑	↓	→	↑	↑	↓	↓	↑	↓	↑
Mining	Gov't & Companies	↑	↑	→	→	→	↑	→	↑	↑	→	
Hydropower (incl. village relocation)	Gov't	↑	↑	→	→	→	↑	→	→	→	↑	
Current underlying cause and impact of deforestation / degradation					Likely future impact of underlying cause in deforestation & degradation							
	High impact				↑	Increasing impact						
	Medium impact				→	Business as usual						
	Low impact				↓	Decreasing impact						



#### ANNEX 4: GFL ER program Interventions

1. The aim of the GFL is to support the transition to low-emissions, climate resilient and sustainable development pathways in the forestry, agriculture and cross-cutting areas. The activities outlined under components 1-3 will lead to improved land use management and the implementation of sustainable practices in both the agricultural and forestry sector contributing to emission reductions, strengthened institutional planning and adaptive capacity for low-emission and climate-resilient economic development. The financing for these components will come from existing and pipeline investments described in Annex 7.
2. The ER program will support a combination of interventions for creating enabling conditions within and across sectors, focusing on the forestry and agricultural sectors to achieve emission reductions and forest carbon stock enhancements within the program lifetime. The activities for implementation are grouped under four main components:
  - Component 1: Strengthening enabling conditions for REDD+
  - Component 2: Climate smart agriculture (CSA) and sustainable livelihoods
  - Component 3: Sustainable forests management (SFM)
  - Component 4: Program management
3. **Component 1: Strengthening enabling conditions for REDD+.** Component 1 covers interventions that lay the foundation for the implementation of sustainable land use and develop the enabling conditions to address drivers of deforestation and forest degradation in the key sectors, namely agriculture and forestry sector, but also in other land use sectors such as infrastructure development. The underpinning strategy is to provide the necessary tools and capacity for institutional and cross-sectoral planning, coordination and policy and regulatory implementation.
4. At the core are activities to strengthen and mainstream REDD+ into existing policies and legal framework; improved forest governance by building on the on-going FLEGT initiative to address illegal logging across the supply chain; development of programs and policies incentivizing deforestation-free investments through engagement of the private sector; and improved land use planning and compliance monitoring. Land use planning will target both broader strategic levels to apply integrated cross-sectoral and vertically-consistent planning, and at the local village level, following the broader master land use plans, ensuring participatory processes of implementable and equitable land use and forest management plans. Building capacity within Government (at all levels), as well as in nongovernmental organizations (such as civil society, mass organizations, academe, private sector etc.) to mobilize the most cost-efficient arrangements for improving rural land use will be a significant part of this enabling conditions component. A system for monitoring implementation and conformance with plans will be institutionalized and may be linked with incentives mechanisms that reward conformance. Component 1 will engage strongly with a number of sectors (all represented in the NRTF and Provincial REDD+ Task Force (PRTF) structures) including agriculture, forestry, land and investment promotion.
5. **Component 2: Climate smart agriculture (CSA) and sustainable livelihoods.** Component 2 aims to address the cumulative negative impact of unsustainable agricultural practices and its transformation to high productivity with low impact on the environment. A range of technical options have been successfully tested in the northern uplands of Lao PDR over the last few decades to support transition from mainly subsistence to commercial agriculture. Activities will focus on the promotion of CSA



investment and improved soil conservation practices, crop diversification, agroforestry techniques such as terracing, intercropping, among others.

6. A market analysis for models adopting climate-smart agriculture practices will be conducted and resulting models will be integrated into extension services delivered by local extension agents to rural farmers. Agriculture is the default livelihood of the rural population and the most direct pressure on forests. As such, the ER program will offer direct measures for value chain integration, and agro-technological solutions for improved yields. Engaging the private sector for climate-smart and responsible investments is critical for ensuring sustainable decisions on land use. Activities under this component aim to support a private-public dialogue on REDD+ and climate-smart agriculture, and to encourage direct investment in scalable models that sustainably engage with local communities and ethnic groups and support alternative livelihoods.
7. **Component 3: Sustainable forests management (SFM).** This component will provide investments into SFM planning and the implementation of village forest management and sustainable management of production forests. The GFL is targeting implementing and scaling up forest landscape restoration and management on at least 70,000 ha including through assisted natural forest regeneration, plantation development and agroforestry systems to enhance forest carbon stocks. These activities will be supported by intensive capacity development and training of government staff and communities with a strong focus on ethnic groups, women and the most vulnerable groups.
8. The ER program will take a landscape approach to identifying and enabling resourceful land-use to maximize land potential and ecosystem values. The ER program will place a strong focus on forest landscape restoration and management (FLR) including restoration of degraded forest lands, much of which are found in the 'regenerating vegetation' land class largely associated with bush fallow areas. Forest protection activities will also be introduced, where village communities will be mobilized through a participatory forest management planning and implementation process of their 'village forests'. Instruments such as the VFMA to strengthen the village's legal rights to use and benefit from forest land and resources will be promoted. Linking with Component 2 agricultural activities, the forestry component activities will also develop incentive mechanisms to mobilize private sector investments in long-term sustainable commercial forestry activities including in the timber and fiber industries.
9. **Component 4: Program management.** This component will coordinate and manage the ER program at the national and provincial levels. It will also coordinate the activities for measurement, monitoring and reporting the emission reductions, compliance of safeguard policies and oversight of the benefit sharing mechanism of the ER program.
10. The activities under the four main components will be rolled out in the six northern provinces, directly targeting over 70,000 ha for promoting improved agriculture interventions and 320,000 ha for promoting sustainable forest management and forest landscape restoration (FLR). The program will reforest 14,500 ha; restore 57,000 ha; avoid deforestation over 34,800 ha; and reduced forest degradation over 20,000 ha. The enabling environment related activities under Component 1 will also generate impacts beyond the ER program area. An estimated 42,000 rural households and ethnic minority groups (total approximately 254,000 people) are projected to benefit from the ER program, at least 50 percent of whom will be women and ethnic group members. These estimates are based on the estimates from the PRAPs. Village level land use and forest management plans will include activities in both agriculture and forestry sectors as well as for setting enabling conditions. The activities are designed to support and incentivize protection of existing natural forests, to support and promote forest restoration and sustainable plantations development, and to promote agricultural and forest investments that are



deforestation-free and are aligned with land use plans. The design of activities at local and central levels will in part adopt an ‘incentives approach’ where behavior change among agents is incentivized by rewarding performance through monetary and non-monetary benefits. However, taking into account the need for up-front investments, as well as the establishment of enabling conditions to foster change, the benefit sharing mechanism also will incorporate non-performance-based channels.

11. See ERPD for detailed description of the GFL activities and indicators.



## ANNEX 5: Summary of Benefit Sharing Arrangements

1. With the passage of the new Forest Law (2019), the Forest Protection Fund (FPF),<sup>76</sup> a body under MAF, was selected to administer future ER payments.<sup>77</sup> Payments from the Carbon Fund will be credited to a National Treasury under the Ministry of Finance (MOF). Following FPF Board approval and DoF endorsement, the FPF will request the transfer of funds from National Treasury (MOF) (following National Treasury procedures) through a custodian bank (Trustee) to the six Provincial Treasuries for distribution to eligible beneficiaries (following Provincial Treasury procedures). Specific roles and responsibilities and procedures will be outlined in the POM, in accordance with World Bank fiduciary requirements. The GoL has proposed the arrangements currently used for the on-going FCPF Readiness grant as an interim arrangement to manage the Upfront Advance Payment, or as a contingency arrangement.
2. Following deductions (5 percent performance buffer<sup>78</sup> and 18 percent operational costs),<sup>79</sup> 77 percent of the ER payments will be allocated to communities (90 percent), subnational government agencies (5 percent) and grantees of pilot initiatives (5 percent), based on performance. The established Village Development Committees (referred to as VDCs) will be the main channel for benefit sharing to *communities*. The amount and type of benefits disbursed at village level will be determined by Village Development Committees through participative and transparent consultations with beneficiaries (during the inception phase mid-late 2020), and will be based on detailed budget and work plans demonstrating the total area compliant with village forest and/or good agricultural practices. For *pilot initiatives*, a grant window will be established. The selection and assessment criteria are under development. Sub-agreement contracts with private tree planters will ensure the Program Entity is authorized to transfer ERs to the FCPF Carbon Fund. *Sub-national government agencies* will receive performance-based payments as incentives for providing technical and administrative support (detailed in work plans) for emission reductions at sub-national level.
3. BSP was prepared through negotiation and agreement with groups of beneficiaries. Additional consultation will be held during an inception phase (within six months of ERPA signature) to finalize the BSP. This will include presenting the POM and relevant guidelines to PAFOs, DAFOs and Village Development Committees, and to clarify and agree on practical implementation aspects, such as the provision of non-monetary benefits, the criteria for selecting pilot initiatives and monitoring and reporting roles and responsibilities. The advanced draft BSP was publicly disclosed by the GoL on June 30, 2020.<sup>80</sup>

<sup>76</sup> The Forestry and Forest Resource Development Fund (FFRDF, now Forest Protection Fund/FPF) was established in 2005. It is a state fund that was established to collect and mobilize funds from forest activities and activities relevant to the use of forest resources.

<sup>77</sup> The governance structure for FPF consists of Board of Directors (chaired by MAF's Deputy Minister, with members from relevant MAF departments, MOF, Office of the Prime Minister, and MONRE), which oversees the financial management and monitoring of the FPF, and a FPF Secretariat, which supports the Board and undertakes the day-to-day fund management.

<sup>78</sup> The performance buffer is a set-aside of 5 percent of gross ER Payments to cope with under-performance of ER program in a given reporting period. For example, this set-aside funding would be available for use to overcome damage caused by force majeure events (such as forest fires). The money set aside will be kept by National Treasury and will be released based on performance in achieving emission reductions pursuant to results of the second monitoring and verification that will be undertaken in 2025.

<sup>79</sup> The operational budget is not based on ER performance and covers the costs of government agencies, namely Department of Forestry (DoF), Provincial and District Agriculture and Forestry Offices (PAFO and DAFO), and FPF. Operational costs cover activities related to technical assistance on safeguards, MMR, FGRM, administration, and financial management of the ER program.

<sup>80</sup> <http://dof.maf.gov.la/en/governance-forest-landscapes-and-livelihoods-northern-laos/>





## ANNEX 6: GOL Implementation Arrangements

1. The Ministry of Agriculture and Forestry (MAF) will lead the ER program through coordination and collaboration with other relevant agencies at all relevant administrative levels. MAF and MOF will be co-signatories to the ERPA and have joint responsibility to meet the requirements of the ERPA.
2. At the central level, the ER program will be implemented by the REDD+ Division of the Department of Forestry (DoF), under MAF. A national Project Management Unit (PMU) will be established. Oversight is provided by the National REDD+ Task Force (NRTF).<sup>81</sup> The REDD+ Division also acts as the Secretariat to the NRTF. The NRTF, REDD+ Division, and the six thematic technical working groups (TWGs) support all national REDD+ process working with the provincial level institutions.
3. In the six ER program provinces, Provincial REDD+ Offices (PRO) within the Provincial Agriculture and Forestry Offices (PAFO) will implement provincial activities. They will act as Secretariats to support the Provincial REDD+ Task Forces (PRTFs) and house the provincial PMUs. PAFOs represent both the agriculture and forestry sectors (this is also the case with DAFOs at district levels) and will implement provincial activities in line with the PRAPs, supported by the REDD+ Division of DoF and six the TWGs.
4. GFL program measures are grouped into three components, including enabling environment related activities (Component 1), agriculture sector activities (Component 2) and forestry sector activities (Component 3). Generally speaking, Component 1 will take place at the national level for policy and legal framework related issues, and at all levels for capacity building. For components 2 and 3, the significant part of the activities will be implemented sub-nationally.
5. For sub-national level activities, Lao PDR has elected to use PRAPs as the mechanism for implementing REDD+ actions. PRAPs contain detailed intervention measures, plans and budgets. PRAPs also form the basis for the economic and financial analysis that underpins this ER program incorporating roles and at different levels and sectors of Government and nongovernmental institutions. Implementing agencies will prepare annual plans based on input from district and village levels, and work closely with district and village authorities to implement these plans, which will be rolled out through participatory planning and implementation, giving due recognition to women and ethnic groups to ensure their participation and buy-in. Additional specificity on the implementation and coordination arrangements is needed at the sub-provincial level. During Appraisal,<sup>82</sup> it was agreed that district and village level implementation would rely on existing government systems, endeavoring to simplify arrangements as much as possible. Table A6.1 contains a description of entities and their roles.

<sup>81</sup> Prime Minister Decree No. 06 of January 08, 2011, established MAF's role as the coordinator of the National REDD+ Task Force (NRTF). The NRTF was established in 2008 as a multi-sector and inter-ministerial mechanism responsible for the development and implementation of REDD+ in Lao PDR. The NRTF is hosted by MAF with the Vice Minister of MAF as the chairperson of the NRTF and the Director General of DoF as the deputy chairperson. Comprised of 12 ministries, members of the Task Force represent diverse sectors of agriculture, forestry, land use planning, finance, investment, law and justice, and energy and mines, and include representatives from MoNRE, MOF, MPI, Ministry of Justice (MoJ), Ministry of Energy and Mines (MEM). In addition, the Lao Front for National Development (LFND), Lao Women's Union (LWU), the National University of Laos (NUoL), and the Lao National Chamber of Commerce and Industry (LNCCI) are also members of the NRTF.

<sup>82</sup> A Virtual Appraisal Mission was conducted March 16-27, 2020.





6. Within the DoF REDD+ Division, there is capacity at senior levels. Many junior staff members have more limited skills and experience, with staff currently supported by technical advisors from the REDD+ Readiness grant, Climate Protection through Avoided Deforestation (project under GIZ and KfW, known as CLiPAD), F-REDD projects, and Food and Agriculture Organization (FAO). The Provincial REDD+ Office is staffed by a few government employees working in the PAFO. Provincial and district staff members, villagers, and other stakeholders have limited understanding of REDD+ issues, and various projects are working to enhance stakeholder capacities in this regard. A budget has been estimated for the implementation of the ESMF and covers the specific resources needed for staffing and capacity building efforts to implement specific safeguard aspects.
7. A capacity development plan was prepared, and further capacity building activities are contained in the Readiness Grant. Three themes for capacity building were identified and include a) natural resource management, b) community engagement and safeguards, and c) law enforcement and monitoring. Eight subsequent modules cover participatory land use, protected area and conservation area management; alternative livelihood development; forest land restoration; gender and social inclusion, safeguards; feedback and grievance redress; innovative approaches to community patrolling; and GIS and law enforcement. These capacity building modules will be offered to program management unit staff as well as to community representatives, National Protected Areas staff, and the LFND, and Lao Women's Union (LWU) to facilitate the effective functioning of the Program.
8. The capacity building approach for the FPF is critical to the BSP and is described separately (see capacity building plan for the FPF), along with plans for the capacity building for the MMR (see Annex 8). Table A6.2 includes a summary of the institutional Capacity Gaps and Capacity Response.



**Table A6.1: Description of Entities and their Roles**

Name of partner	Core capacity and role in the ER program
<b>National Level</b>	
Ministry of Agriculture and Forestry (MAF)	National level ministry responsible for policy, management and protection of forestry and agricultural resources. MAF and MOF are the designated representatives of the Program Entity and will co-sign the ERPA. MAF will lead the implementation of the ER program.
Ministry of Finance (MOF)	National level ministry responsible for management and distribution of national and international sources of finance and funds. Supports the design, establishment and implementation of the financing scheme for PRAP agriculture and forestry investments. MOF and MAF are the designated representatives of the Program Entity and will co-sign the ERPA.
National REDD+ Division	Division within DoF responsible for the overall implementation and coordination of REDD+ activities throughout the country. Supports the Provincial REDD+ Office (PRO) with capacity building, policy review and revision and in its provincial management duties.
Ministry of Planning and Investment (MPI) – Department of Planning	National level ministry responsible for the coordination and development of national development strategies and action plans. Ensures the cooperation and integration across ministries to achieve stated national socio-economic goals. Supports the capacity building of its provincial line agencies to ensure planning processes and development plans integrate spatial planning and forest land management.
Department of Forestry (DoF)	Department within MAF responsible for policy development, management and protection of forest resources nationally. Conducts policy analysis, revision and alignment in support of PRAP objectives. Provides capacity building and technical support to PAFO for PRAP implementation.
Department of Forestry Inspection (DOFI)	DOFI responsible for the inspection and law enforcement of forest and wildlife laws and regulations. Provides technical support and capacity building to Provincial Office of Forest Inspection (POFI) for provincial level law enforcement in support of the PRAP.
Department of Forestry – Division of Village Forestry and NTFP Management	Division under DoF responsible for policy development, guidelines and technical support for the development of village-level forest and NTFP management. Provides technical support and capacity building for PAFO on the implementation of village forest management (VFM).
Department of Agriculture	Department within MAF responsible for policy development, management and protection of agricultural resources nationally. Conducts policy analysis, revision and alignment in support of PRAP objectives. Provides capacity building and technical support to PAFO for PRAP implementation.
Department of Agriculture Land Management	Department within MAF responsible for agricultural land management and planning. Provides capacity building and technical support to PAFO for PRAP implementation of land-use plans and land allocation.
Department of Irrigation	Department within MAF responsible for expanding access to irrigation infrastructure for agricultural cultivation, primarily for rice production. Provides technical support and capacity building for the expansion of paddy area in the province under the PRAP.
Department of Technical Extension and Agricultural Processing	Department within MAF responsible for the provision of agriculture and extension services and processing as well as the development of local-level cooperatives. Primarily a technical service provider. Provides technical support and capacity building to PAFO in support of PRAP implementation.
Ministry of Natural Resources and Environment (MoNRE) – Department of Land Management	Department within MoNRE responsible for land-use planning and allocation. Supports Provincial Office of Natural Resources and Environment (PONRE) – Land Management Section with land-use planning and allocation under the PRAP.



Name of partner	Core capacity and role in the ER program
Section	
National Agriculture and Forestry Research Institute (NAFRI)	National level institute that conducts policy, technical and market research and analyses in the agriculture and forestry sectors. Supports policy review and research into innovative agricultural models for implementation under the PRAP
<b>Provincial Level</b>	
Provincial REDD+ Task Force (PRTF)	Provincial cross-sectoral body with responsibility and oversight of REDD+ activities in the province. Bears ultimate responsibility for the implementation of the PRAP
Provincial REDD+ Office (PRO)	Provincial body that executes the day-to-day management and coordination activities for the Provincial REDD+ Task Force (PRTF), including PRAP management and coordination.
Governors' Office	Provincial administrative office responsible for establishing provincial development goals and strategies. Provides overall guidance to the PRAP process and ensures provincial line agencies conform to PRAP objectives.
Provincial Department of Planning and Investment – Planning Section	Provincial line agency of the MPI-Department of Planning. Responsible for coordination and development of provincial development strategies and action plans. Ensures the cooperation and integration across line agencies to achieve stated national socio-economic goals. Ensures line agency plans conform with PRAP objectives, supports the integration of improved spatial planning, and forest landscape planning into provincial planning processes.
Provincial Agriculture and Forestry Office (PAFO)	Provincial line agency to the Ministry of Agriculture. Same remit as MAF but at the provincial level. Main body to coordinate the implementation of PRAP activities.
PAFO – Agriculture Section	Provincial line agency to Department of Agriculture. Provides technical implementation support, coordination and capacity building for DAFOs for the implementation of agriculture sector based policies and measures.
PAFO – Agriculture and Land Management Section	Provincial line agency to Department of Agriculture and Land Management. Provides technical implementation support, coordination and capacity building for land-use planning and allocation under the PRAP.
PAFO – Forestry Section	Provincial line agency to the DoF. Responsible for the management and protection of three forest categories at the provincial level. Provides a critical role in the implementation of several of the Forestry Sector policies and measures.
PAFO – Agriculture and Forestry Research Section	Provincial line agency to National Agriculture and Forestry Research Institute (NAFRI). Supports research into alternative agricultural production methods and approaches.
PAFO – Agriculture and Forest Extension Section	Provincial line agency responsible forest and agricultural extension services. Critical role in supporting DAFO and local communities with capacity building and training on the adoption of new agricultural and forestry production methods.
PAFO – Planning and Management Section	Administrative section of PAFO. Responsible for planning and monitoring of PAFO activities. Ensures PAFO activities achieve PRAP plans. Critical role in the monitoring and evaluation of the PRAP
PAFO – Irrigation Section	Provincial line agency to the Department of Irrigation. Responsible for expanding access to irrigation infrastructure for agricultural cultivation, primarily for rice production. Provides technical support and capacity building for the expansion of paddy area in the province under the PRAP.
PAFO – Livestock and Fishery	Provincial line agency responsible for the provision of capacity building and technical support in the development of improved livestock production



Name of partner	Core capacity and role in the ER program
Section	methods in the province under the PRAP.
Provincial Department of Finance	Provincial line agency to MOF responsible for management and distribution of national and international sources of finance and funds. Supports the design, establishment and implementation of the financing scheme for PRAP agriculture and forestry investments.
Private Sector	No specific actors identified, however, based on provincial planning and policy and measure financing protocols developed can play a role in the execution of policy and measure financing and the development of innovative agricultural and forestry investments and business models.
<b>District Level</b>	
District Agriculture and Forestry Office (DAFO)	District line agency to PAFO and MAF. Responsible for the on-the-ground implementation of agricultural and forestry policies and measures at the district level. Closest point of contact with local communities.
District Office Natural Resources and Environment	District line agency of Provincial Office of Natural Resources and Environment (PoNRE) and MoNRE. Responsible for the on-the-ground implementation of land use planning and land registration policies and measures at the district level.
Lao Front for National Development	The district line agency takes over responsibilities in terms of awareness raising, conflict resolution and promoting participation of all ethnic groups.
Lao Women's Union (LWU)	The district line agency takes over responsibilities in terms of awareness raising, conflict resolution, promoting and ensure gender and participation and empowerment of women.

**Table A6.2: Institutional Capacity Gaps and Capacity Response, assessment prepared for I-GFLL (from ESMF)**

Institution	Capacity Gaps	Capacity Response	Priority
Department of Agricultural Land Management	Land use plan implementation and extension services	Support for a survey to understand how land use plans are implemented on the ground	Medium
Department of Forestry Inspection	Informing stakeholders of their rights and responsibilities	Increase support for awareness- raising activities	Medium
	Monitoring and evaluation	Support for data collection system; data-sharing systems established; IT infrastructure including cloud-based systems to ensure that data maintenance, security and access; Standard Operating Procedures and training	High
	Staff turnover	Support for training staff	Low
Department of Technical Extension and Agro-Processing	Inadequate staff to support field programs and extension services	Provide staffing support through the provision of five contractors/consultants; support for training staff	Medium
Division of Land Use Planning	Land use plan implementation	Support for awareness-raising and enforcement	Medium
	Monitoring and evaluation	Trainings on the existing land use information system	High
Forest & Forest Resource	Managing workloads	Provide staffing support through the provision of five contractors/ consultants	Medium



Institution	Capacity Gaps	Capacity Response	Priority
Development Fund Office	Understanding of REDD+	Further workshops and training in REDD+; secondment to REDD Division	Low
	Operating policies and guidelines	Support to establish formal and transparent operating processes around project selection, appraisal and approval	High
	Monitoring and evaluation	Data-sharing systems established; IT infrastructure including cloud-based systems to ensure data maintenance, security and access; Standard Operating Procedures and training	High
	Understanding of budgets	Improved accounting systems	High
Forestry Promotion	Managing workloads	Provide staffing support through the provision of seven contractors/ consultants	Medium
Plantation & Reforestation Division	.Extension services	Support for providing seedlings and training to local communities	.Medium
	.Understanding of REDD+	Further workshops and training in REDD+; secondments to REDD Division	.Medium
Production Forests Management Division	Monitoring and evaluation	GIS software and training	Medium
	Communication with international donors	English language training	.Low
Protected Areas Management Division	Managing workloads	Provide staffing support through the provision of eight contractors/ consultants	Medium
	Limited and unpredictable budgets	Support in establishing income- generating activities, such as payment for ecosystems services (e.g., eco- tourism)	Medium
	Monitoring and evaluation	Data-sharing systems established; IT infrastructure including cloud-based systems to ensure data maintenance, security and access; Standard Operating Procedures and training	High
REDD+ Division	Managing workloads	Provide staffing support through the provision of six contractors/ consultants	Medium
	Understanding of REDD+ across government institutions	Increase support for education and awareness raising activities, to promote REDD+ across government	Low
Village Forests & NTFPs Management Division	Monitoring and evaluation	Data-sharing systems established; IT infrastructure including cloud-based systems to ensure data maintenance, security and access; Standard Operating Procedures and training	High
	Capacity to establish village forest management plans throughout the country	Support to continue work to establish village forest management plans	



## ANNEX 7: GFLL ER Program Costs and Financing

1. The timeframe of the financing plan is for 2019-2025. Costings were initially prepared at the province level for the PRAPs. Based on the aggregated six PRAP costs and the enabling environment interventions for the central Government level, the total program cost is estimated at \$136.5 million for the 7-year period of GFLL program implementation (i.e., 2019-2025).<sup>83</sup> World Bank Group financing toward the cost of implementing the ER program amounts to approximately \$100 million (including the ERPA itself of up to \$42 million). The remainder is filled, and potentially exceeded, by various operations financed by development partners. Additional private sector investments are not reflected but are anticipated to help finance the implementation and achievements of the GFLL ER program.

Table A7.1: GFLL ER program interventions and budget (2019-2025)

GFLL program interventions	Budget \$	%
<b>Component 1: Strengthening enabling conditions for REDD+</b>	<b>36,558,500</b>	<b>27</b>
Sub-component 1.1: Strengthening policies and the legal framework	6,103,000	4
Sub-component 1.2: Improved forest law enforcement and monitoring	18,092,500	13
Sub-component 1.3: Improved provincial, district and village level land use planning	8,731,500	6
Sub-component 1.4: Enhanced land and resource tenure security through land registration and other processes	3,631,500	3
<b>Component 2: Climate smart agriculture and sustainable livelihoods</b>	<b>40,979,366</b>	<b>30</b>
Sub-component 2.1: Establishment of an enabling environment to promote CSA & REDD+	9,268,500	7
Sub-component 2.2: Implementation of climate-smart agricultural models	31,710,866	23
<b>Component 3: Sustainable forests management</b>	<b>53,215,443</b>	<b>39</b>
Sub-component 3.1: Establish an enabling environment to implement & scale up SFM	12,241,000	9
Sub-component 3.2: Implementing & scaling up Village Forestry	26,222,853	19
Sub-component 3.3: Implementing & scaling up forest landscape restoration and sustainable forest plantations	14,751,589	11
<b>Component 4: Program management</b>	<b>5,748,000</b>	<b>3</b>
Sub-Component 4.1: Program management monitoring and evaluation	5,748,000	3
<b>Total</b>	<b>136,501,309</b>	<b>100</b>

<sup>83</sup> The program implementation is expected to run beyond the ERPA timeframe.



**Table A7.2: Summary of the total GFL program costs (expected uses of funds) \$**

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total (7 years)
1. Strengthening enabling conditions for REDD+	10,634,500	7,189,000	5,330,500	3,918,000	3,315,000	3,207,000	2,964,500	36,558,500
1.1. Strengthening and streamlining policies	1,813,000	1,304,000	794,000	545,000	506,000	558,000	583,000	6,103,000
1.2. Improved forest law enforcement and monitoring	4,450,500	2,953,000	2,842,000	2,400,000	1,976,000	1,765,000	1,706,000	18,092,500
1.3. Improved land use planning	3,456,500	2,115,000	903,000	625,500	488,000	673,000	470,500	8,731,500
1.4. Land registration and titling	914,500	817,000	791,500	347,500	345,000	211,000	205,000	3,631,500
2. Climate smart agriculture and sustainable livelihoods	4,901,876	4,948,443	5,795,852	6,148,197	6,235,549	6,414,600	6,534,849	40,979,366
2.1. Establishment of enabling environment	2,746,000	1,988,500	1,270,500	934,500	688,500	797,500	843,000	9,268,500
2.2. Implementation of deforestation free & climate-smart agriculture	2,155,876	2,959,943	4,525,352	5,213,697	5,547,049	5,617,100	5,691,849	31,710,866
3. Sustainable forest management	6,721,679	6,832,159	7,405,289	7,914,304	7,779,954	8,284,754	8,277,304	53,215,443
3.1. Establishment of enabling environment	2,973,000	2,483,000	1,614,000	1,413,000	1,152,000	1,413,500	1,192,500	12,241,000
3.2. Implementation and scaling-up of sustainable forest management	3,087,368	2,948,485	3,665,353	4,025,037	4,140,287	4,180,787	4,175,537	26,222,853
3.3. Implementation of scaling-up of forest landscape restoration	661,311	1,400,674	2,125,936	2,476,267	2,487,667	2,690,467	2,909,267	14,751,589
4. Program Management	993,500	823,000	776,500	804,000	773,500	773,500	804,000	5,748,000
Total uses	23,251,555	19,792,603	19,308,141	18,784,501	18,104,003	18,679,854	18,580,653	136,501,309



Table A7.3: Readiness and ERPA Operational Budget 2020-2025 (\$)

PROJECT COMPONENTS		2020	2021	2022	2023	2024	2025	Total (USD)
<b>1</b>	<b>PROJECT MANAGEMENT</b>	<b>299,100</b>	<b>614,620</b>	<b>1,116,700</b>	<b>765,900</b>	<b>960,340</b>	<b>968,055</b>	<b>4,724,715</b>
<b>1.1</b>	<b>PMU National</b>	<b>181,500</b>	<b>435,000</b>	<b>489,500</b>	<b>558,700</b>	<b>753,140</b>	<b>760,855</b>	<b>3,178,695</b>
1.1.1	Management and Support Staff	123,100	218,200	262,700	254,800	271,340	284,340	1,414,480
1.1.2	Capital expenses	-	100,000	90,000	-	-	-	190,000
1.1.3	Recurring costs	58,400	116,800	136,800	303,900	481,800	476,515	1,574,215
<b>1.2</b>	<b>PMU Province</b>	<b>117,600</b>	<b>179,620</b>	<b>627,200</b>	<b>207,200</b>	<b>207,200</b>	<b>207,200</b>	<b>1,546,020</b>
1.2.1	Management and Support Staff	-	18,000	72,000	72,000	72,000	72,000	306,000
1.2.2	Capital expenses	50,000	30,000	420,000	-	-	-	500,000
1.2.3	Recurring costs	67,600	131,620	135,200	135,200	135,200	135,200	740,020
<b>2</b>	<b>TECHNICAL SUPPORT</b>	<b>164,300</b>	<b>384,000</b>	<b>670,200</b>	<b>462,740</b>	<b>482,455</b>	<b>496,590</b>	<b>2,660,285</b>
<b>2.1</b>	<b>Natural Resource Management</b>	<b>-</b>	<b>30,000</b>	<b>121,200</b>	<b>126,000</b>	<b>130,800</b>	<b>134,400</b>	<b>542,400</b>
2.1.1	Forest Planning and Management Specialist	-	7,500	30,300	31,500	32,700	33,600	135,600
2.1.2	NRM Policy and Research Specialist	-	7,500	30,300	31,500	32,700	33,600	135,600
2.1.3	Climate Smart Agriculture Specialist	-	7,500	30,300	31,500	32,700	33,600	135,600
2.1.4	Sustainable Livelihoods Development Specialist	-	7,500	30,300	31,500	32,700	33,600	135,600
<b>2.2</b>	<b>Safeguards Management</b>	<b>75,800</b>	<b>102,000</b>	<b>84,000</b>	<b>84,840</b>	<b>88,230</b>	<b>90,840</b>	<b>525,710</b>
2.2.1	SESU Management Specialist	12,000	15,000	-	-	-	-	27,000
2.2.2	Social Safeguards Specialist	18,000	3,000	-	-	-	-	21,000
2.2.3	Safeguards Management Specialist	35,000	84,000	84,000	84,840	88,230	90,840	466,910
2.2.4	Environmental Safeguards Specialist	10,800	-	-	-	-	-	10,800
<b>2.3</b>	<b>Measurement, Reporting and Verification</b>	<b>10,500</b>	<b>42,000</b>	<b>93,000</b>	<b>94,340</b>	<b>99,565</b>	<b>102,630</b>	<b>442,035</b>
2.3.1	NFMS Specialist	-	9,000	36,000	36,600	38,790	39,960	160,350
2.3.2	Land Use Change Assessment Specialist	-	9,000	36,000	36,600	38,790	39,960	160,350
2.3.3	MRV Support Specialist	10,500	24,000	21,000	21,140	21,985	22,710	121,335
<b>2.4</b>	<b>Capacity Building</b>	<b>-</b>	<b>54,000</b>	<b>216,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>270,000</b>
2.4.1	Capacity Building Assessment Specialist	-	9,000	36,000	-	-	-	45,000
2.4.2	Training of Trainers Specialist	-	9,000	36,000	-	-	-	45,000
2.4.3	Village Facilitators (6 Specialists)	-	36,000	144,000	-	-	-	180,000
<b>2.5</b>	<b>Forest Protection Fund Strengthening</b>	<b>78,000</b>	<b>156,000</b>	<b>156,000</b>	<b>157,560</b>	<b>163,860</b>	<b>168,720</b>	<b>880,140</b>
2.5.1	Fund Management Specialist/Team Leader	42,000	84,000	84,000	84,840	88,230	90,840	473,910
2.5.2	Financial Management Specialist	18,000	36,000	36,000	36,360	37,815	38,940	203,115
2.5.3	Operations and IT Specialist	18,000	36,000	36,000	36,360	37,815	38,940	203,115
<b>Total (USD)</b>		<b>463,400</b>	<b>998,620</b>	<b>1,786,900</b>	<b>1,228,640</b>	<b>1,442,795</b>	<b>1,464,645</b>	<b>7,385,000</b>





Table A7.4: ERPA Financing Plan for Readiness and Operational Budget 2020 – 2025

No.	PROJECT COMPONENTS	FCPF Readiness Fund	Carbon Fund Advance Payment	Carbon Fund Result Based Payment	Total (USD)
1	Project Management	620,700	1,815,700	2,288,315	4,724,715
2	Technical Support	379,300	1,184,300	1,096,685	2,660,285
	<b>Total (USD)</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>3,385,000</b>	<b>7,385,000</b>

Table A7.5: Development Partner financing - forestry and land use related operations

No	Development Partner Status	Project	Location (\$ million)		Budget (\$ million)		Objectives
			GFL	National	GFL	National	
1	International Fund for Agricultural Development (IFAD) Negotiation 2020-2026	PICSA Partnerships for Irrigation and Commercialization of Smallholder Agriculture	Huaphan Luang Prabang Sayabouri	-	29.00	-	Profitable smallholder irrigated agriculture, improved diets, encompassing increased dietary intake and improved diet quality for nutritionally vulnerable group, school-based nutrition interventions
2	Asian Development Bank/EU 2019-2027	Sustainable Rural Infrastructure and Watershed Management Sector Project	Huaphan Luang Prabang	National	-	49.46	The project will increase the profitability of the agriculture, natural resources and rural development sector by enhancing sustainable, market oriented agricultural production together with natural resources management.
3	APFNet 2015-2022	SFM-NL Sustainable Forest Management in the Northern part of Lao PDR	Bokeo Luang Namtha Odomxay		3.56		To explore, test and demonstrate effective approaches on forest restoration and forest management and responding mechanism to generate sustainable flow of benefit to closely related stakeholders. To strengthen forest law enforcement and promote cooperation on trans-boundary biodiversity conservation. To share information and knowledge of best practices on forest restoration and rehabilitation.
4	EU Operational 2013-2021	FLEGT Forest Law Enforcement, Governance and Trade	-	National	4.50	13.50	To improve opportunities for the Lao timber industry to access the EU market, diversify timber industry and products, and increase revenue from timber exports
5	Carbon Fund Operational 2020-2024	GFL Governance, Forest Landscapes and	Bokeo Huaphan Luang Namtha		42	-	The project objective is to reduce greenhouse gas emissions and enhance removals from Lao PDRs forest, and share benefits with program beneficiaries.



		Livelihoods-Northern Laos	Luang Prabang Oudomxay Sayabouri				
6	GIZ Operational 2019-2021	Climate Protection through Avoided Deforestation (CLiPAD)	Huaphan, Luang Prabang, Sayabouri	National	2.8	-	The framework conditions for implementing the GoL's ERP have been improved at national level and in six northern provinces
7	GIZ Operational 2008-2020	Climate Protection through Avoided Deforestation-Financial Cooperation Module (CLiPAD – FC)	-	National	2.75	8.25	To regulate and promote sustainable management, protection and conservation of village forests by establishing a legal basis and framework to link all village forest categories with international funding for climate change mitigation, and to channel it down to the village-level through performance-based payments
8	GIZ 2020-2024	I-GFLL Implementation Plan – Governance, Forest Landscapes and Livelihoods – Northern Laos Sub-Project 1, Phase 1	Huaphan Luang Prabang Sayabouri	-	24	-	The program's main objective is to support the Government and people of Laos in changing the present-day use of forests and landscapes and to ensure a transition to sustainable management at scale. This will reduce close to 58 MtCO <sub>2</sub> e over the project's duration.
9	JICA Operational 2015-2020 <sup>84</sup>	F-REDD Sustainable Forest Management and REDD+ Support Project	Luang Prabang Oudomxay	National	Not separate d	6.9	Capacity for Sustainable Forest Management is strengthened through incorporation of REDD+ into the sector strategy and improved forest resource information.
10	KfW Operational 2019-2025	VFMP Village Forestry Management Project	Luang Prabang Sayabouri	National	7.0	0.7	The condition of forest ecosystems and the livelihood of the population in the project areas are improved by the sustainable management of village forests.
11	KfW Operational 2015-2022	ICBF Integrated Conservation of Biodiversity and Forests	Bokeo Luang Namtha	National	9.4	1.3	Effective management of two target landscapes (national protected areas (NPAs), corridors) contributes to sustaining biodiversity in forest ecosystems, while supporting livelihoods of forest-dependent communities. ICBF supports various measures to address the loss of biodiversity/ forests (threats/ drivers)

<sup>84</sup> Under consideration for extension and additional funding.



12	WB Operational 2014-2021	LENS2 Second Lao Environment and Social Project	Luang Prabang	National	4	38	To provide support to forested upper watersheds of rivers important to hydropower, agriculture, irrigation and flood prevention; create wildlife and Protected Area enforcement standards; support capacity building for national, provincial and district institutions that implement environmental and social impact legislation; and, build the capacity of the Environmental Protection Fund
13	WB Operational 2013-2021	SUPFSM Scaling-Up Participatory Sustainable Forest Management Project	Bokeo Huaphan Luang Namtha Luang Prabang Oudomxay Sayabouri	National	10	30	Reduce carbon emissions through participatory sustainable forest management in priority areas and to pilot forest landscape management in four northern provinces in Lao PDR.
14	Food and Agriculture Organization (FAO) Project formulation 2020-2025	Climate Smart Agriculture alternatives for upland production systems in Lao PDR	Huaphan Luang Prabang	National	1-2	2-4	To enhance resilience of vulnerable upland communities to climate change impacts through CSA practices in upland production systems
15	SilvaCarbon		TBD		TBD		Target technical support to enhance measurement, monitoring, and reporting capacity.
Pipeline Funding							
16	WB (IDA) 2020-2022	Green Growth Development Policy Financing (DPF) including Forest Governance 2 and 3	MAF/MPI	National		80	To achieve fiscal sustainability and financial sector stability, adopt green growth planning and monitoring, and introduce green growth tools and principles in priority sectors, to improve growth prospects and help make economic activities cleaner, more resource-efficient, and more resilient.
17	WB (FIP/IDA) 2019-2021	LA-Scaling-Up Participatory Sustainable Forest Management (Additional Funding)	7 PFAs located in Bokeo, Luang Namtha, and Oudomxay			5	To execute REDD+ activities through participatory sustainable forest management in priority areas and to pilot forest landscape management in four provinces
18	WB (IDA/GEF/CCEFCF) 2021-2027	Lao Landscape and Livelihood Program	Huaphan, Luang Prabang	National	TBD	57	To improve sustainable forest management and enhance livelihoods and tourism opportunities in selected landscapes in northern, central and southern Lao PDR
Sub-Total					141.01	200.41	
TOTAL (including pipeline)					327.42		

## ANNEX 8: ER Monitoring Plan

1. The ER Monitoring Plan is based on the data and methods used for the construction of the Reference Level. Measurement, monitoring and reporting (MMR) will be conducted twice during the program period, for the intervals (2019-2021 and 2022-2024),<sup>85</sup> followed by verification and respective ER payments. The first ER Monitoring Report is expected to take 12 months to compile (December 2022) and 10 months for the final ER Monitoring Report (June 2025). This is due to technical operational constraints in acquiring and processing satellite imagery.<sup>86</sup> (See MMR Technical Note)
2. Lao PDR is under the process of designing the National Forest Monitoring System (NFMS) which will support both the MMR and monitoring of the drivers and interventions. Lao PDR currently lacks an effective system to monitor the drivers of deforestation and forest degradation. This is done on an ad-hoc basis by the central and provincial Governments, constrained by availability of financial resources, human resources and technical capacity (including tools and equipment). Several related partner-supported projects are providing assistance on the national forest monitoring system (e.g., F-REDD, Climate Protection through Avoided Deforestation-CLIPAD) and are coordinated under the NRTF and the REL/MRV TWG. The I-GFLL project, in cooperation with development partners, has included a dedicated technical assistance package for the MMR system that will specifically undertake MMR of achieved emission reductions and increased removals. The F-REDD project supported by JICA, has developed a system to support PAFO and DAFO to monitor deforestation caused by agricultural practices and strengthen law enforcement. It will help to monitor the effect of the policies and measures described in the PRAP. The ER program will serve as the testing ground to develop and roll-out such monitoring for future scaling-up across the country. The GoL will develop a capacity building plan to enhance the preparedness to report against the technical requirements and reporting schedule under the ERPA. This national 'NFMS roadmap', once complete, would provide a comprehensive overview and work plan for improvements, identified actions, institutional arrangements, and capacity building needs. In addition, the Roadmap would also incorporate CF18 observations on improved estimation of forest degradation and restoration. The Lao NFMS Roadmap has been drafted and is under review for final approval by the GOL.
3. Once the NRS receives approval, a national safeguards information system (SIS) will be established. The draft NFMS design includes a portal for linking with other monitoring functions such as those specific to REDD+, safeguards (including safeguards information system), and a potential future REDD+ registry system. At the community and sub-project level a participatory monitoring and evaluation process will be used that will be community-based and address project progress, impact, and safeguards. A detailed logical framework has been developed by I-GFLL and this will be used to assess progress and impact of components, and sub-components including carbon and non-carbon progress and benefits. Sub-project implementation will be regularly supervised and monitored by the Technical Teams. Bi-annual progress reports will describe project performance including issues related to safeguards and grievances, if any.
4. The ER program will be nested into the national REDD+ implementation to avoid double accounting of emission reductions and/or removal enhancement at the national level. This Reference Level of the ER

<sup>85</sup> Reporting Period 1: January 1, 2019-December 31, 2021. Reporting Period 2: January 1, 2022-December 31, 2024. Due diligence for compliance with social and environmental safeguards for retroactive ERs is currently being performed by the Program Entity.

<sup>86</sup> Due to seasonal effects, such as cloud cover impacting satellite imagery and the inaccessibility of survey plots in the rainy season. See Technical note for the MMR schedule of Lao PDR ER-Program.

program will be nested into the national Forest Reference Emission Level/Forest Reference Level (FREL/FRL) submitted to the UNFCCC, and the resulting emission reductions and/or removal enhancement will be nested into the national REDD+ performance to be reported to UNFCCC in a technical annex to the Biennial Update Report.<sup>87</sup> In addition, under the BSP, annual and cumulative targets of emission reductions and increased removal have been developed for all the six provinces.

5. Due to the inter-sectorial nature of REDD+ and the ER program, the MMR will be carried out through a coordinated partnership among different entities. The table below shows the preliminary framework of the entities to be involved and their main responsibilities, which will be further streamlined, tested and improved through the implementation of the ER program. In principle, the institutional arrangement of the MMR will be consistent between that of the ER program and that for the National REDD+ Program. While a number of REDD+-unique responsibilities are envisaged (particularly with respect to carbon accounting), most institutional arrangements build on existing arrangements and responsibilities of the respective entities. Where new responsibilities are identified, appropriate training and orientation will be considered, as well as allocation of budgets to conduct the activities. See ERPD for further details.

**Table A8.1: Summary of MMR for activity data and emission and removal factors**

Parameter:	Activity Data (AD)	Emission/Removal factor (E/R Factors)
<b>Description:</b>	Consistent with the methods applied for the Reference Level (RL), the AD will be derived as the amount of changes in areas which relate to any of the four activities under the sources and sinks, i.e., Emissions from Deforestation and Degradation, Removals from Restoration, and Reforestation.	Consistent with the methods applied for the Reference Level (RL), E/R factors will be developed by taking the difference between the carbon stocks among the 5 REDD+ strata.
<b>Data unit:</b>	ha/year	tCO <sub>2</sub> e/ha
<b>Source of data or measurement/calculation methods and procedures to be applied (e.g., field measurements, remote sensing data, national data, official statistics, IPCC Guidelines, commercial and scientific literature), including the spatial level of the data (local, regional, national, international) and if and how the data or methods will be approved during the Term of the ERPA</b>	<p>To maintain the consistency with the ER Program Reference Level (RL), and also with the national forest reference emission level (FREL)/forest reference level (FRL), the AD will be developed by the applying the same satellite imagery or demonstrably equivalent to the ones used for the end year of the Reference Level (RL), in combination with ground truthing.</p> <p>ER Program area data derived from national scale dataset (scale 1:100,000) to be mapped by the national forest mapping agency (FIPD of DoF).</p> <p>Reference sampling for design-based area estimation to be carried out by the national forest mapping agency (FIPD of DoF).</p> <p>AD of selective logging to be reported separately through proxy data, thus not included here (see Section 8.3.4).</p> <p>Once the AD is produced by the FIPD of DoF, the data will first be technically reviewed within DoF, and then by the REL/MRV TWG. Then the data will</p>	<p>DoF, in charge of this task, expects to conduct the national forest inventory (NFI) every 5 years.</p> <p><u>Reporting Period 1</u> will use the E/R Factors generated from the 3<sup>rd</sup> NFI collected in the dry season of 2018-2019. This is considered reasonable for the purpose of data comparability. During Reporting Period 1 emissions from selective logging (proxy-data collected through the NFIs) for this period would not be included. Such emissions would be reported in Reporting Period 2 when updated tree stump data would be collected and become available through NFI4.</p> <p><u>Reporting Period 2</u> will use E/R Factors generated from the NFI4 data to be collected in 2024-2025. This would also include emissions from selective logging for the full reporting period 2019-2024.</p>

<sup>87</sup> As discussed in Section 8.6 of the ERPD, to what extent the RL of the ER program and the national FREL/FRL submitted to the UNFCCC can maintain consistency depends on the requirements by the two assessment processes and somewhat unclear at the time of ERPD submission. However, Lao PDR will pursue ways to enable nesting of the two.

Parameter:	Activity Data (AD)	Emission/Removal factor (E/R Factors)
	<p>be politically endorsed by the NRTF as well as MAF (as the Ministry in charge of forestry, and also the lead executing agency of the ER Program) and finally reported to the Carbon Fund through the MRV/MMR protocol.</p> <p>Due to constraints of visibility, the best period for satellite data acquisition is between October and March as this is the dry season and also coincides with the occurrence of the majority of land and forest cover change events. Acquisition and composition of satellite data of this period enables production of good-quality cloud-free mosaic data that reflect land and forest cover changes that occur during the dry season.</p> <p><u>Reporting Period 1</u> will start satellite imagery acquisition of the data for the period 2019 – 2021 from January to March 2022 for generating cloud-free mosaic data for the GFLP provinces. Then, data analysis will start from April 2022. A single-year land and forest cover map (Forest Type Map 2022) will be produced to assess the land and forest cover changes. This is consistent with the process and methodology used to prepare the Reference Level.</p> <p><u>Reporting Period 2</u> will start satellite imagery acquisition for the GFLP provinces and subsequent data analysis for the period 2022 - 2024 from January 2025 in order to meet the shorter timeframe for the submission of ER Monitoring Report. A single-year land and forest cover map (Forest Type Map 2025) will be produced to assess the land and forest cover changes. In this case, as the data acquisition period will be of shorter time frame, quality of cloud-free mosaic data, and reflection of land and forest cover changes may be affected (e.g., potential underestimation of changes). Lao PDR plans to assess such potential impacts during Reporting Period 1, and if necessary, consider measures to mitigate impacts and/or adjust the results in Reporting Period 2. Lao PDR will also consider potential measures to further reduce the time required for Activity Data generation, such as by applying improved methods without any adverse impact on technical consistency and quality of results, and capacity building of the FIPD, in order to ensure the AD for Reporting Period 2 can be generated without delay. The time required for the QA/QC and calculation of AD can be reduced in MMR2 from the experiences to be gained in MMR1.</p>	<p>Methods of NFI4 would be technically consistent with NFI2 (used for the RL) and NFI3 (to be used for the MMR1).</p> <p>The fieldwork for the NFI4 would begin in November 2024 after the end of the rainy season and once the survey plots become fully accessible as the best period for the NFI survey is during November 2024 to March 2025. The NFI is designed for the national-scale and the entire survey is required to be completed before the process of data processing, analysis, quality control check and calculation of emission/removal factors. Efforts will be made to prioritize analysis of ER provinces to prepare and submit MMR reports expeditiously.</p> <p>For MMR1, sufficient time will be allocated for the compilation of the E/R Monitoring Report and subsequent clearance by the Lao government in order to ensure the Report meets all the requirements of the ERPA. A total of 5 months is allocated for MMR1. With this experience, MMR2 expects to shorten the required time to a total of 3 months.</p>



Parameter:	Activity Data (AD)	Emission/Removal factor (E/R Factors)
<b>Frequency of monitoring/recording:</b>	1st monitoring will start in 2022, using the satellite imagery of the dry season 2019-21. <sup>88</sup> 2nd monitoring in 2025, using the satellite imagery of the dry season 2022-24.	In principle, every 5 years, depending on availability of Government funding (or other sources of funds).
<b>Monitoring equipment:</b>	Satellite imagery, remote sensing software and hardware, field equipment for ground-truthing.	A complete biomass survey procedure is standardized by the Standard Operating Procedure (SOP). It is assumed that the current SOP will continue to be used for the future surveys.
<b>Quality Assurance/Quality Control procedures to be applied:</b>	FIPD of DoF, through technical support from Japan (JICA), has been continuously improving the mapping techniques and methods. Through continued technical support from JICA, FIPD plans to develop a Standard Operating Procedure (SOP) by the end of 2020 (i.e., before the 1st monitoring in 2022), which will further standardize the mapping methods and results. The SOP will include standards on, such as pre-processing of satellite imagery, segmentation, automated and manual change detection, land forest classification, ground-truthing, and others.	The Quality Assurance (QA) and Quality Control (QC) are built-in to the survey process and standardized by the SOP.  QA: training of field crews before the survey; measurement check and data sheet check by the team leader; reflection and feedback after each survey.  QC: random check of recorded data (approx. 10% of the total); re-measurement of a total of 10% of sampling locations randomly or systematically chosen, and re-measured by senior experts of FIPD.
<b>Identification of sources of uncertainty for this parameter</b>	Consistent with the construction of Reference Level (RL), sources of uncertainty of AD is in the error from procedures for interpretation of land/forest classes, which are attributable to the current limitation of remote sensing technology, and the human factors (e.g., skill of the interpreters).  As explained in Section 8.7, three areas for future improvements have been identified in order to reduce uncertainty of AD:  Improvement of classification between RV and MD Improvement of classification between UC and OA Further capacity building of the remote sensing, GIS and IT engineers	Consistent with the construction of the Reference Level (RL), the following are the key sources of uncertainties associated with the E/R factors.  Uncertainty of AGB originating from sampling error Uncertainty of AGB originating from biomass equation Uncertainty of Root-to-Shoot ratios due to the use of IPCC default values Uncertainty of Carbon Fraction factor due to the use of IPCC default values Uncertainty of AGB originating from measurement error  As in Section 8.7, three areas for future improvements have been identified in order to the uncertainties above: Allocation of adequate sampling plots to all the areas of interest Improvement of carbon stock data of RV Development of country-specific parameters
<b>Process for managing and reducing uncertainty associated with this parameter</b>	See above.	See above.

<sup>88</sup> If the safeguards due diligence for payments for emission reductions (ERs) achieved prior to ERPA signature (retroactive ERs) confirms compliance with the safeguards framework for the GFL.





Table A8.2 MMR schedule

GFLL MMR Schedule																				
LCA: Land cover assessment						NFI: National Forest Inventory														
Project Period	Output	Action	Year 2022												Year 2023					
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Reporting Period 1:  January 1st 2019 – December 31st, 2021	Activity Data	LCA 2022 (land cover as of 2022/01/01)	Data acquisition			Data analysis			QA/QC, calculate AD											
	E/R Factors	Use NFI3 2018-2019 data								Use NFI3 data										
	ER Monitoring Report	Calculation and drafting								Draft report/GoL approval/Submission										
Project Period	Output	Action	Year 2024												Year 2025					
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Reporting Period 2:  January 1st 2022 – December 31st, 2024	Activity Data	LCA 2025 (Satellite data as of 2025/01/01)													Data acquisition and analysis			QA/QC, calculate AD		
	E/R Factors	NFI4 2024-2025								Preparation		Field work					QA/QC, calculate E/R factors			
	ER Monitoring Report	Calculation and drafting																Draft report/GoL approval/Submission		

Table A8.3: Institutions involved in MMR

	DoF	DOFI	Provincial Government	Private sector, local community	Reference Level /MRV TWG	NRTF	MAF
<b>MMR</b>	Conduct the MMR			Participate in NFI as local guides	Technically review the MMR results. Collaborate with other TWGs.	Endorse the MMR results. Facilitate collaboration with other concerned sectors	Responsible for the MMR as the executing agency.
<b>Monitoring of drivers and interventions</b>	Provide supporting data for enforcement. Compile the monitoring results.	Enforcement	Enforcement	Participate	Technically review the monitoring results. Collaborate with other TWGs.	Facilitate collaboration with other concerned sectors following the monitoring results	Responsible for the monitoring as the executing agency.



## **ANNEX 9: World Bank Implementation Arrangements and Support Plan**

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

1. The task team has been supporting Laos PDR's REDD+ efforts since 2008, with more intensive support beginning in 2014 through a \$3.6 million Recipient-Executed REDD+ Preparation Support grant (P125082; TF014777), and a \$650,000 Bank-Executed grant specifically for the preparation of the ER program (TF0A3829). An Additional \$4.575 million funding grant for REDD+ Readiness was approved and will be implemented through 2022 (a two-year extension was granted in June 2020).
2. The implementation support strategy for the Program will be carried out jointly with the implementation support for the Additional Funding Grant to ensure complementarity and efficiency. It will build on the support provided during the Readiness process, focusing on the functions and activities typically monitored by World Bank task teams during supervision, including monitoring of technical activities, management arrangements, and compliance with safeguards operational policies, including appropriate stakeholder engagement. Special attention will be directed to methodological aspects of carbon accounting to ensure that the Program complies with the Carbon Fund Methodological Framework. The World Bank task team will include technical specialists with expertise in a range of areas, drawn from within the institution. World Bank safeguards specialists will be available to provide close support and detailed, hands-on guidance to their counterparts during the initial months following approval. Technical specialists with highly technical expertise may be recruited externally, as necessary. Aspects of financial management and procurement will be limited to the additional funding grant given the standalone nature of the Program.
3. The frequency of supervision missions may be higher at the beginning of implementation (possibly up to three per year) to monitor closely the launch of the Program and ensure the condition of effectiveness (final BSP) is met in a timely manner and will decrease to the usual two missions per year after the Program reaches a good implementation pace. Field visits will focus on compliance with safeguards operational policies. The Implementation Support Strategy will be revisited regularly, taking into account implementation progress and continuous risk assessment.

### **Implementation Support Plan**

4. Implementation support will be supported by a \$650,000 lifetime allocation Bank-Executed grant from the FCPF to the task team. The main focal areas of expected implementation support activities are summarized in the table below. The required skills for the implementation support effort are also illustrated. Implementation support is expected to be particularly intense during the first 12 months of implementation. Implementation support missions will be reduced from three to two in the years following the first year, although support provided remotely by the task team will remain continuous. Table A9.3 lists the partners that will support the implementation support effort through related initiatives.



Table A9.1: Main focal areas of implementation support activities

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>
<i>First twelve months</i>	<ul style="list-style-type: none"> <li>• Benefit Sharing Plan establishment</li> <li>• Program Implementation Plan</li> <li>• Institutional arrangements</li> </ul>	<ul style="list-style-type: none"> <li>• Project planning and management</li> <li>• Safeguards</li> <li>• Legal aspects</li> <li>• Carbon finance</li> </ul>	<ul style="list-style-type: none"> <li>• 3 implementation support missions</li> <li>• Remote support from HQ office</li> </ul>
<i>12-48 months</i>	<ul style="list-style-type: none"> <li>• Program Implementation Plan</li> <li>• Carbon accounting</li> <li>• Monitoring and Reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Project planning and management</li> <li>• MRV</li> <li>• Safeguards</li> <li>• Carbon finance</li> </ul>	<ul style="list-style-type: none"> <li>• 2 implementation support missions</li> <li>• Remote support from HQ office</li> </ul>
<i>Years 4-onwards</i>	<ul style="list-style-type: none"> <li>• Program Implementation Plan</li> <li>• Monitoring and Reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Project planning and management</li> <li>• MRV</li> <li>• Safeguards</li> <li>• Carbon finance</li> </ul>	<ul style="list-style-type: none"> <li>• 2 implementation support missions</li> <li>• Remote support from HQ office</li> </ul>

Table A9.2: Required skills

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>
Task Team Leader	<ul style="list-style-type: none"> <li>• 12 weeks per year (Year 1)</li> <li>• 8 weeks per year (Year 2 onwards)</li> </ul>	<ul style="list-style-type: none"> <li>• 3 in Year 1</li> <li>• 2 in Year 2 onwards</li> </ul>
Social Specialist	<ul style="list-style-type: none"> <li>• 6 weeks per year (Year 1)</li> <li>• 4 weeks per year (Year 2 onwards)</li> </ul>	<ul style="list-style-type: none"> <li>• 3 in Year 1</li> <li>• 2 in Year 2 onwards</li> </ul>
Environmental Specialist	<ul style="list-style-type: none"> <li>• 6 weeks per year (Year 1)</li> <li>• 4 weeks per year (Year 2 onwards)</li> </ul>	<ul style="list-style-type: none"> <li>• 3 in Year 1</li> <li>• 2 in Year 2 onwards</li> </ul>
Carbon Finance Specialist	<ul style="list-style-type: none"> <li>• 6 weeks per year (Year 1)</li> <li>• 4 weeks per year (Year 2 onwards)</li> </ul>	<ul style="list-style-type: none"> <li>• 3 in Year 1</li> <li>• 2 in Year 2 onwards</li> </ul>
Legal specialist	<ul style="list-style-type: none"> <li>• 2 weeks per year</li> </ul>	<ul style="list-style-type: none"> <li>• 1 per year</li> </ul>
Procurement Specialist	<ul style="list-style-type: none"> <li>• 2 weeks per year</li> </ul>	<ul style="list-style-type: none"> <li>• 1 per year</li> </ul>
Financial Management Specialist	<ul style="list-style-type: none"> <li>• 2 weeks per year</li> </ul>	<ul style="list-style-type: none"> <li>• 1 per year</li> </ul>
Operations Specialist	<ul style="list-style-type: none"> <li>• 4 weeks per year</li> </ul>	<ul style="list-style-type: none"> <li>• 1 per year</li> </ul>

Table A9.3: Partners

<i>Name</i>	<i>Institution</i>	<i>Role</i>
3 technical experts	JICA	Technical assistance – NFMS/MRV (MMR), FPF (BSP)
2 technical experts	SilvaCarbon	Technical assistance – MMR
2-3 technical experts	GIZ	Technical assistance – joint institutional arrangements under I-GFLL, MMR, FPF (BSP)



## ANNEX 10: World Bank Group-financed Operations in Lao PDR related to Forests and Climate Change

1. The operation fits into the Bank's sector-wide approach on forests and land use in Lao PDR and is aligned with the Bank's COVID-19 recovery priorities and corporate commitments on forests and climate change.
2. The Bank is promoting a transition from individual projects towards a more integrated programmatic approach on forest landscapes through multiple complementary instruments and lending and non-lending operations, including:
  - a) A programmatic Green Growth Development Policy Operations (GGDPO) series;
  - b) Two phases of the Green Growth Advisory Program (P162394, P171011), including four discrete ASAs: (i) Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience (P168798); (ii) Partnerships and Opportunities for a New Green Forest Economy in Lao PDR (P164376); (iii) Developing Nature-Based Tourism as a Strategic Sector for Green Growth in Lao PDR (P164372); and (iv) Valuing Lao Landscapes (P169455);
  - c) Complementary World Bank Group supported investments listed in the table below. These total approximately \$300 million, of which \$100 million is estimated to directly support the objectives of the GFL ER program in the six GFL provinces. Additional private sector investments are not reflected but are anticipated to help finance the implementation and achievements of the GFL ER program.
3. In the investment pipeline is large-scale landscape engagement addressing protected areas, forestry, and nature-based tourism, financed by IDA, GEF7, CCEFCF and PROGREEN resources (P170559/P171406), and leveraging coordinated parallel co-financing from IFC and private sector investments.
4. The operation is part of a broader engagement of the Bank to support the GoL's transition towards a greener economy. The implementation of the Lao PDR REDD+ framework will directly support several interventions under the World Bank Forest Action Plan Focus Areas (Sustainable Forestry and Forest Smart Interventions) and Cross-Cutting Themes (Climate Change and Resilience, Rights and Participation, Institutions and Governance). In addition, the payment for emission reductions is aligned with the World Bank Climate Change Action Plan's top-level priorities on Supporting Transformational Policies and Institutions, by translating Lao PDR's NDC into climate policies and investment plans into actions; and on Scaling Up Climate Action by mobilizing REDD+ financing to support a large-scale, multi-sectoral land use program, that in the Lao context focuses on forest resources. It builds on activities funded by the FCPF Readiness Fund, which have principally supported the formulation of an enabling policy framework for REDD+ at the national level and broad-based implementation plan at the sub-national level (see Annex 1 for the status of Lao PDR's readiness).
5. Importantly, the Bank's forest sector portfolio helps to establish the forest management framework necessary to sustainably manage the forest landscape.<sup>89</sup> This is critical to combat the negative impacts from COVID-19, such as the loss rural livelihoods and expansion of the agricultural frontier into forestland, and resulting poorer air and water quality. Forests are equally critical for Lao PDR to recover from COVID-19. Forest landscape and environmental management projects will help Lao "grow back greener", by improving the resilience of people and the economy, enhancing rural livelihood opportunities, creating better environmental health outcomes, and tackling illegal forest crimes (wildlife trade).

**Table A10.1: World Bank Group-financed Operations in Lao PDR related to Forest and Climate Change (current)**

Project title	Donor(s)	Amount \$ million	Timeframe	Theme	Overlapping Region	Lead Government Institution
Scaling-Up Participatory Sustainable Forest Management (+ Additional Financing) (SUFORD-SU)	FIP/IDA/MAF	44.39	2012-2021	Forestry, REDD+	7 PFAs located in Bokeo, Luang Namtha, and Oudomxay	MAF
Green Growth DPO 1 and 2	IDA	80.0	2016-2019	Green Growth, Protected Areas, Forestry, Environment	Thematically touches on Luang Namtha, Bokeo, Xayaboury, Oudomxay, Luang Prabang and Houaphan	MPI + MAF for Forestry
Second Lao Environment and Social Project (LENS2)	IDA/GEF	38.0	2014-2021 <sup>90</sup>	Protected Areas and Wildlife, Environment	Houaphan, Xiengkhuang, and Luang Phabang	Environmental Protection Fund + MAF <sup>91</sup>
REDD+ Readiness TA	FCPF	8.3	2014-2022	Forestry, REDD+	National with support to all six GFL provinces	MAF
Smallholder Forestry Project	FIP/IFC	7.3	2016-2020	Forestry	n/a	MAF
Poverty Reduction Fund III Additional Financing	IDA	22.5	2020-2024	Agriculture	Oudomxay, Houaphan	MAF
<i>Sub-total amount (portfolio)</i>		200.49				
Carbon Fund (FCPF) ERPA	FCPF	42 <sup>92</sup>	2020-2025	Forestry, Climate Change, REDD+		MOF + MAF
Lao Landscapes and Livelihood Project	IDA/GEF/CCEFCF	57.3 <sup>93</sup>	2021-2027	Forest Landscape Management	Tentative: Houaphan, Xiengkhuang, and Luang Phabang	MAF
<i>Sub-total amount (pipeline funding)</i>		99.3				
<b>Total amount (current portfolio + pipeline funding)</b>		<b>299.79<sup>94</sup></b>				

<sup>89</sup> Forests are critical for Lao PDR to recover from COVID-19, and comprise 70 percent of Lao PDR's landmass and host close to 70 percent of its citizens. The forest sector provides jobs, rural livelihoods, food, timber, medicines, wildlife habitat, tourism opportunities and environmental services such as water filtering and flood and erosion risk reduction, as well as climate change mitigation. Hydropower depends on intact forests.

<sup>90</sup> A no-cost extension to 2022 is currently being processed.

<sup>91</sup> The lead government institution is the Environmental Protection Fund. MAF leads the protected areas and wildlife agenda.

<sup>92</sup> Subject to the performance of the Government's GFL program.

<sup>93</sup> Significant parallel financing from IFC and/or other private sector entities expected.

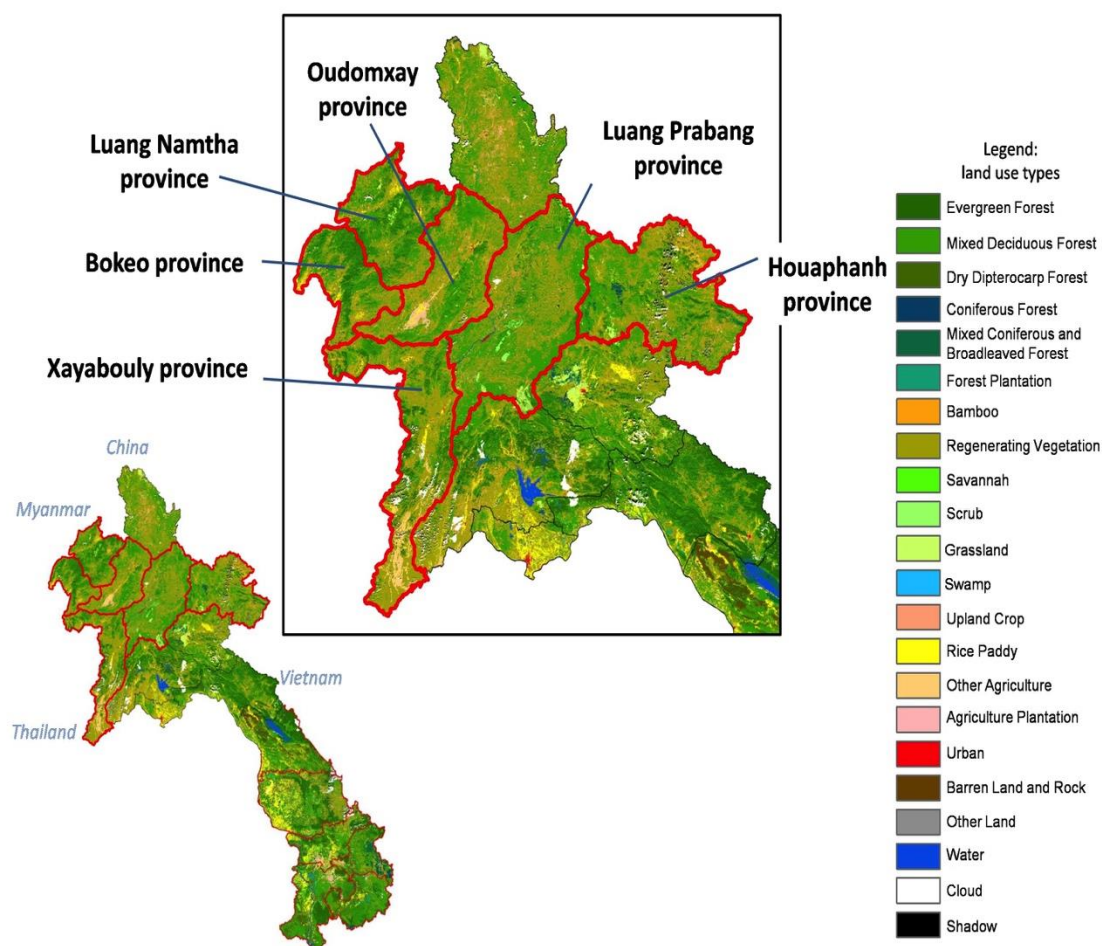
<sup>94</sup> Private sector financing is not reflected in this figure.

## ANNEX 11: Financial Management

1. The Forest Protection Fund (FPF) has been appointed by the Government of Lao to manage and disburse funds to beneficiaries. FPF will thus manage the financial management aspects of ER payments. To be acceptable to the World Bank, the BSP will include detailed financial management arrangements for the use of ERPA payments. The key financial management arrangements are described below:
  - a) **Budgeting.** Budgeting follows existing government procedures as described in the BSP. The operational manual will include further details on timeline for preparation and approval to ensure timeliness of approval of workplan and budget by MPI and MAF.
  - b) **Fund Flow.** An account denominated in US dollars will be opened to received ER payments at the Bank of Lao PDR. This account will be managed by National Treasury, MOF. To ensure adequacy and timeliness of fund transfers to beneficiaries, MOF had agreed for FPF to open another account at a custodian bank (BCEL). This account will receive funds every 6 months based on approved budget by the FPF Board. Fund is then transferred directly from bank account at BCEL to beneficiaries (preferably to bank account) based on contracts and other documents required as will be described in the operational manual.
  - c) **Accounting and reporting.** The FPF will maintain accounting records on cash basis. Records can be initially Excel based and later computerized. Computerized system enhancement is included in the FPF Capacity Building Plan as part of the BSP. As it is not apparent in the BSP on details of financial reporting, the operational manual is to include the type and frequency of financial reports to be completed by FPF and beneficiaries. The format of the report will be included in the operational manual and consistent with the ER Monitoring Report template for the FCPF, where necessary.
  - d) **Internal Control.** Original supporting evidence will be attached and retained for audit purposes. Internal control measures at all levels (FPF and beneficiaries), including Bank account requirements, segregations of duties, and reporting requirements will be developed and included in the POM.
  - e) **Audit.** FPF will be audited by the State Audit Organization. The audit will cover the consolidated financial statements developed by FPF covering all receipts and expenditure (including ER payments utilized by beneficiaries). Each audit will cover a period of one fiscal year of FPF. The audits will be conducted based on a Terms of Reference (TOR) agreed with the Bank. The first audit will cover the year when the first ERPA payments are made by the Bank to FPF. Audit reports and audited financial statements will be made available for public access no later than 6 months of the end of each fiscal year. The audit will go beyond merely providing an opinion on the financial statements to also include opinions on internal control frameworks and compliance with the grant covenants and related regulations.
  - f) **Disbursement.** The Bank's Financial and Accounting Services Department (WFACS) has prepared a Disbursement and Financial Information Letter (DFIL) for ERC operations. The eligible expenditure is the payment, or 'ER payment', made by the Bank to the recipient country based on verified ERs as regulated in the ERPA. The transfer will be made to the account denominated in US dollars opened at the Bank of Lao, to be managed by the National Treasury.

## ANNEX 12: Map of ER Program

Figure A12.1: ER Program Accounting Area<sup>95</sup>



<sup>95</sup> Source: ERPD (May, 2018). The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of the World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.