

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 32458

Project Name	Lao Environment and Social Project
Region	EAST ASIA AND PACIFIC
Sector	Environment (80%); Social Development (20%)
Project ID	P090693
Borrower(s)	Government of Lao PDR
Implementing Agency	Science Technology and Environment Agency (STEA) through Lao Environment and Conservation Fund (LECF)
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input checked="" type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	April 27, 2005
Date of Appraisal Authorization	May 20, 2005
Date of Board Approval	June 30, 2005

1. Country and Sector Background

Despite moderate economic growth in recent years, Lao People's Democratic Republic (Lao PDR) is among the poorest and least developed countries in the East Asia region. The per capita income in 2003 is estimated at around US\$ 340. Improvement in social indicators, which are among the lowest in the region, has not been commensurate with economic performance. More than half of the Gross Domestic Products is generated by the agricultural and natural resources sectors such as forestry, hydropower, and mining¹. Lao has among the highest per capita renewable water availability, potential to generate over 20,000 MW of hydropower, over 40 per cent forest cover, nearly 20 per cent of land area nominally under protection and prominent biodiversity hotspots. Long-term economic growth in Lao PDR will depend on proper utilization and sustainable management of these natural resources, including prevention and mitigation of adverse environmental and social impacts.

The Bank's recent Country Economic Memorandum (CEM) concluded that with its vast natural resources and central position in the rapidly growing Greater Mekong Sub-region (GMS)², Lao PDR is well-placed to achieve quality growth and reduce poverty, provided that Government manages to increase the contribution of natural resources (especially sustainable hydropower and mining) to development; fosters a more enabling environment for private sector investment; and undertakes reforms to improve governance. The latter include improving the management of environmental and social issues, and addressing the legacy of past problems.

¹ Per capita renewable water availability in Lao PDR is the highest in Asia, with potential to generate over 20,000 MW of hydropower. Over 40 per cent of its land area is covered by forests, of which nearly 20 per cent nominally under protection. It also features some prominent biodiversity hotspots.

² The GMS comprises Lao PDR, Thailand, Vietnam, Cambodia, Myanmar, and Yunnan Province of the People's Republic of China

The unsustainable exploitation of natural resources, thus far, has resulted in degradation of land, loss of natural habitats and reductions in water quality, and is disproportionately impacting the poorest and vulnerable groups in the country. In response to declining environmental conditions, the country has made important strides in instituting changes in partnership with local communities and international organizations. Over the past five years, the country has strengthened its policy, legal and institutional framework for environmental and social safeguards, by building capacity among Government agencies, raising awareness more broadly, establishing procedures for environmental assessment and monitoring, designating protected areas, and making some site-specific investments.

The shortcomings of several previous hydropower and mining projects in addressing environmental and social safeguards suggest that existing policies were inadequately implemented. The development of the Nam Theun 2 Hydroelectric Power Project (NT2)³, included extensive and consultative work on impact assessment and preparation of mitigation and compensation plans, and has raised the level of awareness to social and environmental issues amongst Lao PDR authorities and agencies. The NT2 project itself has developed comprehensive safeguards structures which lend themselves to replication across the country.

2. Objectives

The Project Development Objective (PDO) is to *strengthen the management of environmental and social issues in the use of natural assets in Lao PDR for enhancing quality of growth and reducing poverty*. Specifically, the project aims to:

- a. Strengthen institutions and instruments for assessment, monitoring and compliance for environmental and social sustainability, and broaden the constituency for environmental change;
- b. Invest in on-the-ground environmental improvement activities identified in the national Growth and Poverty Reduction Strategy (NGPES), with emphasis on biodiversity conservation, community environmental management and livelihoods enhancements; and
- c. Operationalize the Lao Environment and Conservation Fund (LECF) to become a permanent entity that is eligible to use NT2 revenues for priority environmental protection activities by developing two windows that will serve as models for the LECF operations and potentially become permanent structures within LECF.

3. Rationale for Bank Involvement

The proposed project is designed as a complementary activity to the NT2 Project, capitalizing on opportunities to scale-up policy and capacity initiatives to the national level. Specifically, the Project will (i) apply the lessons learned during preparation of the NT2 Project to other

³ The NT2 Project is located in Khammouane Province in Central Lao and consists of three components: (i) a hydropower facility with an installed capacity of 1070 megawatts (MW), providing 995 MW of power for export to Thailand and an additional 75 MW for domestic use; (ii) management of the project's environmental and social impacts on the Nakai Plateau, in the NT2 watershed and in the downstream areas of Nam Theun and Xe Bang Fai rivers; and (iii) monitoring and evaluation arrangements designed to meet sound engineering practices, fiduciary responsibilities, and the respective oversight requirements of the participating financial institutions

development projects, with special emphasis on hydropower development; (ii) address cumulative impacts of river basin development; (iii) strengthen the legal and institutional framework for resettlement⁴, and enable its implementation; and (iv) help to maintain the integrity of other protected areas in the country. In addition, the LECF, which is being established with support from the Asian Development Bank (ADB) and the Bank, will serve as the primary financing vehicle to fund environmental investments in the country, including those derived from NT2 revenues which will start flowing in 2009⁵

4. Description

The project is proposed as an IDA Development Grant. Its primary objective is to contribute to long-term environmental protection and social development objectives of the country through capacity building efforts both at the national and local levels. The Government of Lao PDR (GOL) is introducing policies, legislations and plans to replicate NT2 experiences nationally, and their implementation emerges as the main focus of the proposed Project. The Project's geographical focus has a mix of both national and provincial coverage, with the three central provinces – Bolikamxay, Khammouane, and Savannakhet – being the main focus target of the project. The project comprises of three components as outlined below:

- a. **Component 1 – Policy Implementation and Capacity Enhancement (PICE; US\$ 1.91 million):** This component will strengthen at the national, provincial, and district levels: (i) environmental and social safeguards policy formulation and implementation; (ii) assessment, and monitoring of compliance; (iii) integrated river basin management; (iv) hydropower sector sustainability; and (v) resettlement management; and (vi) environmental education and awareness.
- b. **Component 2 – Conservation and Community Investments (CCI; US\$ 1.74 million):** This will support initiatives to strengthen conservation practices and livelihood improvement activities in and around protected areas (building on the Social and Environment management Framework and First Operational Plan (SEMFOP)⁶ experiences in Nakai Nam Theun), and to improve localized environmental conditions through partnership activities of communities, local governments and small businesses, in Central Lao.
- c. **Component 3 – Management and Monitoring Support (US\$ 1.15 Million)** will support the following activities: the day-to-day operation of the LECF, specifically PICE and CCI Windows; marketing and business development of the Windows to assist beneficiaries to prepare sub-grants; and developing and implementing a monitoring, evaluation and dissemination process to assess performance of the two windows.

The Project will provide sub-grants to finance activities submitted by national, provincial and district government agencies and other eligible beneficiaries such as community groups, universities, mass organizations, civil society organizations, international non-governmental

⁴ A draft resettlement decree was prepared by Science, Technology and Environment Agency with assistance provided by the ADB, drawing in large part on NT2 experience. Its enactment is a condition of negotiations for the Project.

⁵ Environmental protection is among the five priority programs identified for use of NT2 revenues.

⁶ The project will not duplicate SEMFOP however, which is premised on a higher level of financing; it will provide support for the core SEMFOP approach to be applied across Central Lao.

organizations. The type of activities include: (i) capacity building grants for Component 1 which will include studies, surveys, workshops, training, preparation of technical guidelines, monitoring and assessment of environmental conditions, etc; and (ii) grants for protected area management and community environmental management activities. In addition, the Project will also support the sourcing of international expertise to assist in the implementation of some tasks for Component 1 activities.

5. Financing

Source:	(US\$m.)
BORROWER/RECIPIENT	0.8
INTERNATIONAL DEVELOPMENT ASSOCIATION	4.0
Total	4.8

6. Implementation

Environmental protection and conservation responsibilities are shared between the Science Technology and Environment Agency (STEA) and Ministry of Agriculture and Forestry (MAF), with the former recognized as the country's apex environment policy making and oversight agency, while the latter is responsible for forestry and biodiversity functions. Given the project's objectives, STEA emerges as a natural choice to lead the project, although in partnership with MAF and Ministry of Industry and Handicrafts (MIH). Together with these two Ministries, and the Ministry of Finance (MOF), STEA is working to establish the LECF. Once operational, the LECF will become the main financing vehicle for environmental protection and conservation in the country. Project preparation has focused on arriving at implementation arrangements for the project that recognize: (i) the primacy of STEA in environmental policy making and regulation, (ii) the technical responsibilities of MAF and MIH, (iii) the mandate of provinces in managing environmental quality, and (iv) the potential role of LECF. At the same time, a key premise has been that any structure instituted should be a permanent part of the institutional architecture.

STEA will lead and coordinate the implementation of the Project through the LECF, The LECF will be governed by a Board of Directors (chaired by the MOF, vice chaired by STEA and MAF, and composed of relevant sectoral ministries) as an independent and autonomous entity. Its day-to-day management will be the responsibility of the Executive Office (EO), which will be headed by a Director and supported by technical, administrative and financial staff. The LECF business and operating practices will be guided by a *Charter, Operational Guidelines and Annual Plans*, all provided for in the draft Decree. The draft Decree also makes provisions for the establishment of specialized windows to support targeted activities in selected geographical areas or specific sectors. Two such windows will be set-up for Components 1 and 2 of the proposed Project. The two windows will be used to channel assistance to beneficiary ministries, agencies, provinces, districts, communities, and other eligible recipients under the LECF guidelines.

The LECF Board will appoint a Project Steering Committee (PSC), to which it will delegate authority to (i) propose general guidelines and strategic directions for the LECF, (ii) coordinate with sectoral ministries responsible for technical tasks that have been assigned to them by law, and (iii) oversee the performance of the two Windows. The inter-ministerial PSC will be chaired

by STEA and vice-chaired by MAF and MIH. Because planned activities run across different ministries and require capacity building in other ministries and provinces, the PSC will also include representatives of the Committee for Planning and Investment (CPI), the Ministry of Finance (MOF), the Ministry of Education (MOE), Ministry of Culture and Information (MCI), and the target.

The Board will also establish a Windows Management Unit (WMU) to manage the two windows, which will have responsibility for preparation of annual plans, procurement, financial management, progress reports and quality assurance. The WMU will be headed by a Windows Manager supported by technical, administrative and financial staff located in the Executive Office of LECF. Collectively, this team will be responsible for day-to-day management. The Windows Manager and his/her team will be responsible for marketing the activities of the two windows, assisting in drafting sub-grants, reviewing and approving sub-grants, signing sub-grant agreements, undertaking procurement for sub-grants on behalf of the beneficiaries, and ensuring financial management of transactions. He/she will also be responsible for liaising with implementing partners, beneficiaries and other stakeholders to prepare annual work plans, monitor progress, and prepare regular progress reports for review by the PSC/LECF Board. The project includes a component to strengthen the LECF, with special emphasis on the WMU responsible for the two windows. The Project will support the hiring of a Chief Technical and Management Advisor (CTMA) for a period of two years to assist the GOL to manage the two windows and more broadly the LECF.

7. Sustainability

Given the low capacity and funding in the environmental sector in Lao PDR, project sustainability is a significant issue. The Project has been specifically designed to minimize the risk of unsustainable outcomes by: (i) building on existing efforts and achievements of the GOL during the preparation of the NT2 Project; (ii) taking a demand-driven approach, involving small-scale, locally implemented activities; (iii) avoiding the creation of a temporary project implementation unit, and instead developing the capacity of existing government agencies to plan and implement activities; (iv) developing effective systems for monitoring sub-projects; and (v) directly tackling the issue of sustainable funding by establishing the LECF as an effective instrument for the management of long-term environmental funding.

8. Lessons Learned from Past Operations in the Country/Sector

Lessons learned	Incorporation into Project Design
Capacity building	
Along with the development of policies and laws, significant attention should be paid to the development of institutions, building of human resources, establishing systems and protocols, involvement of communities and capacity at the local level, to achieve their goals	The Project aims to expand on the policy and institutional grains of the NT2 Project, by specifically supporting the development of implementation mechanisms, technical tools and field guidelines to be applied in selected sectors (hydropower and water resources) and targeted provinces (Central Lao). The Project also allocates resources for capacity building at the local-level and the development of civil society groups in the country
Local (provinces/districts/communities) administrations should take the lead in designing programs that are aimed at developing their capacity. This will ensure that their priorities are	The participating provinces will prepare Environmental and Natural Resources Management Plans in the first year, which will form the basis for the Project's capacity building interventions. Further, by opting for capacity building grants approach; provinces, districts and communities

Lessons learned	Incorporation into Project Design
addressed, and not thrust from the national-level.	have a option of choosing the kind of support.
River basin management is a long term endeavor that requires extensive buy-in and coordination across sectoral agencies and provincial governments.	The Project will focus on building partnership between STEA and other government agencies (at the national and provincial levels) who share responsibility in river basin management. The Project targets a pilot area (Nam Theun/Nam Kading River Basin) to test and demonstrate an integrated approach that will be carried out by a multi-agency team in close consultation and cooperation with the local communities and authorities
Lack of environmental education and limited awareness about environmental benefits has hampered the implementation of environmental policies and laws, and hindered progress in the achievement of environmental goals.	The Project has a flexible mechanism that would encourage schools, universities, research institutions and civil society to be beneficiaries of the project by applying for sub-grants that support (a) the development and delivery of curriculum for environmental education; and (b) raise awareness among officials and communities in the three selected provinces.
Environmental Protection and Conservation	
Conservation and community livelihoods are intimately linked in Lao PDR. Participation from local communities enhances sustainability of both conservation and livelihoods aspects.	Community development is an integral component of the Project. The links between development and conservation are enhanced by allowing PA management units to serve as facilitators for community development grants. Community participation in conservation and in planning of livelihoods activities is prescribed in the conservation model to be followed.
Project design and management planning should not be overly ambitious <i>vis-a-vis</i> the capacity of the implementing agency.	As sub-grants will be provided to the implementing agencies and communities according to their own proposals, local ownership and relevance will be ensured. Technical assistance will be provided to potential project proponents. Sub-grant proposals will be evaluated based on practicality and capacity of the implementing agencies and
A flexible approach involving learning by doing is often more effective than trying to prescribe activities on the basis of <i>a priori</i> studies or assumptions.	The provision for an open-menu of activity-focused sub-grants overcomes a complex or rigid, pre-determined project structure. A limited implementation period of up to two years allows for initial pilot activities to be adapted according to the lessons learned through follow-up proposals in later years.
Fund management	
Overly complex institutional, administrative and financial arrangements have the potential to hinder the disbursement of funds for project activities, seriously impacting their timing and coordination.	Institutional complexity is avoided by channeling the fund through the LECF and respective Windows, which will provide sub-grants directly to beneficiaries
Long-term commitments are needed to achieve change in the field of sustainable environmental management.	The availability of revenue from hydropower projects to LECF by the close of the project will provide sustained funding. The Project will develop fund management systems for the LECF.
Developing capacity within village communities and local implementing agencies to design, submit and implement proposals is a major undertaking in itself and requires time.	Adequate project resources are committed to fund management and facilitation of sub-grant proposals. An explicit objective of the Project is to provide for a learning process which will clarify how these arrangements should be managed within the LECF. Capacity building of local communities will be funded.

9. Safeguard Policies (including public consultation)

Social: The Project will contribute to improving social outcomes in the country, with a special focus on the implementation of social safeguard policies, decrees and guidelines in the context of investment projects and biodiversity conservation activities. It aims to provide capacity building assistance to government agencies and other stakeholders, and to address social legacy issues caused by past development projects, especially those relating to resettlement of affected people and addressing the needs of ethnic groups. Design of biodiversity conservation and other local environmental improvement activities will include opportunities for participating communities to

better their livelihoods. Activities around protected areas of Central Lao will draw on the experience of the planning process (the Social and Environmental Management Framework and First Operational Plan) that was developed for the NT2 Watershed, which was designed to ensure equitable benefit sharing at the village level for all villages involved in that component of the hydropower project.

The Project has benefited from the extensive consultations undertaken for the NT2 Project, the preparation of the Lao Environment Monitor 2005, and the drafting of the decree for the LECF. The need for the Project emerged from these consultations and its design was influenced by discussions among government stakeholders, and with development partners (ADB, SIDA and UNEP). It incorporates community participation and stakeholder involvement in its design, and will aim to further advance and deepen such opportunities, which are relatively recent in Lao PDR. The first component will assist GOL to upgrade policies, decrees and guidelines to include consultation and participation as an integral part of their implementation, while the second component will provide participating communities with direct responsibility for implementing certain sub-projects

Environment: The Project will result in environmental gains by strengthening institutions, reforming policies, amending decrees, modernizing instruments and procedures, and supporting their implementation. The project design is rooted in an effort to stem the degradation of the natural environment in Lao PDR by increasing the capacity of Government to enforce existing rules and regulations, and test this capacity in pilot project interventions that are targeted at improving biodiversity conservation at the provincial level.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[]	[X]
Cultural Property (OPN 11.03 , being revised as OP 4.11)	[]	[X]
Involuntary Resettlement (OP/BP 4.12)	[X]	[]
Indigenous Peoples (OD 4.20 , being revised as OP 4.10)	[X]	[]
Forests (OP/BP 4.36)	[]	[X]
Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[X]

The proposed project would trigger four of the ten policies, namely *Environmental Assessment (OP 4.01)*, *Natural Habitats (4.04)*, *Involuntary Resettlement (OP/BP 4.12)* and *Indigenous Peoples (OP 4.20)*. The environmental and risk category of the project are FI and SF respectively. No physical impacts are anticipated due to the activities of Component 1 and 3. However, Component 2 is likely to cause the following impacts: (a) localized impacts in the immediate areas adjacent to sub-project location due to construction activities; (b) access to resources inside protected areas may be restricted because of conservation plans supported by the project; (c) selected community-led livelihood activities may cause minor, short-term or

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

reversible impacts. To address these impacts, an Environmental and Social Safeguards Framework (ESSF) has been prepared, which outlines the procedures to be followed by subprojects. The draft ESSF is responsive to the Bank's policies. The Project will not finance any sub-projects involving land acquisition, loss of physical assets or physical displacement of population. As stated previously, an objective of the proposed project is to strengthen GOL capacity to implement its environmental and social safeguards policies, decrees and guidelines. Such capacity will also be developed in the LECF by taking a mainstreaming approach to include safeguard features in design parameters of sub-projects.

10. List of Factual Technical Documents

N/A

11. Contact point

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