

Funding Proposal

FP117: Implementation of the Lao PDR Emission Reductions Programme through improved governance and sustainable forest landscape management

Lao People's Democratic Republic (the)|Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH (GIZ) | Decision B.24/09

4 December 2019



**GREEN
CLIMATE
FUND**

Funding Proposal

Project Title:	Implementation of the Lao PDR Emission Reductions Programme through improved governance and sustainable forest landscape management
Country:	Lao People's Democratic Republic
Accredited Entity:	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Date of first submission:	2019/03/02
Date of current submission:	2019/09/25
Version number:	V.010



GREEN
CLIMATE
FUND

Contents

Section A	PROJECT / PROGRAMME SUMMARY
Section B	PROJECT INFORMATION
Section C	FINANCING INFORMATION
Section D	EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA
Section E	LOGICAL FRAMEWORK
Section F	RISK ASSESSMENT AND MANAGEMENT
Section G	GCF POLICIES AND STANDARDS
Section H	ANNEXES

Note to Accredited Entities on the use of the funding proposal template

- Accredited Entities should provide summary information in the proposal with cross-reference to annexes such as feasibility studies, gender action plan, term sheet, etc.
- Accredited Entities should ensure that annexes provided are consistent with the details provided in the funding proposal. Updates to the funding proposal and/or annexes must be reflected in all relevant documents.
- The total number of pages for the funding proposal (excluding annexes) **should not exceed 60**. Proposals exceeding the prescribed length will not be assessed within the usual service standard time.
- The recommended font is Arial, size 11.
- Under the [GCF Information Disclosure Policy](#), project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Accredited Entities are asked to fill out information on disclosure in section G.4.

Please submit the completed proposal to:

fundingproposal@gcfund.org

Please use the following name convention for the file name:

“FP-[Accredited Entity Short Name]-[Country/Region]-[Dates]”

PROJECT/PROGRAMME SUMMARY			
A.1. Project or programme	Project	A.2. Public or private sector	Public
A.3. Request for Proposals (RFP)	Not applicable		
A.4. Result area(s)	<p>Check the applicable GCF result area(s) that the <u>overall</u> proposed project/programme targets. For each checked result area(s), indicate the estimated percentage of <u>GCF budget</u> devoted to it. The total of the percentages when summed should be 100%.</p>		
	<p>Mitigation: Reduced emissions from:</p> <p><input type="checkbox"/> Energy access and power generation:</p> <p><input type="checkbox"/> Low-emission transport:</p> <p><input type="checkbox"/> Buildings, cities, industries and appliances:</p> <p><input checked="" type="checkbox"/> Forestry and land use:</p> <p>Adaptation: Increased resilience of:</p> <p><input type="checkbox"/> Most vulnerable people, communities and regions:</p> <p><input type="checkbox"/> Health and well-being, and food and water security:</p> <p><input type="checkbox"/> Infrastructure and built environment:</p> <p><input type="checkbox"/> Ecosystem and ecosystem services:</p>	<p>GCF contribution:</p> <p><u>Enter number</u>%</p> <p><u>Enter number</u>%</p> <p><u>Enter number</u>%</p> <p>100%</p> <p><u>Enter number</u>%</p> <p><u>Enter number</u>%</p> <p><u>Enter number</u>%</p> <p><u>Enter number</u>%</p>	
A.5. Expected mitigation impact	<p><u>Project 1 (4 years)</u> 5.6 million t CO₂ eq</p> <p><u>Programme (9.5 years)</u> 57.9 million t CO₂ eq</p>	A.6. Expected adaptation impact	<p><u>Project 1:</u> - Direct rural beneficiaries: 120,000 (60,000 men and 60,000 women) - Indirect rural beneficiaries: 235,800</p> <p><u>Programme:</u> - Direct rural beneficiaries: 254,800 (127,400 men and 127,400 women) - Indirect rural beneficiaries: 412,650</p>
			<p><u>Project 1:</u> - Direct beneficiaries: 2% of national population - Indirect beneficiaries: 3% of national population</p> <p><u>Programme:</u> - Direct beneficiaries: 4% of national population - Indirect beneficiaries: 5% of national population</p>
A.7. Total financing (GCF + co-finance)	<p><u>Project 1:</u> 65.2 million Euros</p> <p>(Anticipated total programme financing: 162.7 million Euros)</p>	A.9. Project/Programme size	<p><u>Project 1:</u> Medium (Up to USD 250 million)</p>
A.8. Total GCF funding requested	<p><u>Project 1:</u> 15.2 million Euros</p> <p>(Anticipated total programme financing: 62.6 million Euros)</p>		<p><u>Total programme:</u> Medium (Up to USD 250 million)</p>

well-placed for Phase 2 of REDD+ (implementation) in order to reduce forest-sector emissions and to achieve true paradigm shift.

4. To achieve such a paradigm shift, the programme in which Project 1 is embedded:
 - Strengthens the **enabling environment for REDD+** through 3 principal means: enhancing the availability of financing for a deep transformation in the way Laos manages its forest landscapes – including through supporting a REDD+ Funding Window; revising and strengthening the legal and regulatory framework for forestry; and improving the enforcement of the new regulatory framework.
 - Supports **deforestation-free agriculture and agroforestry** by enhancing productivity, increasing farmers' integration into agricultural value chains, and improving access to finance and private sector participation in economic activities that reduce pressure on forests.
 - Supports the implementation of **sustainable forest landscape management (SFM)** and **forest landscape restoration (FLR)** on over 1.5 million ha of degraded lands.
5. The programme consists of 3 projects: Project 1 (mid-2020 to mid-2024) addresses the three provinces of Houaphan, Sayabouri and Luang Prabang, which contain the highest rates of deforestation and forest degradation within the programme area; Project 2 (mid-2024 to end-2029) scales-up the number of participating communities in the same geographical area; and Project 3 (2022 to end-2029) extends the geographical reach of the programme to the 3 additional provinces of Luang Namtha, Bokeo and Oudomxay.
6. The programme structure offers considerable flexibility through its constituent projects to gather data and learn iteratively for more effective and adaptive design; potential for crowding-in more sustainable financing from diversified sources (more emission reductions, additional domestic revenues, larger endowment for the REDD+ Funding Window), thereby increasing long-term financial sustainability; and better linkage with the programmatic approach of the Forest Carbon Partnership Facility (FCPF) Emissions Reduction Programme in Laos, which the programme complements and supports.
7. **This Funding Proposal presents a stand-alone GCF project (Project 1) for Board approval. Two subsequent stand-alone projects, embedded in the same programmatic context and theory of change as this project, will be submitted at a future date for Board approval. Board approval for the project presented in this Funding Proposal is wholly separate from, and does not pre-judge, Board approval for future related projects.**

A.21.2 Project 1 Executive Summary

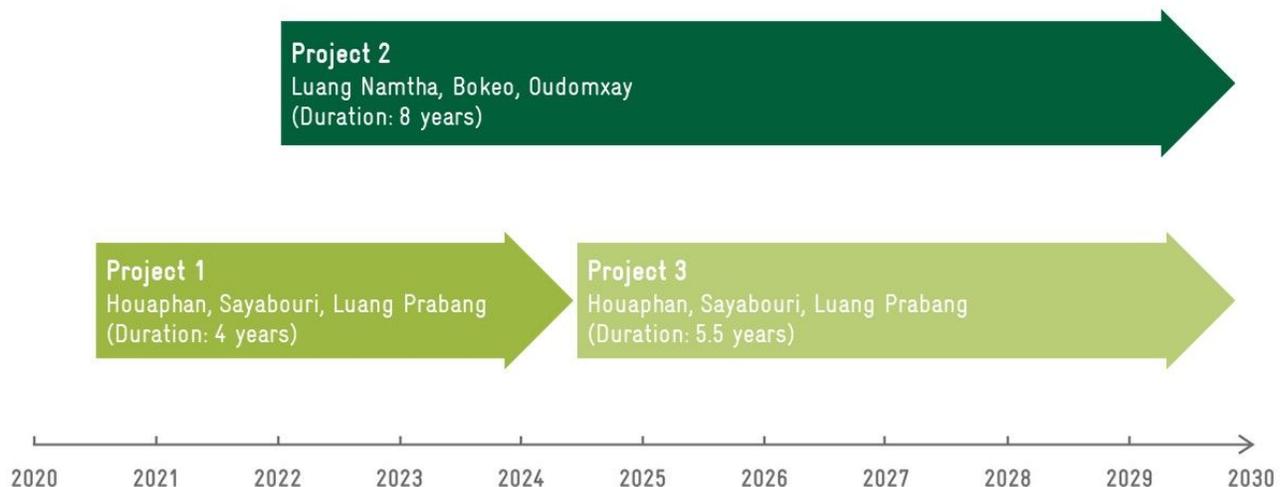
8. Project 1 mitigates 5.6 million tCO₂eq during its 4-year implementation period, at a cost to the GCF of Euro 2.7/tCO₂eq. It benefits 355,800 people (120,000 directly) in 3 provinces of rural northern Laos by promoting sustainable management of forests, landscapes and agricultural resources. It represents the first project of a programme that will ultimately mitigate 144.7 million tCO₂eq over its 20-year lifetime (influence period, 2020-2039), at a cost to the GCF of Euro 0.4/tCO₂eq.
9. Project 1 mobilises Euro 50.0 million of co-financing and will, during its 4-year implementation period, unlock REDD+ results-based payments of Euro 23 million from the FCPF Carbon Fund.
10. Project 1 will have significant socio-economic and gender-positive co-benefits in disadvantaged rural areas. Lao PDR, a landlocked least developed country (LLDC), is unable to bear the full project cost alone. Although the government is contributing significant co-financing, surpassing its NDC commitments, the GCF's contribution is essential for Project 1 to proceed.

A.22. Programme summary

A.22.1 Programme structure

11. Although Board approval is sought solely for Project 1 and not for the overall programme (i.e. not for constituent Project 2 or constituent Project 3), a summary of the overall programme, in which Project 1 is embedded, is provided below for reference.
12. The programme, in which Project 1 is embedded, combines a sectoral and geographical scope:
 - It is **sectoral** in the sense that it supports the Government of Lao PDR in achieving its policy goals, as defined in the NDC as well as the National REDD+ Strategy and Socio-Economic Development Plans.
 - It is **geographical** because it operates in the defined accounting area of six northern provinces selected on the basis of their mitigation potential under the ER Program. The programme applies a geographical upscaling strategy by means of constituent projects (Projects 1-3) that address provinces that are connected at ecosystem level and that are linked through other factors such as synergies among co-financing activities.
13. The programme design consists of:
 - Three Projects:
 - Project 1: Houaphan, Sayabouri and Luang Prabang provinces. Mid-2020 to mid-2024.
 - Project 2: Luang Namtha, Bokeo and Oudomxay provinces. 2022 to end-2029.
 - Project 3: Houaphan, Sayabouri and Luang Prabang provinces. Mid-2024 to end-2029.
 - Each Project contains three Outputs:
 - Output 1: Creation of an enabling environment for REDD+
 - Output 2: Market solutions for agricultural drivers of deforestation
 - Output 3: Climate mitigation action through forestry
14. Project 1 addresses a number of national-level interventions that will also serve to support Projects 2 and 3 (subject to separate GCF funding approval for Projects 2 and 3). The most notable example is the creation of the REDD+ Funding Window, which will be undertaken in Project 1 but whose structure and functionality will also be utilised in Projects 2 and 3.
15. At the core of the project are performance-based payments to participating communities and institutions to incentivise and fund those types of land-use practices that yield the highest emission reductions. The programme ties its performance to MRV-able milestones, providing GIZ and GCF with the necessary information for the design of Project 2 and Project 3, for which additional funding may be approved subsequently by the GCF Board.

Figure 1: Phased Approach to Implement the Lao PDR Emission Reductions Programme



A.22.2 Benefits of the programmatic approach

16. The Feasibility Study (Annex 2a) recommends a programmatic approach instead of a static project approach. The programmatic approach will allow:

- Phased geographical upscaling of activities through a sequenced series of interlinked projects for different regions/provinces in the ER-P accounting area.
- A REDD+ Funding Window as a common financial mechanism at the centre of the programme.
- Common objectives aligning the constituent projects and contributing to the strategic goals of the forestry element of Lao PDR's NDC.
- A stronger emphasis on performance-based financing.
- A longer total duration of the programme compared to a single project.
- Scaling-up project activities while building up the capacity of Lao institutions.
- Taking advantage of synergies with other development programmes in the country.

17. The benefits of a programmatic approach include:

- **Impact:** Greater flexibility through constituent projects to gather data and learn iteratively for more effective and adaptive design and to achieve higher impact in subsequent projects (build up know-how and gather lessons learned).
- **Sustainability:** Higher potential for crowding-in more sustainable financing from diversified sources (more emission reductions, additional domestic revenues, larger endowment for the REDD+ Funding Window), utilising a hybrid financing mechanism for the entire programme and thereby increasing long-term financial sustainability.
- **Paradigm shift:** More time for communities, businesses, civil servants and regulators to adjust to the desired paradigm shift in the land-use sector through the extended duration of the programme.
- **Efficiency:** Greater flexibility to improve project management and reduce transaction costs over time, in particular through the common financing mechanism (the REDD+ Funding Window).
- **Integration:** Better linkage with the programmatic approach of the FCPF ER Program.
- **Convergence:** A more open platform for coordination and harmonisation of existing co-financing contributions (ADB, IFAD, KFW, JICA) towards the NDC forestry objectives, as well as a vehicle for attracting additional co-financing.

Table 1: Programme Core Indicator Targets

Expected tonnes of carbon dioxide equivalent (t CO₂ eq) to be reduced or avoided (mitigation only)	Annual	6 million t CO ₂ eq
	Lifetime	144.7 million t CO ₂ eq
Estimated cost per t CO₂ eq, defined as total investment cost / expected lifetime emission reductions (mitigation only)	(a) Total project financing	162.7 million Euros
	(b) Requested GCF amount	62.7 million Euros
	(c) Expected lifetime emission reductions ²	144.7 million t CO ₂ eq
	(d) Estimated cost per t CO₂eq (d = a / c)	1.12 Euros / t CO₂eq
	(e) Estimated GCF cost per t CO₂eq removed (e = b / c)	0.69 Euros / t CO₂eq
Expected volume of finance to be leveraged by the programme as a result of the Fund's financing (mitigation only)	(f) Total finance leveraged	747 million Euros
	(g) Total Leverage ratio (i = f / b)	7.5
Expected total number of direct and indirect beneficiaries, (disaggregated by sex)	Direct	254,800 rural beneficiaries 50% female
	Indirect	412,650 rural beneficiaries 50% female
Number of beneficiaries relative to total population (disaggregated by sex)	Direct	4% of national (4% of women)
	Indirect	5% of national population (5% of women)

A.22.3 Coherence among constituent projects

² 20-year programme influence period.

18. All three constituent projects of the programme contribute to reducing emissions and increasing carbon sequestration in forest ecosystems of the accounting area. All funded activities in each project have the purpose of contributing to this goal directly or to improving the framework conditions to implement, sustain and safeguard those activities that contribute directly to this goal.
19. The constituent projects complement each other to achieve outcomes beyond those that could be achieved by isolated, one-off interventions, including through:
- Combining the mitigation potential, and therefore the potential for accessing results-based payments, at the scale necessary to sustain mitigation activities without subsequent programme support.
 - Preventing leakage.
 - Exchange and learning between participating stakeholders.

The constituent projects apply common implementation arrangements, including a:

- Joint, inclusive governance structure.
- Centralised national financial mechanism (the REDD+ Funding Window) to allocate project financing and results-based payments according to the FCPF benefit-sharing plan.
- Common Environmental and Social Framework, including a Management Plan and an Ethnic Groups Engagement Plan.
- Common monitoring framework.

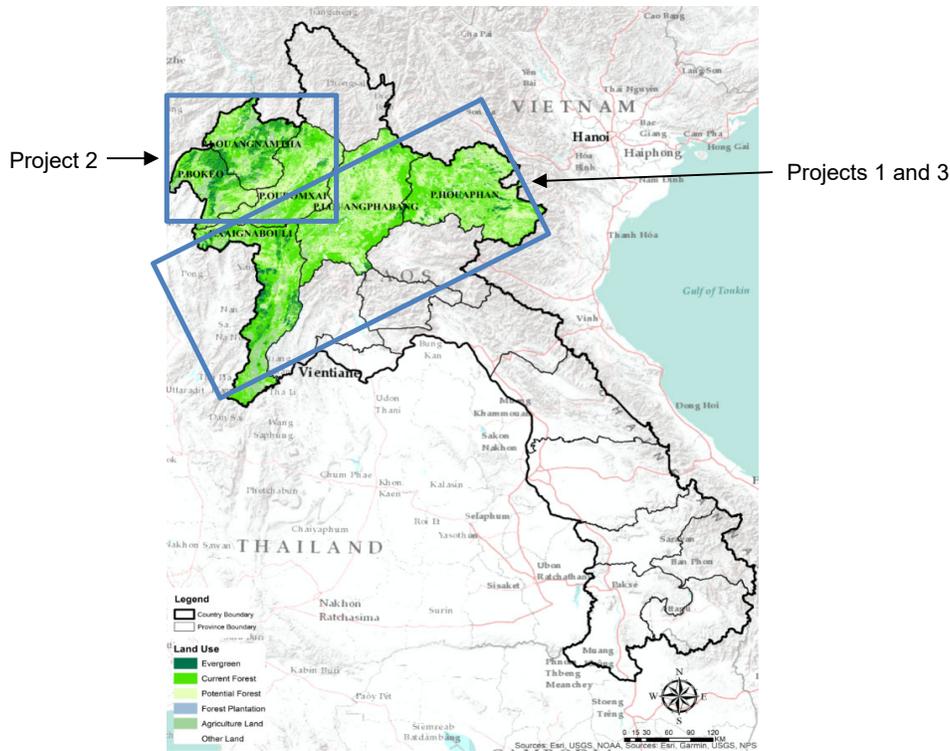
A programme is, therefore, more efficient and effective in terms of both its costs and impacts.

A.22.4 Programme Area

20. The envisaged programme, in which Project 1 is embedded, serves as the cornerstone instrument for successful implementation of the Laos Emission Reduction Programme (ER-P). Both cover the same six provinces in northern Laos: Houaphan, Luang Prabang, Sayaboury, Luang Namtha, Bokeo and Oudomxay (see Figure 2 below and the maps in Annex 16). The programme location constitutes 35% of the national territory and 32% of the country's forest cover. Because the programme operates in precisely the same target area as the ER-P, its mitigation outcomes can be accounted for using the same MRV institutions and processes that have been built up for the ER-P and will directly unlock FCPF results-based payments.
- 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.
 - Project 1 (mid-2020 to mid-2024) and Project 3 (mid-2024 to end-2029) will be implemented consecutively. This back-to-back structure will: enable the establishment and testing of the institutional and operational arrangements for the programme, including, for example, the REDD+ Funding Window at central level and the FPIC process at local level; facilitate implementation of local investments and mitigation actions at a more manageable, smaller scale (200 communities in Project 1); avoid overstretching the available implementation capacities of partners before scaling-up the number of communities to 400 in Project 3; generate sufficient emission reductions in time for the FCPF Carbon Fund sunset date of 2024; and set-up the programme in which the Projects are embedded to be in a position to access additional results-based payments from other sources after 2025 by taking the lessons learned of Project 1 into account and scaling-up the number of participating communities to 400 in the same geographical area (Project 3) as well as expanding the geographical area (Project 2).
 - Project 2 (2022 to end-2029) addresses the three remaining provinces of Luang Namtha, Bokeo and Oudomxay. Introducing Project 2 at a later date will enable the programme in which the Projects are embedded to benefit from lessons learned in Projects 1 when expanding the geographical scope of the programme. It will also align with KfW's investments, which will produce useful preparatory outputs, including land use plans in 103 villages in Bokeo and Luang Namtha provinces up to 2021, when KfW support is scheduled to phase out. These villages are target villages for Project 2.
21. The combined area of deforestation and forest degradation in the programme area is approximately 20,000 ha/year. Approximately 40% of total national deforestation and degradation takes place within the selected six provinces – 65% (13,000 ha/year) in the three provinces included in Projects 1 and 3 and 35% (7,000 ha/year) in the three provinces included in Project 2. Each of the six provinces has developed Provincial REDD+ Action Plans

(PRAPs – see Annex 22), which analyse key drivers of deforestation, major barriers, and proposed actions and measures to reduce emissions from deforestation and forest degradation.

Figure 2: The Programme Area in the Lao PDR Context



22. *Selection of districts.* Of the 50 districts in the six provinces, 28 districts have been selected for programme support. The selected districts cover 72% of the remaining high-carbon-stock area in the six target provinces (3.1 million ha out of 4.3 million ha). Projects 1 and 3 contain 16 districts and Project 2 contains 12 districts. The selection process for the districts combined detailed quantitative and qualitative considerations, which are described in Chapter 2.5 of the Feasibility Study (Annex 2a) and shown in Annex 16b.

Table 2: Project Coverage of Programme Districts

Projects 1 and 3	Project 2
Houaphan Province: Hiem, Houameung, Viengxai, Xam Nuea, Xamtai, Xone , Sopbao	Luang Namtha Province: Long, Luang Namtha, Nalee, Viengphouka
Sayaboury Province: Hongsa, Phaklai, Phieng, Sayabouri, Thongmixai	Bokeo Province: Houayxai, Mueng, Paktha, PhaOudom
Luang Prabang Province: Nan, Phonthong, Phonxai, Viengkham, XiengNgeun	Oudomxay Province: Beng, NaMo, Nga, Xai

23. For each selected district, a deforestation risk assessment was conducted to prioritise GCF investments and to ensure the highest possible impact. The risk assessment estimated the probability of deforestation and forest degradation due to agricultural expansion in the selected districts. Factors such as elevation, distance to roads and current land use classes were taken into account in classifying the risk and identifying potential target villages.³ The programme in which the Projects are embedded will serve approximately 700 villages – 400 in Houaphan, Sayaboury and Luang Prabang provinces (200 in Project 1 and the full 400 in Project 3) and 300 in Luang Namtha, Bokeo and Oudomxay provinces in Project 2. (For environmental, social, FPIC and gender considerations, see Section G).

³ The 28 district-level deforestation and degradation risk maps are provided in Annex 16.

PROJECT INFORMATION

B.1. Climate rationale and context

B.1.1. Context

24. The Lao People's Democratic Republic (Lao PDR) is a landlocked least developed country (LLDC) in Southeast Asia. The country covers an area of 24 million hectares, has a population of 6.9 million⁴ and an average per capita income of USD 2,270.⁵ The country has a human development index (HDI)⁶ of 0.601, ranking it 139th (out of 189) globally.⁷ The country's economy is dependent on natural resources, especially forestry, agriculture, electricity generation (especially hydropower) and mining. Agriculture, forestry and fisheries account for 16% of GDP and employ 64% of the Lao workforce.⁸
25. The agricultural sector consists primarily of subsistence farmers and is characterised by low yields due to limited use of high-quality inputs such as seeds and fertilizer, low soil quality, limited irrigation and insecure land tenure.⁹ Significant crops include rice, maize, sugarcane and cassava. Some 80% of the population are heavily reliant on forests for timber, food, fuel, shelter, medicines and spiritual protection¹⁰. Lao forests are at the heart of the globally-recognised Biodiversity Hotspot Indo-Burma.¹¹ Forest cover accounts for 58% of the country's surface area, significantly lower than the 70% forest cover of the mid-1960s. In the past fifteen years, net forest loss has amounted to approximately 680,000 ha, the equivalent of losing 175 soccer fields per day.¹² The situation regarding forest degradation – which encompasses reductions in forest stocking, changes in species composition and size structure, and loss of wildlife and plant habitats – is as concerning as deforestation.¹³
26. Lao PDR's historical GHG emissions due to deforestation and forest degradation amounted to 34.1 million tCO₂eq/year in the period 2005-2015, with an increasing trend in 2010-2015. Carbon removals due to reforestation and forest restoration (-7.53 million tCO₂eq/year) are a small fraction of carbon emissions, resulting in **net annual average GHG emissions of 26.6 million tCO₂eq from land use change and forestry in the period 2005-2015**.¹⁴ Overall, the forestry and land use change sector is responsible for 67% of Lao PDR's emissions, and agriculture contributes a further 28%.¹⁵
27. In its Second National Communication to the United Nations Framework Convention on Climate Change (UNFCCC)¹⁶, Lao PDR identifies itself as an LDC with limited adaptive capacities that is highly vulnerable to climate change impacts. The country is considered to have a high risk of river flooding, landslides, cyclones and wildfires, a medium risk for extreme heat, and a low risk for water scarcity. Within Lao PDR, poor and marginalised groups disproportionately face climate risks, among them temperature increases and erratic rainfall, given that they are more exposed to such changes and generally have a lower capacity to adapt given their reliance on the immediate environment. Although this GCF proposal is a mitigation (REDD+) initiative, the proposal incorporates interventions that will promote climate change adaptation – notably enhanced land-use planning, improvements to irrigation infrastructure, reforestation in catchment areas and climate-smart agriculture.

⁴ Lao Housing and Population Census, 2015

⁵ World Bank: <https://data.worldbank.org/country/lao-pdr?view=chart>

⁶ HDI takes into account three dimensions to assess the level of development of a country: a long and healthy life (life expectancy at birth), knowledge (expected years of schooling, mean years of schooling), and a decent standard of living (GNI per capita). Additional information can be found at: <http://hdr.undp.org/en/content/human-development-index-hdi>

⁷ UNDP (2018), *Human Development Indices and Indicators: 2018 Statistical Update*: http://www.hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf

⁸ World Bank: <https://data.worldbank.org/country/lao-pdr?view=chart>

⁹ GIZ (2018), *Towards Responsible Agricultural Investment in Lao PDR: A Study of Agribusiness Experiences*.

¹⁰ NAFRI (2006), *Improving Livelihoods in the Uplands of Lao PDR – A Sourcebook*, <http://www.mekonginfo.org/assets/midocs/0001773-environment-improving-livelihoods-in-the-uplands-of-the-lao-pdr.pdf>

¹¹ See <https://www.cepf.net/our-work/biodiversity-hotspots/indo-burma> and MAF (2010), Fourth National Report to the Convention on Biological Diversity

¹² FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

¹³ Thomas, I. L. (2015), *Drivers of Deforestation in the Greater Mekong Sub-region - Lao PDR Country Report*

¹⁴ FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

¹⁵ WRI CAIT database (2014 data), <https://www.climatewatchdata.org/countries/LAO?source=31>

¹⁶ Lao PDR Second National Communication to the UNFCCC (2013), <https://unfccc.int/sites/default/files/resource/Laonc2.pdf>

B.1.2. Policy Framework

28. The importance of forest resources and their sustainable management is enshrined in the country's highest-level policies, including the **8th National Socio-Economic Development Plan** (8th NSEDP, 2016-2020), the **Green Growth Strategy** (currently being drafted), the **Central Party Resolution on Land** (2017), the **Forestry Strategy 2020**, as well as in **Lao PDR's Nationally Determined Contribution (NDC)**.¹⁷
29. Laos's NDC places significant weight on the forestry sector, establishing a forest cover target of 70% as well as activities for regeneration of degraded forests. The underlying Forestry Strategy 2020 identifies the following sector targets:
- To improve the quality of forests by naturally regenerating up to six million ha and planting (including through assisted natural regeneration) trees in unstocked forest area of up to 500,000 ha as an integral component of a rural livelihood support system encompassing stable water supplies and prevention of natural disasters (floods and landslides).
 - To provide a sustainable flow of forest products for domestic consumption and to generate revenue through wood processing sales and exports, contributing to livelihood improvement, fiscal revenue and foreign exchange earnings whilst increasing direct and indirect employment.
 - To preserve the many species and unique habitats which are, for different reasons, under threat.
 - To conserve the environment, including protection of soil, conservation of watersheds and combating climate change.
30. In 2018, the government complemented the NDC and Forestry Strategy with the **National REDD+ Strategy (NRS)** to 2025 and **National REDD+ Vision** to 2030 as the official government documents for guiding REDD+ implementation. The National REDD+ Strategy and Vision aim to improve the quality and extent of forests nationwide to provide economic, social and environmental benefits. The policies require all stakeholders, including households, communities and the private sector, to actively participate in the reduction of deforestation and degradation, and the promotion of forest restoration and reforestation.
31. Laos has been a partner country in the Forest Carbon Partnership Facility (FCPF) since 2008. Its Readiness Preparation Proposal (R-PP) was accepted in late 2010, its Emission Reductions Programme Idea Note (ER-PIN) was approved in March 2016 and its Emission Reductions Programme Document (ER-PD) was accepted into the FCPF Carbon Fund without conditions at the 18th Carbon Fund Participants Meeting in June 2018.¹⁸ A key component of the ER-PD is the articulation of the government's comprehensive strategy to reduce GHG emissions and increase removals from the forest sector in the six target provinces – Houaphan, Luang Prabang, Sayaboury, Luang Namtha, Bokeo and Oudomxay – that comprise the Laos Emission Reductions Programme (ER-P) area. Project 1 and the following projects of the envisaged programme form a cornerstone of ER-P implementation and shares an identical target area (and accounting system) as the ER-P. This six-province strategy of the ER-P is an aggregation and synthesis of Provincial REDD+ Action Plans (PRAPs) developed for each target province in the period 2016-2018.¹⁹
32. The government, together with development partners, has put in place an extensive institutional framework at national and sub-national levels to implement REDD+, including the ER-P. This framework includes the establishment of a National REDD+ Task Force, representing diverse economic sectors, including forestry, agriculture, mining, energy and land use planning, as well as including representatives from the Ministry of Justice, Ministry of Finance, Ministry of Planning and Investment, the Lao Front for National Development (LFND), the Lao Women's Union (LWU) and the Lao Chamber of Commerce; six Technical Working Groups covering the legal framework, land tenure, MRV/REL, safeguards, benefit-sharing, and enforcement and implementation of mitigation activities; REDD+ Offices and REDD+ Task Forces at provincial level; and the development of the National REDD+ Strategy, the Forest Reference Emission Level (FREL) and Forest Reference Level (FRL), the National Forest Monitoring System (NFMS) and the Strategic Environmental and Social Assessment (SESA).
33. In parallel, the government has, in recent years, embarked on a number of reforms that provide a platform for launching GCF project interventions. In 2012, the government issued a suspension on granting of new concessions for mining, eucalyptus and rubber investments, which remains in effect today.²⁰ A national

¹⁷ <https://www4.unfccc.int/sites/NDCStaging/Pages/Search.aspx?k=Lao%20People%27s%20Democratic%20Republic>

¹⁸ <https://www.forestcarbonpartnership.org/carbon-fund-eighteenth-cf18-june-20-22-2018-paris>

¹⁹ The PRAPs are provided in Annex 22.

²⁰ Prime Minister Order No. 13 (2012): *Moratorium on New Concessions for Mining, Rubber and Eucalyptus Plantations*

moratorium on logging in production forests has been also in effect since 2013 in order to protect natural forests from unsustainable exploitation.²¹ In 2016, the government put in place measures to halt illegal logging and illegal timber exports; this is already demonstrating significant impact and underlies the ongoing FLEGT Voluntary Partnership Agreement (VPA) negotiations with the EU.²² The adoption of the Central Party Committee Resolution on Land in 2017, indicating the need for reform in land management, is paving the way for a new Land Law in 2019. The Forestry Law (2007), which determines the basic principles, regulations and measures for the use of forest and forestland, is currently under revision to address emerging domestic and international challenges facing the sector. Moreover, since 2016 all responsibilities for forestry have been returned to one ministry, the Ministry of Agriculture and Forestry (MAF), thereby promoting 'joined up' policy development and implementation.

34. In summary, Lao PDR is positioned to embark upon an ambitious transformation of its forest sector. The NDC establishes the government's climate action framework and accords forestry and agriculture prominent roles. The National REDD+ Strategy establishes REDD+ as the national organising framework for climate mitigation in the forestry sector. The ER-P is the key government initiative to operationalise the National REDD+ Strategy. And Project 1, which is part of a broader programme, will form the cornerstone instrument for implementing the ER-P. As outlined below, the project is explicitly designed around the ER-P, sharing the same target geographical area and accounting and MRV methodologies, and building the capacity of the country to generate REDD+ results-based payments from the ER-P and to channel the revenues from these payments back to stakeholders for reinvestment in sustainable forestry practices.

B.1.3 Project Area

35. The northern region of Laos is characterised by hilly topography, remote accessibility and limited public and industrial infrastructure, unique ethnic communities and a persistent prevalence of poverty. Project 1 addresses the three provinces of Houaphan, Sayaboury and Luang Prabang (see Figure 2) since they 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 and forest degradation. In addition, the geographical locations of these three provinces enable connectivity of forest ecosystems at a landscape level.
36. Within these provinces, the project will serve approximately 200 villages in the following 16 districts:
- *Houaphan Province*: Hiem, Houameung, Viengxai, Xam Nuea, Xamtai, Xone, Sopbao
 - *Sayaboury Province*: Hongsa, Phaklai, Phieng, Sayaboury, Thongmixai
 - *Luang Prabang Province*: Nan, Phonthong, Phonxai, Viengkham, XiengNgeun
37. The selection process for the districts combined detailed quantitative and qualitative considerations, which are described in Chapter 2.5 of the Feasibility Study (Annex 2a) and are shown in Annex 16b. For each selected district, a deforestation risk assessment was conducted to prioritise GCF investments and to ensure the highest possible impact. The risk assessment estimated the probability of deforestation and forest degradation due to agricultural expansion in the selected districts. Factors such as elevation, distance to roads and current land use classes were taken into account in classifying the risk and identifying potential target villages.²³ (For environmental, social, FPIC and gender considerations, see Section G).

B.1.4 Baseline Scenario: Emissions from, and Drivers of, Deforestation and Forest Degradation

38. The baseline greenhouse gas (GHG) emissions scenario has been analysed thoroughly as part of Lao PDR's engagement with REDD+ (the UNFCCC Forest Reference Emission Level (FREL))²⁴ and the FCPF Carbon Fund (the Reference Level (RL) of the ER-P).²⁵ The RL estimates net GHG emissions of 7.9 million tCO₂eq per year from the forest sector in the six northern provinces that constitute the programme area, driven primarily by forest degradation (6.8m tCO₂eq/year) and deforestation (3.8m tCO₂eq/year), which are only partially offset by slight gains from reforestation (-1.4m tCO₂eq/year) and forest restoration (-1.3m tCO₂eq/year).

²¹ Prime Minister Order No. 31 (2013): *Temporary Ban on Logging in National Production Forests*

²² Prime Minister Order No. 15 (2016): *Enhancing Strictness in the Management and Inspection of Timber Exploitation, Timber Movement and Timber Businesses*

²³ The 28 district-level deforestation and degradation risk maps are provided in Annex 16.

²⁴ https://redd.unfccc.int/files/2018_frel_submission_laopdr.pdf

²⁵ FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

39. Shifting cultivation is the greatest single proximate driver of deforestation and forest degradation in the project area, responsible for 22% of forest disturbances greater than 5 hectares in size. Agricultural land expansion (19%) and plantation agriculture development (13%) are also significant contributors. Other drivers include road construction (12%), selective logging (10%) and the establishment of tree plantations (7%).²⁶
40. Shifting cultivation, if managed properly (including control of fires), can be sustainable. However, a number of underlying factors are transforming it into an unsustainable, and highly damaging, practice in northern Laos:
- *Economic factors:* With increasing competition for land from cash-crops, combined with a growing population, fallow periods are becoming shorter, leading to lower productivity, increased soil degradation and the need to clear more forests for subsistence purposes. Expanding agriculture – notably upland rice, an important subsistence crop – into forest areas through slash and burn practices is typically a last resort among poor families with no other livelihood options. In this respect, shifting cultivation practices act as a safety net for poor and vulnerable groups.
 - *Agro-technological factors:* Upland rice yields are often limited by seasonal precipitation, as the crop is highly susceptible to drought, weed infestations and a lack of soil conservation practices to limit erosion. Continual planting of upland rice without intercropping can lead to significant reductions in soil fertility – as much as 80% over 5 years.²⁷ This reduction of yields drives villagers to clear new forest land that is more productive after clearance. After a few years, the productivity declines again and places pressure on other forest areas.
 - *Policy and institutional factors:* Insufficient and inappropriate land use planning is a major underlying cause of deforestation, either because of the complete absence of plans or through a lack of compliance with plans (which, in the past, have often been designed in a top-down manner involving limited consultation with villagers). The absence of integrated spatial planning, and village-level participatory land use planning in some villages, is a major underlying cause of deforestation from pioneering shifting cultivation. Uncertainty regarding land uses and border demarcation can lead to unclear rules and gradual encroachment into forests. Even when village land use plans have been developed, without adequate incentive mechanisms to encourage implementation, or sanctions discouraging non-compliance, plans often are ignored. Monitoring the overall compliance with land use plans is weak in many villages and districts, and often areas under cultivation are under-reported, as many areas are illegally cleared.²⁸ Unclear land and resource rights and land allocation remain a challenge. Land allocation processes, especially in rural areas, have been hindered by a lack of government capacities, resources and equipment.²⁹
41. The expansion of agricultural land (permanent agriculture) and plantation agriculture in the project area is driven by:
- *Economic factors:* Strong regional markets, especially in neighbouring countries, continue to drive the production of key agricultural export commodities such as rubber, sugar cane, maize and cassava. Demand from Chinese and Vietnamese markets is increasing and incentivises the clearing of forests for agriculture. Lao SMEs play an important role in these supply chains, as they typically act as traders between Lao producers and Chinese and Vietnamese markets. A further analysis of the role of markets and SMEs can be found in Chapter 2 of the Feasibility Study (Annex 2a). Cultivation of cash crops is seen as a direct route out of poverty for households and as an important economic pillar for provincial governments. While such commodities and markets are important for economic development in Lao PDR, weak land use planning, law enforcement and agro-technological factors contribute to unsustainable conversion of forested land for agricultural cultivation.
 - *Agro-technological factors:* The use of low-yield crop varieties, a lack of appropriate management practices and nitrogen loss in soil due to continual planting of crops lead to additional forest being cleared for agriculture. While yields have improved with the adoption of contract farming systems, which have provided farmers with improved maize varieties and agricultural inputs, challenges associated with mono-cropping on steep slopes are still common.

²⁶ *Ibid.*

²⁷ Linquist, B., Saito, K., Keoboulapha, B., Phengchan, S., Songyikhansutho, K., Phanthalaboon, K., Vongphoutone, B., Navongsai, V., Horie, T. (2005), 'Improving Rice-Based Upland Cropping Systems for the Lao PDR', in: *Shifting Cultivation and Poverty Eradication in the Uplands of the Lao PDR: Proceedings*, National Agriculture and Forestry Research Institute (NAFRI): p.299-313.

²⁸ Wildlife Conservation Society and GIZ (2015), *Report on the Assessment of Drivers of Deforestation and Forest Degradation in Houaphan Province*, <https://www.giz.de/en/downloads/Houaphan-Drivers-of-Deforestation-Report.pdf>

²⁹ FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

- **Policy and institutional factors:** Land use plans and targets established in provincial and district Socio-Economic Development Plans (SEDPs) are often unaligned, and lead to an inability to monitor and enforce compliance with plans, policies and regulations. For instance, the SEDP for Houaphan province has established an official target for the agricultural area of 70,545 ha by 2020; however, aggregation of the constituent district SEDP targets results in a total agricultural area that is three times larger than the provincial target. Inconsistencies in master planning and zoning are a major underlying cause of deforestation, as these plans are not reflective of the actual land use activities that are implemented.

42. The primary barriers to sustainable forestry management and reforestation include gaps in forest governance and regulation, poor land use planning, lack of long-term financing for forest management, and insufficient skills and experience in sustainable forest management. Detailed analysis of these barriers can be found in Chapter 2 of the Feasibility Study (Annex 2a).

B.1.5 Baseline Projects

43. A number of projects have been, and continue to be, implemented in the Project 1 target region. Extensive consultations have been undertaken with these projects: the design of Project 1 builds upon their lessons learned and seeks to complement their interventions. A detailed analysis of all relevant baseline initiatives is provided in Chapter 1.10 of the Feasibility Study (Annex 2a). Key initiatives include:
44. **Climate Protection through Avoided Deforestation (CliPAD):** Government of Germany (BMZ, through GIZ and KfW), 2009-2021. The CliPAD project objective is to meet the key conditions for Lao PDR to receive FCPF REDD+ performance-based payments. The four components are: (i) national REDD+ support, (ii) Provincial REDD+ Action Plan (PRAP) development, (iii) access to climate finance, and (iv) implementation of village forest management. CliPAD is closely linked to Activities 1.2, 1.4 and 3.1 of the Project 1 design (see below, Section B.3). The fourth phase of CliPAD (2019-2021), funded by BMZ, will provide co-finance for Project 1.
45. **Protection and sustainable use of Forest Ecosystems and Biodiversity (ProFEB),** including its component **Support to the Lao-EU FLEGT³⁰ process (ProFLEGT):** Government of Germany (BMZ, through GIZ), 2013-2021. The objective of ProFEB/ProFLEGT is to improve governance in the forestry sector and to support the government of Lao PDR in its efforts to conclude a bilateral voluntary partnership agreement (VPA) with the EU on the trade in timber products whose provenance is legally verified. The VPA will set out the legal obligations and the measures to be undertaken by both parties to combat illegal logging. ProFLEGT includes the development of timber legality definitions (TLDs) and a timber legality assurance system (TLAS) for timber from different sources; it represents an essential contribution to Activities 1.4 (forest law enforcement), 2.1 (deforestation-free agricultural practices and agroforestry), 3.1 (village forestry) and 3.2 (sustainable forest management) of Project 1. The TLDs and TLAS define what constitutes legally-produced timber, how to control the supply chain, how to verify legally-sourced timber and how to issue licences.
46. **Village Forestry Management (VFM):** Government of Germany (BMZ, through KfW), 2019-2025. The objective of the VFM project is the improvement of forest ecosystems and the livelihoods of the people living in the project area through the sustainable management of village forests. The project commenced in July 2019 and close cooperation within Activity 3.1 of Project 1 is foreseen. The VFM pilot districts are also Project 1 target districts: Phiang district in Sayaboury province and Phonexay district in Luang Prabang province. The VFM project's commitment in the districts of Phonexay and Phiang is reflected in the budget for Project 1, since no budget from the GCF is allocated to those two districts for Village Forest Management Planning or for the implementation of annual operational plans. Furthermore, no equipment will be procured through the GCF budget for forest officials in these two districts, with those costs being covered by the KfW VFM project.
47. **Land Management and Decentralised Planning (LMDP):** Government of Germany (BMZ, through GIZ), 2015-2019. The LMDP project objective is to improve policies, practices and planning processes in relation to land use in Lao PDR, particularly among investors, village authorities and villagers. The five components are: (i) provision of policy and technical advice to the Lao government on improving land governance, (ii) land use and spatial planning, (iii) land registration, tenure security and improved knowledge of villages on land issues, (iv) decentralised development planning, and (v) promoting high-quality investment promotion. The LMDP project is closely linked to Activity 1.5 of the Project 1 design. The LMDP project also focuses on registration of plots of land

³⁰ Forest Law Enforcement, Governance and Trade.

and Project 1 complements this by addressing boundary demarcation. Two of the four LMDP project provinces overlap with Project 1 target areas – namely Houaphan and Sayaboury.

48. **Integrated Conservation of Biodiversity and Forests (ICBF):** Government of Germany (BMZ, through KfW), 2015-2022. The ICBF project objective is the effective management of selected target landscapes (comprising national protected areas (NPAs) and corridors) that sustain biodiversity in forest ecosystems, while supporting livelihoods of forest-dependent villages. The project is active in two NPAs in two GCF Project 2 provinces – Luang Namtha and Bokeo – and will continue activities there until 2022. The components are: (i) improved planning and management of NPAs, (ii) improved law enforcement in two project biodiversity conservation landscapes, and (iii) sustainable land and forest management, including livelihood activities based on participatory land use planning (PLUP) established within the conservation landscapes. Activity 3.3 (national conservation forest management) of Project 1 builds upon the ICBF project and its approaches on capacity building, strengthening data/information quality and availability, awareness creation, institutional development and support, border demarcation and biodiversity monitoring. Other Project 1 Activities will benefit from the ICBF project's experience, notably the ICBF project's engagement with the private sector (which links particularly to Activities 2.1 and 2.2), law enforcement (Activity 1.4) and coordination with village development funds (Activity 2.1).
49. **Incentive Mechanisms for Private Sector Engagement Under REDD+ in Lao PDR:** FAO-implemented GCF readiness project, 2018-2020. The project addresses a number of focus areas, including: (i) private sector engagement for implementing REDD+ measures that contribute directly to Project 1 – notably Activities 1.3, 2.1, 2.2 and 3.1, and (ii) a systemic approach to GCF investment in the Lao forestry sector. Policy options and models that incentivise deforestation-free agriculture (including agroforestry) investments will be generated from this work that inform the implementation of Project 1.
50. **Sustainable Forest Management and REDD+ Support Project (F-REDD):** Government of Japan (JICA), 2014-2025. The F-REDD project aims to strengthen the capacity of the Lao forestry sector through strengthening policies, effective incorporation of REDD+ and improvement of forest resource information as the foundation of sustainable forest management. The four components are: (i) enhanced capacity of the government for policy development, implementation and sector coordination, (ii) enhanced quantification of emission reductions and removals resulting from the implementation of REDD+ activities at a national scale using the National Forest Monitoring System (NFMS), (iii) enhanced institutional development, management and coordination of the national REDD+ process, and (iv) enhanced REDD+ readiness in a pilot site. The F-REDD activities are closely linked to Project 1 Activity 1.6 and Outputs 2 and 3. JICA is an Executing Entity of Project 1 (alongside GIZ and the Government of Lao PDR – see Section B.4) and will be responsible for the implementation of Activity 1.6 in close coordination with the Forest Inventory and Planning Division (FIPD) of the Ministry of Agriculture and Forestry (MAF) and the GCF National Project Management Unit (NPMU). JICA will also co-finance the implementation of Project 1 in the province of Luang Prabang. As part of its contribution to Project 1, JICA also anticipates supporting interventions to enhance the FREL.³¹
51. **Sustainable Forestry for Rural Development (SUFORD):** IDA/Government of Finland, 2003-2013. The SUFORD project objective was to support Lao PDR to achieve sustainable management of production forests to alleviate rural poverty in project provinces by implementing forest policy reform actions and policies. The four components were: (i) support services for SFM, (ii) SFM and village development, (iii) forestry sector monitoring and control, and (iv) project management. Specific GCF Project 1 Activities and Actions build upon the SUFORD approach and key lessons learned from the implementation of the project. Informing Activity 1.4, for example, is the fact that in SUFORD-supported provinces (Sayaboury, Luang Namtha, Bokeo and Oudomxay) it was noted that while law enforcement staff had established basic skills and a systematic enforcement programme, a major challenge was to ensure sufficient funding given budget constraints. While the use of new tools was initiated (e.g. a national forestry reporting system, an internal monitoring system, a document management system, a budget planning system and a Department of Inspection information management system), it was noted that further support was needed to ensure that the use of these management tools became a routine activity.³² The design of Actions 1.4.1 (Strengthening procedures, standards and systems for law enforcement) and 1.4.2 (Training for implementation of enhanced law enforcement) have been informed by these SUFORD findings. Activity 3.1 builds on the substantial experience generated by the SUFORD project in actively involving villagers in forest

³¹ National MRV (2019) and ER-Programme MRV are expected to be the opportunities for developing knowledge for FREL enhancement. JICA, in collaboration with other partners, will technically support this process. For example, inclusion of other carbon pools (e.g. deadwood) and non-CO₂ gases could be considered. Degradation monitoring is another area to be further explored (both refinement of the current methodology and application of different methodologies).

³² See World Bank SUFORD project (2016), *Integrated Spatial Planning, Socio-Economic Development Planning, Awarding of Concessions and Lessons Learned for Forest Landscape Management*. Provided in Annex 21b.

management. The data for the production forests targeted under Activity 3.2 partially comes from SUFORD forest assessments.

52. The project is also fully aligned with the **GCF Country Programme** (updated in February 2019). The GCF Country Programme identifies REDD+ as one of four mitigation priorities. The increase and maintenance of forest cover is identified as one of five short-term priorities (mitigation and adaptation). The Country Programme specifically identifies the GIZ GCF project as a programming priority. Synergies with other GCF proposals that are planned or under development – including integrated food systems (UNDP), climate-friendly agribusiness (ADB) and climate-resilient smallholder farmers (WFP) – are noted, as well as synergies with a number of GCF readiness activities (notably, GIZ’s work supporting the Environmental Protection Fund to become an Accredited Entity and FAO’s support to private sector engagement with REDD+).
53. Past forestry and REDD+ projects have aimed at helping Lao PDR to become ‘ready’ in the context of the Warsaw Framework for REDD+. All past REDD+ interventions have been REDD+ readiness activities, explicitly designed to take Lao PDR through REDD+ Stage 1 of readiness, leading to the current situation where Lao PDR is, in principle, able to engage in Stage 2 (implementation) and receive results-based payments (Stage 3). Examples of past REDD+ readiness activities include: JICA setting up the MRV system and supporting the FRL/FREL, and BMZ (through CliPAD) supporting the ERPD process, safeguards and some piloting of mitigation actions. The FCPF Readiness support helped to develop the REDD+ Strategy. All of these initiatives ultimately helped Laos to be accepted into the FCPF Carbon Fund and, with project support, to be able to generate REDD+ payments.

B.2. Theory of change

B.2.1 Barriers

54. While the government is fully committed to implementing the Laos ER-P and the broader National REDD+ Strategy, there are barriers that need to be addressed with GCF support to ensure the success of the planned initiatives. Full details are provided in Chapter 2.2 of the Feasibility Study (Annex 2a). In summary, the barriers in the project area can be categorised as follows:
- *Lack of long-term sustainable financing for forest management and enforcement:* Government budgets are constrained and highly dependent upon donor support, partly because collection levels of legally-mandated forest-sector fees and taxes (e.g. income tax, timber harvesting taxes, land taxes) are low. While there is potential to expand and diversify sources of income for forest management (e.g. payment for ecosystem services linked to hydropower schemes and road tolls associated with infrastructure development), such measures have not been formalised or tapped at scale.
 - *Gaps in forest governance and regulations:* REDD+ is not fully mainstreamed into Socio-Economic Development Plans (SEDPs), and gaps and inconsistencies in forest regulations limit the effectiveness of forest governance. Notably, Prime Minister Order 31 (2013) prohibits logging within production forests but does not explicitly make an exception for participatory sustainable forest management; and Prime Minister Order 9 (2018) includes inconsistent incentives for smallholder engagement in village-based agroforestry.³³
 - *Insufficient land use planning and weak implementation and monitoring of land use plans:* Ineffective land use planning is contributing to deforestation through unclear land use rules, inconsistent (or absent) boundary demarcations, and weak monitoring and enforcement. Even where land use planning is applied, different planning processes pertain to agricultural land and forested land, resulting in disconnected strategies and monitoring.³⁴
 - *Insufficient law enforcement:* There is currently weak policy coherence and cross-sectoral coordination: policies continue to place emphasis on land use activities that support economic growth (e.g. cash crop cultivation, energy, etc.), while policies to safeguard forests are not given the same prominence and are not widely enforced. Law enforcement agencies such as the forest inspectorate are under-staffed and under-equipped, lacking up-to-date maps and GPS equipment, for example, and even lacking vehicles and budgets to travel to the field.

³³ An overview of the legal and regulatory framework governing the forest sector in Lao PDR is provided in Annex 22v.

³⁴ Dwyer, M. and Dejvongsa, V. (2017), *Forest and Agricultural Land Use Planning: A Strategic Analysis of the TABI Approach in Lao PDR*. A review of The Agro-Biodiversity Initiative commissioned by the Swiss Agency for Development and Cooperation.

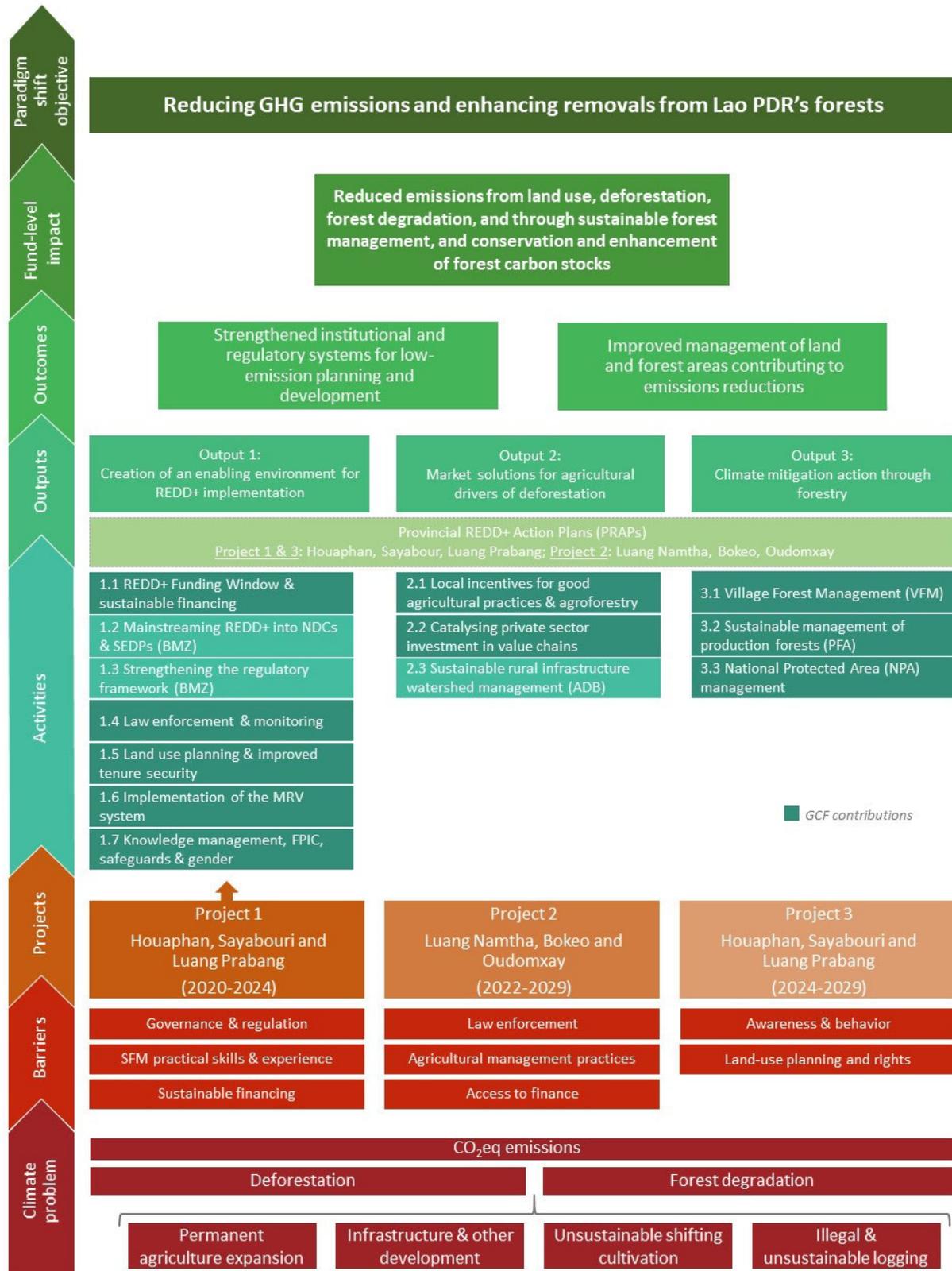
- *Insufficient practical experience and skills for implementing good agricultural practices:* Land use practices commonly applied in the Project 1 area are characterised by low productivity and cannot typically be considered 'good agricultural practice'.³⁵ Increased competition for commercial agricultural lands is shifting subsistence agriculture (upland rice, vegetables, etc.) and certain cash crops (e.g. maize, Job's tears and cassava) to less suitable forested upland areas. Tree-cutting and increasing land degradation are leading to lower productivity and producers seeking out more productive land, which is leading to further deforestation and forest degradation. Poor access to irrigation exacerbates the low productivity of agricultural production, as does the limited availability of government agricultural extension services.
- *Insufficient practical experience and skills for implementing sustainable forest management:* Weak policy coherence and limited coordination between competing policy priorities is a key barrier to the sustainable management of Lao PDR's forest resource, as is the illegal clearing and degradation of forested lands driven by inappropriate agricultural practices, insufficient land use planning and weak law enforcement (see above barriers).
- *Limited access to finance for local villagers and small and medium enterprises:* Poverty and lack of alternative livelihood opportunities (e.g. off-farm employment) have resulted in a high dependence on land and forests for household income in the project area. Nonetheless, there is a notable absence of financing opportunities for villagers and for small and medium-sized enterprises to invest in sustainable forestry and agro-forestry activities, because: (i) many Lao financial institutions have poor penetration in rural areas, making it physically difficult for remotely-located individuals and businesses to reach a bank branch; (ii) the available interest rates (typically around 10% in annualised terms) are high and act to discourage lending; (iii) financial institutions perceive lending to the agricultural and forestry sectors as risky; and (iv) many enterprises lack the capacity to prepare business plans or provide proper accounting, thereby discouraging financial institutions from lending to them.

B.2.2 Theory of Change

55. The project's theory of change is presented in the figure below, illustrating the causal progression from Inputs and Activities to Outputs, Outcomes and Impacts. Programme and constituent Project 1 interventions will target the barriers to REDD+ application and scale-up identified above.

³⁵ For further information on 'good agricultural practice', see the dedicated Chapter on this in the Feasibility Study (Annex 2a).

Figure 3: Theory of Change



B.3. Project description

B.3.1 Structure of Project 1

Output 1: Enabling environment for REDD+ implementation

56. Output 1 will support the creation of an enabling environment for REDD+ implementation through three principal means: enhancing the financing environment for forest sector transformation; revising and strengthening the legal and regulatory framework for forestry; and improving the enforcement of the new regulatory framework.
57. *Activity 1.1: REDD+ Funding Window and sustainable finance.* There is significant – but hitherto untapped – potential for Lao PDR to raise substantial, long-term climate finance. Project 1 is specifically designed to help Lao PDR to unlock REDD+ results-based payments from the FCPF. Additional sources of finance could include alternative REDD+ results-based payments (e.g. through the UNFCCC), domestic government revenues (fees, royalties, fines and taxes) and international impact investment, attracted by the combination of climate and social benefits that the Lao forestry and agriculture sectors offer. In this context, establishment of a Lao PDR REDD+ Funding Window will offer significant benefits for blending international, national, public and private sources of finance; for ensuring funds are earmarked for specific REDD+/land use actions; for channelling funds to intended beneficiaries (including communities, civil society and private sector actors); for ensuring the management of REDD+ finance meets defined fiduciary and safeguards criteria; and for providing a platform for multi-stakeholder coordination.³⁶

Two existing Lao funds, the Forest and Forest Resource Development Fund (FFRDF) and the Environmental Protection Fund (EPF), are good candidates to host the REDD+ Funding Window. The FFRDF (under the Ministry of Agriculture and Forestry, MAF) has a legal mandate to collect and disburse forest sector financing to the district and village levels. It funds forestry activities, including conservation and protection of watersheds and protected areas, tree planting, wildlife conservation and training. However, the FFRDF currently has limited capacity to manage and disburse significant amounts of financing that meet international fiduciary standards (see the Capacity Needs Assessment, Annex 22c). The KfW Integrated Conservation of Biodiversity and Forests (ICBF) project has initiated capacity development of the FFRDF and channels small grants through the FFRDF to village groups located close to National Protected Areas (NPAs). The EPF (under the Ministry of Natural Resources and Environment, MoNRE) has a less forest-specific mandate to finance environmental protection, sustainable natural resources management, biodiversity conservation and community development, and it can provide financial support by means of non-refundable grants, preferential loans and interest rate subsidies. Currently, the main source of financing that the EPF channels to various Sub-project Delivery Agencies (SDAs) is from the World Bank Second Lao Environment and Social (LENS2) project.³⁷ The EPF is currently receiving technical support from a GIZ-implemented GCF readiness project to become a GCF Accredited Entity.³⁸

The FFRDF has a natural legal and sectoral mandate to operate the REDD+ Funding Window but is currently unable to exercise this capability, whereas the EPF has a broader (environmental) mandate but a proven track-record of disbursing finance according to international standards (more than USD 50m to date). GCF Project 1 will provide support to both institutions and will adopt a phased approach. The project will work with the EPF to set up and operationalise the REDD+ Funding Window, which will be used to channel GCF grant resources to target beneficiaries (see Outputs 2 and 3 below) and will also be used as the distribution channel for FCPF results-based payments and other sources of REDD+ finance. In parallel, the capacity of the FFRDF will be built up through technical assistance and through operational participation in the REDD+ Funding Window. If and when the FFRDF meets specified performance milestones (for example, passing a GIZ due diligence assessment), the FFRDF will assume progressively more responsibility, until eventually the entire REDD+ Funding Window is transferred from the EPF to FFRDF. An alternative scenario under consideration by the Government involves an eventual merger of the EPF and FFRDF.

Under the REDD+ Funding Window, it is anticipated that the FFRDF will receive grant resources from the EPF and will, in turn, channel small grants to local village communities. In order to be able to receive such grant payments,

³⁶ UNDP (2012), *National Climate Funds: Learning from the Experience of Asia-Pacific Countries*, available at: http://www.asia-pacific.undp.org/content/dam/rbap/docs/Research%20&%20Publications/environment_energy/ncf/APRC-EE-2012-NCF-DiscussionPaper-Asia-Pacific.pdf

³⁷ <http://documents.worldbank.org/curated/en/104251468179365818/Lao-People-s-Democratic-Republic-Second-Phase-of-Lao-Environment-and-Social-Project-LENS2-Implementation-support-mission-May-4-to-27-2015>

³⁸ GCF Readiness and Preparatory Support (2018-2019), *Support for the Accreditation of the Lao PDR Environment Protection Fund to the GCF*. Implemented by GIZ.

villages will need to have appropriate systems in place. Community-managed financial institutions, such as Village Development Funds (VDFs), offer considerable potential for outreach and financial inclusion.³⁹ If managed well, they can effectively assume a large part of local financial intermediation with minimal set-up and running costs. Accordingly, each of the Project 1 target villages will, upon request, be supported in starting and operating a Village Development Fund. GIZ has more than a decade of experience in supporting the establishment of VDFs. Project 1 will build on this work by assessing the current situation in terms of VDFs in 200 villages (and subsequently scaling up to 400 villages in Project 3). Of the 200 target villages, approximately 70 are believed to already have well-functioning VDFs, but this number – and their levels of functionality – will be verified in the assessment. Based on the assessment, an approach will be formulated to address current needs (i.e. the need for new VDFs and the need to support existing VDFs) and to outline suitable approaches to channel funding to villages. This assessment and concept development will be financed by BMZ (i.e. it will not require GCF financial assistance). Where needed, Project 1 will strengthen the capacities of VDFs and will provide financial support to expand into target villages not yet covered.

As in many low-income countries, individuals and small and medium-size enterprise (SME) agribusinesses in Lao PDR typically face multiple constraints on growth. A key barrier is access to finance and, specifically, limited lending from commercial banks to agribusinesses. Many SMEs have poor financial management skills, such as accounting and the ability to prepare business plans. This makes banks hesitant to lend to these SMEs, for fear that poor management will result in non-repayment. Another factor is the poor geographical coverage of many banks in the country; many financial institutions do not have branches in district capitals, let alone in rural areas. Moreover, high interest rates available to the sector (typically 10% or higher) further discourage lending. These factors result in a low level of commercialisation of the agricultural sector, and the lack of enterprises' access to external markets.

Activity 1.1 consists of 4 Actions:

- *Action 1.1.1: Mobilising sustainable forest sector financing.* Project 1 will assist the government in developing a common vision and strategy for long-term REDD+ financing, based on a detailed situation analysis of forest sector production, private sector activity and financing streams. The assessment will outline recommendations for actions to increase forest sector financing from existing legally-approved sources, such as timber fees; potential new domestic sources such as payments for ecosystem services (PES) from the hydropower industry; international climate finance from donors, foundations and market mechanisms; and international private sector finance from, for example, impact investors seeking 'double bottom line' social and financial returns from deforestation-free agriculture. An action plan to increase revenue generation will be prepared together with the responsible government entities (notably, the Department of Planning and Finance under MAF, MoNRE and the Ministry of Finance).
- *Action 1.1.2: Enabling the EPF and FFRDF to establish and operate the REDD+ Funding Window*
 - The EPF will receive GCF funds for a number of defined Project 1 activities – see the Activity descriptions below, particularly relating to Outputs 2 and 3. With the input of the National Project Management Unit (NPMU), the EPF will, through the REDD+ Funding Window, then disburse and monitor funds to Project 1 beneficiaries, including national and sub-national government entities, Village Development Funds (VDFs) via the FFRDF, CSOs and SMEs. The EPF's roles and responsibilities in this regard are outlined in the Project Implementation Manual (PIM, Annex 22e). Additionally, a Project Operational Manual (POM) will be developed within the first few months of Project 1 commencement. Figure 4 below provides a graphical overview of the financial flows and beneficiaries associated with the REDD+ Funding Window.
 - The FFRDF will be supported in redesigning its governance structure and developing standard operating procedures (SOPs), manuals and internal guidance documents that meet international fiduciary and safeguards standards. This will also require the introduction of IT infrastructure that allows FFRDF to operate professionally and to undertake financial transfers managed on an electronic basis.
 - Based on its newly-developed standard operating procedures, FFRDF staff will be provided with training and capacity development support to build the needed skills. FFRDF staff will also work closely with EPF counterparts (with formal secondments being considered) to provide them with on-the-job exposure to the operations of the REDD+ Funding Window.
 - The EPF, through the REDD+ Funding Window, will transfer small grants to the FFRDF and slowly increase their size based on performance. The FFRDF will be responsible for intermediating village-based grants for activities in target villages in the framework of Activities 2.1 and 3.1-3.3 of Project 1, and in compliance with the eligible activities of FFRDF Decree PMO No 38 (2005).

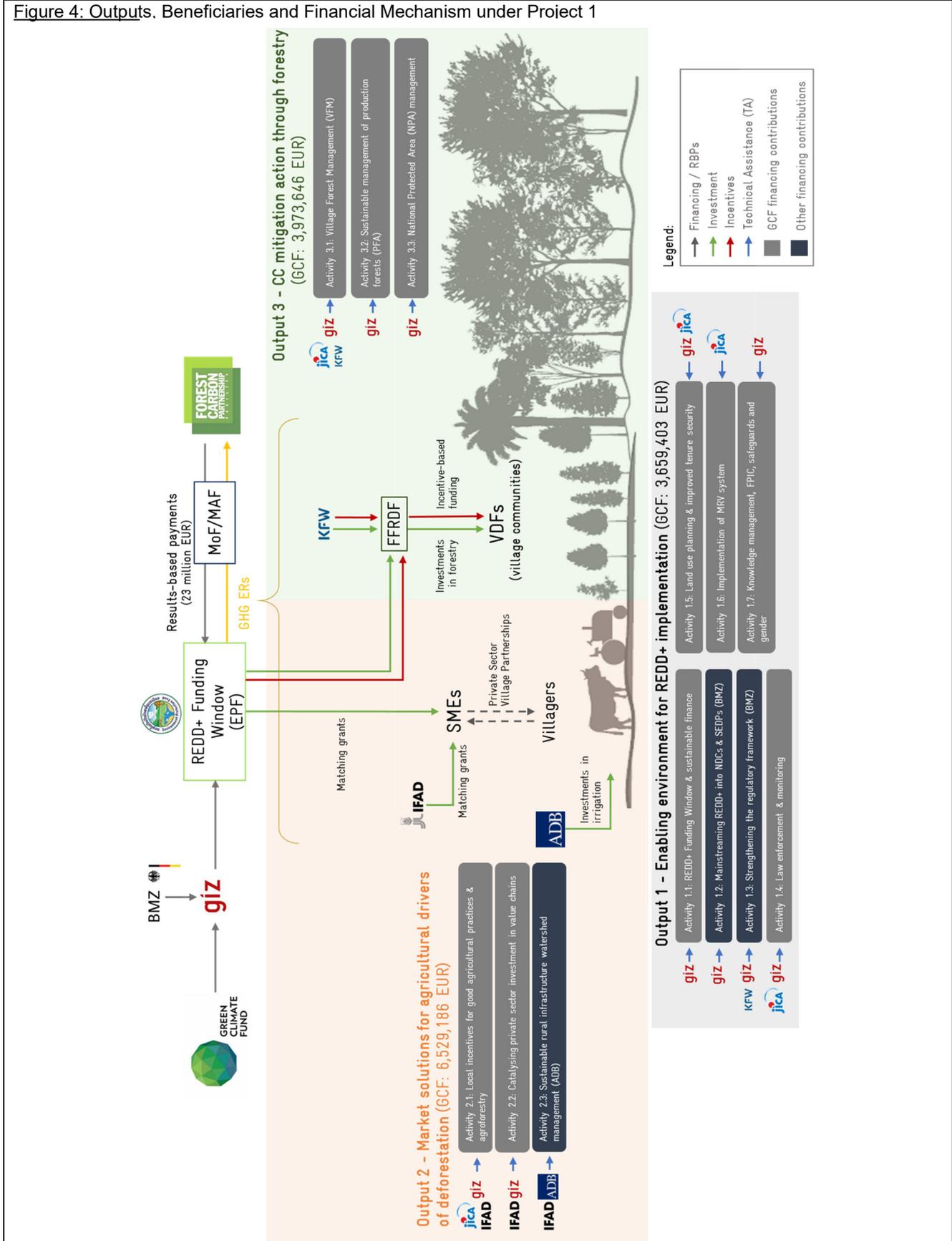
³⁹ GIZ (2018), *Rural Finance in Northern Laos: Opportunities and Limitations for Green Finance*. Provided in Annex 22z.

- *Action 1.1.3: Identification of existing and/or establishment of new Village Development Funds to channel climate finance to target villages*
 - Assessment of existing VDFs in Project 1 target villages.
 - Concept development to address the needs identified in the assessment – with a focus on channelling of climate finance to the target villages.
 - Support to existing or to-be-established VDFs, including technical assistance and capacity building.
- *Action 1.1.4: Fundraising to finance a structured green credit line for deforestation-free agriculture value chains.* In parallel with preparation of Project 1, GIZ is investing in the development of a green credit line that will be linked with the in-depth value chain studies and identified zero-deforestation business models supported under Action 2.2.1, which will boost agricultural productivity and reduce pressure on existing forests. The green credit line will be specifically targeted at the SMEs (with a particular focus on women-led SMEs) that participate in Action 2.2.5 and are supported in structuring business plans and investment proposals. The green credit line will provide concessional debt finance to the SMEs. In 2020, the financing will need to be mobilised for the green credit line. GIZ will not use GCF funds to finance lending under the green credit line. Instead, the Project 1 team will assist in fundraising activities to mobilise international public and private finance to capitalise the green credit line.⁴⁰

Discussions with the Lao financial institutions, including Bank of Lao (BoL), ACLEDA Bank Lao Ltd. and Banque Pour Le Commerce Exterieur Lao (BCEL) are currently underway. BoL is interested in supporting the proposed green credit line and would likely act to channel funds to a smaller finance institution (e.g. ACLEDA or BCEL). A final decision (expected in the second half of 2019) on selection of a partner financial institution to operate the green credit line will be based upon: its fiduciary management capacity and financial health, its experience implementing credit lines with similar selection and monitoring requirements, its geographical relevance and presence in selected districts, and its experience lending to the agricultural sector. A mapping of selected financial institutions' geographical (district-level) coverage can be found in the Feasibility Study (Annex 2a). The green credit line will mobilise concessional international climate finance of (initially) USD 10-15 million (anticipated from sources such as the NAMA Facility, private sector impact investment funds, etc.). The development of the credit line will carefully consider the barriers to agribusinesses accessing finance and investing in green activities, and the concessional aspects of the green credit will directly address the identified barriers. Capacity building for financial institutions on how to roll out the green credit line (e.g. marketing materials) and how to monitor impacts will be an integral element of GCF support. The process for financial institutions to approve investments in agribusinesses is described in Chapter 3.3 of the Feasibility Study and will be further elaborated upon in a funding manual developed with the financial institutions. This manual will be available within six months of project start.

⁴⁰ GCF support to the green credit line will be confined to technical assistance – institutional coordination, fundraising support, etc. GCF funds will not be used to capitalise the green credit line and the credit line will be run as a separate GIZ project, outside of the framework of the programme. Green credit line capital is considered to be leveraged finance and is not included as GCF co-finance.

Figure 4: Outputs, Beneficiaries and Financial Mechanism under Project 1



58. *Activity 1.2: Mainstreaming REDD+ into the NDC and socio-economic development plans (SEDPs)*. SEDPs at the province and district levels are prepared as 5-year plans and are the primary strategic reference for government entities to fulfil their work. SEDPs and sectoral plans provide the basis for government budgeting, and thus it is vital that REDD+ interventions and associated NDC measures are prominently incorporated into them. Measures linked to the National REDD+ Strategy and the NDC can be mainstreamed and strengthened within provincial- and district-level SEDPs, thereby addressing policy gaps and inconsistencies and improving implementation of REDD+ policies and measures (e.g. strengthening cross-sectoral coordination, monitoring, transparency and compliance in key sectors, protected area management plans⁴¹, etc.). Such mainstreaming is currently limited or entirely absent in SEDPs at all levels. Activity 1.2 will be financed exclusively by BMZ and by the Government of Lao PDR (i.e. Activity 1.2 will not require GCF financial support) and will consist of 3 Actions:
- *Action 1.2.1: Mainstreaming of REDD+ into the Nationally Determined Contribution (NDC)*. Provision of technical and logistical support to government staff to integrate the National REDD+ Strategy into the updated NDC, to ensure REDD+ interventions are fully considered and budgeted. The current NDC (submitted to the UNFCCC in September 2015) contains a prominent forestry and REDD+ component but does not explicitly reference the National REDD+ Strategy.
 - *Action 1.2.2: Mainstreaming of REDD+ into provincial socio-economic development plans (SEDPs) (2021-2025)*. Provision of technical and logistical support to government staff for the integration of Provincial REDD+ Action Plans (PRAPs) into 3 provincial SEDP planning processes (Project 1 provinces). The PRAPs were developed in 2017/2018⁴² and reflect the provincial SEDP planning horizon.
 - *Action 1.2.3: Mainstreaming of REDD+ into district socio-economic development plans (SEDPs) (2021-2025)*. Provision of technical and logistical support to government staff to integrate REDD+, PRAP and NDC elements into district-level SEDP preparation in the 16 target districts of Project 1.
59. *Activity 1.3: Strengthening the regulatory framework*. The Forestry Law (No.06/NA, 2007), like the Land Law, is currently under revision. Many implementing decrees and regulations fall beneath the Forestry Law, meaning that extensive updating of regulations will be needed following revisions to the Law. Although this represents a considerable challenge, it also represents a considerable opportunity, as the body of regulations is currently internally inconsistent (contradictory in some respects), complex and not easy for local authorities to understand.⁴³ Support is needed to address the gaps and inconsistencies in the regulatory framework to create an enabling environment that incentivises investments that conform with land use plans (including deforestation-free commitments), act responsibly in the context of local regulatory frameworks and that will sustain positive relations with local communities. Financed exclusively by BMZ and the Government of Lao PDR (i.e. not requiring GCF financial support), Activity 1.3 consists of 2 Actions:
- *Action 1.3.1: Creating an enabling environment for SFM and private sector investment in village-based agroforestry development*. Revision, modification and drafting of relevant decrees and regulations that incentivise investments that conform with land use plans (including deforestation-free commitments), which act responsibly in the context of local regulatory frameworks and which sustain positive relations with local communities. The strengthened regulatory framework will also enable and strengthen the adoption of SFM, FLR and village forestry:
 - Assessment of financial and regulatory incentives and barriers for smallholders to improve smallholder engagement in village-based agroforestry. Based on the assessment, Project 1 will support the revision of relevant implementation decrees, regulations and guidelines to enable smallholder and private sector engagement in sustainable forestry activities. (The FAO-implemented GCF readiness project is expected to contribute options that will be integrated into this Action.)
 - Revision of the regulatory framework for participatory sustainable forest management (SFM) in production forests based on sustainable forest management plans, and targeted measures to support forest recovery and regeneration in production forests.
 - Revision and support to the legal adoption (in the form of implementing decrees and regulations under the Forestry Law and Land Law) of village forestry to enable sustainable harvesting of timber and NTFPs for commercial purposes based on forest inventories and approved sustainable management

⁴¹ Braeutigam, D. (2015), *Integrated Conservation of Forests and Biodiversity ICBF – Introduction*, KfW and MoNRE, Lao PDR.

⁴² The PRAPs are provided in Annex 22.

⁴³ Lestrelin, G., Trockenbrodt, M., Phanvilay, K., Thongmanivong, S., Vongvisouk, T., Pham, T.T., Castella, J.C. (2013), *The Context of REDD+ in the Lao People's Democratic Republic: Drivers, Agents and Institutions*. CIFOR Occasional Paper 92.

plans. Insight will be sought from diverse stakeholders, including CSOs. Representatives from the FLEGT Lao CSO Core Committee will be consulted, among others.⁴⁴

- *Action 1.3.2: Capacity building and awareness-raising on the forest sector legal framework.* Provision of awareness-raising and capacity development on the revised regulations to government authorities (national, provincial, district and *kumban* level⁴⁵), civil society organisations (CSOs, including members of the FLEGT Lao CSO Core Committee, among others) and villagers. This will ensure that all government authorities, villages and broader stakeholder groups understand the key regulations related to forest management and apply them consistently.

60. *Activity 1.4: Law enforcement and monitoring.* Strengthened law enforcement is a key measure needed to support Lao PDR's commitment to REDD+, as well as other high-level initiatives including PMO 15 and the FLEGT-VPA. Illegal logging and unauthorised clearing of forest land still exist and are a challenge for provincial and district authorities to address due to limited budgets, limited technical capacities and understaffing, but also due to a partly unclear legal framework.

A number of donor projects have supported improved law enforcement in Lao PDR. The GIZ CliPAD project, in cooperation with the Wildlife Conservation Society (WCS) and counterparts, developed a provincial Law Enforcement Action Plan (LEAP)⁴⁶ to reduce deforestation and degradation in Houaphan Province with the following elements: (i) strengthening effective coordination, communication and exchange mechanisms, (ii) strengthening operational structures for enforcement implementation, (iii) implementation of enforcement strategy and tactics, (iv) increasing capacity for law enforcement through training, (v) upgrading enforcement policy, and (vi) monitoring performance and effectiveness. The LEAP also incorporated the experience built up by the SUFORD project in four provinces (Sayaboury, Luang Namtha, Bokeo and Oudomxay), where law enforcement staff have established basic skills and have developed a systematic enforcement programme – the Strategic and Tactical Enforcement Patrol Programme (STEPP)⁴⁷ and the Spatial Monitoring and Reporting Tool (SMART)⁴⁸. The SUFORD project has also supported the development of a Smart Phone Information Reporting and Intelligence Tracking (SPIRIT) system in conjunction with the Department of Forest Inspection (DOFI), which facilitates the reporting of forest and wildlife crime using smart phone GPS and camera capabilities.⁴⁹ While the use of these and other tools has been initiated, further support is needed to “ensure that the use of these management tools becomes a routine activity”.⁵⁰

Activity 1.4 consists of 2 Actions:

- *Action 1.4.1: Strengthening procedures, standards and systems for law enforcement*
 - Revision of standard operating procedures (SOPs) for Forestry Law enforcement that are aligned with the revised regulatory framework (Activity 1.3), including improvement of investigative procedures, establishing whistle-blower systems and improvement of anti-corruption safeguards, among others.
 - Improvement of coordination among, and the establishment of mixed rapid response teams consisting of, key actors (PAFO, DAFO, POFI, DOFI, PONRE, DONRE, P-WEN (Provincial Wildlife Enforcement Network), military, police, customs officials) to improve Forestry Law enforcement by establishing clear

⁴⁴ Many CSOs are interested the development of a mechanism for management of non-commercial timber from Village Use Forests, with the expectation that communities will protect the forests best when they have clear rights to benefit from them. The Lao CSO FLEGT Network has received funding from GIZ and the EU to conduct research on the topic of village-use forest timber in order to provide recommendations on how to address this topic in the framework of FLEGT. Thus, the Network's insight will be important for the implementation of this Action.

⁴⁵ A *kumban* is a cluster of villages.

⁴⁶ WCS and CliPAD (2013), *A Law Enforcement Action Plan for Reducing Deforestation and Forest Degradation in Houaphan Province*, and Annex 6 of the LEAP: 'Standard Operating Procedures for Forestry Protection Task Forces and Rapid Response Teams'.

⁴⁷ STEPP is a performance-based operational enforcement model based on international best practices. It involves the creation of enforcement plans by POFI managers based on an assessment of levels of threat and risks to forests and wildlife in their areas of responsibility. The programme is audited at regular intervals (typically monthly) to ensure the operational focus is directed at places of highest risk ('hotspots') of illegal activities. See https://www.illegal-logging.info/sites/files/chlogging/STEPP_English.pdf

⁴⁸ SMART (www.smartconservationtools.org) is an interactive, spatially-explicit system for managing and analysing law enforcement monitoring data. It provides a low-cost, site-based tool that can provide rapid feedback to managers for use in adaptive management of enforcement operations. In the context of the GCF project, SMART has the potential to be useful for managers of production, conservation and protection forests for monitoring threats to forests and wildlife, and for planning and evaluating enforcement operations.

⁴⁹ See <https://www.youtube.com/watch?v=rQhqdVLg-Ak> and World Bank (2015), *Information and Communication Technology for Forest Law Enforcement and Governance – Case Study: Lao People's Democratic Republic*, https://www.profor.info/sites/profor.info/files/Profor_Lao_WrkingPaper%20%283%29_0.pdf

⁵⁰ World Bank (2018), *Lao People's Democratic Republic – Sustainable Forestry for Rural Development Project*. Independent Evaluation Group, Project Performance, Assessment Report 125929. Washington, DC.

- communication and exchange procedures and clarification of roles and responsibilities between different government authorities.
- Introduction and use of near-real-time remote sensing data (LANDSAT or Sentinel) as a basis for controlling deforestation / forest degradation (e.g. detection, investigating and monitoring illegal activities, awareness-raising in hotspots). SMART, STEPP and SPIRIT will be implemented at district level and reported to the province and national levels, and will be used to prioritise patrolling activities.

○ *Action 1.4.2: Training for implementation of enhanced law enforcement*

- Training on strengthened standard operating procedures, anti-corruption safeguards, and STEPP and SMART for national, provincial and district authorities and rapid response teams.
- Training for targeted individuals (with intermediate experience of GIS/mapping) on the use of remote sensing and generated maps to support Provincial Offices of Forestry Inspection (POFIs) and District Offices for Forestry Inspection (DOFIs) with monitoring deforestation and forest degradation.
- Dissemination of regulations and guidelines on permitted and prohibited clearing and utilisation of forest (timber and non-timber) products, as well as streamlined, accessible and effective reporting channels.

61. *Activity 1.5: Land use planning and improved tenure security.* In order to improve tenure security, the government has put land registration and land titling high on its agenda. The government's principal objective is to secure the land rights of villagers in rural areas through registration of individual and communal land and through the issuance of respective land titles. Land tenure security has a direct correlation with the food security of smallholders and family farmers; it also contributes to improving land governance while creating a favourable environment for investment in land.⁵¹ However, the associated land use planning has typically been developed with a focus on a specific sector of interest or, at times, a specific commodity, and has been restricted to a specific jurisdiction. Moreover, local land use plans are not well synchronised with higher-level plans that may take a more integrated and landscape approach (if they exist at all).⁵²

Land use planning in Lao PDR builds on over 20 years of experience of donor-funded projects (e.g. KfW, GIZ, German AgroAction, SIDA, TABI, AgriSud and others) as well as national initiatives to conduct land use planning. Such planning has typically focused on three elements: (i) mapping the outlines of village territories with representatives of the villages and neighbouring villages, (ii) internal zoning of these village territories into forest, agricultural and other land use categories, and (iii) formally allocating agricultural land at the plot scale to village households.⁵³ Together, these elements form the basis of Participatory Land Use Plans (PLUPs).⁵⁴

Subsequent implementation and monitoring of the PLUPs have typically not formed part of these donor initiatives, however, with the result that many well-designed PLUPs are not being (and have never been) implemented. Project 1 will use these existing PLUPs and will support their implementation (including augmenting them with short- and long-term financing plans) and monitoring. Based on the developed PLUPs, the Department of Land will – using government co-finance – develop and implement a programme of systematic land registration. Activity 1.5 consists of 3 Actions:

- *Action 1.5.1: Mainstreaming FLR guiding principles into land use planning manuals and guidelines*
 - Revision of existing manuals and guidelines relating to land use planning in order to integrate a landscape approach, promoting multi-sectoral planning that can promote forest and landscape restoration through a range of forestry and non-forestry sector actions.
 - Stakeholder feedback and consultation on the proposed changes to manuals and guidelines.
 - Awareness-raising and capacity building on the revised manuals and guidelines at province and district levels.
- *Action 1.5.2: Participatory village land use planning (PLUP) in target project districts (linked with Activity 1.4 and Outputs 2 and 3) in hotspot areas⁵⁵*

⁵¹ GIZ (2015), *Systematic Land Registration in Rural Areas of Lao PDR*, https://www.donorplatform.org/publication-land-governance/systematic-land-registration-in-rural-areas-of-lao-pdr.html?file=files/content/Media/Land_Governance/Publications/Systematic_Land_Registration/Systematic_Land_Registration.pdf

⁵² Ling S. (2017), *Developments in Land Use Planning in Lao PDR Since 2009*, <https://www.mediafire.com/file/q5borsb95ku7vbh/LIWG%20LUP%20study%20English.pdf>

⁵³ UN-REDD (2017), *Land and Forest Tenure in Laos: Baseline Overview 2016*, https://www.unclearn.org/sites/default/files/inventory/vftenure_dwyer_fao-final_2_405493.pdf

⁵⁴ <https://www.giz.de/en/worldwide/31066.html>

⁵⁵ In some district and target villages, donor-funded initiatives such as the GIZ LMPD project have supported land use planning. These land use plans will not require a new land use planning exercise and the programme will build upon and support their implementation and monitoring.

- Planning preparation (notifying villages, gathering materials, GIS data, SEDPs, statistics, data management system preparation – potentially applying FAO’s OpenForis Collect Earth tool⁵⁶, for which the PAFOs of the three Project 1 target provinces have already received training).
 - Land and forest categorisation and zoning (boundary demarcation, land use mapping based on current land use, land and forest zoning, agriculture and forest production data collection, socio-economic data collection).
 - Agricultural management planning (agricultural land zoning, land management planning [soil testing, verification of suitability for planned land use], action plan for proposed agricultural projects and needed support from extension services).
 - Updating and integration of PLUP data (GPS data, maps, reports, etc.) into data management and record-keeping (digital record-keeping systems, storage of paper-based copies in all offices).
 - Developing short- and long-term financing plans for the PLUPs to ensure implementation and monitoring.⁵⁷
 - Establishing or strengthening village land use and forest management committees.
 - Developing and implementing systematic land registration – individual, entity, communal/collective and State ownership – in rural areas based on up-to-date PLUPs (to be undertaken by the Department of Land).
- *Action 1.5.3: Monitoring and enforcement of land use plans*⁵⁸
 - Ongoing monitoring (forest-related enforcement linked with Activity 1.4), supported by technical assistance, capacity building and equipment procurement, closely aligned with the implementation of Activities under Outputs 2 and 3.

62. *Activity 1.6: Implementation of the measurement, reporting and verification (MRV) system.* Since 2014, the JICA Sustainable Forest Management and REDD+ Support (F-REDD) project has been supporting the government to develop and execute the national forest inventory and preparation of the MRV-related components of the Emission Reductions Programme (ER-P). JICA also supported the preparation of the UNFCCC Forest Reference Emissions Level (FREL). In order to ensure consistency in MRV approaches, GCF Project 1 will work closely with JICA and the Forest Inventory and Planning Division (FIPD) of the Department of Forestry (DoF) on a harmonised approach.⁵⁹ JICA has committed co-finance to support Activity 1.6 implementation. Activity 1.6 consists of 7 Actions:

- *Action 1.6.1: Support to the fourth (2020/2021) national forest inventory*
 - In 2020/2021, the fourth national forest inventory will be undertaken, following the methods and design of the third national inventory (2015-2017). This will include the re-measurement of 730 plots within different forest-types and 120 plots within regenerating vegetation. The Lao PDR National Forest Inventory Standard Operating Procedures Manual for Terrestrial Carbon Measurement will be used, which is fully consistent with the methodology used in the development of the Emission Reductions Programme (ER-P) Reference Level. This forest inventory will provide the data needed for the estimation of GHG benefits of Project 1 (including leakage effects), as well as supporting other REDD+ processes (such as reporting to the UNFCCC and claiming results-based payments from the FCPF Carbon Fund).
- *Action 1.6.2: Assessment and development of the forest-type map for 2021/2022.* The same land classification system will be applied as has already been used for the FREL and the ER-P Reference Level, and which is fully aligned with the IPCC land use categorisation system.

⁵⁶ <http://www.openforis.org/tools/collect-earth.html>

⁵⁷ FAO is currently developing a review of all the local finance sources and modalities that can be applied to FLR. Webinars hosted by FAO on this topic are currently ongoing: see <http://www.fao.org/in-action/forest-landscape-restoration-mechanism/news-and-events/events-detail/en/c/1164439/>.

⁵⁸ FAO is hosting a global working group (involving IUCN, WRI, UNEP and CIFOR, among others) and communities of practice on FLR Monitoring. Indicators on FLR implementation will be tested from 2019 in at least 5 projects in Africa and Asia. See <http://www.fao.org/in-action/forest-landscape-restoration-mechanism/knowledge-base/monitoring-evaluation/en/>.

⁵⁹ The MRV of the ER Program will be focused on MRV of emission reductions, as a prerequisite to unlocking FCPF Carbon Fund payments. The MRV of the programme – including Project 1 – will cover implementation of activities (e.g. workshops held, trainings conducted, number of beneficiaries reached, etc.) AND, in conjunction with the ER Program, of emission reductions. Thus, the ER Program and the programme (including Project 1) will share a common MRV framework for emission reductions, but GCF MRV will extend more broadly. The fact that the ER Program and the programme (including Project 1) will share MRV processes for emission reductions will ensure consistent GHG accounting and cost efficiencies for both initiatives.

- *Action 1.6.3: Calculation of emission and removal factors.* Based on the data from the forest inventory, the emission/removal factors for the different forest and non-forest classes will be revised and modified, reflecting the changes over recent years. Emission factor development will focus on the reported carbon pools: above-ground biomass and below-ground biomass.
- *Action 1.6.4: Assessment of leakage effects.* This Action will specifically assess the GHG emissions and removals within and outside of the project area. To do so, a national forest inventory (Action 1.6.1) and assessment approach are required to ensure consistency and comparability of the MRV system. The assessment will compare to what extent deforestation, forest degradation and carbon removal patterns have increased/decreased within the project area compared with other parts of the country. This Action will also coordinate closely with a regional UN-REDD programme currently under development that will analyse international (cross-border) displacement of unsustainable forestry practices in the Lower Mekong region.⁶⁰
- *Action 1.6.5: Reporting on reduced GHG emissions and enhanced carbon stocks.* The reporting of achieved GHG emission reductions and enhanced carbon stocks will be conducted for different purposes and will ensure that Lao PDR REDD+ data is consistently used for GCF reporting, for FCPF Carbon Fund reporting to receive results-based payments, for reporting on the NDC, and for Biennial Update Reports (BURs) and National Communications (NCs) to the UNFCCC. The reporting will be subject to a technical assessment by the FCPF Carbon Fund to ensure compliance with the five IPCC accounting principles (transparency, consistency, comparability, completeness and accuracy).
- *Action 1.6.6: Implementation of the national forest monitoring system*
 - Development of a Web-based national forest management system (NFMS).
 - Design and set-up of a carbon registry.
 - Operation of the NFMS and improvement to address new requirements.
 - Capacity building for localisation of system operation and maintenance.
- *Action 1.6.7: Digital solutions for community-based monitoring.* To support monitoring and reporting of activities, a mobile app and Web-based management information system (MIS) will be developed with an interface available in both Lao and English. The MIS will serve two principal functions:
 - To facilitate information flow from the field to the project: community-based data collection using activity surveys, relating to agricultural production and monitoring, forest management and monitoring, reporting illegal activities such as forest clearing and logging, and other activity monitoring. Monitoring support staff (at the *kumban* – village cluster – or district level) will support the data aggregation and activity monitoring process.
 - To facilitate information flow from the project to the field: to inform villagers, farmers groups and project management staff, among other stakeholders, on topics such as: land use plans (boundaries, geo-location mapping), market information, extension services and targeted training.

A training curriculum will be developed that allows the extension team to train local communities in standardised monitoring procedures. This training will be integrated into Project 1 activity implementation on the ground. Ultimately, the MIS is expected to improve engagement in, and ownership of, local communities in project implementation and monitoring, and strengthen knowledge management.

63. *Activity 1.7: Knowledge management, FPIC, safeguards and gender.* This Activity will facilitate comprehensive communication and exchange of information about topics of relevance for land users, policy-makers and the broader public to understand the purpose and benefits of REDD+ and the need for behavioural change of business-as-usual land use (see the knowledge management plan, Annex 22u).

- *Action 1.7.1: Knowledge management and communication*
 - Coordination with the Designated National Authority (DNA) at MoNRE (the same institution as the GCF NDA) for provision of relevant information to the DNA for the BUR and National Communication. The M&E system and Activity 1.6 (MRV) will provide key information in this context.
 - Lessons learned and information sharing will be conducted at the political level to inform national stakeholders and policy-makers on Project 1 progress and the key lessons learned that can support the implementation of national REDD+.

⁶⁰ UN-REDD (2018), *Reducing Deforestation and Forest Degradation through Sustainable Land-Based Investments: A Focus on the Lower Mekong Region*, draft project concept note.

- 3 campaigns – on awareness-raising of laws and the regulatory framework pertaining to the forestry and agricultural sectors (closely linked to Activity 1.4), on REDD+ awareness in local media (local newspapers in all 16 Project 1 districts), and on forestry and land use awareness in schools.
 - Communication and collaboration with national universities on key lessons and relevant education materials, and to support the universities in developing/acquiring research projects related to REDD+.
 - Development and management of a project website.
- *Action 1.7.2: Implementation of the Environmental and Social Management Plan (ESMP) and Gender Action Plan (GAP) and ensuring compliance with FPIC and safeguards.* The ESMP is provided in Annex 6b; the gender assessment is provided in Annex 8a; the GAP is provided in Annex 8b.

Output 2: Market solutions for agricultural drivers of deforestation

64. Output 2 will target the agricultural sector (including agroforestry) as a key driver of deforestation and will lower targeted barriers, enhance productivity, increase farmers' integration into agricultural value chains, and improve access to finance and private sector participation in deforestation-free agriculture. Deforestation-free value chains are those that can demonstrate that deforestation has not occurred throughout the value chain – from primary production through to sale to the consumer. The Output consists of three Activities relating to promotion of good agricultural practices and agroforestry in identified deforestation hotspots (in the 16 Project 1 districts) to reduce expansion pressure into forested landscape.

65. *Activity 2.1: Local incentives for good agricultural practices (GAP) and agroforestry*

- *Action 2.1.1: Capacity building on good agricultural practices and agroforestry*
 - Agriculture specialist(s) in the National Project Management Unit (NPMU) and the Provincial Project Management Units (PPMUs) will deliver Project 1 technical assistance (capacity building, training and continuous coaching) to agricultural extension staff of District Agriculture and Forestry Offices (DAFOs) and Technical Service Centres (TSCs), using a training-of-trainers approach. Training materials on agronomy, livestock production, agribusiness development and agroforestry will be used. Close cooperation with agricultural universities/colleges will be sought. Target villages will be selected using the district committee structure already in place and the deforestation hotspot analysis undertaken during GCF project preparation, whereby areas with high remaining forest cover and high deforestation risk will be prioritised.
 - After awareness-raising activities provided by PPMU/DAFO staff, farmers interested in participation will be identified. Women's collectives will receive specific support on production, processing and marketing of new agricultural products.
 - A District Activity Plan (DAP) for outlining activities, participants, inputs and an annual budget plan (by TSCs) will be developed, subject to approval by DAFO and PPMU, based on land use plans from Activity 1.5 and village consultations.
 - The capacity of farmers will be built on good agricultural practices, on-farm production and commercialisation. Farmers interested in value chain development (input and service provision, trading, value addition) will be supported with technical assistance and continuous coaching on business plan development, negotiation skills, access to markets, credit and processing. Youth and women will be specifically targeted.
 - Note: Measurement, monitoring and reporting (MRV) of adjacent forest areas will be conducted in Activity 1.6. Avoidance of deforestation and degradation will be enforced, as supported by Activity 1.4 and implementation of enforcement in different forest categories in Output 3.
- *Action 2.1.2: Investment in good agricultural practices and agroforestry*
 - Good agricultural practices:
 - Action 2.1.2 will invest in village development funds (VDFs) with a combination of upfront and performance-based payments. DPMUs and Village Communities will agree upon appropriate 'white lists' of good agricultural practice activities eligible for project support.
 - Good agricultural practice activities will be financed partially upfront and partially on a performance basis. Funds will be managed by the REDD+ Funding Window.
 - Based upon successful completion of a participatory land use plan (PLUP) under Action 1.5.2 and a District Activity Plan (DAP) under Action 2.1.1, VDFs will be eligible for grants covering the establishment and management costs of good agricultural practices. Village Communities, with the support of the DPMU, must develop a brief investment plan and a budget needs plan to be eligible to receive funding from VDFs.

and provincial levels and will support the identification of strategic investment areas (e.g. considering availability of land, market access, regulatory issues, etc.). Support will be provided to match-making between private sector companies, districts and villages (developing private sector-village partnerships). This will entail awareness-raising of villages on the potential of village-based agroforestry as a business case and building villages' capacities to negotiate with the private sector.

- CSOs will also be invited to participate in the dialogue platforms, including representatives from the FLEGT Lao CSO Core Committee, among others, who can bring long-standing insight to support local villages to sustainably manage forest resources and strengthen local livelihoods.

- *Action 2.2.3: Formalisation support for village and private sector partnerships*

- Building on the discussions under Action 2.2.2, contracts – private sector-village partnership agreements (PSVPAs) – between reputable private sector enterprises and Village Communities will be negotiated and signed. Enterprises will then be eligible for grants from the REDD+ Funding Window under Action 2.1.2 covering 50% of the establishment costs for village-based agroforestry (up to Euro 200/ha, approximately 50%).⁶⁴

- *Action 2.2.4: Multi-Stakeholder Platforms (MSPs) on value chain development*⁶⁵

- Identification and mobilisation of private sector companies (traders, input suppliers, processors, farmer organisations, financial institutions, etc.) and other value chain actors (e.g. farmer representatives, farmers' organisations, government representatives) to participate in district-level multi-stakeholder platforms (MSPs). The platforms will contribute to improved networking and coordination across the value chain of each target commodity identified under Action 2.2.1. The design and functions of the platforms will be informed by the lessons-learned from a series of public-private dialogues that are being organised by the ongoing GCF readiness project for REDD+ implemented by FAO.

- *Action 2.2.5: Business development support to agribusiness SMEs*

- Significant time will be invested in canvassing businesses, building interest and buy-in in Project 1 activities. Agribusiness SMEs will be selected for training and business development support based upon: their demonstrated long-term interest, their relevance to locally-relevant value chains, their proximity to producers, their activities in selected districts, and the likelihood that they receive subsequent financing via the green credit line supported by Action 1.1.4. Female-led SMEs will be specifically targeted.
- Selected SMEs will be trained on identified issues relating to business management and financial literacy, notably business plan development – for instance, estimating production costs, assessing risks, comprehensive book-keeping, use of credit products and financial management.

67. *Activity 2.3: Sustainable rural infrastructure watershed management.* Activity 2.3 builds on the planned ADB project, Sustainable Rural Infrastructure and Watershed Management Sector (SRIWSM) project, which has been designed in conjunction with Project 1 (see Section B.1.5). The SRIWSM project's principal focus is on investment in 11 small-scale irrigation scheme upgrades (all of them in the geographical scope of Project 1) to secure farmer access to water during the dry season. Activity 2.3 will ensure that the forested landscapes in the catchment areas remain intact through improved land management (including good agricultural practices) and reduced pressure from drivers of deforestation and degradation by addressing key underlying causes: lack of alternative livelihood opportunities, poverty, low agricultural productivity, lack of value-added activities and weak negotiation/marketing skills. Reducing deforestation and improving forest management will protect watershed health and, ultimately, the water flowing through ADB irrigation investments.

Financed exclusively by ADB/EU, IFAD and the Government of Lao PDR (i.e. without requiring GCF financial support), Activity 2.3 consists of 3 SRIWSM co-financed Actions that will reduce the need for local people to clear forested land for other activities that are inefficient, with low yields, require substantial labour, and are characterised by low profitability:

- *Action 2.3.1: Irrigated and upland farmer income generation from high-value crops and livestock.* Farmers will be assisted with planning and producing their dry season crops and livestock in the upgraded irrigation schemes (Action 2.3.2) based upon improved information about market demand, quality requirements and prices, and then better linked to markets through support to logistical services, information flows, post-harvest processing, and trader and retailer relationships.

⁶⁴ GIZ Laos, as a Project 1 Executing Entity, will act as an intermediary between private sector entities, village groups and others, but will not be party to contractual relationships for this Action.

⁶⁵ Aligned with the MSP activities within the IFAD-funded PICSA project.

- *Action 2.3.2: Productive rural infrastructure upgraded to be climate-resilient and sustainable.* SRIWSM project investment in irrigation scheme upgrading will provide secure access to water during the dry season. This will provide: (i) farmers with better opportunities to grow higher-value crops and finish cattle; (ii) increased, and more reliable, farm household incomes; and (iii) improved affordability of operating the irrigation scheme.
 - The modernisation of irrigation infrastructure in 11 irrigation schemes in Project 1 to enable water management within the command area during the dry season and to support crop diversification.
 - The provision of infrastructure and strengthening the irrigation schemes' operational capacity to provide reliable and controllable water within the entire command area throughout the dry season in three small riparian zones in Houaphan, Sayabouri and Luang Prabang. Limited upgrading will be provided within the main canal and damaged sections to reduce water losses. Additional water control measures will be applied through buried secondary distribution pipes and offtake points for piped, hand-held hose or sprinkler/trickle/drip applications.
 - Technical assistance to strengthen irrigation operation capacities, and the development and introduction of sustainable irrigation service fees to ensure the longevity, effectiveness and efficiency of the irrigation schemes.
- *Action 2.3.3: Nutrition-sensitive agriculture in targeted communities*⁶⁶. The Action will strengthen the nutritional status of targeted villages in 3 districts of Houaphan province.
 - District Nutrition Teams (DNTs) will be formed in each of the target districts, consisting of 4 members of the District Department of Health and 4 members of the Lao Women's Union (LWU). Each DNT will be responsible for working with 10-15 villages.
 - Village Nutrition Teams (VNTs) will be formed to support follow-up with households on progress and challenges. VNTs and communities will discuss key nutrition indicators, such as the number and diversity of crops produced, the number and percentage of latrines, the knowledge of nutrition and hygiene concepts, the percentage of children with malnutrition and the dietary diversity for different household members. Actions Plans will then be developed and implemented.

Output 3: Climate change mitigation action through forestry

68. Output 3 will build upon Output 1 (enabling environment)⁶⁷ and will reduce emissions through sustainable forest landscape management and the promotion of forest landscape restoration (FLR), especially on degraded lands. Activity 3.1 focuses on village forests, Activity 3.2 on production forests and Activity 3.3 on conservation forests.

- *Village forests* are forests located within a village area, which the government has allocated to the village to manage, preserve and use in a sustainable manner in accordance with the legal and regulatory framework. Village forests may be characterised as production, protection and conservation forest (see below).⁶⁸
- *Production forests* are natural and planted forests classified for the purpose of timber and NTFP production.⁶⁹ Production Forest Areas (PFAs) are forest and forestland areas allocated to the State for management and which are managed in accordance with the Forestry Law. The forest in PFAs may be harvested for natural timber under the management of the Department of Forestry (in MAF), although PMO 31 has imposed a ban on such harvesting since 2013.

⁶⁶ EU and IFAD co-finance will also support the implementation of this Action. No GCF financial support is required.

⁶⁷ Specifically, Activities under Output 3 that are subject to Output 1 deliverables are:

- *For Activity 3.1:* Activity 1.1, Action 1.1.3: Identification of existing and/or establishment of new Village Development Funds to channel climate finance to target villages – VDFs have to be in place after Village Forest Management Planning is concluded, to provide funds for the implementation of annual plans; Activity 1.5, Action 1.5.2: Land use planning and improved tenure security – Land Use Plans have to be in place as a precondition for VFM; Activity 1.7, Action 1.7.2: Knowledge management, FPIC, safeguards and gender – FPIC has to be completed as a precondition.
- *For Activity 3.2:* Activity 1.1, Action 1.1.3: Identification of existing and/or establishment of new Village Development Funds to channel climate finance to target villages – VDFs have to be in place after Production Forest Management Planning is concluded, to provide funds for the implementation of annual plans; Activity 1.7, Action 1.7.2: Knowledge management, FPIC, safeguards and gender – FPIC has to be completed as a precondition.
- *For Activity 3.3:* Activity 1.1, Action 1.1.3: Identification of existing and/or establishment of new Village Development Funds to channel climate finance to target villages – VDFs have to be in place after National Protected Area (NPA) management planning is concluded, to provide funds for the implementation of annual plans; Activity 1.7, Action 1.7.2: Knowledge management, FPIC, safeguards and gender – FPIC has to be completed as a precondition.

⁶⁸ For further information about REDD+ implementation at the village forest level, see GIZ (2018), *Forest Governance, REDD+ and Village Forestry in Laos*, provided in Annex 22x.

⁶⁹ Smith, H. and Alounsayath, O. (2015), *Forest Legality Compendium*, Department of Forestry Inspection and Department of Forestry, Lao PDR, p.242. Provided in Annex 22v.

- *Protection forests* are forests classified for the function of protecting water resources, river banks, road sides, preventing soil erosion, protecting soil quality, strategic areas for national defence, protection from natural disasters and environmental protection.⁷⁰ In protection forests, individuals and villages have certain rights with respect to the harvesting of timber and forest products for their own consumption.⁷¹ They are managed by the Department of Forestry.
- *Conservation forests* (also referred to as National Protected Areas, NPAs) are forests classified for the purposes of conserving nature, preserving plant and animal species, forest ecosystems and other sites of natural, historical, cultural, tourism, environmental, educational and scientific value. Within conservation forest, individuals and villages have certain rights with respect to the harvesting of timber and forest products for their own consumption.⁷² They are managed by the Department of Forestry.

69. *Activity 3.1: Village forest management.* Village forest management will be implemented in three forest categories (production forest without any commercial harvesting potential in the short-term, and protection and conservation forest) as well as in unclassified forest, following a landscape approach (see Chapter 1.3 of the Feasibility Study, Annex 2a). In total, there is high-carbon-stock forest area of 2.3 million ha in the three Project 1 provinces. Village forest management can be supported in 1.5 million ha of high-carbon forest area. Activity 3.1 consists of 2 Actions:

- *Action 3.1.1: Development of village forest management plans (VFMPs).* Based on the PLUPs developed under Action 1.5.2, VFMPs will be designed using a combination of spatial planning and participatory land use planning with villagers as a precondition of Project 1 support to the sustainable management of village forests. Planning will be undertaken using a landscape approach, taking into account multiple land uses and benefits across the project area. Among others, tools developed by FAO for planning Forest and Landscape Restoration (FLR) will be used in this respect.⁷³ These guidelines include the following key stages:
 - Stage 1: Demarcation of forest areas and preparation of detailed village forest map
 - Stage 2: Participatory Forest Resources Assessment (PFRA) and basic forest inventory
 - Stage 3: Preparation of five-year village forest management plan (VFMP)
 - Stage 4: Preparation of annual forestry operation plan
 - Stage 5: Village forest management agreement

The VFMP guidelines (CliPAD/GIZ 2016) provide the following examples of permitted activities: forest patrolling for protection against encroachment; fire prevention (e.g. digging fire breaks, ploughing firebreaks, controlled burning of fire breaks, etc.); building check dams or small water reservoirs to provide water for firefighting and water for watering planted tree seedlings; identification and marking of trees to be left as mother trees for seed production; selective cutting (in small quantities in different diameter classes in accordance with the sustainable forest model to improve forest structure and provide timber and fuelwood for villages); close parts of forest temporarily and protect young regeneration trees, fencing off of some parts to encourage regeneration; conduct weeding around valuable tree seedlings; marking of trees to be cut every year; enrichment planting; promotion of natural regeneration (e.g. in case of fire damage, shifting cultivation, excessive degradation/tree cutting); direct seeding in barren, highly degraded areas; and NTFP management and development.⁷⁴

Each VFMP establishes the geographical demarcation of village forestry, the allowable cut, where villagers can harvest, allowable practices and prohibited practices. The baseline in each case varies from village to village.

- *Action 3.1.2: Implementation and monitoring of VFMPs.* As with the development of the VFMPs, the implementation of the VFMPs will follow the best-practice guidelines and procedures outlined in the Village Forest Management Guidelines, including the following stages:

⁷⁰ *Ibid*, p.242.

⁷¹ *Ibid*, p.113.

⁷² *Ibid*, p.113.

⁷³ <http://www.fao.org/sustainable-forest-management/toolbox/en/>

⁷⁴ For more information on currently permitted activities, refer to the VFMP Guidelines: <https://www.giz.de/en/downloads/Village-Forest-Management-Planning-Guideline.pdf>. It should be noted that Activity 1.3 aims to revise these guidelines, and include commercial harvesting based on sustainable management plans and sustainable forest management principles to strengthen additional income streams for villagers and provide incentives for the sustainable management of forest resources.

- Stage 6: Implementation of the village forest management activities, following the annual plan of operation and financed by annually-approved grants.
- Stage 7: Monitoring and evaluation

Resources will be transferred to village development funds (VDFs) using mechanisms similar to those used in the Integrated Conservation of Biodiversity and Forests (ICBF) project. In summary, the EPF and NPMU will receive budget requests (annual work plans) from Village Communities and will check them against set criteria. Approved requests will be administered by the FFRDF. More details on transfer modalities are available in the REDD+ Funding Window Project Implementation Manual (PIM, Annex 22e).

70. *Activity 3.2: Sustainable management of production forests.* There are 51 production forest areas (PFAs) in Lao PDR. The scale of degradation in PFAs is immense: only 15% of the total area in production forest (465,000 hectares) is of a – more or less – satisfactory quality (contains at least 60 m³ per hectare of commercial standing stock).⁷⁵ In the three Project 1 provinces, this forest category covers a total area of 700,000 ha. Regenerative vegetation accounts for 0.2 million ha and agricultural land for 32,000 ha in the Project 1 area, which could be used for restoration and reforestation.

There is a ban on timber harvesting within production forest areas in response to widespread unsustainable harvesting (legal and illegal). However, in the Project 1 area, commercial logging is no longer a major driver of deforestation due to the absence of marketable tree species with minimum harvestable diameters – largely due to over-harvesting in the past.⁷⁶ But many production forests in the project area are, however, highly degraded, and in need of natural regeneration and sustainable management. While the ban on timber harvesting has had positive impacts, including reduced deforestation, it has also substantially reduced the incomes generated from production forests. Provincial and district authorities have noted that budgets for government authorities, including those responsible for managing these forests, have been negatively affected due to reduced revenues from commercial forestry.

In 3 districts in the Project 1 area (Sayaboury Province – Phiang, Sayaboury and Hongsa districts), there is commercial potential for sustainable harvesting and the project will work with the government on a new/revised regulation that allows harvesting if the forest management entity can demonstrate long-term sustainability. Activity 3.2 consists of 2 Actions:

- *Action 3.2.1: Forest inventory and forest management planning in production forests*
 - Designation of villages, and mobilisation and organisation of villagers: MAF will present the project concept to existing village land use and forest management committees (VLUFMCs) led by a district villages forest committee (DVFC).
 - Preparation of Forest Management Plans (FMPs): participatory land use zoning, marking boundaries and taking an inventory of trees and NTFPs. The focus of the management planning will be to identify potential zones for restoration and reforestation in the production forests. The identified areas will be linked to Activity 2.2, the establishment of a public-private dialogue to promote private sector partnerships and sustainable investments.
 - Definition of degraded forest and forest access rules (rules governing forest access and benefit-sharing are clearly defined together with villagers), and ensure villagers understand and uphold these rules.
 - Assessment and identification of eligible and promising village-level development investments based on SUFORD's positive experiences with village development funds.
 - Capacity building for VLUFMCs and managing inclusive DVFCs, and training for villagers on SFM, forest management plans and monitoring.
 - Capacity building for provincial and district officials to support forest management planning and eventual FMP implementation (especially focused on provision of support to villagers).
- *Action 3.2.2: Implementation of Forest Management Plans (FMPs) with associated monitoring*
 - Support VLUFMCs and DAFOs in the development of annual work and budget plans to implement forest restoration activities under the Forest Management Plans (FMPs), including village-based forestry development and assisted natural regeneration in degraded forests.
 - Provision of grants by the REDD+ Funding Window to support FMP implementation:
 - Grants to VDFs to support the implementation of annual FMPs.

⁷⁵ World Bank (2018), *Sustainable Forestry for Rural Development Project: Project Performance Assessment Report*: https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar_laosustainableforestry.pdf

⁷⁶ Lestrelin, G., Trockenbrodt, M., Phanvilay, K., Thongmanivong, S., Vongvisouk, T., Pham, T.T., Castella, J.C. (2013), *The Context of REDD+ in the Lao People's Democratic Republic: Drivers, Agents and Institutions*. CIFOR Occasional Paper 92.

- Grants to support forest establishment using the same modalities as for Action 2.1.2 (50% matching grant with a private sector investor).
- Village development grants to VDFs for livelihood activities.
- On-the-job capacity development and training of village organisations in implementation of assisted natural regeneration and forest development.
- Enforcement of forest access rules (sanctions applied to those who break the rules, and redress available for those whose rights are infringed).
- Capacity building for provincial and district authorities, as well as DVFCs, on monitoring (e.g. forest inventory revision, remote-sensing and ground truthing) and enforcement (patrolling techniques).
- Annual monitoring of overall achievement in implementing the annual plan of operation, and preparation of new annual plan of operation.
- After 4 years, in the final year of Project 1, conduct monitoring and evaluation of the overall achievement of the management plan, and prepare a new management plan for Project 2.

71. *Activity 3.3: National Protected Area management.* The Project 1 area contains 3 National Protected Areas (NPAs) – Nam Sam and Nam Et Phou Louey in Houaphan province and Nam Pouy in Sayaboury province. They span 12 Project 1 districts, which have all deliberately been selected for GCF project implementation. These protected areas account for 670,000 ha in the Project 1 area. Approximately 96% of this protected area is classified as forest.

A lack of management plans and availability of financing are major barriers to addressing deforestation and forest degradation in these NPAs.⁷⁷ Activity 3.3 aims to build on the extensive experience generated by the KfW Integrated Conservation of Biodiversity and Forests (ICBF) project.⁷⁸ Prior to its implementation, extensive pre-feasibility and feasibility studies were conducted that informed the design of the project (2012-2015, implementation until 2022). In Houaphan, experiences in strengthening NPA management will also build on experiences from Nam Et Phou Louey NPA (Wildlife Conservation Society – WCS⁷⁹; World Bank⁸⁰) and Nam Xam NPA (USAID and SNV)⁸¹; in the context of WCS, close exchange and cooperation is envisaged regarding the Nam Et Phou Louey NPA.

Villages will be able to access village-based grants for a set of eligible agricultural and forestry activities that support villages' livelihoods and forest protection. Guidelines developed by the ICBF project will be followed (Village Fund Disbursement / Management Guidelines), which permit activities such as the following.⁸²

- Natural and enhanced forest restoration.
- Improved forest use through bamboo management for income generation.
- Agroforestry for food security and income generation.
- Non-timber forest products for income generation.
- Aquatic conservation zones for livelihood benefits.

These grants will reduce the pressure on deforestation and reliance of unsustainable forest use, and will improve household incomes. The application process is described in the Project Implementation Manual (Annex 22e). Activity 3.3 consists of 3 Actions:

- *Action 3.3.1: Development or revision of National Protected Area (NPA) management plans.* The development of NPA management plans and revision of existing (outdated) plans in the Project 1 area will help to strengthen the management of NPAs and reduce deforestation and forest degradation, while improving livelihoods of villagers living within or adjacent to the NPAs. This Action will include the following measures:

⁷⁷ Information provided by MAF and MoNRE representatives; PRAP consultations; MOF/DOF 2018.

⁷⁸ This project supports the "effective management of 2 target landscapes comprising NPAs and corridors contributing to sustaining biodiversity in forest ecosystems, while supporting livelihoods of forest-dependent communities": Braeutigam, D. (2015), *Integrated Conservation of Forests and Biodiversity ICBF – Introduction*, KfW and MoNRE, Lao PDR.

⁷⁹ More information on WCS activities within this protected area are available online: <https://laos.wcs.org/Saving-Wild-Places/Nam-Et-Phou-Louey-NPA.aspx>. WCS has recently received World Bank LENS2 funding of USD 3 million (2019-2021) to continue its work under the sub-project 'Strengthening the capacity and management of the Nam Et Phou Louey National Protected Area in the face of expanding infrastructure development'.

⁸⁰ Protected Area and Wildlife Project:

<http://documents.worldbank.org/curated/en/862811468266173148/pdf/IPP6840V20REV000Box382157B00PUBLIC0.pdf> and

<http://documents.worldbank.org/curated/en/710021468278697087/pdf/PAD2430P128393010Box382156B00OUO090.pdf>; Developing and Demonstrating Replicable Protected Area Management Models at Nam-et-Phou Louey National Protected Area Project (NEPL Project):

<http://pubdocs.worldbank.org/en/296761446543710814/pdf/Lao-NEPL-AM-ISM-May-2015-pdf.pdf>

⁸¹ <http://newgenerationplantations.org/multimedia/file/574d9156-8098-11e6-ab1e-005056986313>

⁸² KfW (2017), *Village Fund Disbursement and Management Guideline*.

- Assessment of key forest areas and the quantification of current and potential threats as a key element of developing NPA management plans.
 - Zonation: Identifying land use categories and Participatory Land Use Planning (PLUP).
 - Assessment and identification of alternative livelihood opportunities for which villages will be eligible to receive village-level livelihood grants through voluntary co-management agreements (VCMAs – essentially village conservation contracts – under Action 3.3.3).
 - Development of National Protected Area (NPA) management plans.
 - Awareness raising and establishment of co-management agreements with villages inside or adjacent to the NPA in NPAs where this has not already been done. Voluntary co-management agreements will be based on a participatory process applying FPIC principles.
 - Development of Law Enforcement Action Plans (LEAPs) for NPAs.
- *Action 3.3.2: Improved law enforcement in NPA conservation landscape.*
 - Construct/reconstruct law enforcement infrastructure, provision of patrolling equipment and ensure operation.
 - Implementation of Law Enforcement Action Plans (LEAPs) for NPAs, regular monitoring and enforcement of management plans and NPA management, including targeting high-risk areas by Provincial Office of Forestry Inspection (POFI) staff.
 - Development and implementation of a forest monitoring strategy aimed at evaluating the effectiveness of NPA management actions.
 - Implementation of the SMART law enforcement data management system to standardise the monitoring of enforcement efforts, threats and results across all NPAs.
 - Capacity development for NPA and POFI staff, and provision of equipment to support improved monitoring and enforcement.
 - Village engagement by PPMU and DAFO staff for participating villages within and adjacent to NPAs.
 - *Action 3.3.3: Implementation of sustainable land and forest management by villages living within and adjacent to NPAs.* Support will be provided to villages living within and adjacent to NPAs to implement sustainable land use activities that are aligned with the voluntary co-management agreements and the NPA management plans.

Financing for Actions 3.3.2 and 3.3.3 will be provided from the REDD+ Funding Window to government entities and to villages. Government entities will be supported by the PPMUs in their annual work planning and budgeting. Work plans and budgets will be submitted to the NPMU, and approved funds will then be disbursed by the EPF in accordance with the REDD+ Funding Window Project Operational Manual (POM).

B.4. Implementation arrangements

B.4.1 Project Steering Structure

72. The **National Project Steering Committee** (NPSC) will provide administrative oversight of the project, ensuring coordination across ministries – initially for Project 1 and subsequently (contingent upon separate GCF funding approval) for Project 2 and Project 3. The NPSC will provide strategic implementation guidance to the National Project Management Unit (NPMU) and Provincial Project Steering Committees (PPSCs, the Provincial REDD+ Task Forces), whilst ensuring compliance with the NDC, the National REDD+ Strategy and national socio-economic development objectives. The National Project Steering Committee will meet 4 times per year throughout the project implementation period, as well as on an *ad hoc* basis as and when required.
73. The structure of the NPSC builds upon the existing institutional structure for REDD+ in Lao PDR. Thus, the **REDD+ Task Force**, as the responsible government entity for REDD+, will serve as the NPSC. The REDD+ Task Force was established by Government Decree No. 1313 (2008) as a multi-sector body. It is headed by a Vice Minister of the Ministry of Agriculture and Forestry (MAF) and contains representatives of the Department of Forestry (DoF, under MAF), the Department of Agricultural Land Management and Development (under MAF), the Department of Climate Change (under the Ministry of Natural Resources and Environment MoNRE), the Department of Environmental Quality Promotion (under MoNRE), the Land Department (under MoNRE), the External Finance Department (under the Ministry of Finance), the Ethnic Groups Department (under the Lao Front for National

Development), the Department of International Cooperation (under the Ministry of Planning and Investment), the Division of International Law and Administration Law (under the Ministry of Justice), the Energy Conservation and Saving Division (under the Ministry of Energy and Mines), the Central National Lao Women's Union, the Faculty of Forestry Science of the National University of Laos (NUOL) and the Lao National Chamber of Industry and Commerce.

74. GIZ, as the GCF Accredited Entity and one of three Executing Entities, will maintain observer status on the NPSC in order to provide strategic guidance and ensure that GCF-related guidance and compliance is provided to the national actors.
75. The **Provincial Project Steering Committees** (PPSCs, one for each participating province) will be led by the provincial REDD+ Task Force in each province. At the provincial level, the PPSCs will review project implementation progress and provide support to address potential bottlenecks related to implementation. For Project 1 and Project 3, the provinces of Houaphan, Sayabouri and Luang Prabang will each have a PPSC; for Project 2, the provinces of Luang Namtha, Bokeo and Oudomxay will each have a PPSC.

B.4.2 Project Management, Implementation and Execution Structure

Role of GIZ as Accredited Entity and Executing Entity

76. GIZ head office (in Germany) will serve as the Accredited Entity (AE). The GIZ office in Lao PDR will fulfil the role of an Executing Entity (EE) of Project 1, together with the Government of Lao PDR (represented by MAF and MoNRE) and JICA. The two GIZ roles will be strictly separated and will be accountable to different management structures within GIZ.

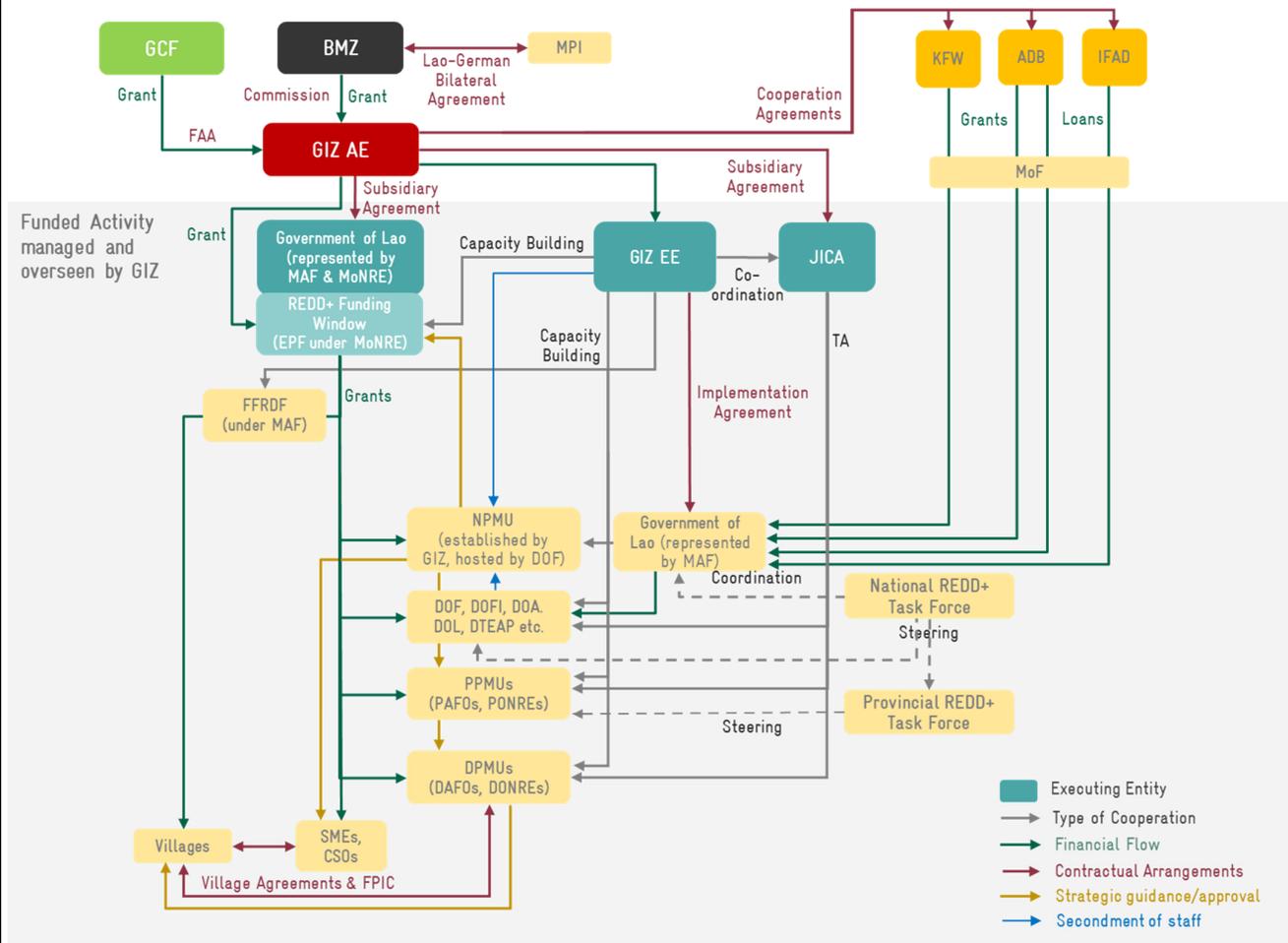
GIZ as Accredited Entity

77. As the Accredited Entity (AE), GIZ will assume oversight responsibility for Project 1, as defined in the Accreditation Master Agreement between GCF and GIZ. As AE, GIZ will administer project funds on behalf of the GCF and will provide oversight guidance and quality assurance of the three Executing Entities through its relevant head office units. The GCF AE unit based at GIZ head office will be responsible for:
- Overall responsibility for, and oversight of, Project 1, including project preparation and implementation
 - Continuous communication with the GCF
 - Receiving GCF proceeds as well as disbursing, administering and processing the funds (financial management)
 - Ensuring the proper use of the GCF proceeds
 - Assessing the integrity and capacity of the EEs
 - Setting up subsidiary agreements with the EEs
 - Monitoring the subsidiary agreements and the performance of EEs
 - Ensuring EEs' procurement activities comply with GIZ's rules and policies
 - Maintaining adequate documentation and reporting to the GCF
 - Establishing internal control routines
 - Ensuring continuous project risk assessment
 - Evaluation (commissioning of independent mid-term and final reviews)
78. In order to implement Project 1, GIZ will need to establish legal arrangements with the Executing Entities (the Government of Lao PDR and JICA), Implementation Partners and Contributing Partners.
79. For Project 1, the following agreements will be necessary:
- BMZ Commission
 - Funded Activity Agreement (FAA) between GIZ (as the Accredited Entity) and the GCF
 - Lao PDR-Germany bilateral agreement with the Ministry of Planning and Investment (MPI)
 - Executing Entities:
 - A subsidiary agreement (grant agreement) between GIZ Head Office (AE) and the Government of Lao PDR (represented by MAF and MoNRE) relating to the REDD+ Funding Window. This agreement will, among other things, also address the implementation of those activities co-financed by IFAD, KfW and ADB.

- A subsidiary agreement between GIZ Head Office (AE) and JICA.
- Implementing Partners:
 - An implementation agreement between GIZ Laos (Executing Entity) and the Government of Lao PDR (MAF).
- Contributing Partners:
 - A co-operation agreement between GIZ AE and ADB
 - A co-operation agreement between GIZ AE and IFAD
 - A co-operation agreement between GIZ AE and KfW

80. These agreements will be negotiated upon Board approval of Project 1 and in accordance with the term sheet. Similar agreements will be required for Projects 2 and 3.

Figure 5: Cooperation and Contractual Arrangements



GIZ as an Executing Entity

81. GIZ has been operating in Lao PDR since 1993 and employs approximately 250 staff members, most of them Lao nationals. GIZ technical assistance in the Lao forestry sector amounts to Euro 21 million, with Lao PDR ranking among the top 15 recipient countries of forestry-related German development assistance worldwide.

82. In its capacity as an Executing Entity, GIZ will lead, and provide overall management of, the Technical Assistance (TA) to Project 1 at national and sub-national levels:

- Managing the project budget of GIZ as Executing Entity that is spent in the country.

- Liaising with the GIZ Country Office regarding budget and finances, monitoring and reporting, staff and appraiser contracts.
- Reporting to the German Embassy and BMZ regarding their financial contributions to the project as well the overall progress of project implementation.
- Coordinating project implementation with the co-financing development partners and their projects and counterparts as well as other bi- and multilateral institutions operating in the same technical and/or geographical area.
- Liaising with, and reporting to, the National Project Steering Committee and Provincial Project Steering Committees.
- Coordinating with, and reporting to, line ministries involved in the project (MAF, MoNRE) as well as the MPI.
- Representing the project in national working groups and stakeholder forums.

83. GIZ will be responsible for the establishment and operation of the National Project Management Unit (NPMU). The NPMU will be established within the Department of Forestry (in MAF); associated provincial (PPMU) and district (DPMU) units will be similarly managed – PPMUs will be situated in Provincial Agriculture and Forestry Offices (PAFOs) and DPMUs in District Agriculture and Forestry Offices (DAFOs). The NPMU will have the following responsibilities under Project 1:

- Providing sub-beneficiaries with guidance on developing annual work plans and budgets. The NPMU and associated PPMUs will work with DAFOs, PAFOs, other government agencies and Village Development Funds to prepare the required materials to submit budget requests to the REDD+ Funding Window.
- Approval of work plan budgets will be the responsibility of the NPMU. The NPMU – and, by extension, GIZ as the Executing Entity responsible for the NPMU – will evaluate operational plans and budgets against criteria to be developed and will determine the appropriateness of each proposed plan (preliminary, indicative criteria are described in the Project Implementation Manual – Annex 22e). Approval will also be dependent upon appropriate due diligence of the recipient entity by the EPF supported – if necessary – by the NPMU and PPMUs. Assuming that a work plan is approved, the NPMU will request the EPF to disburse funds according to the plan, provided there are no fiduciary concerns.
- The NPMU will also have a role in providing guidance to the EPF on monitoring the implementation of the work plans.
- The NPMU will provide guidance to the EPF in terms of fiduciary responsibility, monitoring and reporting, and compliance with safeguards.

84. GIZ as an Executing Entity will be responsible for a GCF budget for Project 1 of Euro 4.1 million.

NPMU, PPMUs and DPMUs

85. A National Project Management Unit (NPMU) will be established within the Department of Forestry (DoF) of MAF. The NPMU's physical location in DoF is expected to foster local ownership of Project 1, to build institutional capacity and to ensure continuous linkage with Government policy-making and implementation of other initiatives. As an Executing Entity, the GIZ Country Office in Lao PDR will be responsible for the establishment and management of the NPMU, as well as the establishment and management of Provincial Project Management Units (PPMUs) in each of the 3 target Project 1 provinces and District Project Management Units (DPMUs) in each of the 16 Project 1 districts. The same NPMU structure will be used for the implementation of GIZ-managed BMZ financing and activity implementation. The NPMU will closely coordinate with the responsible government agencies on relevant activities and will provide technical and financial management support. In order to ensure capacities remain at DoF after project completion, capacities are being built to enable a transformational change and enable income-generation from sustainable forestry during the course of the project. After project completion, DoF will be prepared to make use of the knowledge and experiences, generate revenues and manage those through the Forest and Forest Resource Development Fund.

86. PPMUs and DPMUs, under the instruction of the NPMU, will assist the NPMU in executing the above responsibilities. In addition to mirroring national-level responsibilities at the local level, PPMUs and DPMUs will have an additional responsibility at the provincial and district levels. In the event that project beneficiaries (e.g. Village Development Funds) are not able to independently prepare adequate annual operational plans and budgets, PPMUs and DPMUs will assist beneficiaries to complete appropriate plans.

Figure 6: Project Organisation Chart



The Government of Lao PDR as an Executing Entity

87. The Government of Lao PDR, represented by the Ministry of Agriculture and Forestry (MAF) and the Ministry of Natural Resources and Environment (MoNRE), will serve as Executing Entity. The government's role in this respect is driven by two considerations:

- *The mandates and functions of the two ministries*, notably their sectoral relevance and the fact that MoNRE is the GCF National Designated Authority (NDA) of Lao PDR and is responsible for the EPF; and that MAF serves as the Chair of the REDD+ Task Force and is (together with the Ministry of Finance) the contract-signing party with the FCPF Carbon Fund to sell GHG emission reductions and receive results-based payments. MAF is further responsible for the FFRDF, which will have two roles as: a) a beneficiary receiving capacity building support; b) once its capacities are satisfactorily built to channel funds to beneficiaries. The specific role of FFRDF, as well as the implementation of activities co-financed by IFAD, KfW and ADB, will be elaborated in the Subsidiary Agreement with the Government of Lao.
- *The Government of Lao PDR possesses the legal personality to sign a subsidiary agreement with GIZ* regarding the role that the EPF will play in establishing and operating the REDD+ Funding Window (see below). While the legal agreement with GIZ (as the Accredited Entity) will be signed with the Government, the GCF funding will flow from GIZ direct to the EPF, which will be responsible for the financial management and disbursement of grants to other beneficiaries.

JICA as an Executing Entity

88. In its capacity as an Executing Entity, JICA will provide technical assistance (TA) to departments within the participating ministries and to sub-national agencies. JICA will use its own funds (Euro 1.6 million co-finance) in the context of its F-REDD II project to:

- Support law enforcement and land use planning (Activities 1.4 and 1.5)
- Set up the MRV system and support knowledge generation for the FRL/FREL under Activity 1.6 in close coordination with the Forest Inventory and Planning Division (FIPD) of MAF and the National Project Management Unit (NPMU)
- Support the implementation of Activities 2.1 and 3.1 in the province of Luang Prabang

REDD+ Funding Window project cycle and fund disbursement process

89. The EPF will channel funds under the REDD+ Funding Window. A detailed capacity assessment of the EPF is provided in Annex 22d and a due diligence assessment is provided in Annex 20a. The EPF was established in 2005 by the Government of Lao PDR to strengthen environmental protection, sustainable natural resources management, biodiversity conservation and community development in the country (under the Environmental Protection Law (EPL) and the EPF Decree 2005). The EPF serves as the GEF Operational Focal Point for Lao PDR.⁸³ The EPF provides financial support by means of non-refundable grants, preferential loans, interest rate subsidies or a combination of these. Currently, the main source of financing that the EPF channels to various Sub-project Delivery Agencies (SDAs) is from the World Bank Second Lao Environment and Social (LENS2) project.⁸⁴ The LENS2 project supports Policy Implementation and Capacity Enhancement (PICE) and Biodiversity and Community Investment (BCI) financing windows, as well as building the EPF's capacity and support for project administration. Additionally, the EPF channelled finance for the first LENS2 project.⁸⁵
90. There are three considerations underlying the EPF's role operating the REDD+ Funding Window. First, it is desirable that a local, capable entity is involved in project financing in order to increase country-ownership of activities. The EPF has proven itself capable of managing similar funds in the past (e.g. through LENS2 and through a UNDP-implemented GEF project⁸⁶). Second, Project 1 aims to increase the capacity of government institutions so that the benefits of GCF support outlive its lifespan. By giving the EPF significant responsibility in project execution, the government and GIZ anticipate that local capacity will increase – facilitating, amongst others, the EPF's ambition to become a GCF Accredited Entity.⁸⁷ Third, the EPF's mission and mandate are well aligned with the goals of the GCF project. The EPF is operationally and legally capable of managing the REDD+ Funding Window. Its by-laws (updated in 2018) allow it to manage funds coming from: the State budget, contributions from concessions, direct grants from national and international organisations, contributions from individuals and organisations, interest and profits coming from investments, environmental rehabilitation fees, payment for ecosystem services, and fines and indemnities.
91. The REDD+ Funding Window will be established and operationalised under Project 1, and will also be utilised as a financial delivery mechanism for Project 3 and for the three additional provinces under Project 2 (if Projects 2 and 3 receive future GCF funding approval). Annex 22zb provides a description and budget of the REDD+ Funding Window under Project 1.
92. The REDD+ Funding Window will consist of 4 sub-windows, one for each of four different beneficiary groups: government agencies at national, provincial and district levels; villages (Village Development Funds, VDFs); civil society organisations (CSOs); and private sector enterprises (SMEs). Precise eligibility criteria will be developed in a future Project Operational Manual. Nonetheless, it is anticipated that the Funding Window will have the following eligibility criteria, based upon those used in the World Bank LENS2 Project Implementation Manual:⁸⁸
- Funds support a government policy, strategy or official plan linked to the NDC, a PRAP, the ER-P or the GCF Funding Proposal.
 - The operational plan contributes to at least one intermediate outcome indicator that is relevant to the GCF Activity supporting the beneficiary.
 - Aligns with the project's geographical scope (i.e. the accounting area of the Emission Reductions Programme).
 - The beneficiary is relevant to one of the four REDD+ Funding Windows.
93. The EPF will sign grant agreements with a range of sub-grantees, including government entities, villages, CSOs and private sector entities. The EPF will use its own contractual forms developed under the World Bank LENS2 project for these arrangements. As the FFRDF is envisaged to be an intermediary between the EPF and some project beneficiaries, the FFRDF will also need to sign similar agreements with these entities.

⁸³ <http://www.thegef.org/country/lao-pdr>

⁸⁴ <http://documents.worldbank.org/curated/en/104251468179365818/Lao-People-s-Democratic-Republic-Second-Phase-of-Lao-Environment-and-Social-Project-LENS2-Implementation-support-mission-May-4-to-27-2015>

⁸⁵ For more information, see <https://laoeff.org/la/>, which provides documents such as the EPF corporate annual report and EPF strategy papers.

⁸⁶ UNDP-GEF project, 'Sustainable forest and land management in the dry dipterocarp forest ecosystems of Southern Lao PDR': <https://www.thegef.org/project/sustainable-forest-and-land-management-dry-dipterocarp-forest-ecosystems-southern-lao-pdr>

⁸⁷ The EPF is currently receiving GCF readiness support. With GCF readiness assistance, the EPF has conducted a gap assessment. Currently, the EPF – with support from external specialists – is revising (among others) its gender policy, its fiduciary standards and its safeguards policy. These will all be completed by autumn 2019.

⁸⁸ Provided in Annex 22y.

94. Grant payments channelled through the REDD+ Funding Window will be of three types: operational funds, upfront payments and performance-based payments. Operational payments ensure the implementation of planned activities (for instance, capacity development measures, equipment procurement, etc.). Upfront payments are *ex ante* payments issued to beneficiaries to support defined activities (outlined in a written budget request submitted by the beneficiary to the NPMU). Performance-based payments are *ex post* payments issued by the REDD+ Funding Window to support defined activities that have been achieved according to a pre-defined performance metric.
95. The choice of payment modality for particular project elements has been made primarily on the basis of beneficiaries' capabilities and incentives (i.e. a realistic assessment of their ability to implement activities using pre-existing skills and financial resources). Note, however, that in some respects the distinction between upfront payments and performance-based payments is somewhat artificial. Upfront payments will be issued on an annual basis. This means that, if continued funding is required, the beneficiary will be required to submit a new funding request. This provides an opportunity for the NPMU to assess beneficiary performance to date and, if needed, to stipulate corrective actions or to withhold subsequent payments. Thus, even for upfront payments there is a performance-based element.
96. Grant payments to beneficiaries through the REDD+ Funding Window will range between approximately Euro 2,000 to Euro 15,000, with most clustering in the Euro 5,000-10,000 range. The value of each grant payment will be determined by the amount requested by the beneficiary for specific activities (in the form of an *ex ante* written funding request), the amount subsequently agreed with the NPMU and the beneficiary on the basis of the beneficiary's initial request, and – if there is an *ex post* performance element – on the verified performance of the implemented activities. The basis for all payments are detailed annual workplans for national, provincial and district (including village) levels. Workplans will be developed during joint planning meetings and through the participation/involvement of all concerned stakeholders (government, CSOs, private sector, etc.). Within those plans, the timelines, budgets, concerned organisations, implementing agencies, performance metrics (if relevant), etc. will be noted and agreed on.
97. Through the REDD+ Funding Window, the EPF will channel Euro 11.1 million of the GCF grant to Project 1 beneficiaries. As laid out in the figure below, EPF roles relating to the REDD+ Funding Window will include:
- Disbursement of funds directly to SMEs, CSOs, the FFRDF and province-level (PAFOs, PONREs, POFIs) and district-level (DAFOs, DONREs, DOFIs, DFIUs) government institutions will be the responsibility of the EPF. The EPF will not, however, have responsibility to approve the technical eligibility of funds to be disbursed. Instead, the NPMU will approve operational plans and budgets from sub-grantees. The EPF may approve or reject disbursement requests based on its fiduciary judgement. In many cases, particularly relating to the FFRDF, the sub-grantee will have additional responsibilities in terms of disbursing to small entities (e.g. village groups) due to its presence in the districts.
 - Procurement of goods and services will be the responsibility of the EPF.
 - Monitoring of financial flows under the GIZ-Government of Lao PDR subsidiary agreement and ensuring regular auditing and reporting to GIZ in its capacity as the AE will be the responsibility of the EPF.
 - Reporting to GIZ in its capacity as AE against project milestones and evaluations will be the responsibility of the EPF. Results will be collected at the provincial and district levels and fed up to the EPF. The EPF will then ensure that reporting is undertaken according to the GCF's requirements and will submit monitoring reports to GIZ as the Accredited Entity.
 - Ensuring compliance against GCF environmental, social and governance safeguards will be the responsibility of the EPF.
- In order to deliver against these responsibilities, the EPF will hire new staff and devote significant resources to managing the project activities. The fees for the EPF to accomplish these responsibilities will be agreed after GCF project approval.
98. Coordination between the EPF and the Executing Entities – and, in particular, with GIZ and the Government of Lao PDR – will be ensured through regular coordination meetings. Furthermore, GIZ will steer capacity building measures for the EPF and will provide technical support to the EPF. GIZ will also work with the EPF to address the gaps identified in the EPF's capacity assessment (Annex 22d). GIZ will assist the EPF to: establish an internal control system, including an internal Audit Committee, Ethics Committee and risk register; introduce a uniform accounting system, and elaborate and implement manuals, training and advisories to financial staff prior to and during REDD+ Funding Window implementation; improve the IT infrastructure so that it complies with international

standards; and comply with Environmental & Social Safeguards through setting up a Code of Conduct, and anti-fraud-, anti-money laundering and anti-corruption policies.

Figure 7: Fund Flow Structure

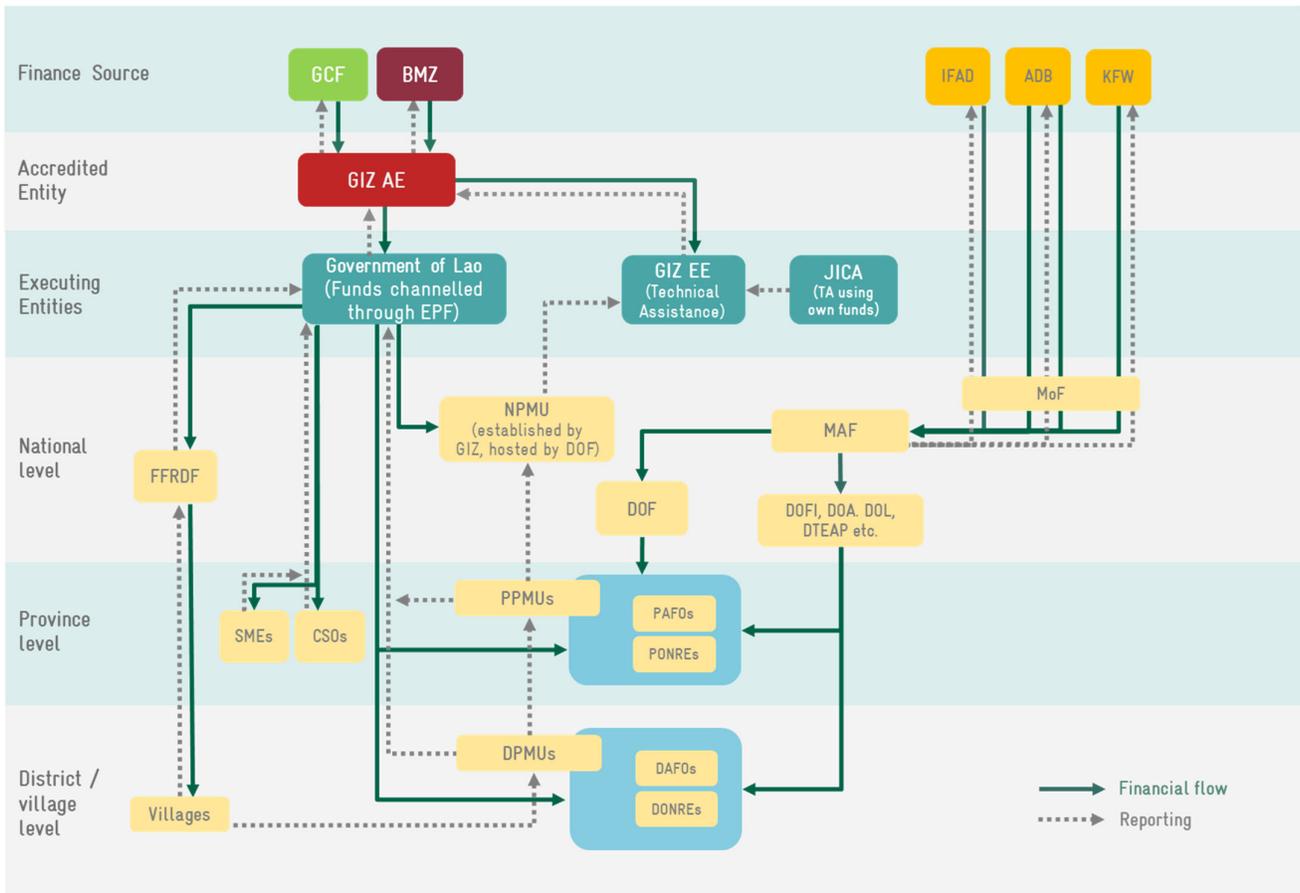


Table 3: Beneficiary Eligibility Criteria for the REDD+ Funding Window

Beneficiary Category	Activities Supported through the REDD+ Funding Window	Eligibility Criteria to receive Funding through the REDD+ Funding Window
Government agencies (at national, provincial and district levels)	Policy and regulatory reform; law enforcement; land use planning; agriculture and forestry; MRV; safeguards implementation	Approval of budget requests submitted to the NPMU
Village Development Funds	Incentives for good agricultural practices and sustainable forestry	Approval of budget requests submitted to the NPMU; establishment of a VDF committee in beneficiary villages; activities seeking funding conform with a white list of eligible activities
Private sector enterprises (primarily agribusiness SMEs)	Incentives for good agricultural practices and agroforestry	NPMU approval of funding proposals submitted via a public tender process. Enterprises must: <ul style="list-style-type: none"> • Be legally registered in Lao PDR • Work in the agricultural and/or forestry sector • Already have a track-record of engagement with good agricultural and forestry practices • Be able to demonstrate in-kind or cash contributions

		<ul style="list-style-type: none"> • Have demonstrable links with the selected project villages • Be party to a private sector-village partnership agreement (PSVPA) with the relevant village(s)
Civil Society Organisations	Monitoring and evaluation; FPIC support; safeguards implementation	<p>Selection through a competitive tender process, with a focus on Lao CSOs. Suitable CSOs have to:</p> <ul style="list-style-type: none"> • Be legally registered • Demonstrate relevant experience • Have demonstrable capacities and resources to implement activities • Have local presence in relevant provinces and/or districts

Table 4: REDD+ Funding Window Grant Allocations

REDD+ Funding Window Sub-Window	Total Operational funds (Euro)	Total Upfront Payments (Euro)	Total Performance-Based Payments (Euro)	Total Payments (Euro)
Government & Civil Society Organisations	5,796,039	–	–	5,796,039
Villages	40,400	2,962,500	2,000,000	5,002,900
Private sector enterprises	–	300,000	–	300,000
Total				11,098,939

99. **Government sub-window.** Government agencies at the national and sub-national levels will be required to submit annual work plans and associated budget requests to the NPMU in order to receive resources from the REDD+ Funding Window. The PPMUs and DPMUs may guide and assist government agencies to prepare work plans, and the NPMU will approve them. The following Project 1 Activities are relevant to government agencies:

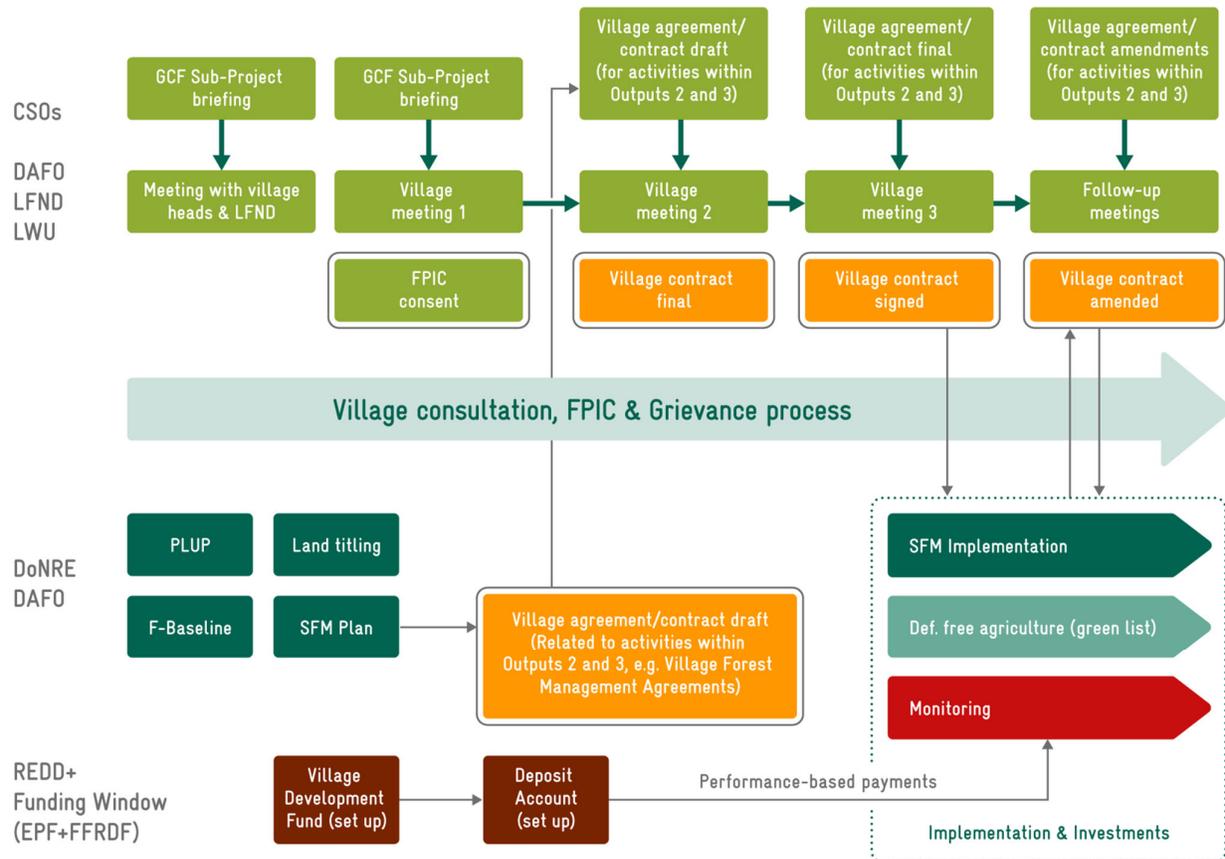
- 1.1: REDD+ Funding Window and sustainable finance
- 1.4: Improved law enforcement and monitoring
- 1.5: Land use planning and improved tenure security
- 1.6: Implementation of the Measurement, Reporting and Verification system
- 1.7: Implementing knowledge management, the ESMP and Gender Action Plan, FPIC and safeguards
- 2.1: Local incentives for good agricultural practices and agroforestry
- 2.2: Catalysing private sector investment in value chains
- 3.1: Village forest management
- 3.2: Sustainable management of production forests
- 3.3: National Protected Area (NPA) management
- 4.1: Project management, coordination, monitoring and reporting

100. **Villages sub-window.** Villages are a key project beneficiary, as local inhabitants are often most directly involved in deforestation and forest degradation. Shifting villagers' activities from degrading practices to sustainable activities is critical to the success of the project. Village Development Funds (VDFs) will be the primary entities representing villages. VDFs will be eligible to receive grants for the following Project 1 Activities:

- 2.1: Local incentives for good agricultural practices and agroforestry
- 3.1: Village forest management
- 3.2: Sustainable management of production forests
- 3.3: National Protected Area (NPA) management

Village Communities will be required to submit work plans to the EPF/FFRDF in order to receive resources for VDFs from the REDD+ Funding Window. Certain preconditions – establishment of a VDF committee with 4-5 members, at least 2 of them women, with the right to withdraw funds; activities screened against a 'white list' of eligible interventions; etc. – must be met. PPMU and district-level coordination staff will support villages in preparing funding work plans, and the NPMU will approve them.

Figure 8: Village Engagement, Contracts and Financial Transfers



101. Private enterprises sub-window. Agribusiness SMEs are the primary targeted enterprises. Private enterprises will be required to submit funding proposals via a public tender process to the REDD+ Funding Window in order to receive grants. To be eligible, enterprises must be legally registered (paying taxes) in Lao PDR, must work in the agricultural and/or forestry sector, must already have a track-record of engagement with good agricultural and forestry practices (including compliance with land use plans and applicable laws and regulations), must be able to demonstrate in-kind or cash contributions, and must have demonstrable links with the selected project villages. PPMUs and DPMUs may guide enterprises in preparing funding proposals, and the NPMU will approve them on the basis of their technical quality and their prospects for successful implementation. Issuance of subsequent grants to a particular SME is conditional upon satisfactory performance relating to prior grants. Agribusinesses may receive grants for the following Project 1 Activities:

- 2.1: Local incentives for good agricultural practices and agroforestry

102. Civil Society Organisations sub-window. CSOs receive funds for contributing to local monitoring and evaluation of the project process as well as contributing to local implementation of the ESMP and Gender Action Plan. Moreover, CSOs facilitate and/or participate in FPIC processes and local consultation. Selection of CSOs will take place through a competitive tender process, with a focus – but not exclusive focus – on Lao CSOs. Suitable CSOs have to be legally registered, have to demonstrate relevant experience (e.g. in REDD+, in project monitoring and evaluation, in gender, etc.), have demonstrable capacities and resources to implement activities, and have local presence in relevant provinces and/or districts. Decisions relating to the selection of CSOs are made by the NPMU; the EPF is responsible for financial and safeguard monitoring. CSOs may receive grants for the following Project 1 Activities:

- 1.4: Improved law enforcement and monitoring
- 1.7: Local incentives for knowledge management, FPIC, safeguards and gender
- 2.1: Local incentives for good agricultural practices and agroforestry
- 2.2: Catalysing private sector investment in value chains
- 3.1: Village forest management
- 3.3: National Protected Area (NPA) management

Table 5: Purposes of REDD+ Funding Window Grants

Project Element	Purpose of REDD+ Funding Window Grants	Grant Recipients ⁸⁹	Type of Grant (operational funds / upfront- / performance-based payments)	Total Grant Amount (Euro)
<i>Government & CSOs Sub-Windows (financed by GCF)⁹⁰</i>				
Activity 1.1: REDD+ Funding Window and sustainable finance	Scoping study and action plan to mobilise long-term REDD+ financing; establishment and operationalisation of the REDD+ Funding Window	MAF, MoNRE, MoF	Operational funds	400,000
Activity 1.4: Improved law enforcement and monitoring	Revised standard operating procedures for law enforcement; improved coordination between law enforcement agencies; training for law enforcement agencies	DOFI, PAFOs, DAFOs, POFI, DFIUs, CSOs	Operational funds	367,1300
Activity 1.5: Land use planning and improved tenure security	Design, preparation, implementation and monitoring of participatory land use plans (PLUPs)	DoL, PAFOs, DAFOs, PONRES, DONREs	Operational funds	618,900
Activity 1.6: Implementation of the MRV system	Support to the fourth national forest inventory; forest-type map; emission and removal factors; assessment of leakage; national forest management system; management information system	DoF	Operational funds	686,100
Activity 1.7: Implementing knowledge management, the ESMP and Gender Action Plan, FPIC and safeguards	Ensuring the project complies with safeguards and best practices; Local monitoring and evaluation of project implementation; local implementation of the ESMP and the Gender Action Plan	MAF, MoNRE, CSOs	Operational funds	471,500
Activity 2.1: Local incentives for good agricultural practices and agroforestry	Capacity building; district activity plans; knowledge exchange workshops for villages	DAFOs, CSOs	Operational funds	790,600
Activity 2.2: Catalysing private sector investment in value chains	Establishment of public-private dialogue and match-making platform to promote village-based agroforestry; Formalization support for village and private sector partnerships; Multi-Stakeholder Platforms (MSPs) on value chain development; Business development support to farmers / value chain actors / SMEs	PAFOs, DAFOs, CSOs	Operational funds	283,000
Activity 3.1: Village forest management	Development, implementation and monitoring of village forest management plans	DoF, PAFOs, DAFOs, POFI, DFIUs, CSOs	Operational funds	833,400

⁸⁹ MAF = Ministry of Agriculture and Forestry; MoNRE = Ministry of Natural Resources and the Environment; MoF = Ministry of Finance; PAFO = Provincial Agriculture and Forestry Office; DAFO = District Agriculture and Forestry Office; POFI = Provincial Office of Forest Inspection; DFIU = District Forest Inspection Unit; DoL = Department of Land; DoF = Department of Forestry; DoFI = Department of Forest Inspection, VDF = village development fund.

⁹⁰ The Government and CSOs sub-windows are presented in combined form here because they closely complement each other. For example, under Activity 1.7 CSOs will provide support regarding the Gender Action Plan, FPIC, etc.; Activity 3.1 – village forest management trainings by PAFO/DAFO or CSOs (for example, for NTFP by GRET); Activity 3.3 – international service contract to support the preparation / revision of management plans for 2 NPAs (WWF / WCS). Details will be worked out during the preparation of annual workplans at all levels.

Activity 3.2: Sustainable management of production forests	Preparation and implementation of forest management plans	DoF, PAFOs, DAFOs	Operational funds	99,200
Activity 3.3: National Protected Area (NPA) management	Development of NPA management plans; improved NPA law enforcement	DoF, PAFOs, DAFOs, CSOs	Operational funds	976,000
Activity 4.1: Project management	Project Management, Coordination, Monitoring and Reporting	EPF	Operational funds	270,208
<i>Villages Sub-Window (financed by GCF)</i>				
Activity 2.1: Local incentives for good agricultural practices and agroforestry	Payments for 'white list' good agricultural practices (GAPs) such as intercropping, mulching, no-tillage, etc. specified in the village participatory land use plan as well as matching grants for agroforestry development	VDFs	Combination of upfront (200 villages X 7,500 EUR) and performance-based payments (200 villages X 10,000 EUR) after 2 years based upon the PLUP forest cover target	3,500,000
	Travel cost for villagers to training events	Villagers	Operational funds	16,000
Activity 3.1: Village forest management	Development, implementation and monitoring of village forest management plans (implementation of 615 annual plans in 4 years x 1,500 EUR)	VDFs	Upfront	922,500
	Travel cost for villagers to training events	Villagers	Operational funds	20,400
Activity 3.2: Sustainable management of production forests	Grants to support the implementation of annual forest management plans; village development grants for livelihood activities (only for Hongsa, other 2 x PFA covered under 2.1.4)	VDFs	Upfront	60,000
	Travel cost for villagers to training events	Villagers	Operational funds	4,000
Activity 3.3: National Protected Area (NPA) management	Implementation of sustainable land and forest management by villages living within and adjacent to NPAs – (Village conservation grants to NPA adjacent communities (40 villages x 3 NPAs x 4,000 EUR)	VDFs	Upfront	480,000
<i>Private Sector Enterprises Sub-Window (financed by GCF)</i>				
Activity 2.1: Local incentives for good agricultural practices and agroforestry	Matching grants for village-based agroforestry activities (1,500 ha x 200 EUR)	Private sector enterprises	Upfront (but (a) on a per hectare basis, so that subsequent tree-planting on additional land attracts additional project payments; and (b) subject to proof of private enterprise finance accounting for at least 50% of the agroforestry costs)	300,000 ⁹¹

103. The initial size of the REDD+ Funding Window is Euro 11.1 million. As a result of GCF project implementation, additional financial resources will be unlocked and leveraged for reinvestment in REDD+ activities. Annex 3c provides a detailed breakdown of financial sources and amounts that will be leveraged by Project 1 and by the subsequent projects. Sources of leveraged finance include carbon results-based payments, forest taxes and fees, protected area fees, agricultural production, etc. Project 1 is expected to leverage Euro 227 million, a significant fraction of which (anticipated to be 75%+) will be reinvested in activities supportive of REDD+. It is not currently known what fraction will flow through the REDD+ Funding Window specifically – this will be a result of, for example,

⁹¹ Commercial agroforestry companies will provide the same amount of investment in village plantation establishment, as outlined in the Private-Sector Village Partnership Agreements (PSVPAs).

the ongoing benefit-sharing agreement discussions between the Government and the FCPF, future Government fiscal decisions, etc. With regard to FCPF Carbon Fund results-based payments, it is anticipated in the ER-PD (Annex 20b) that 80% of the revenues will be channeled through the REDD+ Funding Window.

B.4.3 Regulation, taxation and insurance

Privileges, immunities and taxation

104. The Federal Republic of Germany has concluded Framework Agreements on Technical Cooperation under international public law with the Government of Lao PDR, which provide for certain privileges and immunities to be applied in projects and programmes of technical cooperation, including exemptions for taxes, customs, duties and fees. GIZ will endeavour to reach arrangements to have these privileges and immunities also applied to Project 1, including GCF proceeds. However, formal agreements will only be entered into after the project has been approved.

Approvals, permits, licences and land

105. At the time of submitting this Funding Proposal, GIZ is not aware of the project requiring specific approvals, permits, licences or land to allow for the implementation of planned activities.

Currency

106. The local currency in Laos is the Lao KIP (code: LAK). The project's local transactions will use LAK. The AE will manage GCF proceeds in Euro. GIZ will apply its standard rates for the conversion of currency.

Insurance

107. GIZ, as the AE, will ensure that project activities are adequately insured as per GIZ standard operating procedures and common practices. GIZ standard operating procedures require contractors to ensure required insurance cover. GIZ policies provide insurance cover for GIZ staff. At the time of submitting the Funding Proposal, GIZ does not anticipate additional insurance in order to cover special risks in this project.

B.5. Justification for GCF funding request

108. After decades of losing tropical forest, Lao PDR is actively seeking to implement an ambitious REDD+ emission reductions programme. Laos has committed substantial domestic resources, and has worked closely with bilateral and multilateral donors, to reach its current level of REDD+ readiness and ability to transform its forest sector. But capacity and funding gaps remain. Building on, and coordinating with, complementary initiatives, Laos will deploy GCF support to remove investment barriers to unlock future results-based payments, domestic taxes and fees, and to create a sustainable environment for scaling-up REDD+.

109. No developing country anywhere in the world has ever managed to achieve sustainable management of its forests and landscapes alone. The degree and complexity of the necessary change is high. The need for financial and technical assistance is high. In its NDC, Lao PDR has apportioned USD 12.5 million of domestic resources for the implementation of mitigation and adaptation actions (the equivalent of approximately 0.14% of GDP). For forestry sector mitigation and adaptation actions, the government is seeking international NDC financing of USD 220 million.

110. Lao PDR needs GCF support that goes beyond the potential of the government or its development partners:

- *More public financing:* The Government of Lao PDR has already committed to contributing a substantial amount of co-finance (Euro 11.8 million) to Project 1. The project, specifically Activity 1.1, will itself devote resources to mobilising additional public (and private) domestic finance to support REDD+.
- *More grants from other development partners:* All of Lao PDR's current development partners in the forest sector already support the GCF project. Germany and Japan have both committed grant financing to Project 1, and ADB and IFAD have committed loan packages for the implementation of improved agricultural practices and to reduce the pressure on expansion into forested landscapes. The World Bank (FCPF Carbon Fund) is offering Lao PDR REDD+ results-based payments. Additionally, the FCPF has worked closely with GIZ and the government to support the development of the project by scheduling the ESMF

and gender work streams to match the project's needs. The FCPF has also provided key data for the development of the project.

- *Additional loans for the Government of Lao PDR:* Lao PDR is a landlocked least developed country (LLDC) that is ranked 139th out of 189 on the Human Development Index. According to the IMF's recent Debt Sustainability Analysis⁹², "Lao PDR's risk of external debt distress remains high, suggesting the urgent need to tighten fiscal policy, strengthen public financial management, and develop a comprehensive medium-term debt management strategy." Despite these constraints, the government is willing to borrow Euro 12.3 million from ADB and Euro 7.7 million from IFAD to complement Project 1. The fiscal space for additional borrowing for Project 1 is exhausted and additional borrowing would be at the expense of future generations and lead to greater indebtedness of Lao PDR.
- *Loans for households:* The beneficiary groups - village foresters and subsistence farmers - are among the poorest population groups in Lao PDR, with a high dependence on natural resources and poor access to markets and financial services, and they have insufficient assets for the repayment of loans. Approximately 28% of inhabitants in the Project 1 area live below the poverty line,⁹³ higher than the national average of 23%.⁹⁴ Grant financing combined with technical assistance has been determined to be the only appropriate financing instrument for these beneficiary groups. The GCF's added value will be to support the poorest population groups of the country in the transformation towards more sustainable land use practices.

111. The GCF grant for Project 1 will be used to overcome the government's constraints to source public funding or assume additional debt to invest in measures needed to reduce deforestation and forest degradation. Lao PDR is a landlocked least developed country (LLDC) that is ranked 139th out of 189 on the Human Development Index.⁹⁵ Northern Lao PDR, the region targeted by the programme and its constituent projects, has historically been the poorest and most rural region of the country. The average annual income in that area is approximately USD 1,200 per capita, compared with a national average of USD 2,330.⁹⁶ The fiscal deficit was 4.4% in 2017. Government income declined during 2017/18 and is projected to continue below targets. Lower-than-expected revenues have been accompanied by reductions in government spending. The persistent fiscal deficit has led to an increase in public debt and an elevated risk of debt distress. Total public debt was nearly USD \$9 billion in 2016, or 59% of GDP. Management of the debt is a constraint on the Lao PDR economy, inhibiting the government from spending on its development agenda.⁹⁷ According to the IMF's recent Debt Sustainability Analysis⁹⁸, "Lao PDR's risk of external debt distress remains high, suggesting the urgent need to tighten fiscal policy, strengthen public financial management and develop a comprehensive medium-term debt management strategy."
112. Project 1 will devote resources to mobilising additional public and private domestic finance to support REDD+. In particular, the project will support and strengthen the capacities of two national financial institutions: the Environmental Protection Fund (EPF) and the Forest and Forest Resource Development Fund (FFRDF). They will be enabled to jointly operate a new REDD+ Funding Window and thereby manage and disburse domestic and international sources of finance (including FCPF results-based finance), both for the GCF initiative specifically and for broader sectoral needs. The government is committed to progressively increasing its contributions to the REDD+ Funding Window, thereby over time replacing the GCF financing.
113. As a result of the significant value of emission reductions generated over the implementation period of Project 1 and, more substantially, over the 20-year lifetime (influence period) of the entire programme, coupled with economic co-benefits associated with the transition to deforestation-free agriculture and sustainable forest

⁹² IMF (2018), *Article IV Consultation: Lao PDR*, <https://www.imf.org/~media/Files/Publications/CR/2018/cr1884.ashx>

⁹³ Lao PDR Poverty Line Definition from the 2017 Lao PDR Human Development Report (MPI and UNDP 2017): "The national poverty line is calculated on a nutritional basis. An adult must be able to consume an equivalent of 2,100 kilocalories a day to be above the poverty line. S/he should also have access to some non-food necessities. First, the monetary equivalent of 2,100 kilocalories of food (from a defined basket) is calculated, and then allowances for non-food items are calculated. The sum of these two is the poverty line. Each time a survey is conducted, the poverty line is adjusted for inflation. No new poverty line has been defined for over two decades. Lao PDR follows the World Bank's method of measuring poverty."

⁹⁴ Pimhidzai, O., Fenton, N. C., Souksavath, P. and Sisoulath, V. (2014), *Poverty Profile in Lao PDR: Poverty Report for the Lao Consumption and Expenditure Survey 2012–2013*. Available at:

<http://documents.worldbank.org/curated/en/868521467998508506/pdf/100120-WP-P146141-PUBLIC-Box393225B-Poverty-Profile-in-Lao-PDR-publication-version-12-19-14.pdf>

⁹⁵ UNDP (2018), *Human Development Indices and Indicators: 2018 Statistical Update*:

http://www.hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf

⁹⁶ World Bank (2018), *The World Bank in Lao PDR: Overview*, available at: <http://www.worldbank.org/en/country/lao/overview>

⁹⁷ World Bank (2018), *Lao PDR Economic Monitor*, <http://documents.worldbank.org/curated/en/418261529002464394/pdf/127222-REVISED-Lao-PDR-Economic-Monitor-Report-June-2018-for-Website.pdf>

⁹⁸ IMF (2018), *Article IV Consultation: Lao PDR*, <https://www.imf.org/~media/Files/Publications/CR/2018/cr1884.ashx>

management, the programme is expected to have a very high economic net present value (ENPV). The GCF grant for Project 1 will only be spent on public good activities that do not generate financial reflows to the project and on technical assistance and capacity building activities that, while benefiting the private sector, are essential to remove critical barriers to the transition to more sustainable agricultural and forestry management practices. Significant co-finance, in the form of both grants and loans, will be mobilised.

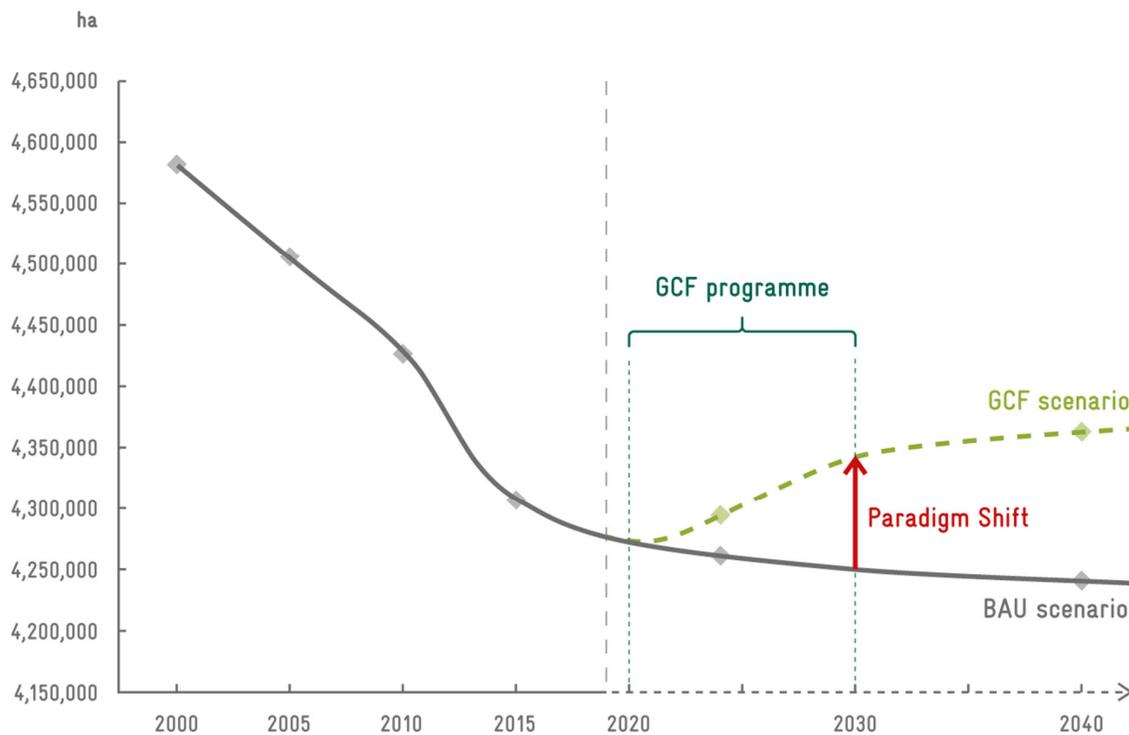
B.5.1 GCF Added Value through Complementary Financing of REDD+ Implementation

114. Lao PDR has committed substantial domestic resources to participate in REDD+ and to transform its forest sector from a net GHG emission source into a net carbon sink. Lao PDR has been engaged in the REDD+ readiness process since 2008, demonstrating genuine commitment from the government and civil society stakeholders. In 2017, the government completed its NDC and its Forestry Strategy: both build upon the National REDD+ Strategy (NRS) to 2025 and National REDD+ Vision to 2030 as the official government documents for guiding REDD+ implementation.
115. As part of the national REDD+ process, the government has designed an ER-P under the Forest Carbon Partnership Facility (FCPF) Carbon Fund.⁹⁹ The government is currently in negotiations regarding the Emission Reductions Payment Agreement (ERPA), through which it expects to receive up to USD 42 million of REDD+ results-based payment by 2025.¹⁰⁰
116. The FCPF represents the most immediate and concrete source of REDD+ results-based payments. However, other sources may materialise in the future, notably through the UNFCCC Warsaw Framework. At UNFCCC COP 19 in Warsaw (2013), the Parties to the UNFCCC finalised the negotiations on what was subsequently referred to as the 'REDD+ rulebook' or the 'Warsaw Framework for REDD+ (WFR)'. It collates all relevant decisions on specific REDD+ agenda items and guides countries seeking to implement REDD+. Compliance with the WFR is a prerequisite for accessing results-based payments, both from the FCPF Carbon Fund but also from other potential UNFCCC sources. The WFR stipulates that REDD+ will be implemented in three phases and indicates that developing countries implementing the five eligible REDD+ activities in phase III have to comply with the rules related to MRV as a basis for receiving results-based payments. With the assistance of the GCF, these conditions will be met, thereby opening up, in principle, future REDD+ payments for Lao PDR through not only the FCPF but also potential alternative channels.
117. In order to receive this results-based financing, investment in the enabling environment, deforestation-free agriculture and sustainable forest landscape management are required. The project is fully aligned with, and explicitly supportive of, the ER-P.
118. Figure 9 shows the forest transition curve for the programme in which Project 1 is embedded. The BAU scenario is given by the Reference Level developed for the ER-P. The GCF scenario captures the impact of avoided GHG emissions and enhanced carbon sequestration associated with activities implemented with GCF support. The figure provides a graphical illustration of the programme's added-value and paradigm shifting potential, as it shows not only a significant reversal in forest cover in northern Lao PDR (an increase of approximately 100,000 ha by 2030) but also a sustained post-programme increase thereafter. Such a reversal follows sustained, uninterrupted and precipitous forest decline over the preceding 20+ years.

⁹⁹ FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

¹⁰⁰ After the successful acceptance of the Lao PDR into the FCPF Carbon Fund in June 2018, an ER-PA workshop took place which resulted in the establishment of a legal and technical ER-PA negotiation team. The FMT shared a default initial ER-PA term sheet. An appraisal mission to Lao PDR is planned in October 2019 and ER-PA negotiations will be concluded by December 2019. Government authority for ER-PA signature is planned for February 2020 and the ER-PA will come into effect by March 2020.

Figure 9: Forest Transition Curve for the Programme



B.5.2 GCF Added Value through Broad Stakeholder Engagement and Inclusive Design

119. The project applies an innovative approach that aims to empower local villagers, including women and members of different ethnic groups, by strengthening their capacities on REDD+ and sustainable land use management, and supports them not only in planning but also in the implementation, monitoring and enforcement of activities.

B.5.3 GCF Added Value through Social Sustainability

120. Social inclusion is a cross-cutting theme within the GCF-supported Outputs, Activities and Actions. Project 1 aims to promote an inclusive approach, ensuring beneficiaries from diverse ethnic groups and marginalised villages are included and empowered. Specific measures are included that target their participation and promote their empowerment.

B.5.4 GCF Added Value through Environmental Sustainability

121. In addition to supporting GHG emission reductions through REDD+, Project 1 will generate substantial additional environmental benefits. Examples include, among others, enhanced biodiversity and conservation in protected areas, reduced watershed soil erosion and sedimentation, and strengthened ecosystem resilience to climate change through improved land management.

B.5.5 Financial Analysis

122. The financial analysis focuses on the two Outputs that are amenable to the generation of financial reflows, namely Outputs 2 and 3. The Activities of Output 1 are entirely of a public good nature and will not generate financial reflows.

123. Output 2 promotes the transition to sustainable agricultural practices that do not put additional strain on existing forest resources. Most of the GCF funding for Output 2 is concentrated in Activity 2.1, 'Local incentives for good agricultural practices and agroforestry'. Over the course of the 9.5-year programme implementation period, the objective of Activity 2.1 is to shift 60,900 hectares of land away from two unsustainable agricultural practices: (i) shifting cultivation of upland rice ('rice baseline') and (ii) unsustainable maize cultivation ('maize baseline'). With

regard to rice, Activity 2.1 promotes the transition from the baseline to a sustainable model of sequential cropping, in which rice farming is sequenced with sesame/ginger and soybean/peanuts in different years. This model is financially attractive. Farmers would more than cover their labour costs, generating a positive NPV of USD 276 per ha and financial IRR of 47% over the 20-year programme lifetime. With regard to maize, Activity 2.1 promotes the transition from the baseline to one of two sustainable models: (i) inter-cropping (maize, soybean, peanuts or other cash crops) and (ii) sequential cropping on 2-year rotations (maize, soybean, peanuts or other cash crops). Both models generate a significantly higher NPV than the maize baseline, estimated at USD 2,338/ha for intercropping and USD 1,513/ha for sequential cropping over 20 years.

124. While, in theory, the sustainable rice and maize farming models promoted by Activity 2.1 are financially more attractive than the baseline agricultural practices, a GCF grant is still deemed the most efficient and effective financial instrument. This is because subsistence farmers in the target areas face, in practice, very substantial barriers that prevent them from capturing any financial upside from sustainable farming. In particular, farmers lack knowledge, awareness and expertise on sustainable farming, and lack access to downstream markets for any crops other than rice and maize. Technical assistance and capacity building funded by the GCF grant address these crucial barriers.

125. Output 3 aims at the large-scale adoption of sustainable forest management practices across forest-types. Specifically, it aims to:

- Restore 25,300 ha of completely depleted forest to production forest, by implementing sustainable forest management and harvesting of firewood, construction timber and large-diameter timber. Sustainable management and sustainable harvesting are estimated to have a positive NPV of USD 155 per ha over 20 years. This compares positively with the baseline situation where no economic value whatsoever is extracted from the forest.
- Promote sustainable forest management and non-timber forest product (NTFP) utilisation in three categories of forest. In total, by 2027, approximately 1.1 million ha of forest will be transitioned to sustainable NTFP utilisation. The sustainable forest management and utilisation of NTFPs ensures that the forest is never depleted, extending the period over which economic value can be extracted; as a result, the NPV of sustainable NTFP utilisation is positive (approximately USD 451/ha over 20 years).

126. As with Output 2, while in theory the SFM models promoted by Output 3 are financially more attractive than the baseline practices, a GCF grant is still deemed to be the most efficient and effective financial instrument. This is because beneficiaries in the target areas face, in practice, very substantial barriers that prevent them from capturing any financial upside from SFM. In particular, they lack knowledge, awareness and expertise – barriers that the GCF grant will address.

B.5.6 Economic Analysis

127. The following environmental and socio-economic benefits can be expected from GCF-supported interventions: (i) reduction of CO₂ emissions, (ii) economic value-added captured by project beneficiaries, and (iii) the value of restored forest ecosystem. The first two factors are quantified in the economic model (Annex 3a). While there is considerable research evidence that ecosystem services have significant value (e.g. avoided erosion, watershed protection, flood protection, availability of water resources, biodiversity habitat, pollination and tourism revenues), estimates of ecosystem value vary significantly and are therefore not expressly quantified in the model. Assuming, as a base case, a carbon price of Euro 25/tCO₂eq (the EU-ETS price as of June 2019) and the economic value-added derived from applying the per-hectare findings of the financial analysis above to the entire target area of Outputs 2 and 3, the programme in which Project 1 is embedded produces a very high NPV of Euro 1,485 million (over a 20-year period and a 10% discount rate). Since the programme produces a positive economic value from year 1, the economic IRR is not meaningful in the model.

128. Sensitivities were run assuming: (i) lower carbon prices (down to the ultra-conservative but unrealistic scenario of 0 carbon price), and (ii) lower economic value-added (% reduction applied to each year in the implementation period). Even at carbon prices of Euro 5/tCO₂eq (approximately the lowest reached in the EU-ETS in recent years), the programme has a positive economic NPV, ranging from Euro 277 million to Euro 464 million. Only by disregarding emission reductions altogether (i.e. assuming a carbon price of 0) and reducing the economic value-added by 60% versus base-case estimates does the economic NPV move closer to zero, with the programme yielding an EIRR of 13%.

129. These findings are supportive of the very high relevance and positive cost/benefit analysis from an economic standpoint of the programme in which Project 1 is embedded. Adding the value of restored ecosystems would further improve the economic attractiveness of the programme.

B.6. Exit strategy and sustainability

B.6.1 Financial Exit Strategy

130. GCF grant financing will:

- *Enable access to REDD+ results-based payments:* Project 1 will close the initial structural funding gap for transforming the forest sector through the provision of GCF grant finance and will deliver emission reductions that enable the country to access REDD+ results-based payments – initially, and most concretely, through the FCPF Carbon Fund and later through other potential (e.g. UNFCCC) channels.¹⁰¹
- *Mobilise national and international sustainable forest sector finance:* With GCF support, the structural funding gap will be closed by unlocking and increasing additional national and international financing streams for the forest and agricultural sectors. Activity 1.1 of Project 1 is specifically devoted to the mobilisation of an array of forest sector financing options, including existing and new ones to be introduced and operationalised. The total leverage impact of Project 1 is estimated to be Euro 227 million: this includes carbon results-based payments, the green credit line, agricultural production, protected area fees, forest fees and taxes, and others (see Annex 3c for details).
- *Attract private sector investment:* The project is designed to facilitate greater private sector investment in the forestry and sustainable agriculture sectors. Project 1 Activities specifically devoted to private sector development (Activities 2.1 and 2.2) will mobilise new and additional investment.
- *Support the strengthening of national financial institutions to operate a REDD+ Funding Window:* Project 1 will support and strengthen the capacities of two national financial institutions: the Environmental Protection Fund (EPF) and the Forest and Forest Resource Development Fund (FFRDF). They will be enabled to jointly operate a newly-established REDD+ Funding Window and thereby manage and disburse domestic and international sources of finance (including FCPF results-based finance), both for the GCF project specifically and for broader sectoral needs. The project will channel GCF grant finance (in a tranching, performance-based manner) through the EPF and the FFRDF, accompanied by capacity development support, that will disburse funds to participating villages and stakeholders for implementing SFM, FLR and deforestation-free agriculture (Activity 1.1 is specifically devoted to this, as well as Activities under Outputs 2 and 3). The government commits to progressively increase its contributions to the REDD+ Funding Window, thereby over time replacing the GCF financing. The government's contributions will come from different sources:
 - *Public budget:* this includes the provision of financial and in-kind resources from the public budget of Lao PDR to the REDD+ Funding Window, beginning in year 1 of the GCF project. GCF interventions are expected to increase tax returns as a co-benefit (agriculture, commercial, forestry, mining and hydropower). These revenue flows will be monitored using EPF and FFRDF financial reports.
 - *Fees and other revenues:* the FFRDF is already legally mandated to receive payments from different forest sector sources. Project 1 will expand these revenue streams by increasing the capacity of FFRDF to collect payments and by demonstrating the value of such payments to the government.
 - *Results-based payments:* The GCF project will help to unlock FCPF Carbon Fund payments of approximately USD 42 million in the first accounting period (anticipated mid-term payment in 2023 and final payment in 2025), with FCPF payments under Project 1 amounting to approximately Euro 23 million. The Benefit Sharing Plan (BSP) governing the distribution of revenues from results-based payments is currently being negotiated by the Government of Lao PDR and the FCPF, but it is expected that the vast majority of payments will flow directly to the REDD+ Funding Window, which will then channel the funds to communities in order to implement similar activities. The ER-PD (Annex 20b) provides an indicative breakdown of the flow of results-based payments of 7% to the government budget and 93% to local REDD+ activities, 86% of which would be channelled through the REDD+ Funding Window. The ER-PD also outlines some general principles of benefit-sharing that the government plans to adopt. It notes that

¹⁰¹ Double counting of emission reductions – understood to involve an emission reduction being counted more than once towards a mitigation pledge – will be avoided through the transparent reporting and accounting of emission reductions using UNFCCC (e.g. BUR technical annex), NDC and FCPF accounting protocols. Once the Government of Lao PDR receives FCPF payments for emission reductions, those emission reductions will be retired so that they cannot be 're-used'.

“RBPs from the ER Program, together with other sources of funds, will be reinvested into a host of REDD+ interventions as well as costs for directly facilitating the ER Program.” One explicit criterion for distributing monetary and non-monetary (e.g. agricultural extension) benefits is the degree to which such benefits will sustain successful REDD+ interventions and thereby reduce greenhouse gas emissions. The BSP will likely include guidance on eligible and ineligible uses (positive and negative lists) of benefits.¹⁰²

131. Post-Project 1 funding requirements are anticipated to be relatively small – approximately 13% of annual Project 1 costs (see Annex 4c).

B.6.2 Exit through Complementing the Government’s Engagement with REDD+ and Alignment with National Policies and Development Plans

132. The project is closely aligned with, and explicitly supportive of, government policies and plans (see Section B.1.2). By aligning the project with key national climate policies, priorities and commitments, including Lao PDR’s NDC, the 8th National SEDP, Vision 2020 and the ER-PD, the chances of continuity of impacts and activities after the GCF investment ends are very high.

B.6.3 Exit through Alternative Livelihood Opportunities and Private Sector Mobilisation

133. Additional income and livelihood opportunities, in conjunction with participatory land use planning and reasonable law enforcement, will create a cascading effect and maintain the low-emission development trajectory triggered by the project. The Project 1 financial and economic analysis (Annex 3) demonstrates that the proposed interventions are viable in the long-run, with positive net present values as well as many other social, economic and environmental co-benefits. Measures focused on strengthening REDD+ business models, FLR and deforestation-free value chains will help leverage private sector resources for REDD+ and, ultimately, low-GHG development.

¹⁰² For further information on FCPF benefit-sharing guidelines, see FCPF (2019), *Note on Benefit Sharing for Emission Reductions Programmes Under the Forest Carbon Partnership Facility and BioCarbon Fund Initiative for Sustainable Forest Landscapes*, https://www.biocarbonfund-isfl.org/sites/biocf/files/documents/FCPF_ISFL_Benefit%20Sharing%20Note_Jan%202019.pdf

FINANCING INFORMATION						
C.1. Total financing						
(a) Requested GCF funding (i + ii + iii + iv + v + vi + vii)		Total amount			Currency	
		15.2			million euro (€)	
GCF financial instrument		Amount	Tenor	Grace period	Pricing	
(i)	Senior loans	15.2		Enter		
(ii)	Subordinated loans					
(iii)	Equity					
(iv)	Guarantees					
(v)	Reimbursable grants					
(vi)	Grants					
(vii)	Result-based payments					
(b) Co-financing information		Total amount			Currency	
		50.0			million euro (€)	
Name of institution		Financial instrument	Amount	Currency	Tenor & grace	Pricing
Government of Lao PDR		<u>In kind</u>	11.8	million euro (€)		
BMZ (implemented through GIZ)		<u>Grant</u>	5.2	million euro (€)		
ADB		<u>Senior Loan and grant</u>	12.3	million euro (€)		
IFAD		<u>Senior Loans</u>	7.7	million euro (€)		
BMZ (implemented through KfW)		<u>Grant</u>	4.8	million euro (€)		
JICA		<u>Grant</u>	1.6	million euro (€)		
Private sector ¹⁰³		<u>In kind</u>	0.9	million euro (€)		
Private sector ¹⁰⁴		<u>Equity</u>	5.7	million euro (€)		
(c) Total financing (c) = (a)+(b)		Amount			Currency	
		65.2			million euro (€)	
(d) Other financing arrangements and contributions (max 0.5 page)		Co-financing letters are provided in Annex 13.				
		<p><u>Co-Financiers for Project 1:</u></p> <p>The Government of Lao PDR will contribute co-finance of Euro 11.8 million towards the implementation of Project 1. Key government inputs will be staff time contributions by national-, provincial- and district-level staff. Financial estimates of staff time value are based on an average government salary of Euro 330/month. The government co-financing contribution also includes Euro 2 million to implement land registration and land titling.</p> <p>The beneficiaries of Project 1 (related to village-level farmer and household time inputs as well as SME financial investments) will devote significant time and financial resources to the implementation of activities and participation in training in Outputs 2 and 3. Villagers' time input is valued using a Euro 2.6/day rate. This equates to a total labour input of approximately Euro 980,000 to Project 1. SME inputs equate to Euro 5.7 million. In total, therefore, beneficiary inputs amount to Euro 6.6 million.</p>				

¹⁰³ Beneficiary / villager in-kind contributions.

¹⁰⁴ SME financial support to/investment in Project 1 activities.

BMZ financing: The total BMZ financing for the project amounts to Euro 10.0 million. Of this, Euro 5.2 million will be implemented through GIZ as an Executing Entity in Lao PDR. GIZ (Executing Entity) will finance part of the project management team (Activity 4.1) and the implementation of Activities 1.1, Activity 1.2 and 1.7, as well as parts of Activities 1.3, 1.4, 1.5, 2.1, 2.2, 3.1, 3.2 and 3.3. The remaining Euro 4.8 million of BMZ financing will be implemented by KfW through its Village Forest Management Programme (VFMP) in 2 districts of two Project 1 target provinces (Sayabouri and Luang Prabang).

JICA will provide Euro 1.6 million co-financing, in the context of its F-REDD II project, for technical assistance to support law enforcement and land use planning (Activities 1.4 and 1.5), to support the implementation of the MRV system under Activity 1.6, and to support the implementation of Activities 2.1 and 3.1 in the Project 1 province of Luang Prabang.

ADB and the EU will provide co-financing of Euro 12.3 million to implement Activity 2.3 (in conjunction with the Sustainable Rural Infrastructure and Watershed Management Sector project, SRIWSM), which will be implemented in 4 provinces. The co-financing contribution is based on the implementation overlap of Project 1 and SRIWSM in seven districts in three of the provinces (Houaphan, Sayabouri and Luang Prabang), where the project and SRIWSM will work together.

The **IFAD PICSA** loan project with the Government of Lao PDR will co-finance Project 1 with Euro 7.7 million to support the implementation of Output 2 activities in 10 target districts in the Project 1 area. IFAD will provide loans direct to the Ministry of Agriculture. The IFAD loan is a stand-alone, sovereign loan to the Government, which will be supervised on technical and fiduciary aspects. IFAD will also supervise procurements. IFAD supervision will involve field missions to the project area to check compliance with procedures.

Co-Financing Flows

IFAD, KfW and ADB sign loan contracts with the Lao Government (MoF/MAF) to channel funds to MAF and then onwards to the Departments in the Ministry and to sub-national agencies; BMZ channels funds to GIZ and GIZ then provides mainly technical assistance to local partners; JICA provides technical assistance to local partners (ministries and sub-national government agencies) using its own funds. See Figure 7.

Monitoring of Villagers' Contributions

Action 4.1.2 will set up a monitoring and reporting M&E system for tracking project Actions, Activities, Outputs and Impacts in line with the logical framework, and will ensure that data – including villager contribution data – is collected and reported in project districts and villages. Types of evidence for contributions will include, for example, produced standard operating procedures (SOPs), lists of participants relating to workshops, trainings, FPIC consultations, implemented activities of Annual Village Forest Operational Plans, and others.

C.2. Financing by component

Table 6: Project Budget

Output	Activity	Indicative cost million euro (€)	GCF financing		Co-financing		
			Amount million euro (€)	Financial Instrument	Amount million euro (€)	Financial Instrument	Name of Institutions
Output 1: Enabling environment for REDD+ implementation	Activity 1.1	1.6	0.8	Grants	0.8	In-kind, Grants	Gov't, BMZ
	Activity 1.2	0.1	0		0.1	In-kind, Grants	Gov't, BMZ
	Activity 1.3	0.8	0		0.7	In-kind, Grants	Gov't, BMZ
	Activity 1.4	0.6	0.4	Grants	0.2	In-kind, Grants	Gov't, BMZ, JICA
	Activity 1.5	3.4	0.9	Grants	2.5	In-kind, Grants, Equity	Gov't, Beneficiaries, BMZ, JICA

	Activity 1.6	1.8	0.7	Grants	1.2	In-kind, Grants	Gov't, JICA
	Activity 1.7	1.5	1.0	Grants	0.5	In-kind, Grants	Gov't, BMZ
Output 2: Market solutions for agricultural drivers of deforestation	Activity 2.1	17.2	6.0	Grants	11.2	In-kind, Grants, Equity, Senior Loan	Gov't, Beneficiaries, BMZ, JICA, IFAD
	Activity 2.2	5.1	0.5	Grants	4.5	In-kind, Grants, Equity, Senior Loan	Gov't, Beneficiaries, BMZ, IFAD
	Activity 2.3	16.7	0		16.7	In-kind, Grants, Senior Loan	Gov't, ADB/EU, IFAD
Output 3: Climate change mitigation action through forestry	Activity 3.1	8.7	2.2	Grants	6.5	In-kind, Grants, Equity	Gov't, Beneficiaries, BMZ, JICA
	Activity 3.2	0.7	0.2	Grants	0.6	In-kind, Grants, Equity	Gov't, Beneficiaries, BMZ
	Activity 3.3	2.9	1.5	Grants	1.4	In-kind, Grants	Gov't, BMZ
Project management, coordination, monitoring and reporting	Activity 4.1	3.8	0.7	Grants	3.1	In-kind, Grants, Senior Loan	Gov't, BMZ, JICA, IFAD
Total financing, Outputs 1-4		64.9	14.9		50.2		
Taxes, legal capacity, customs, etc.		0.3	0.3				
Indicative total cost (€)		65.2	15.2		50.2		

C.3 Capacity building and technology development/transfer

C.3.1 Does GCF financing fund capacity building activities? Yes No

C.3.2. Does GCF financing fund technology development/transfer? Yes No

The long-term sustainability of project interventions is enhanced by the project's focus on individual and institutional capacity building, both of the project's implementing entities and the key beneficiaries. Measures focused on institutional strengthening at the provincial, district and local levels form an essential element of the individual activities, given local capacities and the general low level of awareness of sustainable practices. Government entities and the rural population (agents of deforestation and forest degradation) will have improved skills and awareness of sustainable land use management and REDD+, and it is likely that they will continue to support such measures after project completion. Such interventions will further enhance the sense of ownership of provincial and district governments during the project life-cycle, as well as the ongoing implementation of such activities after project closure.

EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

D.1. Impact potential

D.1.1 Mitigation

134. Detailed GHG calculations are provided in Annex 22t. The calculations are informed by the detailed analysis undertaken as part of Lao PDR's engagement with REDD+ (the UNFCCC Forest Reference Emission Level (FREL))¹⁰⁵ and the FCPF Carbon Fund (the Reference Level (RL) of the ER-P).¹⁰⁶
135. The methodological approach is based on the methodology used for the preparation of the Reference Level (RL), which was submitted and approved (in June 2018) by the FCPF Carbon Fund and is compliant with the Carbon Fund Methodological Framework¹⁰⁷. The approach equates to a highly-detailed Tier 3 approach in IPCC terminology. GIZ will replicate the same methodology for the ex-post assessment of the achieved GHG emission reductions and removals within Project 1 Activity 1.6. The FCPF Carbon Fund will also use it for the determination of results-based payments for the period 2019-2024, for which the RL is valid. The validity of the RL beyond 2024 is subject to further international guidance by the UNFCCC and whether the FCPF Carbon Fund will continue its operations beyond 2025.
136. The ER-P Reference Level accounting area covers precisely the same 6 provinces (Bokeo, Houaphan, Luang Namtha, Luang Prabang, Oudomxay and Sayabouri) as are covered by the programme: the geographical footprints of the ER-P Reference Level and the programme are identical. Correspondingly, the ER-P Reference Level for Houaphan, Sayabouri and Luang Prabang equates to the reference level for Project 1.

D.1.2 Forest impacts

137. As a result of the direct and the enabling implementation activities, over its 4-year implementation period Project 1 is estimated to achieve (relative to the baseline):
- A reduction of deforestation of 6%, equivalent to 9,900 ha.
 - A reduction of forest degradation of 10%, equivalent to 9,030 ha.
 - An increase of restoration and reforestation of 8% and 1%, respectively – equivalent to 3,160 ha of forest restoration and 1,850 ha of reforestation.

D.2. Paradigm shift potential

D.2.1 Potential for scaling-up and replication

138. There is substantial potential for scaling-up and replicating the programme and its activities. If Projects 1, 2 and 3 are considered together, the programme will be implemented in 6 provinces in Lao PDR (out of 17 provinces and 1 municipality), covering 28 out of 50 districts. Thus, within the country, the programme could be replicated in other districts and provinces. If replicated to the remaining 22 districts in the six provinces, this would represent a scaling factor of 140%. The integration of REDD+ into national and provincial development planning will contribute to the mainstreaming, and hence intrinsic scaling-up and replication, of the programme interventions.
139. Project 1 will enable paradigm shift across different sectors and business activities. Agriculture, forestry and financial sectors in particular will be targeted as key sectors for transformation. Within these sectors, the project will work throughout the supply chain, including input suppliers, producers, traders, and processors. The project will target sectors and commodities where there is strong and consistent demand in order to ensure the profitability of the supported sectors. Job's tears, maize, rice, cardamom, tea, green beans and other vegetables have been identified as commodities where demand has existed historically and is expected to increase. More information on the market and demand analysis can be found in Chapter 3 of the Feasibility Study (Annex 2a).
140. At the national level, capacities will be built in the main environmental funds (the EPF and FFRDF), which will facilitate the replication and scale-up of the project as well as the broader distribution of REDD+ finance beyond

¹⁰⁵ https://redd.unfccc.int/files/2018_frel_submission_laopdr.pdf

¹⁰⁶ <https://www.forestcarbonpartnership.org/lao-people%E2%80%99s-democratic-republic>

¹⁰⁷ FCPF (2016), available at:

<https://www.forestcarbonpartnership.org/sites/fcp/files/2016/July/FCPF%20Carbon%20Fund%20Methodological%20Framework%20revised%202016.pdf>

the GCF project target groups as the funds' capacities are built and they become fully operational and capable of managing funds for REDD+. In addition, new finance streams for forests will be mobilised: this will serve as a model for the rest of the country.

141. Internationally, the project will provide key lessons learned for supporting private sector development, the adoption of good agricultural practices and sustainable forest management. A similar upland landscape exists in neighbouring Myanmar, Thailand, Vietnam and China, and such lessons-learned and key activities/actions can be transferred to these countries as well as other similar regions within Southeast Asia.

D.2.2 Potential for knowledge and learning

142. Comprehensive communication and exchange of information about topics of crucial relevance for land users, policy-makers and the broader public will be provided by the project, so that they understand the purpose and benefits of REDD+ and the need for behavioural change of business-as-usual land use. Coordination with the Designated National Authority (DNA) at MoNRE (the same institution as the GCF NDA) will ensure the provision of relevant information to the DNA for its BUR and National Communication. Communication and collaboration with national universities will be sought to provide the project with key lessons learned and relevant education materials, as well as to support these universities in acquiring research projects related to REDD+. Ensuring the development of necessary job skills is critical to the success of the project; training will be implemented via a training-of-trainers approach and delivered by the extension staff of DAFO, at the district level. The knowledge management plan is provided in Annex 22u.

D.2.3 Contribution to the creation of an enabling environment

143. Project 1 contains a strong enabling environment element, including policy and regulatory reform (notably, Activities 1.2 and 1.3), support to regulatory enforcement (Activity 1.4) and improved land use planning (Activity 1.5), as well as community-level support in the form of capacity building and strengthening of the DAFO agricultural extension system (e.g. Activity 2.1, among others). Project 1 also seeks to support the financing environment for REDD+ by helping to establish, operationalise and finance a REDD+ Funding Window (Activity 1.1) and by providing technical assistance to a new green credit line for deforestation-free agriculture that is being set up outside the framework of the GCF project (Activity 1.1). The project also explicitly aims to 'enable' REDD+ results-based payments through support to the FCPF Emission Reductions Programme.

D.2.4 Contribution to the regulatory framework and policies

144. As described in Section B.3, Output 1 of Project 1 is focused on strengthening the policy and regulatory framework. Activity 1.2 will mainstream REDD+ into socio-economic development plans (SEDPs); Activity 1.3 will strengthen the regulatory framework (revision, modification and drafting of relevant laws, decrees and regulations) to enable sustainable forest management and private sector investment in village-based agroforestry development; Activity 1.4 will strengthen law enforcement and compliance monitoring; Activity 1.5 will support land use planning and measures to improve tenure security; and Activity 1.6 will strengthen the forest and forest carbon MRV system.

D.2.5 Summary

145. The identified paradigm shifters – scale-up and replication, knowledge and learning, creation of an enabling environment, contribution to the regulatory framework and policies – apply at both the constituent project and the programme levels. Project 2 will replicate the approach in 3 additional provinces in northern Lao PDR. Considerable scope exists to scale-up / replicate in the remaining 11 provinces of Laos, as well as in neighbouring countries with similar landscape/forestry contexts. Project 3 will scale-up the activities and impacts of Project 1, while

D.3. Sustainable development

146. GCF-supported interventions will produce significant development benefits, which will accrue to different beneficiary groups: the 'global beneficiary' and to the people of Lao PDR:
147. The '**global beneficiary**' will receive a net present value benefit from the programme worth almost Euro 1.5 billion¹⁰⁸ in the form of 144.7 million tCO₂e in GHG savings accrued thanks to the creation of the enabling

¹⁰⁸ At 10% discount rate over the 20-year programme lifetime.

environment for REDD+ implementation over the 20-year programme lifetime.¹⁰⁹ It can be said that the 1.6 million ha of forest landscapes, which would otherwise be subject to deforestation and degradation pressures, will instead benefit from sustainable management practices and will therefore be 'rented' to the 'global beneficiary' for 20 years, with the effect that 144.7 million tCO₂eq in emissions are prevented over the 20-year programme lifetime. This is a significant success in terms of opportunity cost and benefit analysis. The Euro 1.5 billion estimate assumes that the 'global beneficiary' would have to procure this quantity of emission reductions through carbon markets (e.g. from the EU Emissions Trading Scheme, where credits trade at Euro 25 per tonne¹¹⁰). See Annex 3b for the assumptions and methodology used.

148. The '**local beneficiary in Laos**', notably 250,000 direct beneficiaries and a further 420,000 affected indirectly, will benefit from the programme (and 120,000 directly and 235,800 indirectly from Project 1 specifically). The programme, through its promotion of shifts in cultivation to more forest-friendly approaches, provides a just transition by creating better incomes, jobs and skills. Among other benefits, these will help to prevent brain drain and work emigration to neighbouring countries. The economic net present value (ENPV) provided to the local beneficiary is estimated as Euro 312 million. See Annex 3b for the assumptions and methodology used.
149. **SMEs** create multiplier effects. The companies will not only invest in better crops, education and equipment. They will also need the services of accountants, suppliers of office space, and related services, which create additional economic activity and, therefore, economic transition in the poorest regions. Under Activity 2.1 of Project 1, for instance, 160 SMEs will receive training in good agricultural practices and business management, leading to nearly USD 9 million in investment. These 160 SMEs will, in turn, support and provide markets to approximately 16,000 producers and provide employment to approximately 1,600 people.
150. **Gender-sensitive development benefits.** In addition to avoiding the continuation of existing gender stereotypes and norms which are of disadvantage to Lao women (see the Gender Assessment, Annex 8a), the programme in which Project 1 is embedded offers significant potential to contribute positively to gender equality. Project 1 will work closely with the Lao Women's Union to ensure the effective engagement of women. Inclusive awareness-raising measures targeting women as carriers of traditional knowledge and change agents within their families have great reach, especially when presented in different ethnic languages and tailored to lower education levels. Whenever possible, project-supported awareness-raising, village consultations, training and dissemination meetings will proactively involve empowerment elements for village women.¹¹¹ The project will promote improved participation of women and empower them to take on more leadership roles in local structures, including, for instance, supporting the elaboration of guidelines for village forest management committees, which will include a quota of at least 30% female committee members. Project 1's promotion of Village Development Funds was positively perceived in the stakeholder consultations, as VDFs have been quite effective in the past at supporting joint decision-making and benefiting women and poor households.¹¹² To support women to fully utilise and benefit from VDFs, the project will include training on business skills development for women that will help to address common participation gaps and barriers. The project will further expand new economic opportunities for women related to agroforestry, forest management and agricultural activities through integrating gender assessments in value chain studies, and providing targeted technical and financial support (within the context of Outputs 2 and 3) to women. All extension staff and trainers supporting Project 1 will be trained on gender equality and social inclusion, including time-saving activities.
151. **Ethnic-sensitive development benefits.** Specific needs of ethnic and indigenous groups include (see the Ethnic Group Development Planning Framework in the Feasibility Study, Annex 2a): the need for a strengthened voice in the context of village decision-making; access to land, forest and natural resources for livelihood purposes; respect for customary use of land, including for ancestral and spiritual uses; and appropriate access to information, including use of ethnic languages and simple imagery to accommodate lower literacy rates. Project 1 will address these needs in a number of ways, including: meaningful consultations at village level (including small group meetings with appropriate translators or ethnic language speakers) on proposed activities – leading to FPIC; ensuring that ethnic- and income-differentiated risks (including climate change risks) associated with land access are incorporated in Participatory Land Use Plans (PLUPs); sensitivity to customary uses of land;

¹⁰⁹ The economic NPV for Project 1 alone is Euro 580.9 million, meaning that Project 1 will, by itself, have a positive impact, even if the two subsequent projects that make up the programme do not materialise.

¹¹⁰ European Energy Exchange (EEX) spot carbon price on 12 June, 2019, from: <http://www.eex.com/en/>

¹¹¹ As noted above, the Benefit Sharing Plan governing the distribution of revenues from results-based payments is currently being negotiated by the Government of Lao PDR and the FCPF. Gender is a key consideration, and the mechanism is expected to promote equitable benefit sharing mechanisms.

¹¹² Prochaska *et al* (2012), *Rural Finance in Laos*: <https://www.giz.de/en/downloads/giz2014-en-rural-finance-laos.pdf>

preserving and respecting indigenous knowledge; and information campaigns calibrated to the needs of ethnic groups.

152. **Project contributions to the Sustainable Development Goals (SDGs):**

- *SDG-13: Climate Action* – By reducing significant amounts of GHG emissions, implementing NDC actions at scale, supporting the deep integration of climate change into national policies, building climate-related capacity, and raising awareness on climate change mitigation.
- *SDG-1: No Poverty* – Through generating improved livelihoods and income for rural poor population groups.
- *SDG-2: Zero Hunger* – By improving agricultural productivity and incomes of small-scale food producers, in particular women, members of various ethnic groups and family farmers, including through improved access to productive resources and inputs, knowledge, financial services, markets and opportunities for value-addition and non-farm employment.
- *SDG-5: Gender Equality* – By promoting women’s participation and decision-making concerning opportunities in land-use and natural resources, as well as economic and entrepreneurial activities.
- *SDG-6: Decent Work and Economic Growth* – By promoting private sector-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encouraging the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
- *SDG-12: Sustainable Production and Consumption* – By supporting the sustainable management and efficient use of natural resources (mainly forests and land).
- *SDG-15: Life on Land* – By contributing to the implementation of sustainable management of all types of forests, halting deforestation, restoring degraded forests and substantially increasing afforestation and reforestation.
- *SDG-17: Partnerships for the Goals* – By strengthening domestic resource mobilisation, including through international support to a developing country, to improve domestic capacity for tax and other revenue collection; and mobilising additional financial resources from multiple sources.

153. **Project contributions to the 3 pillars of sustainable development:**

- *Economic pillar:* improved livelihoods and income for rural poor population groups; support to SMEs; and strengthened domestic resource mobilisation.
- *Social pillar:* reduced hunger and improved nutrition and health through improved agricultural productivity; improved employment opportunities, including for women and ethnic groups; and improved gender equality through economic, training and entrepreneurial activities.
- *Environmental pillar:* reduced GHG emissions from the forestry sector and increased carbon sequestration from the atmosphere; and sustainable management and efficient use of natural resources (notably, forests and land).

D.4. Needs of recipient

D.4.1 Climate vulnerability

154. The project is a mitigation (REDD+) initiative. Nonetheless, it will serve to address climate vulnerabilities in Lao PDR. In its Second National Communication to the UNFCCC, Lao PDR identifies itself as an LDC with limited adaptive capacities that is highly vulnerable to climate change impacts.¹¹³ The Economy and Environment Programme for Southeast Asia (EEPSEA) ranks Lao PDR as one of the most climate-vulnerable countries in the

¹¹³ Lao PDR Second National Communication to the UNFCCC (2013), <https://unfccc.int/sites/default/files/resource/Laonc2.pdf>

region, where vulnerability is defined as a function of exposure, sensitivity and adaptive capacity.¹¹⁴ Forestry and agriculture are two of four key sectors highlighted by Lao PDR's National Adaptation Programme of Action (NAPA), submitted to the UNFCCC in 2009, as well as two of five key sectors identified in the NDC as being highly vulnerable to climate change. Poor and marginalised groups disproportionately face climate risks, among them temperature increases and erratic rainfall, given that they are more exposed to such changes and generally have a lower capacity to adapt given their reliance on the immediate environment.

155. The annual mean temperature in Southeast Asia consistently increased between 1970-2010.¹¹⁵ From 1951 to 2000, mean annual temperatures increased by 0.1 to 0.3°C per decade in Lao PDR. Historical analyses also reveal increased seasonal (2,046 mm/year) and annual (2,741 mm/year) rainfall rates.¹¹⁶ These trends are due to increased frequency of extreme rainfall events. Probability analyses reveal that monthly rainfall events with more than 600 mm precipitation have increased while those with 300-500 mm precipitation have decreased in the same time period.¹¹⁷ During the last century, a slight delay has been observed in the rainy season, indicating that rainfall variability and uncertainty remains a "critical issue".¹¹⁸ Other studies indicate that the dry season is becoming longer and that climate change will result in increasing droughts, especially within the dry season.¹¹⁹
156. From 1966-2009, about three-quarters of national disasters were climate-related (flood 50%, storm 14%, drought 14%). The frequency of natural disasters has increased from once every two years before 1992 to once per year or even twice per year after 1992.¹²⁰ The country is considered to have a high risk of river flooding, landslides, cyclones and wildfires, a medium risk for extreme heat, and a low-risk for water scarcity.¹²¹ Fourteen out of seventeen provinces have experienced significant floods since 1995, and severe droughts have occurred in 1996, 1998 and 2003.¹²²
157. By 2100, mean annual temperatures are projected to increase by 1.4-4.3°C.¹²³ Under high emissions scenarios, the number of days of extreme rainfall are projected to increase by about 7 days from 1990 to 2100, and the days of heat waves to increase from fewer than 10 in 1990 to about 170 days on average in 2100. Also, under high emissions projections the number of drought days is projected to increase from 55 days in 1990 to about 65 in 2100.¹²⁴
158. In northern Laos specifically, high-resolution (50 km²) climate modelling using interpolation of observed values, and utilising mid-range IPCC emissions scenarios and analysis of the findings of 24 Global Climate Models (GCMs), applied to major catchments in the north of the country predicts a temperature increase of 0.8-0.9 °C relative to the historical average) by 2030. Precipitation may increase slightly (11-15 mm annual average) but with greater temporal variability.¹²⁵
159. The project design responds to these climate changes in a number of ways:
 - Inclusion of drought-resilient crops and varieties, and support to dry-season irrigation schemes, in Output 2.

¹¹⁴ EEPSEA (2010), *Hotspots: Mapping Climate Change Vulnerability in Southeast Asia*, http://www.eepsea.net/pub/book/Coffee_Book_Final_29Sep10.pdf

¹¹⁵ FCPF Carbon Fund (2018), *Emission Reductions Programme Document: Promoting REDD+ through Governance, Forest Landscapes and Livelihoods in Northern Lao PDR*, p.101, https://www.forestcarbonpartnership.org/sites/fcp/files/2018/May/LaoPDR_ER-PD_FinalDraftMay.2018-Clean.pdf

¹¹⁶ Lao PDR (2009), *National Adaptation Programme of Action (NAPA)*, <http://unfccc.int/resource/docs/napa/laos01.pdf>

¹¹⁷ Lao PDR (2009), *National Adaptation Programme of Action (NAPA)*, <http://unfccc.int/resource/docs/napa/laos01.pdf>

¹¹⁸ Lefroy, R., Collet, L., Grovermann, C. (2010), *Study on the Potential Impacts of Climate Change on Land Use in the Lao PDR*, Available online: https://landportal.org/si0tes/default/files/june_2010_cc_land_use_change_ciat-gtz_-_j.pdf

¹¹⁹ World Bank Climate Portal 2018

(http://sdwebx.worldbank.org/climateportalb/home.cfm?page=country_profileandCCCode=LAOandThisTab=Overview)

¹²⁰ Lefroy, R., Collet, L., Grovermann, C. (2010), *Study on the Potential Impacts of Climate Change on Land Use in the Lao PDR*, Available online: https://landportal.org/si0tes/default/files/june_2010_cc_land_use_change_ciat-gtz_-_j.pdf

¹²¹ ThinkHazard! Tool: <http://thinkhazard.org/en/report/139-lao-peoples-democratic-republic>

¹²² FAO-implemented Least Developed Countries Fund (LDCF) project PIF, 'Climate-smart agriculture alternatives for upland production systems in Lao PDR'.

¹²³ World Bank Climate Portal 2018

(http://sdwebx.worldbank.org/climateportalb/home.cfm?page=country_profileandCCCode=LAOandThisTab=Overview)

¹²⁴ World Health Organisation (2016), *Climate and Health Country Profile – 2015 Lao People's Democratic Republic*. Available online:

<http://apps.who.int/iris/bitstream/handle/10665/246139/WHO-FWC-PHE-EPE-15.39-eng.pdf;jsessionid=449060C1FA8148FFBA3AEC5A496FA09B?sequence=1>

¹²⁵ Eastham, J., F. Mpelasoka, M. Mainuddin, C. Ticehurst, P. Dyce, G. Hodgson, R. Ali and Kirby M., (2008), *Mekong River Basin Water Resources Assessment: Impacts of Climate Change*, CSIRO: Water for a Healthy Country National Research Flagship. For similar climate forecasts for northern Laos, see also: the Climate Change Data Distribution System (SEA START) of the Greater Mekong Subregion Core Environment Programme: www.gms-eoc.org.

- Capacity building and training on sustainable water harvesting techniques, risk mitigation processes (including good agricultural practices with strong climate change adaptation co-benefits that can reduce risk): for example, reducing shifting cultivation and increasing vegetative cover in upland areas can help reduce erosion and sedimentation that contribute to riverbank cutting and riverbed rise downstream, as well as landslides in steep areas.
- Capacity building for farmers on sustainable pest and disease management.
- Land use planning will help improve land use practices, including reducing exposure to risk (e.g. identifying high-risk areas for landslides, flooding, etc.), and will support the planning, adoption and monitoring of sustainable land use processes that can help reduce risk.
- The timing of project activities will be conducted considering seasonal conditions, climate, etc. (e.g. tree planting in the dry season).
- Regular monitoring conducted within the framework of the project will lead to early detection, follow-up and the identification of suitable management practices/adjustments as necessary. The NPMU will include a staff member dedicated to monitoring the impact of the project and implementation of the Environmental and Social Management Plan (ESMP).

D.4.2 Financial, economic, social and institutional needs

160. Lao PDR is a landlocked least developed country (LLDC) that is ranked 139th out of 189 on the Human Development Index. Northern Lao PDR has historically been the poorest and most rural region of the country. The average annual income in the target area is approximately USD 1,200 per capita, compared with a national average of USD 2,330.¹²⁶
161. In total, over 1.8 million people live in the target provinces. Over the past decade, the provinces' population has been growing at an average rate of 1.1%. On average, 28% of the population in the target area lives in urban centres¹²⁷, which is below the national average.¹²⁸ In northern Lao PDR, poverty rates are among the highest in the country. Substantial efforts have reduced the number of people living below the poverty line from 52% to 26% between 1993 and 2013.¹²⁹ Despite this notable progress, poverty levels in the northern region still exceed the national average (23%). HDI values are lower in the target region than the national level (0.44 compared to 0.61). Bokeo and Houaphan have particularly low HDI values. Food security is a major challenge for many households in rural areas in the northern region of Lao PDR. An estimated 25% of rural households in the region are food-poor¹³⁰, and households in the agricultural sector are twice as likely than non-farm households to fall back into poverty, as they are highly vulnerable to shocks.¹³¹
162. The project seeks to remove barriers that currently prevent Lao stakeholders from accessing climate and REDD+ finance to help address their financial, economic, social and institutional needs:
- **Barrier:** Government budgets are constrained and highly dependent upon donor support, partly because collection levels of legally-mandated forest-sector fees and taxes (e.g. income tax, timber harvesting taxes, land taxes) are low.
Response: The GCF project will build the legal/regulatory, enforcement and institutional capabilities of Government entities – notably the EPF and FFRDF – to collect forest fees and taxes, to diversify revenue sources and to unlock an entirely new revenue stream in the form of REDD+ results-based payments.
 - **Barrier:** Lao PDR is a landlocked LDC (LLDC) that faces a high risk of external debt distress. The fiscal space for additional Government borrowing is extremely limited.

¹²⁶ World Bank (2018), *The World Bank in Lao PDR: Overview*, available at: <http://www.worldbank.org/en/country/lao/overview>

¹²⁷ Urban is classified as a town with more than 5,000 inhabitants.

¹²⁸ Government of Lao PDR (2015), *Results of Population and Housing Census 2015*, https://lao.unfpa.org/sites/default/files/pub-pdf/PHC-ENG-FNAL-WEB_0.pdf

¹²⁹ Pimhidzai, O., Fenton, N. C., Souksavath, P. and Sisoulath, V. (2014), *Poverty Profile in Lao PDR: Poverty Report for the Lao Consumption and Expenditure Survey 2012–2013*. Available at: <http://documents.worldbank.org/curated/en/868521467998508506/pdf/100120-WP-P146141-PUBLIC-Box393225B-Poverty-Profile-in-Lao-PDR-publication-version-12-19-14.pdf>

¹³⁰ Pimhidzai, O., Fenton, N. C., Souksavath, P. and Sisoulath, V. (2014), *Poverty Profile in Lao PDR: Poverty Report for the Lao Consumption and Expenditure Survey 2012–2013*. Available at: <http://documents.worldbank.org/curated/en/868521467998508506/pdf/100120-WP-P146141-PUBLIC-Box393225B-Poverty-Profile-in-Lao-PDR-publication-version-12-19-14.pdf>

¹³¹ Government of Lao PDR (2018), *Voluntary National Review on the Implementation of the 2030 Agenda for Sustainable Development*, <http://www.la.undp.org/content/dam/laopdr/docs/Reports%20and%20publications/2018/VNR%20web%20very%20low%20resolution%20.pdf>

Response: The GCF project will channel considerable co-finance to the forestry sector, including grant support from the Governments of Germany and Japan, and concessional loans from ADB and IFAD.

- *Barrier:* The beneficiary groups - village foresters and subsistence farmers - are among the poorest population groups in Lao PDR, with a high dependence on natural resources and poor access to markets and financial services, and they have insufficient assets for the repayment of loans.

Response: The GCF project will channel grant resources to rural beneficiaries and will build their capacities to apply for, deploy and report on financial resources.

- *Barrier:* Limited exposure of domestic institutions to the rigours (e.g. fiduciary, MRV, etc.) of managing international climate finance.

Response: The GCF project will set up and operationalise a REDD+ Funding Window as the key national funding channel for the forestry sector, in compliance with international fiduciary, technical and management standards. The REDD+ Funding Window will be operated by the EPF and, progressively, the FFRDF, thereby building their capacities and exposure to climate finance.

D.5. Country ownership

D.5.1 Coherence with national climate strategy and plans and policies

163. The GCF project is fully aligned with, and supportive of, the country's climate policies, including the 8th National Socio-Economic Development Plan (8th NSEDP, 2016-2020), the Green Growth Strategy (currently being drafted), the Central Party Resolution on Land (2017), the Forestry Strategy 2020, the REDD+ Strategy and Vision¹³², the Nationally Determined Contribution (NDC) and the FCPF Emission Reductions Programme – see Section B.1.2 and Chapter 1 of the Feasibility Study (Annex 2a) for further details.

D.5.2 Coherence with GCF country programme

164. The GCF project has formed part of Lao PDR's GCF project pipeline since 2017 and has been formally prioritised by both the Ministry of Agriculture and Forestry (see Annex 1b) and by the NDA, as reflected in the Lao PDR Country Programme presented in February 2019 at the GCF/GEF Coordinated National Dialogue meeting.

D.5.3 Capacity of Accredited Entities or Executing Entities to deliver

165. See Section B.4.2 for details of the three Executing Entities' experience and track-record.

D.5.4 Engagement with the NDA, civil society organisations and other relevant stakeholders

166. Stakeholder engagement has formed a central element of project design: **over one thousand stakeholders have taken part in GCF project consultation meetings.** Stakeholders have played an important role in providing inputs and feedback on project design and have validated the proposed project (and broader programme). Extensive engagement with stakeholders has also been conducted for the elaboration of the ER-PD and National REDD+ Programme, which laid a strong foundation for the design of GCF Project 1.

Stakeholder engagement within the framework of the GCF project

Preliminary scoping missions

167. Preliminary scoping missions were conducted by GIZ staff and project development experts to assess the possibility of developing a GCF concept note and potential funding proposal from April 3-7 and April 23-30, 2018. Missions focused on fact-finding, meeting with key actors and determining country interest in developing a proposal, whilst ensuring the relevance of the concept selected. A high-level meeting with government representatives was held to ensure commitments to project development from the main project partners and supporting partners interested in providing co-finance.

¹³² The National REDD+ Vision establishes the strategic objective for Lao PDR to engage in forest protection and expansion; the National REDD+ Strategy provides the implementation details to achieve this objective. The Strategy identifies 5 key forest stressors: expansion of agricultural land; infrastructure and mining; timber harvesting; shifting cultivation and forest fires; and commercial tree plantations. The Strategy presents 5 strategic programmes to address these stressors: 1) sustainable agriculture; 2) infrastructure and mining development; 3) sustainable timber harvesting; 4) sedentary cultivation and forest restoration; and 5) sustainable commercial forestry. The programme addresses 4 of the key forest stressors and is aligned primarily with strategic programmes 1, 4 and 5, with a contribution to 3.

Inception workshop

168. An inception workshop for national government partners was held on October 5, 2018, where the initial project structure was presented, as well as key considerations for activities and actions, institutional arrangements and potential co-financing sources. A major topic of this workshop was discussing the plan for feasibility study and proposal development, as well as planning for upcoming provincial consultations. In total, 17 officials attended the workshop.

Engagement with the NDA

169. The project has been developed with regular engagement from the NDA (MoNRE) in Lao PDR. The idea to develop a GCF proposal to support the Emission Reductions Programme (ER-P) was taken up by the NDA and officially presented at the GCF Structured Dialogue in Bali in April 2017.¹³³ Since then, the project has formed part of Lao PDR's GCF country programme. Representatives of the NDA have attended cross-sectoral multi-stakeholder workshops to provide feedback on the project and the broader programme. A letter of no-objection has been provided by the NDA (Annex 1a), confirming the project conforms to the country's national priorities, strategies and plans, and that it is in accordance with relevant laws and regulations.

Engagement with government focal points for REDD+ and the UNFCCC

170. In addition to maintaining ongoing communication with the NDA, the project has been designed with the continuous engagement of government focal points from key ministries, where the government has demonstrated strong ownership of the project concept. The head of the country's REDD+ Division and the National REDD+ Focal Point have been major proponents of the project and have been consistently involved in project design and stakeholder consultations. The UNFCCC Focal Point within MoNRE has also been kept informed about the project, and representatives from MoNRE have regularly participated in project consultation events and workshops.

Engagement with development partners

171. A multi-donor working group exists to support the Ministry of Agriculture and Forestry on REDD+ issues. The working group consists of GIZ, the World Bank (including representatives of the SUFORD project and the FCPF Technical Assistance team), JICA and FAO. The working group has assisted MAF with the development of the FCPF ER-PIN, the ER-PD, the PRAPs and the national REDD+ Strategy. GIZ has worked closely with the World Bank – both the Lao Country Office and the FCPF – throughout the REDD+ development process, starting in 2015 and continuing through the GCF project preparation period. In December 2017, MAF Vice Minister H.E. Thongpath Vongmany wrote a letter to BMZ Minister Dr. Gerd Mueller to request GIZ support to design and implement the GCF proposal, identifying other development partners as potential co-financiers.

Engagement with Civil Society Organisations

172. CSOs have been consulted extensively, and at frequent intervals, during the project preparation process. CSOs involved in the design of the project have included the Lao Women's Union (including at national-, provincial- and district-levels), Village Focus International, The Centre for People and Forests (RECOFTC), the FLEGT CSO Network and the National University of Laos (NUOL). CSOs represent a central beneficiary of project support at the local level. All village-level activities, including, for example, Participatory Land Use Plans (PLUPs) and Village Forest Management Agreements (VFMA), will be subject to prior village-level discussion and agreement, with full CSO participation encouraged and facilitated. Village contracts will not be signed by the GCF project before at least 3 village-level consultation meetings have been held. CSOs will play an important role in various aspects of project implementation:

- *CSOs will benefit from capacity building events, training, awareness-raising and project activities.*
- *CSOs such as farmer-based associations will facilitate communication between local communities and the project management units.*

¹³³ <https://www.greenclimate.fund/meetings/2017/bali>

- *CSOs will form an integral element of the project's Free, Prior and Informed Consent (FPIC) approach.* CSOs will be involved in the establishment of local-level networks in the target districts – such as the Lao Women's Union, the Lao Biodiversity Association and Village Focus International – are expected to participate in FPIC consultation processes and, in the process, build their capabilities for future initiatives.
- *CSOs will participate in the project's grievance redress mechanism.* CSOs in the target provinces and districts will be trained on the project's grievance redress mechanism and provided with information brochures. They will be familiar with the mechanism, will be provided with key phone numbers and will be enabled to support local villages/villagers to understand the grievance redress mechanism.
- *Funding for CSOs.* Project funding will be made available under Action 1.3.1 (Strengthening the regulatory framework), Action 1.3.2 (Capacity building and awareness-raising on the forest sector legal framework), Action 1.7.1 (Knowledge management and communication), Action 1.7.2 (ESMP, gender action plan, FPIC and safeguards implementation) and Action 2.2.2 (Establishment of public-private sector dialogue to promote village-based agroforestry).

Other stakeholders

173. Additional consultations have been held to support the development of the GCF funding proposal, which 1,066 participants have attended.¹³⁴ Consultations have been held with the following stakeholders at the national, province, district and village level:

Stakeholder Category	Stakeholders Consulted
Government	
<i>National</i>	DoF/MAF: Production Forest Division, Forest Protection Division, Planning and Cooperation Division, National Protected Areas Division, REDD+ Division, Aquatic and Wildlife Division, Administration Division, Legal Division, Forest and Forestry Resources Development Fund, Forest Inventory and Planning Division, Deputy Director General of DoF, Village Forests and NTFP Division, Department of Forest Inspection DALAM/MAF: Department of Agriculture and Land Management Funds: EPF and FFRDF MoNRE: Planning and Cooperation Division, Department of Climate Change Representatives from National REDD+ Task Force Ministry of Planning and Investment Ministry of Finance NAFRI
<i>Provincial</i>	Provincial REDD+ Offices (PRO), PAFO, PONRE and POFI representatives in each Province Members of Provincial REDD+ Task Force
<i>District</i>	District representatives including from DAFO, DONRE and DOFI
Local Communities (Projects 1 and 3)	
▪ <i>Houaphan</i>	Huayhu village, Ban Yard village, Hong Oy village, Ban Phonxay
▪ <i>Sayabouri</i>	Phonekeo village, Ban Phonxay
▪ <i>Luang Prabang</i>	Ban Phanid
Local Communities (Project 2)	
▪ <i>Luang Namtha</i>	Ban Nam Mad Mai, Ban Nam Dee, Ban Don Mai
▪ <i>Bokeo</i>	Ban Samork Neua, 1 additional village in NPA
▪ <i>Oudomxay</i>	Nangew village, Ban Napa
Civil Society	Lao Women's Union (including at national, provincial and district-level); Village Focus International; The Centre for People and Forests (RECOFTC); Lao FLEGT CSO Network – including the Green Community Development Association (GCDA), the Association for Rural Mobilisation and Improvement (ARMI), Lao Biodiversity

¹³⁴ Note that some participants may have participated in more than one consultation or workshop.

	Association (LBA), Maeying Houamjai Phathana (MHP, Women Participating in Development) and the Community Development and Environment Association (CDEA) ¹³⁵ ; National University of Laos (NUOL)
Private Sector	Burapha Agro-forestry Co. Ltd. Plus, interviews with 25 producers, 15 traders (paddy, maize, Job's Tears, NTFPs), 12 rice millers and 2 banks in Luang Prabang, Luang Namtha and Oudomxay provinces
Development Partners	KfW (Country Office and ICBF Programme); GIZ (CliPAD, LMDP, ProFEB/ProFLEGT); JICA (F-REDD); FAO; UNDP; ADB; Head of German Development Cooperation in Lao PDR/BMZ; World Bank; SUFORD-SU (WB).

Stakeholder engagement during project implementation

174. The stakeholder engagement plan for project implementation is provided in Annex 7o. Stakeholder engagement will be continuous throughout the implementation of the GCF project. This stakeholder engagement strategy has been designed with the following objectives:

- To ensure there are opportunities for stakeholders to provide feedback, ask questions and raise concerns.
- To ensure information sharing and disclosure.
- To establish a culturally appropriate mechanism for filing complaints and grievances.
- To foster strong project-stakeholder relationships, including at the village level.
- To ensure meaningful consultation and promote social acceptability of the project.

Project grievance redress mechanism

175. A grievance mechanism has been developed to acknowledge and address any negative impacts or complaints that arise as a result of the project. Any grievances will be analysed and mitigated as quickly as possible to avoid any tensions or conflicts. The grievance mechanism is cost-effective as it is integrated into the institutional design of Project 1. The objectives of the grievance redress mechanism are to:

- Provide affected people an avenue through which they can voice their concerns and dissatisfactions.
- Create a platform in which stakeholders and village members can freely raise concerns and complaints to be effectively addressed.
- Demonstrate to project stakeholders and villages that they play an important role in project design and implementation.
- Follow up and report on efforts to take corrective action.

176. The resolution of claims and complaints arising from the project will be based on existing grievance and redress systems developed for REDD+ in the country (see Annex 7o), as well as a project-specific reporting mechanism to the NPMU, PPMU and/or DPMU, and the PPMU will include safeguards and M&E specialists hired to ensure the monitoring and fulfilment of safeguards for Project 1 implementation. The designed structure allows grievances to flow through an internal process from the district level to the national level. See Chapter 12 of the Feasibility Study (Annex 2a) for further details.

D.6. Efficiency and effectiveness

D.6.1 Cost-effectiveness and efficiency

177. The project will result in 5.6 million tCO₂eq of emission reductions over the 4-year project implementation period. This equates to a mitigation cost to the GCF of Euro 2.7 per tonne of CO₂eq (see Section E.2.2). For reference, the abatement cost of another approved GCF REDD+ Phase 2 project (FP19, Ecuador) is Euro 2.5/tCO₂eq.

D.6.2 Co-financing and leveraging

Co-finance – Project 1

- Project 1 GCF budget: Euro 15,160,596
- Project 1 co-finance: Euro 48,830,495

¹³⁵ The 6 CSOs listed here form the Core Committee of the Lao CSO FLEGT Network. The Network itself consists of 26 CSOs, including – for example - the Rural Research and Development Promoting Knowledge Association (RRDPA), the Wildlife Conservation Association (WCA) and the Social Development Alliance Association (SODA). The programme has also consulted with members of the broader Network.

- Project 1 co-finance ratio: 3.2

Detailed leverage estimates are provided in Annex 3c.

Leveraged finance by Project 1 – estimated to be Euro 227 million.

D.6.3 Financial viability

178. The Activities under Output 1 of Project 1 are entirely of a public good nature and will not generate financial reflows. These Outputs are naturally suited to a grant. Outputs 2 and 3 promote the adoption of sustainable deforestation-free agriculture (such as intercropping or sequential cropping of upland rice and maize with other crops), agroforestry and sustainable forest management (utilisation of non-timber forest products and timber harvesting under approved guidelines) that will result in positive reflows for the beneficiaries compared with current baseline (unsustainable) practices. The target beneficiaries are, however, subsistence farmers facing substantial knowledge, capacity and value chain barriers that make the realisation of such positive reflows altogether impossible without the project and GCF grant. Significant co-finance, both in grants and loans, is mobilised. For these reasons, a GCF grant is deemed to be the most appropriate level of concessionality.
179. In addition, the government's ability to assume additional debt obligations is severely constrained by the Lao fiscal and debt situation. Laos has recorded budget deficits in the range of approximately 3-5% of GDP each year since 2013. The IMF projects a budget deficit of 4.1% in 2019. Despite positive GDP growth, the debt/GDP ratio has increased from 56% in 2013 to a projected 66% in 2019. The IMF recommends, as a priority, the reduction of the debt/GDP ratio to 50% through a reduction of the budget deficit and other measures.¹³⁶

D.6.4 Application of best practices

180. Land use practices commonly applied in the project area are characterised by low productivity and cannot typically be considered 'good agricultural practice'.¹³⁷ Increased competition for commercial agricultural lands is shifting subsistence agriculture (upland rice, vegetables, etc.) and certain cash crops (e.g. maize, Job's tears and cassava) to less suitable forested upland areas. Tree-cutting and increasing land degradation are leading to lower productivity and producers seeking out more productive land, which is leading to further deforestation and forest degradation. Poor access to irrigation exacerbates the low productivity of agricultural production, as does the limited availability of government agricultural extension services. There is limited use of sustainable land management practices (e.g. soil conservation measures, climate-resilient practices) due to limited awareness of villagers and a lack of exposure to alternative business and income-generating models.
181. The UNFCCC Technology Needs Assessment (TNA) explicitly identifies agriculture (alongside forestry) as one of two key sectors for climate change mitigation¹³⁸ and as one of two key sectors (alongside water) for climate change adaptation in Laos.¹³⁹ The TNA outlines a range of recommended interventions, such as watershed reforestation, irrigation, climate-smart agriculture and crop diversification, that are addressed by Project 1, which also supports best-practice techniques such as participatory land use planning (PLUP) and the application of modern technology (such as GPS, remote sensing and GIS).

¹³⁶ IMF (2018), *Article IV Consultation: Lao PDR*, <https://www.imf.org/~media/Files/Publications/CR/2018/cr1884.ashx>

¹³⁷ FAO defines Good Agricultural Practices (GAPs) as a "collection of principles to apply for on-farm production and post-production processes, resulting in safe and healthy food and non-food agriculture products, while taking into account economic, social and environmental sustainability." FAO (2016), *A Scheme and Training Manual on Good Agricultural Practices for Fruits and Vegetables*. Available at: <http://www.fao.org/3/a-i6677e.pdf>

¹³⁸ Lao PDR and UNEP (2013), *Technology Needs Assessment Report: Climate Change Mitigation*, http://unfccc.int/ttclear/misc/StaticFiles/gnwoerk_static/TNR_CRE/e9067c6e3b97459989b2196f12155ad5/04f154865ede42d7861a184bd7c3c243.pdf

¹³⁹ Lao PDR and UNEP (2013), *Technology Needs Assessment Report: Climate Change Adaptation*, http://unfccc.int/ttclear/misc/StaticFiles/gnwoerk_static/TNR_CRE/e9067c6e3b97459989b2196f12155ad5/14008ecce30a4ad0b980ab9f6a9c9c6b.pdf

LOGICAL FRAMEWORK

E.1. Paradigm shift objectives

- Shift to low-emission sustainable development pathways
 Increased climate resilient sustainable development

E.2. Core indicator targets

E.2.1. Expected tonnes of carbon dioxide equivalent (t CO ₂ eq) to be reduced or avoided (mitigation only)	Annual	1.4 million t CO ₂ eq
	Lifetime	5.6 million t CO ₂ eq ¹⁴⁰
E.2.2. Estimated cost per t CO ₂ eq, defined as total investment cost / expected lifetime emission reductions (mitigation only)	(a) Total project financing	65.2 million Euros
	(b) Requested GCF amount	15.2 million Euros
	(c) Expected lifetime emission reductions ¹⁴¹	5.6 million t CO ₂ eq
	(d) Estimated cost per t CO₂ eq (d = a / c)	11.6 Euros / t CO₂ eq
	(e) Estimated GCF cost per t CO₂ eq removed (e = b / c)	2.7 Euros / t CO₂ eq
E.2.3. Expected volume of finance to be leveraged by the proposed project as a result of the Fund's financing, disaggregated by public and private sources (mitigation only)	(f) Total finance leveraged	227 million Euros
	(g) Public source co-financed	150 million Euros
	(h) Private source finance leveraged	77 million Euros
	(i) Total Leverage ratio (i = f / b)	14.6
	(j) Public source co-financing ratio (j = g / b)	9.6
	(k) Private source leverage ratio (k = h / b)	4.9
E.2.4. Expected total number of direct and indirect beneficiaries, (disaggregated by sex)	Direct	120,000 rural beneficiaries 50% female
	Indirect	235,800 rural beneficiaries 50% female
E.2.5. Number of beneficiaries relative to total population (disaggregated by sex)	Direct	2% of national population 2% of national population (2% of women)
	Indirect	3% of national population % of national population (3% of women)

E.3. Fund-level Impacts

Expected Results	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
M4.0 Reduced emissions from land use, reforestation, reduced deforestation, and through sustainable forest management and conservation and enhancement of	M4.1 Tonnes of carbon dioxide equivalent (t CO ₂ eq) reduced or avoided (including increased removals) - forest and land use	Government sources: – Approved Reference Level (RL) of the FCPF ER-PD – Biennial Update Report (BUR) to the UNFCCC	Net annual forest-sector GHG emissions of 9.7 million tCO ₂ eq	1.9 million tCO ₂ eq of avoided emissions	5.6 million tCO ₂ eq of avoided emissions	GHG estimates are based on the 4-year Project 1 lifetime

¹⁴⁰ Over the 4-year implementation period of the project. The concept of a lifetime (influence period) does not apply well to a project that is expected to be followed by a second phase (Project 3).

¹⁴¹ Project 1 implementation period (4 years).

<p>forest carbon stocks</p>		<p>– Official REDD+ Office Reports</p> <p><i>Project sources:</i></p> <p>– Project M&E in cooperation with JICA</p> <p>– Mid-term evaluation report to have dedicated section on CO₂ emission reductions / sequestration</p>				
-----------------------------	--	---	--	--	--	--

E.4. Fund-level Outcomes						
Expected Outcomes	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
<p><i>M5.0 Strengthened institutional and regulatory systems</i></p>	<p><i>M5.1 Institutional and regulatory systems that improve incentives for low-emission planning and development and their effective implementation</i></p>	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – Published province and district Socio-Economic Development Plans (SEDPs) (2021-2025) – Government-approved revisions to Forest Law and associated Decrees – National, provincial and district-level laws, decrees and by-laws – DAFO annual reports – EPF annual report – EPF grant disbursement reports – FFRDF grant disbursement reports <p><i>Project sources:</i></p>	<p>No REDD+ Funding Window exists</p> <p>No green credit line exists to support deforestation-free agriculture</p> <p>The Emission Reductions Programme (ER-P) provides a route to unlocking REDD+ results-based payments.</p>	<p>Extent of incentives and implementation for REDD+ investment (forestry, sustainable agriculture and land-use planning): Extent = 3¹⁴²</p>	<p>Extent of incentives and implementation for REDD+ investment (forestry, sustainable agriculture and land-use planning): Extent = 5</p>	<p>The project commences promptly in mid-2020, so that it synchronises with the Lao PDR national development planning process.</p> <p>The government's current strong commitment to the NDC and REDD+ implementation remains intact.</p> <p>REDD+, once integrated into the provincial and district SEDPs, will become eligible for national and sub-national public financing, and will be fully integrated into the country's budgeting process. EPF is able to build on its robust fiduciary and internal control standards (as validated by recent</p>

¹⁴² The scale for rating the extent of incentives and implementation reflects the scale and scope of incentives put in place. Scale 1-5 reflects: 1 = REDD+ Funding Window established and operational; 2 = REDD+ Funding Window disburses at least Euro 8 million for REDD+ activities; 3 = REDD+ Funding Window disbursements of at least Euro 8 million are augmented by a green credit line established and capitalised with at least Euro 3 million; 4 = REDD+ Funding Window disbursements of at least Euro 8 million are augmented by a Euro 6 million green credit line and additional REDD+ financing of at least Euro 15 million catalysed/unlocked (e.g. REDD+ results-based payments, increased agricultural production, sustainable timber harvesting, enhanced FFRDF fee revenues, etc.); 5 = REDD+ Funding Window disbursements of at least Euro 8 million are augmented by a Euro 6 million green credit line and additional REDD+ financing of at least Euro 20 million catalysed/unlocked (e.g. REDD+ results-based payments, increased agricultural production, sustainable timber harvesting, enhanced FFRDF fee revenues, etc.).

		<p>– NPMU and PPMU annual reports</p> <p><i>Third-Party sources:</i></p> <p>External audit reports of EPF and FFRDF</p>				<p>World Bank and UNDP assessments) in order to establish a well-designed REDD+ Funding Window.</p> <p>EPF (under MoNRE) and FFRDF (under MAF) fully collaborate to operationalise the REDD+ Funding Window.</p>
<p><i>M9.0 Improved management of land or forest areas contributing to emissions reductions</i></p>	<p><i>M9.1 Hectares of land or forests under improved and effective management that contributes to CO2 emission reductions</i></p>	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – DoF annual reports on SFM implementation in production forests, protection forests and national protected areas – Approved Forest Management Plans – Approved village forest management plans (VFMPs), village-level management agreements and private sector-village partnership agreements (PSVPAs) – EPF grant disbursement reports <p><i>Project sources:</i></p> <ul style="list-style-type: none"> – Remote sensing/GIS (GoL, FCPF maps), field visits/spot checks, household interviews – Project monitoring reports 	<p>Negligible non-forest land has been reforested or restored in the target areas¹⁴³</p> <p>0 ha of avoided deforestation</p> <p>0 ha of reduced forest degradation</p>	<p>833 ha of reforested land</p> <p>1,420 ha of restored forest</p> <p>4,460 ha of avoided deforestation</p> <p>4,050 ha of reduced forest degradation</p>	<p>1,850ha of reforested land</p> <p>3,160 ha of restored forest</p> <p>9,900 ha of avoided deforestation</p> <p>9,000 ha of reduced forest degradation</p>	<p>Local population chooses to participate in the project (FPIC).</p> <p>Government staff from the REDD+ Taskforce, REDD+ Office and line ministries (at national, provincial and district levels) will provide work time to support project interventions.</p> <p>Forest enforcement processes and reporting chains are successfully strengthened by the project.</p>

¹⁴³ There are currently some management plans, developed by the SUFORD Project, for national production forest, however, these management plans are not currently implemented nor monitored. Therefore, minimal protection activities are occurring.

E.5. Project 1 performance indicators

Expected Results	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
1. Enabling environment for REDD+ implementation	1.1 Level and extent of access to financing for forest sector transformation	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – EPF annual report – EPF grant disbursement reports – FFRDF grant disbursement reports <p><i>Project sources:</i></p> <ul style="list-style-type: none"> – Monitoring, reporting and evaluation reports by NPMU <p><i>Third-Party sources:</i></p> <ul style="list-style-type: none"> External audit reports of EPF and FFRDF 	<p>No National REDD+ Funding Window</p> <p>FFRDF is unable to accept international finance due to capacity and fiduciary limitations</p>	<p>REDD+ Funding Window channels finance to target beneficiaries: Extent = 2¹⁴⁴</p> <p>FFRDF channels finance to target beneficiaries: Level = 2¹⁴⁵</p>	<p>REDD+ Funding Window channels finance to target beneficiaries : Extent = 5</p> <p>FFRDF channels finance to target beneficiaries : Level = 3</p>	<p>EPF is able to build on its robust fiduciary and internal control standards (as validated by recent World Bank and UNDP assessments) in order to establish a well-designed REDD+ Funding Window.</p> <p>EPF (under MoNRE) and FFRDF (under MAF) fully collaborate to operationalise the REDD+ Funding Window.</p> <p>GIZ will provide institutional and capacity building support to FFRDF in addition to the support provided by the GCF project.</p>
	1.2 Level of regulatory reform of the forestry sector for REDD	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – NDC – Published national, province and district Socio-Economic Development Plans (SEDPs) (2021-2025) 	<p>The REDD+ National Strategy is not mentioned in the current NDC; REDD+ is not mentioned in provincial or</p>	<p>Level = 2¹⁴⁶</p>	<p>Level = 4</p>	<p>The project commences promptly in mid-2020, so that it synchronises with the Lao PDR national development planning process.</p> <p>The government's current strong</p>

¹⁴⁴ The target reflects the extent of effectiveness for the REDD+ Funding Window. Scale: 1 = REDD+ Funding Window channels at least 50% of anticipated grant volume (GCF proceeds will be channelled successfully through the newly established REDD+ Funding window under the EPF) under Outputs 2 and 3; 2 = REDD+ Funding Window channels at least 80% of anticipated grant volume under Outputs 2 and 3; 3 = REDD+ Funding Window channels at least 90% of anticipated grant volume under Outputs 2 and 3; 4 = REDD+ Funding Window channels at least 90% of anticipated grant volume under Outputs 2 and 3 and additional finance raised domestically (e.g. PA fees, FFRDF fees) and/or internationally (e.g. from donors); 5 = REDD+ Funding Window channels at least 90% of anticipated grant volume under Outputs 2 and 3, additional finance raised domestically and/or internationally, and becomes the primary conduit for FCPF REDD+ results-based payments.

¹⁴⁵ The target reflects the level of institutional strengthening of FFRDF. Scale: 1 = FFRDF resources are unchanged and fiduciary standards are not met; 2 = FFRDF meets basic fiduciary standards and accepts up to Euro 300,000 of international financing (GCF through EPF, BMZ through GIZ/KfW, or others); 3 = FFRDF meets international fiduciary standards and other requirements and accepts international financing greater than Euro 700,000; 4 = FFRDF meets international fiduciary standards and is sufficiently capacitated that the Government transfers control of the REDD+ Funding Window to the FFRDF; 5 = GCF support to the FFRDF and EPF leads to such systemic improvement and collaborative engagement that the Government merges the two institutions.

¹⁴⁶ The target reflects the level of policy and regulatory reform. Scale: 1 = REDD+ is explicitly incorporated into Lao PDR's revised NDC; 2 = REDD+ is explicitly incorporated into Lao PDR's revised NDC and into the SEDPs for the 3 provinces covered by Project 1; 3 = REDD+ is explicitly incorporated into Lao PDR's revised NDC, into the SEDPs for the 3 provinces covered by Project 1 and into at least 8 Project 1 district SEDPs; 4 = REDD+ is explicitly incorporated into Lao PDR's revised NDC, into the SEDPs for the 3 provinces covered by Project 1 and into at least 12 Project 1 district SEDPs; 5 = REDD+ is explicitly incorporated into Lao PDR's revised NDC, into the SEDPs for the 3 provinces covered by Project 1 and into all 16 Project 1 district SEDPs.

		<ul style="list-style-type: none"> – Government-approved revisions to Forest Law and associated Decrees – National, provincial and district-level laws, decrees and by-laws – Government budget expenditure reports – DAFO annual reports – EPF annual financial reports <p><i>Project sources:</i></p> <ul style="list-style-type: none"> – NPMU and PPMU annual reports – Workshop and village consultation meeting reports 	<p>district SEDPs</p> <p>Forestry Law does not permit SFM for commercial purposes in village forests</p> <p>Laws, regulations and guidelines do not consider gender as an explicit factor in forest protection, user-rights and benefit-sharing</p>			<p>commitment to NDC and REDD+ implementation remains intact.</p>
	1.3 Rate of enforcement of new regulatory framework	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – Government-approved standard operating procedures (SOPs) for Forest Law enforcement – DOFI reports on patrols and inspections 	<p>No consistent guidelines / standard operating procedures for enforcement of the Forest Law available, and limited patrolling / enforcement action on the ground</p> <p>No analysis of the potential for women-led patrolling groups¹⁴⁷ in the target areas</p>	Rate = 3 ¹⁴⁸	Rate = 4	<p>Continuous engagement by relevant stakeholders within the government to revise and clarify forest enforcement processes and reporting chains.</p> <p>Anti-corruption safeguards are strengthened through sub-project activities.</p> <p>A transparent reporting system is clarified/established that is effective, accessible and culturally appropriate to permit reporting at village, <i>kumban</i>, district, province and national levels.</p>

¹⁴⁷ Women's safety is paramount to the project's success, and the project aims to promote safe and empowering activities. The idea of women-led patrol groups came from the women consulted during project preparation. There is, however, an emphasis on "women-led" patrols, not necessarily "women-only" patrols (although the latter is also possibly desired). This means patrol groups can be mixed, which may make the women feel safer. Regular consultation with women and monitoring will make sure that the forest patrol group structure is suitable to the village, taking into account key gender issues.

¹⁴⁸ The target rate of enforcement is reflected in the following Scale: 1 = SOPs established for 2 forest categories (out of protection, production, conservation and village forests), including roles and responsibilities of relevant institutions (POFRI, PONRE, military, police, customs) and communities; 2 = SOPs established for 4 forest categories (out of protection, production, conservation and village forests), including roles and responsibilities of relevant institutions (POFRI, PONRE, military, police, customs) and communities; 3 = SOPs (at least 2) are augmented by boundary demarcation of the forest-types covered by the SOPs; 4 = SOPs (at least 2) are augmented by boundary demarcation and regular inspections by law enforcement agencies of the forest-types covered by the SOPs and at least 2 women-led patrolling groups are trained, equipped and operational; 5 = SOPs (at least 2) are augmented by boundary demarcation and regular inspections of the forest-types covered by the SOPs by law enforcement agencies and newly-established village forest monitoring units.

						Women and men receive culturally appropriate information about the regulations and their benefits, and actively participate in village-based measures.
2. Market solutions for agricultural drivers of deforestation	<p>2.1 Amount (EUR) disbursed to VDFs to support good agricultural practices and village agroforestry that include a gender perspective</p> <p>Amount (EUR) of result-based financing to private sector enterprises</p>	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – EPF annual report – EPF grant disbursement reports – FFRDF grant disbursement reports <p><i>Project sources:</i></p> <ul style="list-style-type: none"> – Annual monitoring reports prepared by PPMUs – Registry of PSVPAs signed by villages and private sector enterprises <p><i>Third-Party sources:</i></p> <ul style="list-style-type: none"> – VDF financial statements – Private sector company reports 	<p>Village Development Funds (VDFs) receive no resources from external sources for good agricultural practices</p> <p>Private-sector village partnership agreements (PSVPAs) cover approximately 2,000 ha of reforested land</p> <p>No results-based financing investment for agroforestry establishment / implementation</p>	<p>Euro 1.0 million disbursed to VDFs to support good agricultural practices</p> <p>Euro 0 of results-based financing to private sector enterprises to implement sustainable agroforestry in conjunction with village communities</p>	<p>Euro 1.5 million disbursed to VDFs to support good agricultural practices</p> <p>Euro 800,000 of results-based financing to private sector enterprises to implement sustainable agroforestry in conjunction with village communities</p>	<p>Capacity building support provided by the project under Activity 2.1 is synchronised with, and sufficiently effective, to enable the investments in good agricultural practices and agroforestry under Activity 2.1.</p> <p>Village communities are sufficiently incentivised to voluntarily apply for funds for good agricultural practices.</p> <p>Village communities and eligible private sector enterprises successfully sign and co-implement PSVPAs for agroforestry activities.</p>
	<p>2.2 Area (ha) under dry-season irrigated agriculture</p> <p>Number of women using appropriate technologies to produce high-value crops and livestock</p>	<p><i>Project sources:</i></p> <ul style="list-style-type: none"> – Monitoring and evaluation reports by PPMUs <p><i>Third-Party sources:</i></p> <ul style="list-style-type: none"> – ADB project reports (expert assessment reports, annual reports, mid-term review, final evaluation) – Irrigation works reports 	<p>2,242 ha under dry-season irrigated agriculture</p> <p>~ 180 women using appropriate technologies to produce high-value crops and livestock</p>	<p>3,000 ha under dry-season irrigated agriculture</p> <p>400 women using appropriate technologies to produce high-value crops and livestock</p>	<p>4,200 ha under dry-season irrigated agriculture</p> <p>1,000 women using appropriate technologies to produce high-value crops and livestock</p>	<p>The ADB SRIWSM project is implemented according to plan and schedule.</p>
3. Climate change mitigation action through forestry	<p>3.1 Area (ha) under sustainable forest practices across forest categories</p> <p>Proportion of women's</p>	<p><i>Government sources:</i></p> <ul style="list-style-type: none"> – DoF, PAFO annual reports on SFM implementation in production forests, protection forests 	<p>0 ha of production forest</p> <p>0 ha of national protected area forest</p>	<p>5,000 ha of production forest</p> <p>0 ha of national protected area forest</p>	<p>15,000 ha of production forest</p> <p>670,000 ha of national protected area forest</p>	<p>Prime Minister Order 15 (2016), which bans timber harvesting from national production forest areas, is revised (with project support under Output 1) to allow</p>

	<p>representation in village forest management committees</p>	<p>and national protected areas. – National Forest Inventory – Approved village forest management plans (VFMPs) and signed village-level management agreements – EPF grant disbursement monitoring and evaluation reports</p> <p><i>Project sources:</i></p> <p>– Annual monitoring reports prepared by PPMU – Remote sensing/GIS</p> <p><i>Third-Party sources (private sector companies):</i></p> <p>– Private sector company reports</p>	<p>67,000 ha of village forest managed under approved VFMPs</p> <p>No gender requirements associated with the establishment or operation of village forest management committees</p>	<p>100,000 ha of village forest managed under approved VFMPs</p> <p>25% of targeted village forest management committees consist of at least 30% women</p>	<p>180,000 ha of village forest managed under approved VFMPs</p> <p>65% of targeted village forest management committees consist of at least 30% women</p>	<p>sustainable harvesting principles.</p> <p>Heterogeneous landscape planning ensures that plantations occur on non-forested land, ensuring that no primary forest or permanent agricultural land is utilised for plantation activities. On land used for forest plantations, 70% will be industrial trees, 20% will form a buffer zone and 10% of planted trees will be native tree species.</p> <p>Illegal logging and other illegal activities (hunting, wildlife trafficking) are avoided through monitoring and enforcement of land use plans, improved awareness of local communities on regulations, and provision of alternative livelihood options and financing.</p> <p>Community implementation of VFMPs is ensured through a participatory approach (which reflects the priorities of the communities and ensures the equal participation of women and men in related management decisions) as well as fines and sanctions agreed in the management plans.</p>
--	---	---	--	--	--	--

E.6. Activities for Project 1			
Activity	Description	Sub-activities	Deliverables
1.1 REDD+ Funding Window and sustainable finance	Establishment and operationalisation of a REDD+ Funding Window for Lao PDR. Technical support to EPF to initially run the REDD+ Funding Window and, in the process, provide EPF with practical exposure to assist EPF's GCF AE accreditation. Enabling the EPF and Forest and Forest Resource Development Fund (FFRDF) to channel finance for REDD+, including mobilisation of additional funding streams for REDD+. Technical assistance support to a new green credit line for deforestation-free agriculture value chains.	<ul style="list-style-type: none"> - Creation of a REDD+ Funding Window in conjunction with the EPF - Support to FFRDF to revise its governance structure and to develop SOPs, manuals and internal guidance documents that meet international fiduciary and safeguards standards - Integration of FFRDF staff in the EPF's day-to-day operations running the REDD+ Funding Window - Training for FFRDF staff - Support to FFRDF to implement village-based grants for forestry activities in the framework of Activities 2.1, 3.1, 3.2 and 3.3 - Strategic roadmap developed and agreed with the Government to structure and mobilise new funding sources (PES from the hydropower industry, road fees, taxes, etc.) - Strengthening Village Development Funds - Institutional coordination and fundraising support to a green credit line that will supply credit (outside the framework of the project, using non-GCF funds) to firms with zero-deforestation business models developed with support from Activity 2.2 	<ul style="list-style-type: none"> - REDD+ Funding Window is established and operational - FFRDF SOPs, manuals and internal guidance documents are updated to meet international fiduciary and safeguards standards - Green credit line is established and operational, capitalised with (non-GCF) international and national finance amounting to at least Euro 6 million
1.2 Mainstreaming REDD+ into the NDC and socio-economic development plans (SEDPs)	Provision of technical and logistical support to the NDC and SEDP planning process to integrate the National REDD+ Strategy, so as to ensure REDD+ interventions are fully considered and budgeted in the updated NDC and in the provincial and district SEDPs	<ul style="list-style-type: none"> - Participation in planning meetings and provision of technical inputs - Consultation workshops to support REDD+ mainstreaming into the updated NDC and into provincial / district SEDPs 	<ul style="list-style-type: none"> - 1 national-level consultation workshop - 3 province-level consultation workshops - 16 district-level workshops - REDD+ activities are integrated into the updated NDC - REDD+ activities are integrated into 3 provincial SEDPs (2021-2025) - REDD+ activities are integrated into 16 district SEDPs (2021-2025)
1.3 Strengthening the regulatory framework	Revision, modification and drafting of relevant laws, decrees and regulations to enable and strengthen the adoption of SFM, FLR and participatory village forestry.	<ul style="list-style-type: none"> - International and national expert inputs for assessments, revisions and recommendations related to PMO 9, the Forestry Law, Land Law, 	<ul style="list-style-type: none"> - PMO 9 revised and endorsed by Government - Forest and Land Law, as well as supporting decrees, amended to include SFM in production forests

	<p>Provision of gender- and ethnicity-sensitive awareness-raising and capacity development on the revised regulatory framework to Government authorities (at national, provincial, district and <i>kumban</i> level), CSOs and villagers</p>	<p>SFM, FLR and village forestry</p> <ul style="list-style-type: none"> - Meetings with national, provincial and district Government officials to facilitate cross-sectoral coordination - Preparation of training and workshop materials - Training, workshops and technical assistance 	<ul style="list-style-type: none"> - Forest Law amended to include provisions for sustainable timber harvesting in village forestry - Laws, regulations and guidelines developed and approved by the Government to facilitate the implementation of ISP, SFM, FLR and village forestry
1.4 Law enforcement and monitoring	<p>Revision of standard operating procedures (SOPs) for Forestry Law enforcement that are aligned with the revised regulatory framework (Activity 1.3). Improvement of coordination among key actors (POFRI, PONRE, forest inspectorate, police, customs) to improve Forest Law enforcement. Introduction of remote sensing data as a basis for controlling deforestation and forest degradation. Training to facilitate enforcement measures</p>	<ul style="list-style-type: none"> - Expert input to review SOPs - Training for POFI and DOFI staff (conducting inspections, technology application, monitoring, gender- and ethnicity-sensitive community awareness-raising and community engagement, GIS/remote sensing) - Technical assistance to clarify coordination, exchange and reporting channels (village → district → province → national Government) - Dissemination of regulations and guidelines on permitted and prohibited clearing and utilisation of forest (timber and non-timber) products 	<ul style="list-style-type: none"> - 4 sets of SOPs established and approved for each forest category (protection, production, conservation, village forests), including roles and responsibilities - Annual summary reporting protocols from the village level are available at the DPMU - POFI and DOFI are able to monitor forest cover change with new Remote Sensing technologies according to SOPs
1.5 Land use planning and improved tenure security	<p>Mainstreaming FLR guiding principles into land use planning manuals and guidelines. Participatory village land use planning (PLUP) in target project districts (linked with Activity 1.4 and Outputs 2 and 3). Monitoring and enforcement for existing land use plans (forest-related enforcement linked with Activity 1.4)</p>	<ul style="list-style-type: none"> - Experts to mainstream FLR guiding principles into land use planning manuals and guidelines - Stakeholder consultations, training materials and workshops on revised guidelines - Consultations for target villages based on the principles of FPIC to engage them in voluntary land use planning processes - International and/or national experts to support land use zoning, mapping (GIS/remote sensing), boundary demarcation and agriculture management planning - Gender-sensitive trainings for village land use and forest management committees - Finance to support systematic land registration 	<ul style="list-style-type: none"> - FLR principles integrated into land use planning manual and guidelines, endorsed by the government - 130 village land use plans established and implemented - Developed and implemented village land use plans have at least 70% compliance - At least 70% of all adult villagers in target villages state that they feel actively included in the PLUP process
1.6 Implementation of the measurement, reporting and verification (MRV) system	<p>Support to the National Forest Inventory (NFI) process and assessment of carbon emissions/removals from the</p>	<ul style="list-style-type: none"> - Execution of the Fourth (2020/21) National Forest Inventory 	<ul style="list-style-type: none"> - Fourth National Forest Inventory finalised

	<p>forest sector. Support to the MRV needs of the GCF project, as well as the FCPF Emission Reductions Programme, the UNFCCC National Communication and the UNFCCC BUR</p>	<ul style="list-style-type: none"> - Assessment and development of the National Forest-Type Map for 2020/21 - Calculation of emission factors and removal factors for forest and non-forest land-use classes - Assessment of leakage effects from the project area to the reference area (the entirety of Lao PDR) - Support to national reporting processes relating to forest carbon (e.g. for the FCPF, the National Communication and BURs) - Development and implementation of the National Forest Monitoring System - Development of digital solutions for community-based monitoring 	<ul style="list-style-type: none"> - National Forest-Type Map for 2020/21 produced - Updated emission / removal factors - Carbon emission reductions and removals relative to the FCPF Reference Level are reported - NFMS established and operational
<p>1.7 Knowledge management, FPIC, safeguards and gender</p>	<p>Knowledge management and communication. Implementation of the Environmental and Social Management Plan (ESMP) and Gender Action Plan (GAP), and ensuring compliance with FPIC procedures and safeguards</p>	<ul style="list-style-type: none"> - Knowledge management and communication, including data provision for the FCPF Emission Reductions Programme, the UNFCCC National Communication and the BUR - Lessons-learned and information-sharing at the policy-making level to inform national stakeholders of sub-project progress and implementation lessons for REDD+ - Awareness-raising campaigns for targeted stakeholder groups - Development and management of a project website - Implementation of the ESMP and GAP - Development and monitoring of FPIC and safeguards-related mechanisms to collect lessons learned and complaints from target communities - Communication materials and tools are gender mainstreamed, culturally appropriate, and published in different ethnic languages whenever feasible 	<ul style="list-style-type: none"> - Project communication plan implemented - 4 awareness campaigns designed and implemented (one on the legal and regulatory framework, one on REDD+ awareness at the local level and one on SLM/REDD+ targeted at schools) - 1 project website developed and implemented - Safeguards-related activities (complaints received and actions taken) systematically recorded
<p>2.1 Local incentives for good agricultural practices and agroforestry</p>	<p>Strengthening of extension services (DAFO and Technical Service Centre,</p>	<ul style="list-style-type: none"> - Agriculture specialists of the PPMUs and NPMU to deliver capacity building, 	<ul style="list-style-type: none"> - 48 DAFO and TSC staff trained on good agricultural practices

	<p>TSC) for good agricultural practices. Development of District Activity Plans (DAPs). Financial support for 'white list' good agricultural practices and for village-based agroforestry.</p>	<ul style="list-style-type: none"> - training and coaching to DAFO and TSC staff and village committee members using a trainer-of-trainers approach - Development of District Activity Plans, outlining activities, participants, inputs and annual budget plans, based on land use plans from Activity 1.5 and gender-sensitive village consultations - Combination of upfront and performance-based payments for 'white list' good agricultural practices (GAP) such as intercropping, mulching, no-tillage, etc. - Matching grants for eligible private sector enterprises to support village agroforestry activities (as agreed between the village and the enterprise in the form of a private sector-village partnership agreement – PSVPA – developed with Activity 2.2 support) 	<ul style="list-style-type: none"> - Good agricultural practices adopted, leading to increased yields of at least 50% (compared to baseline), disaggregated by crops - For good agricultural practices: Each eligible village (VDF) receives Euro 7,500 upfront incentive payment and later Euro 4,000 performance-based payment - For agroforestry: activities will be funded by 50% GCF grant finance (up to Euro 200/ha) and by 50% matching funding from the private sector - Participation rates of women in community meetings are at least 40%
<p>2.2 Catalysing private sector investment in value chains</p>	<p>In-depth value chain assessment of key agricultural commodities at the provincial level, including analysis of the specific roles of women. Establishment of, and support to, multi-stakeholder platforms (MSPs) to contribute to improved networking and coordination across the value chain. Business development support to agribusiness SMEs. Intermediation and support to public-private sector dialogue and to formalisation of private sector-village partnership agreements (PSVPAs).</p>	<ul style="list-style-type: none"> - Gender-sensitive value chain studies for key existing and alternative agricultural commodities (crops and livestock) - Workshop to share and agree on study results with NPMU, PPMUs, PAFO, DAFO and TSC staff, and selected male and female farmers. (Results of the value chain analysis will be linked with capacity building support under Activity 2.1) - Value chain action and implementation plan developed for each agricultural commodity - Identification and mobilisation of private sector companies (traders, input suppliers, processors, financial institutions, etc.) and other value chain actors (e.g. farmers' organisations including representatives of male and female farmers, government representatives) to participate in district-level MSPs and to receive targeted training 	<ul style="list-style-type: none"> - 1 in-depth value chain study per province (i.e. 3 in total) addressing approximately 9 key current and new commodities, including reviews of the gendered impact of the desired change (access, needs, barriers, potentials, workload, benefits) - 3 value chain action and implementation plans developed - 4,800 farmer households (in 16 districts) benefit from improved communication and relationships with value chain actors

		<ul style="list-style-type: none"> - Regular province-level exchange meetings for PAFO, DAFO and TSC staff, and private sector participants (male and female farmer representatives, input and service providers, traders and processors) 	
2.3 Sustainable rural infrastructure watershed management	<p>The GCF project complements ADB investment in 11 small-scale agricultural irrigation schemes through support to ensuring that the forested landscapes in the catchment areas of the irrigation projects remain intact through improved land management (including good agricultural practices) and through reduced pressure from drivers of deforestation and degradation (e.g. lack of alternative livelihood opportunities, poverty, malnutrition, low agricultural productivity, lack of value-adding activities and weak negotiation/marketing skills)</p>	<ul style="list-style-type: none"> - Gender-sensitive technical assistance provided to farmers to plan and produce dry-season crops on the upgraded irrigation schemes - Systematic information provision to farmers on market demand, quality requirements and prices - Modernisation of small-scale irrigation schemes, including additional water control measures (such as secondary distribution pipes and offtake points for hoses, sprinklers and drip applications) - District Nutrition Teams (DNTs) established in each of the target districts 	<ul style="list-style-type: none"> - 11 small-scale irrigation schemes modernised, covering a command area of at least 2,900 ha - 11 market assessments for dry-season and upland crops produced - 3 District Nutrition Teams established and operational
3.1 Village forest management	<p>Development, implementation and monitoring of village forest management plans (VFMPs)</p>	<ul style="list-style-type: none"> - Development of 5-year VFMPs, including demarcation of forest areas and preparation of detailed village forest maps, participatory forest resources assessments (PFRAs) and forest inventories, preparation of annual forestry operation plans and signing of village forest management agreements - Gender-equitable and responsive VFMP planning processes (including participation of women on Village Forest Management Committees), management, implementation, and monitoring - Implementation of VFMPs by village groups, following the annual plan of operation (approved by DoF and PPMU) - Quarterly monitoring of implementation progress, including payments made to VDFs, reports of illegal activity and conflict reports 	<ul style="list-style-type: none"> - 200 VFMPs approved in target villages - 180,000 ha of village forest managed under approved VFMPs - Participation rates of women in community meetings are at least 40%

<p>3.2 Sustainable management of production forests</p>	<p>Forest inventory and forest management planning in production forests. Implementation of Forest Management Plans (FMPs) with associated monitoring</p>	<ul style="list-style-type: none"> - Designation of villages and preparation and implementation of forest management plans (FMPs, participatory land use zoning, boundary marking, inventory of trees and NTFPs) [Linked to the public-private dialogue process under Activity 2.1] - Definition, dissemination and enforcement of forest access rules (developed in conjunction with all villagers) - Capacity building for villages and provincial- and district-level officials on FMPs, monitoring (e.g. forest inventory revision, remote-sensing and ground-truthing) and enforcement (patrolling techniques) - Development of annual work and budget plans to implement forest restoration activities, including ANR and community-based plantation/agroforestry development - REDD+ Funding Window disbursement of village forestry grants to VDFs - Promotion and monitoring of gender-equitable management and benefit-sharing of VDFs 	<ul style="list-style-type: none"> - 15,000 ha of production forest category area under participatory forest management
<p>3.3 National Protected Area management</p>	<p>Development or revision of National Protected Area (NPA) management plans. Improved law enforcement in NPA conservation landscape. Implementation of sustainable land and forest management by communities living within and adjacent to NPAs</p>	<ul style="list-style-type: none"> - Development or revision of NPA management plans (including assessment of previous plans, zonation and participatory land use planning, identification of alternative livelihood options considering gender and ethnicity dimensions, establishment of voluntary and inclusive co-management agreements with villages, development of law enforcement action plans for NPAs) - Implementation of law enforcement action plans (including checkpoint establishment and operation, targeting of high-risk areas by PAFO staff, capacity building and provision of equipment, gender- 	<ul style="list-style-type: none"> - Development of 3 new NPA management plans - 670,000 ha of NPA forest is managed under approved management plans

		<p>sensitive and -responsive community engagement)</p> <ul style="list-style-type: none"> - Technical and financial assistance to villagers to implement sustainable forest management and land use activities based on co-management agreements - Technical assistance for monitoring, evaluation and reporting of implemented activities 	
4.1 Project management, coordination, monitoring and reporting by the NPMU and PPMU	Project management and coordination, including day-to-day project execution, stakeholder liaison, procurement of goods and services, recruitment of consultants, and monitoring and evaluation. Oversight of the REDD+ Funding Window.	<ul style="list-style-type: none"> - NPMU and PPMU support to project operations and coordination - Procurement of goods and services and recruitment of consultants following GIZ procedures - Support to executing partners in financial management, procurement, and internal and external audit management - Oversight of, and coordination with, the REDD+ Funding Window and provision of targeted training - Development of a dedicated M&E system for tracking sub-project inputs, activities, outputs and impacts in line with the project log-frame - Independent mid-term monitoring and evaluation will be carried out after 3 years of project implementation 	<ul style="list-style-type: none"> - Project implemented and funds disbursed according to plan - M&E system established and operational, and performs according to GCF needs

E.7. Monitoring, reporting and evaluation arrangements

182. Monitoring, reporting and evaluation arrangements (in addition to the ESMP and GAP) will comply with the relevant GCF policies, as stipulated in the AMA, FAA and project-related Financing Agreements and Implementation Agreements with Executing Entities and Implementation Partners, which EEs will extend to sub-grantees.
183. The project will apply a customised results-based Monitoring and Evaluation (M&E) system. The system will be based on:
- GIZ Standard Operating Procedures (“GIZ’s evaluation policy - principles, guidelines and requirements”)
 - The Project 1 logical framework
 - The Project 1 implementation schedule
 - Requirements of the GCF’s Annual Performance Report
 - Development partners’ standard operating procedures
 - Procedures and requirements of project partners and stakeholders in Laos
184. The M&E system will track project Inputs, Actions, Activities, Outputs and Impacts as well as associated financial flows across all Outputs in all project districts and provinces.
185. The overall responsibility and oversight for M&E and reporting lies with the GCF AE unit of GIZ head office. The National Project Management Unit (NPMU) in Laos will implement the M&E system and work closely with Provincial

Project Management Units (PPMUs), District Project Management Units (DPMUs), GIZ Executing Entity in Vientiane, government partners and development partners.

Recruitment of M&E staff

186. Immediately when Project 1 commences, GIZ's GCF AE unit at head office in Germany will make available one expert to oversee, coordinate and manage the project M&E and reporting routines. He/she will cooperate closely with NPMU and GIZ Executing Entity staff to coordinate the implementation of the project's M&E system. As soon as GCF project proceeds become available in Laos, the NPMU and the three PPMUs will recruit one M&E specialist each. The NPMU will hire an international consultant to support the management of the M&E system and provide on-the-job training for PPMUs and other stakeholders of the system where requested. The three PPMUs will hire national M&E experts to support the implementation of the M&E system in their respective province and districts. In the first year of Project 1, the NPMU will tender the services of a specialised technical consulting firm, which will support the project in designing the details of the M&E system and support the early implementation phase. The firm will also provide training and capacity building to the project implementation partners as requested.

Independent monitoring and evaluation studies

187. GIZ's AE unit will initiate a mid-term review (MTR) in year three of Project 1 (or at any time that GIZ, the NDA and/or the National Steering Committee consider necessary). GIZ will competitively select and assign an independent consultant for this task. The MTR will duly involve project stakeholders, including target groups and beneficiaries, project partners and contributing development partners. The MTR will include:

- A review of the institutional, administrative, organisational, environmental, social, economic, technical and financial aspects of the project based on the assumptions and risks included in the design (among others, as specified in the Funding Proposal and Feasibility Study) and M&E system.
- A review of covenants to assess whether they are still relevant or need to be changed or waived due to altered conditions.
- A review of the viability of remaining planned impacts.
- An assessment of the need to restructure or reformulate the programme (including subsequent constituent projects) and the effects of such restructuring on the programme's objective and long-term goals. The timing of the MTR is designed such that lessons-learned arising from implementation of Project 1 (mid-2020 to mid-2024) can be absorbed and applied to the design of Project 3 (mid-2024 to end-2029).

188. GIZ's AE unit will make available an MTR report to the GCF Secretariat and project stakeholders.

189. In due time before the completion of the project, GIZ's AE unit will initiate a project completion mission, in which the implementation of the project – based on the financing and implementation agreements, the delivery of outputs and the achievement of project targets – will be evaluated. The mission will duly involve project stakeholders including target groups and beneficiaries, project partners and contributing development partners. At the time of the project's physical completion and commissioning, GIZ's AE unit will make available a final report to the GCF Secretariat and project stakeholders.

Data collection and frequency

190. The NPMU will coordinate data collection for implemented activities through responsible executing departments / divisions at the district and provincial level. The PPMU will supervise and guide the monitoring and evaluation. Each PPMU will aggregate monitoring reports based on DPMU inputs at least every six months. The NPMU will aggregate all the PPMU reports and make a summary report available to GIZ's AE unit at head office, again at least every six months.

Measurement, Reporting and Verification (MRV) of reduced GHG emissions

191. The MRV of reduced emissions is an essential activity for monitoring the project's efficiency and effectiveness as well as for continued learning across the programme. In cooperation with JICA, Project 1 includes a dedicated technical assistance package (Activity 1.6, 'Implementation of the Measurement, Reporting and Verification System') that will be specifically devoted to the measurement and reporting of achieved emission reductions. The MRV will be subject to verification by the FCPF Carbon Fund (as a basis for results-based REDD+ payments). Methodologically, the same approach will be used as for the Reference Level development (see Section D.1.1).

RISK ASSESSMENT AND MANAGEMENT

F.1. Risk factors and mitigations measures

192. A detailed analysis of Project 1 risks is provided in Chapter 11 of the Feasibility Study (Annex 2a). Environmental and social risks are considered in the Environmental and Social Impact Assessment (Annex 6a) and the site-specific Environmental and Social Management Plan (Annex 6b). Gender-specific risks are considered in the Gender Assessment (Annex 8a) and the Gender Action Plan (Annex 8b). From a safeguards perspective, the ESIA rates the project risk as **medium (Category B)**.

Selected Risk Factor 1

Category	Probability	Impact
Technical and operational	Low	Medium

Description

Sub-optimal cross-sectoral coordination and potential conflicting interests may limit the adoption and effectiveness of REDD+ and related measures.

Mitigation Measure(s)

- The GCF project builds on strengthened relationships and cross-sectoral planning established through the REDD+ Task Force, and promotes continuous dialogue and ongoing capacity building and coordination. It will continue to strengthen multi-stakeholder ownership of REDD+ created by other donor projects/programmes, as well as the development of the ER-PD and PRAPs, during recent years.
- Improved integration of REDD+ in SEDPs at the national, provincial and district levels will secure government budget allocations for REDD+ activities, and ensure ownership of, and commitments to, REDD+ across sectors at all levels (national, provincial, district).
- Improved cross-sectoral planning and dialogue between key actors (including MPI, MAF, MoNRE, PONRE, PAFO, POFI, etc.) as a cross-cutting measure throughout project activities.
- REDD+ results-based payments will provide an additional incentive for the government to maintain strong ownership of the GCF project and commitments to achieving the project's results.
- Improved land use planning (including demarcation of land, issuance of GIS maps, participatory land use planning with local villages, among other Actions described in Activity 1.5) will improve monitoring and enforcement of land use based on plans.
- Improved planning and monitoring of forest areas, including areas with approved timber harvesting permits, will increase accountability and enforcement, ultimately limiting over-harvesting and unsustainable forest use.

Selected Risk Factor 2

Category	Probability	Impact
Technical and operational	Medium	Low

Description

High staff turnover and limited numbers of government extension staff impedes retention of skills and knowledge in the relevant sectors/institutions

Mitigation Measure(s)

- The project places a strong emphasis on documentation and information dissemination – as detailed in the Activity Descriptions in Chapter 3 of the Feasibility Study (Annex 2a) and in the project's knowledge management framework (Annex 22u) – to facilitate knowledge retention, capacity building and knowledge exchange.
- Continuous engagement with relevant authorities at the national, province and district levels will help to strengthen knowledge exchange and maintain organisational knowledge. National and provincial PMUs will support this exchange.
- Training of multiple staff members in each department/province/district, etc. will mitigate the risk of any one of them leaving.

Selected Risk Factor 3

Category	Probability	Impact
Technical and operational	Low	Medium

Description		
Private sector actors do not want to participate in the project and prefer to continue using BAU practices		
Mitigation Measure(s)		
<ul style="list-style-type: none"> • Extensive consultations with leading private sector actors have been undertaken during the GCF project development stage to gauge their interest and specific needs. For instance, leading forestry companies with an interest in sustainability, including Burapha Agroforestry Ltd., have expressed their interest in scaling-up community-based agroforestry in degraded production forests. In the agricultural sector, products such as cardamom and galangal, which are compatible with agroforestry systems and sustainable agriculture, are gaining in market relevance as foreign demand for the products grows and are attracting growing private sector interest. • Agricultural value chain actors such as rice millers and traders have indicated their interest in training and capacity building on best practices (e.g. good milling practices) and financial literacy (business analysis and planning, accounting and bookkeeping), as well as 'matchmaking' with other value chain actors (farmers, local and international buyers, etc.). The district-level Multi-Stakeholder Platforms that will be set up by the GCF project will, therefore, be of key interest to private sector stakeholders. • The project will target leading companies with established reputations for implementing sustainable forestry and agricultural projects in Lao PDR to serve as early movers/leaders, while also working with companies interested in adopting sustainable practices. • Public-private sector dialogue will improve coordination and communication between government officials and private sector actors, raising awareness of key gaps and barriers and improving actions to address and overcome these challenges. • Engagement of the private sector and deployment of GCF-supported agribusiness specialist staff time to engage with the private sector will improve granular understanding of needs and the means to address them. • The REDD+ Funding Window matching grant mechanism under Activity 2.1 will greatly reduce financial institutions' risk. • Financial institutions will be approached and screened for cooperation on sustainable finance in order to identify the most appropriate partner(s) for, amongst others, operating the green credit line (Activity 1.1). 		
Selected Risk Factor 4		
Category	Probability	Impact
Technical and operational	Medium	Low
Description		
FFRDF capacity building progress is too slow, and the FFRDF is not capable of managing REDD+ finance within the project timeframe		
Mitigation Measure(s)		
<ul style="list-style-type: none"> • The project will provide dedicated support to the FFRDF (Activity 1.1), including support to redesign of the FFRDF's governance structure, its standard operating procedures, and its manuals and guidance documents so that they meet international fiduciary and safeguard standards. FFRDF staff will be provided with ongoing training and capacity development (including on-the-job exposure to the REDD+ Funding Window) to build needed skills and address capacity gaps. • Utilisation of the Environmental Protection Fund (EPF) as a back-up strategy: the project has been designed to initially use the EPF to channel financial resources for REDD+, as the EPF's capacities and accountability systems are already in place and meet international standards (see the EPF capacity assessment, Annex 22d). It is intended that the FFRDF will eventually assume responsibility for the REDD+ Funding Window from the EPF once its capacities and systems are in place. However, if this is not possible the EPF will continue to manage the interim REDD+ Funding Window and the project will continue to channel resources through the EPF. 		
Selected Risk Factor 5		
Category	Probability	Impact
Governance	Medium	Medium
Description		
Participating households do not comply with land use plans that are developed. Ethnic groups and poor households could be especially affected, as they are the most likely to experience economic dislocation due to their reliance on the land		

Mitigation Measure(s)		
<ul style="list-style-type: none"> • Participation in the project's activities will be voluntary and based on the principle of FPIC. • The project's grievance mechanism will be clearly communicated in culturally appropriate ways, and villagers will be able to access the mechanism to file any grievance. • Land use plans will be developed using participatory stakeholder processes and will be based on the priorities and interests of each village. Trainers will be specifically trained on social inclusion and how to target the inclusion of marginalised and vulnerable households. Awareness will be raised among households on current agricultural practices and their negative impacts, as well as on alternative agricultural models and sustainable forestry. • Incentives will be provided to help overcome opportunity costs and support the transition to sustainable land use (e.g. inputs to support the implementation of land use activities, identification and strengthening of additional financial sources for future investments in sustainable land use). • Capacity building and supported investments in monitoring, knowledge dissemination, training/capacity building and awareness-raising will help improve compliance and adoption. • Extension and training materials will include visuals such as videos, pictures and other tools to communicate content, including translations into key languages (as necessary). Stakeholder consultations on proposed regulatory changes, including consultations targeting vulnerable groups and expert consultations, will help to sustain community interest and commitment to the project through active participation and compliance, and mitigate the potential risk of economic displacement and non-compliance (e.g. Activity 1.3). • Strengthened capacities and technical support for ongoing monitoring will assess potential trade-offs or unforeseen impacts and will identify the need for potential adjustments. 		
Selected Risk Factor 6		
Category	Probability	Impact
Technical and operational	Low	Low
Description		
Parts of the project area are contaminated with Unexploded Ordnance (UXO), which poses a potential risk for agriculture- and forestry-related interventions (Outputs 2 and 3)		
Mitigation Measure(s)		
<p>Within the project area, Unexploded Ordnance (UXO) from the Second Indochina War (1964-1975) still contaminate some areas in Houaphan and Luang Prabang provinces. The same applies for the provinces of Sayabouri, though they are much less affected. Overall, UXO pose a potential risk for the project's agriculture- and forestry-related interventions (Outputs 2 and 3), but the risk is classified as low. Across Laos there are fewer than 50 casualties per year, down from 310 in 2008, mostly in the south of Laos where the majority of UXOs are located. Development partners have recorded no critical incidents in the context of their projects in recent years, including in agriculture, forestry and infrastructure projects. Moreover, the project's activities focus on land that is already under use, which reduces the exposure to UXO risks. However, certain agriculture- and forest-related activities require disturbing the ground (for example, harvesting bamboo and other NTFPs, timber harvesting operations or ploughing) and UXO accidents cannot be entirely ruled out. The following measures have proven to work for development agencies in Laos and the GCF project will ensure they are observed in all project sites before commencing project activities:</p> <ul style="list-style-type: none"> • Confirm clearance of UXOs with provincial authorities before commencing project activities. • Impact assessments based on historical bombing data as well as on the Information Management System for Mine Action (IMSMA) (accessible online: http://www.nra.gov.la/imsmadatabase.html). • Applying NRA UXO guidelines and other standardised resources available online at http://www.nra.gov.la/resources.html. • Working with the local population and guides, who know the area. • If needed, clearance of UXOs can be initiated through the Government's National Unexploded Ordnance Programme (UXO Lao) or alternative land plots or other forms of cultivation will be identified. • Community-based Mine Risk Education activities to offer people knowledge and alternatives for living and working safely in mine/UXO contaminated areas (available online at http://www.nra.gov.la/resources.html). 		

GCF POLICIES AND STANDARDS

G.1. Environmental and social risk assessment

G.1.1 Environmental and Social Impact Assessment (ESIA)

193. The Environmental and Social Impact Assessment (ESIA) of the project is provided in Annex 15a.

194. The ESIA rates the risk category of the project as **B** (medium).

195. The activities under Project 1 are oriented around FPIC, positively helping small-scale farmers and with a focus on ethnic groups in remote locations. A detailed description of the project's FPIC process is provided in the Ethnic Groups Development Planning Framework in the ESIA (Annex 6a). The FCPF will shortly be developing a Community Engagement Framework (CEF), which the GCF project will adopt. The ESIA notes that the 3 Project 1 provinces already have Provincial REDD+ Task Forces (PRTFs) and Provincial REDD+ Offices (PROs), which will facilitate stakeholder consultations.

196. Particular challenges identified by the ESIA include:

- Self-assessments conducted by MAF and MoNRE vis-à-vis REDD+ readiness indicate that *sub-national technical skills of government employees need improvement*. Districts, particularly in remoter areas, are often understaffed, under-budgeted and under-equipped. District Agriculture and Forest Offices (DAFOs) do not necessarily have anyone available who has had more than minimal exposure to REDD+ and climate change concepts.
- Although the government is working seriously to improve the *business climate in the country*, the Ease of Doing Business Report ranks Laos 154 out of 190 (in previous years it was ranked 141 and 139).¹⁴⁹ The barriers and challenges for domestic businesses are still high, and the reform process is proceeding more slowly in Laos compared to other countries. The regulatory framework on doing business in the agricultural and forestry sectors, whether through foreign direct investment or domestic investment, will require project-supported improvement over the coming years.
- The government has recognised that *corruption* is a matter of serious concern in the country. The Party Congress in 2016 expressed high-level commitment to tackling corruption. Various crackdowns have occurred, but it will be a long process to ensure that all regulatory and inspection frameworks are in place and functioning. The Transparency International Corruption Perception Index for 2017 ranks Lao PDR 135 out of 180, with a score of 29 (out of 100). The project's financial monitoring, reporting and auditing systems will be required to mitigate potential risks.
- The varied levels of skills, staffing and resourcing available at district level means that *land titling* is still confined largely to urban and peri-urban areas in Lao PDR. In rural areas, there are over two million land parcels, most of which have no titles.¹⁵⁰ Communal land titles are possible in law (old Land Law of 2003) but are seldom issued in practice. While there is some recognition in law for communal (cooperative) tenure, the issuance of communal land titles in the northern provinces has yet to take place. Project support and capacity development in this regard will be vital.
- The *project area represents a diverse set of socio-economic, cultural and environmental conditions*. Thus, neither a 'one size fits all' set of activities nor an overly generalised safeguards approach is appropriate for such a complex project area. The complex and interacting dynamics of landscapes, ethnic groups and policy implementation (among others) have created a diverse set of responses at village and household level that comprise people's livelihoods. The socio-economic risks that may arise during the implementation of the project will be higher in some areas than others and are also likely to fluctuate over time. This underscores the importance of the site-specific Environmental and Social Management Plan (ESMP) that has been developed for the project (see Annex 6b) and the Environmental and Social Management System (ESMS) that will be set up during project implementation. The high percentage of non-Lao-Tai ethnic groups in the project area requires a higher degree of risk management as per the GCF Indigenous People Policy.

¹⁴⁹ World Bank (2018), *Doing Business 2019*: http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

¹⁵⁰ Department of Agricultural Land Management (DALAM) presentation, 'Strategy of Agricultural Land Management and Development Up To 2025'.

- *Data gaps.* Considerable forest-related data are available for the project area, but socio-economic data are available mostly only at provincial level and are based on sources such as the Population and Housing Census, the Labour Survey and Statistical Yearbooks. Thus, there are some important information/data gaps that will require addressing so that the project may work with a reasonable socio-economic baseline. Such a baseline will be required for various monitoring purposes, including risk and safeguard monitoring.

G.1.2 Environmental and Social Management Plan (ESMP)

197. The ESMP is provided in Annex 6b. Designed in response to the risks identified in the ESIA, the purpose of the ESMP is to provide a practical plan to manage the environmental and social risks and impacts associated with the project's activities, as well as to allow for meaningful and inclusive multi-stakeholder consultations and engagement throughout the lifecycle of the project. The ESMP takes into particular account the circumstances of vulnerable, marginalised individuals and members of ethnic groups that are affected or potentially affected by the project's activities. The ESMP also aims to assist Lao government counterparts, in cooperation with the Project Management Units and GIZ team, to maintain and/or improve the project's environmental and social management system during project implementation. The ESMP will help to ensure that all of the activities proposed under Project 1 are properly screened, assigned appropriate environmental and social risk categories and that the environmental and social risks and impacts are properly and sufficiently assessed. Where impacts and potential impacts are identified and if these are unavoidable, proper mitigation measures will be properly planned to adequately compensate for residual impacts and to provide for restoration.
198. The ESMP has been drafted using the guidance provided by the GCF environmental and social safeguards policy, approved in March 2018, and the Indigenous Peoples Policy, and it has therefore extensively incorporated the International Financial Cooperation (IFC)'s Performance Standards on Environment and Social Sustainability, the World Bank's Safeguards Policy and the Lao national safeguards policy.

G.1.3 Project Risk Mitigation Approach

199. Of the eight GCF interim Environmental and Social Safeguards, the project triggers six of them, and its management system will require the development of mitigation hierarchies to manage and mitigate risks (as per Performance Standard 1 and the Indigenous Peoples Policy):

Performance Standard 1: Assessment and management of environmental and social risks and impacts

ESIA observation: The project will require a suitable ESMP that is in place for its duration. It will need to establish a mitigation hierarchy and will have to ensure that increased dialogues take place at local levels. Further, it will have to establish acceptable and appropriate communications and redress mechanisms.

Project mitigation approach: A detailed ESMP has been developed (Annex 6b), accompanied by a stakeholder engagement plan (Annex 7o), a gender action plan (Annex 8b), a project redress mechanism (Annex 7o) and a knowledge management plan (Annex 22u). In order to inform project mitigation activities, the following surveys will be conducted during project implementation:

- Baseline socio-economic data collection in all target site village clusters.
- NTFP inventory, including specific surveys for site-specific areas that highlight what is available locally.
- Land tenure and titling survey to uncover the extent to which land titling has happened in site-specific areas.
- Economic investment survey in site-specific areas, to uncover the extent to which large-scale economic investment is planned in the SEDPs and to assess the impact on land and local environments.
- District- and provincial-level resettlement and relocation surveys to uncover the extent to which villagers may be moved for administrative or investment purposes (including villages that may lose access to land but will not have to move household buildings).
- District staffing levels surveys, including assessing skill levels of district staff and volunteers, and ethnic language capabilities.
- Credit availability for farming households and the extent to which those who have access to these facilities actually use them.
- A district project directory, which lists the agriculture and forestry projects in a given area and provides details about beneficiaries and government staff working on each project to aid coordination and avoid duplication.
- Updated provincial land use maps, some of which have not been updated since 1995.

The principle of Free, Prior and Informed Consent (FPIC) is incorporated within the project design. For all activities implemented with villagers at the local level (e.g. land use planning and activities within Outputs 2 and 3), participation is voluntary and based on FPIC. FPIC agreements will be made with all participating villages prior to the implementation of interventions.

Performance Standard 4: Community health, safety and security

ESIA observation: This performance standard may be relevant to the project in the context of the potential use of pesticides/herbicides in project-promoted annual cropping and plantations.

Project mitigation approach: The project will:

- Ensure that pesticides/herbicides (if used) are legal (not on any national or international banned lists) – with particular attention paid to paraquat, which was included on the list of banned pesticides in 2011 but is still widely used in upland crop production in northern Laos.
- Ensure that local authorities are able to monitor and enforce the use of legal pesticides/herbicides – notably, ensuring that DAFOs receive appropriate training on the laws and regulations governing pesticide/herbicide use and are enabled to safely confiscate illegal pesticides/herbicides.
- Ensure that proper safety measures are taken when pesticides/herbicides are used: provision of awareness-raising and training for farmers.
- Promote 'environmentally-friendly' value chains as part of the project's work on deforestation-free agricultural value chains, raising the awareness of farmers, traders and investors on: (i) the risks and safe use of pesticides/herbicides and (ii) the potential financial and marketing advantages of reducing or stopping the use of pesticides/herbicides (e.g. through the use of alternative agricultural practices, marketing of organic products, etc.).

Performance Standard 5: Land acquisition and involuntary resettlement

ESIA observation: To be seen together with the Indigenous Peoples Policy in that "involuntary resettlement" also includes denial of access to land.

Project mitigation approach: The project will:

- Ensure careful records are kept of all village interactions, and all district and provincial meetings, including breakdown by ethnicity and gender – this is especially critical for FPIC work.
- Ensure meaningful consultation at village level to enable participants to opt-out of project activities.
 - Small group meetings will be held at village level, with appropriate translators or ethnic language speakers, with village groups split by gender, to discuss potential impacts of project activities, both positive and negative, before the commencement of said activities. Clear records will be kept demonstrating this consultation has taken place.
- Ensure that land access considerations – including gender-, ethnic- and income-differentiated risks – are fully incorporated into, and addressed by, the Participatory Land Use Plans (PLUPs) developed by the project. Such considerations will include (non-exhaustive):
 - Consideration of whether forest protection activities will have any negative impacts on ethnic people's ability to gather NTFPs for domestic or commercial use, and ensuring continued access to land, forest and natural resources to avoid income loss and to ensure food and nutrition security.
 - Respect for ancestral and spiritual land and forest use, and sensitivity to customary use of land by the community, especially ethnic groups, and ensuring rights remain to conduct ritual ceremonies (which often take place in forest).
 - Preserving and respecting indigenous knowledge, including traditional knowledge and use of medicinal plants.
 - Ensuring that irrigation infrastructure is accompanied by rigorous, inclusive LUPs to make sure that poorer households do not lose access to land while not gaining access to irrigation facilities.
- Provide access to information in appropriate ethnic languages, at the very least providing a translator for meetings.

- Ensure that information dissemination campaigns make use of images, cartoons and drawings, as well as clear and simple language, to support the comprehension of those who are less literate.¹⁵¹

Performance Standard 6: Biodiversity conservation and sustainable management of living natural resources

ESIA observation: There is potential that some of the agricultural activities, especially promotion of agroforestry, will turn the Revegetated (RV) category of land to plantations, thus reducing biodiversity. Pesticide use would have negative impact on biodiversity. The integration of conservation needs and development priorities should be further documented for the project area.

Project mitigation approach: Regarding the use of pesticides/herbicides, see above, Performance Standard 4. Regarding the risk of biodiversity reduction, for example through the use of monoculture forest plantations, the project mitigates this risk by:

- Identifying land that is suitable for new forest:
 - Stipulation that a combination of spatial planning and participatory land use planning with villagers is a precondition of GCF project support. This planning: (i) will be grounded in FPIC, (ii) will incorporate detailed GIS and ground-truthed data collection and analysis, including factors that determine suitability for forest (e.g. elevation and slope, soil conditions, hydrology, existing land uses, spiritual/cultural meaning of sites, etc.), (iii) will ensure that no primary natural forest or permanent agricultural land is used for forest plantation with GCF project support, (iv) will strongly guide new forest to be sited on degraded land, thereby ensuring incremental biodiversity benefits and avoidance of biodiversity harm, and (v) will not support agroforestry activities within protection or conservation areas.
- Stipulating the types of new forest planted:
 - Support for assisted natural regeneration in degraded forest.
 - On land used for village agroforestry and forestry, 70% of the land will be allocated to industrial trees, 20% will be buffer zone and at least 10% of planted tree species will be native to Laos.

Performance Standard 7: Indigenous peoples

ESIA observation: The project area contains more people of the non-Lao-Tai ethnic groups than of the Lao-Tai ethnic group in most of the selected districts.

Project mitigation approach: See above, Performance Standards 1 and 5. The project will minimise, mitigate and compensate appropriately when project activities impact on indigenous people's rights, regardless of whether there is a legal recognition of land titles, resources and territories. If the project supports activities that could potentially restrict indigenous people's use of bush fallow for future upland cultivation, there will be consultation to ensure that FPIC has been obtained. An 'Ethnic Group Development Planning Framework' has been developed for the project to promote social inclusion, provide a targeted approach for ethnic groups to benefit from the project activities, and ensure the project does no harm. Additional measures to manage risks to ethnic groups include, among others:

- Developing Ethnic Group Development Plans based on the Ethnic Group Development Planning Framework to minimise, mitigate and compensate appropriately if there are negative impacts to ethnic groups.
- Application of FPIC prior to the implementation of project activities, maintained throughout the project's lifetime
- Aim to direct project activities and financing measures that enable the most vulnerable ethnic groups to have better access to land, and technical support for the implementation of good agricultural practices, SFM and FLR.
- National laws will be respected by the project, and all project activities have been screened against the national legal framework.
- Project staff and trainers to include male and female representatives from diverse ethnic groups and positively target particularly vulnerable groups. Project staff will further receive training on gender equality and social inclusion within the context of the project.

¹⁵¹ The project will develop visuals and media materials that focus on the real-life situation in the targeted villages. Such media will make use of photos and/or drawings of the forest, landscape and people living in the targeted villages. When training is conducted, the project will focus on in-depth understanding of policy objectives, and will 'adjust' explanations of forest policy statements in the local languages of the ethnic groups as needed. This will ensure mutual understanding and practical implementation, as well as an awareness of project information, valuable trees and plant species and endangered and/or near extinct species to promote informed choices in sustainable forest management.

- Outreach, extension and technical support at the community-level, workshops and capacity building activities shall be socially inclusive, culturally appropriate, and take into account local and traditional knowledge.
- All information on project activities will be made easily accessible, and in appropriate ethnic languages. Land use planning activities will also be conducted in appropriate ethnic languages, where translators can be made available if necessary.
- Opportunities for collaboration with other stakeholders (e.g. CSOs, Lao Women’s Union, etc.) to be sought out to strengthen stakeholder outreach and the engagement of various ethnic groups and vulnerable households.

Performance Standard 8: Cultural heritage

ESIA observation: During project preparation and consultation, no cultural heritage places, building or monuments, or instances where access to such heritage artefacts could be problematic, were identified in the project area. Nonetheless, residual uncertainty remains. It is thus recommended that further investigation of cultural practices and places of cultural and historical significance is conducted prior to the implementation of project activities in the field. Such a process will be participatory, closely coordinated with communities and local leaders to identify village areas of traditional or cultural significance.

Project mitigation approach: The risk associated with Performance Standard 8 is assessed as medium. The following measures will support the project to manage this risk:

- All information on project activities will be made easily accessible, and in appropriate ethnic languages. Land use planning activities will also be conducted in appropriate ethnic languages, where translators can be made available if necessary.
- Consultations with stakeholders will continue throughout the project’s lifetime, as local stakeholder and community members will have a key role in the implementation and monitoring of the project. This will ensure that stakeholders are aware of the project and its progress, as well as any changes. This will also be used as an important mechanism for collecting ongoing feedback throughout project implementation.
- For activities that will be undertaken in areas near to those identified as having historical value, training will be conducted on cultural heritage awareness.
- Information dissemination and awareness-raising campaigns will pay particular potential to women, ethnic groups, illiterate people, people with disabilities, and people with limited or no access to internet, among others. Where possible, information dissemination and awareness-raising will engage project counterparts and local actors, including village and *kumban* leaders, producer associations, CSOs, the Lao Women’s Union and others.

If objects of cultural heritage are uncovered by the project, the procedures described in the World Bank ESMF Annex, ‘Chance Finds Procedure’, will be followed. This includes stopping activities in the area, delineating and securing the area, and notifying the respective members of the PPMU and responsible government authorities (including the Provincial Department of Culture) within 24 hours.

G.2. Gender assessment and action plan

200. The Gender Assessment (GA) is provided in Annex 8a and the Gender Action Plan (GAP) is provided in Annex 8b.
201. Women still face discrimination in many aspects of their lives despite government policy to promote gender equality and protect women’s and children’s rights.¹⁵² This discrimination, in turn, results in ongoing barriers for them to participate in public life and to access many of the services to which they have a right.
202. The project design addresses the identified gender gaps (see Annex 8a for an extended list):
- *The current draft of the new Forestry Law and the PRAPs do not reflect the gender aspects of forestry.* Future regulations, guidelines and by-laws based on the Law will, with project support, integrate gender as a crucial factor in forest protection, monitoring, equal user rights and benefit-sharing, as well as resource management.

¹⁵² Lao PDR ranks 106th (out of 189) on the Gender Inequality Index: <http://hdr.undp.org/en/composite/GII>. Major negative contributors to this ranking are the maternal mortality ratio, the adolescent birth rate and the low proportion of females with at least some secondary education. Positive contributors include the high share of female parliamentarians and the high female labour force participation rate.

- *The current capacities of government staff at all levels to actively integrate gender and ethnic considerations into their management and implementation approaches are very limited, and the majority of staff are male. Ethnic languages are often a barrier to communication, which is not actively addressed. This strongly affects inclusiveness at the ground level, where women are often left out of planning and decision-making activities if not actively encouraged to participate.* The project will provide training to all relevant government staff, including EPF and FFRDF personnel working on the REDD+ Funding Window and Lao Women's Union (LWU) staff, on the gender dimensions of forestry, agriculture and REDD+. Communication materials on forest protection, REDD+ and other awareness-related activities will be gender-sensitive, user-friendly and made available in different ethnic languages whenever possible.
- *Village-level consultations undertaken during project preparation revealed that women are considered the main users of forest resources and possess vast knowledge of their surrounding natural habitats and their status of degradation, but rarely participate in forest management and monitoring due to lack of education and traditional norms.* Guidelines for village management committees supported by the project will state that village meetings should, where feasible, separate women and men (thereby providing 'space' for women's participation) and should set a quota for women to be included in each committee (at least 30% women per committee). The guidelines will also provide alternative pathways for individuals to fulfill the necessary requirements to become committee members (e.g. minimum education standard OR passing of a standard oral test), which will address women's generally lower educational qualifications.
- *The consultations at village level revealed that environmental awareness is still very limited. The greatest motivation for villagers to engage in forest protection measures is when they see immediate effects on their livelihoods (more income, more food, more produce). Exchange with other villages is commonly seen as a very effective tool to build awareness and initiate change, but women are often prevented from travelling due to traditional norms and lack of transport.* In coordination with the Lao Women's Union, the project will enable women to participate in exchanges and meetings outside their villages, providing allowances and means of travel where necessary.
- *Current Protected Area Law Enforcement Action Plans (LEAPs) do not consider gender aspects and are therefore not considerate of the potentials of women's roles in forest use and protection.* The project will support the inclusion of women's roles in law enforcement measures (e.g. patrolling) in the next Action Plans (after 2020) and will revise the associated Standard Operating Procedures accordingly.
- *Legally, women and men have the same rights to land. In reality, however, women are often not actively included in the decision-making steps of land use planning (LUP). The subsequent village forest management plan is generally seen by local men and women as a specialised step in which women participate even less. Reasons include lack of education to assume responsibility for perceived 'technical' tasks, lack of women's confidence to participate in management decisions, and traditional norms of many ethnic groups.* LUP processes supported by the project will be vigilant in actively including women and men in the target villages (separate meetings; women's meetings led by female staff). Quotas will be set to encourage women's inclusion in village management committees. The Lao Women's Union will function as a facilitator and skills developer for village women, with project budget allocated accordingly.
- *Microfinance is often perceived as too risky (when it is available – most microfinance institutions focus on urban and peri-urban areas). Women are often more hesitant to take on debts and only use microcredit for health emergencies.* The project will improve villages' access to micro-grants (as opposed to loans) channelled through the REDD+ Funding Window.

G.3. Financial management and procurement

203. The Government of Lao PDR (represented by MAF and MonRE), as a Project 1 Executing Entity, will sign a subsidiary agreement with GIZ, based on GIZ standard operating procedures for financing contracts. This financing contract will establish the legal basis by which GIZ makes GCF funding available to the EPF – a government institution under MoNRE – to enable the EPF to manage and operate grant disbursements through the REDD+ Funding Window. The EPF is responsible for implementing and administering its activities in accordance with GIZ and its own standard operating procedures.

G.3.1 Financial Management

204. The financial management of the project will follow GIZ's internal rules and regulations. GIZ has bank accounts with Deutsche Bundesbank and Commerzbank. GIZ will not open a specific bank account for the GCF project but will ensure that all funds provided are clearly identifiable and distinguishable from GIZ's other funds by setting up separate cost units exclusively for the funds disbursed by the GCF for each funded activity (ledger accounts). Funds received and expenditures incurred will be booked to the respective cost unit according to generally accepted accounting principles and procedures accepted by the German Government. As a general principle, GIZ disburses funds to recipients in accordance with the progress of the project. The Executing Entities (GIZ Laos, the Government of Lao PDR and JICA) have to report on the proper use of funds and defined progress as a prerequisite for any further disbursement (noting, however, that JICA will not receive any GCF funds).

G.3.2 Procurement

205. In the case of procurement by GIZ, GIZ will follow its own procurement guidelines. GIZ is required to comply with the relevant contracting rules as established in the German Act against Restraints of Competition (GWB), the German Regulation on the Award of Public Contracts (VgV) and, if applicable, the Contracting Rules for the Award of Public Service Contracts (VOB and VOL) when procuring services, construction work and supplies. When awarding contracts for supplies and services (including consultancy services) to be financed in full or in part from the financing contract, the external Executing Entities will observe the national legal standards for procurement and will, in any case, comply with the GIZ minimum standards. An overview of these minimum standards is available at https://www.giz.de/de/downloads/giz2017-en-Annex_4a-Award-Procedure.pdf. GIZ assesses adherence of submitted procurement documents with GIZ procurement regulations at defined stages in the process.

G.3.3 Independent External Auditing

206. Independent external auditors will perform annual financial audits of the project in line with International Auditing Standards. GIZ will be responsible for selecting and engaging the external auditors.

G.4. Disclosure of funding proposal

No confidential information: The accredited entity confirms that the funding proposal, including its annexes, may be disclosed in full by the GCF, as no information is being provided in confidence.

With confidential information: The accredited entity declares that the funding proposal, including its annexes, may not be disclosed in full by the GCF, as certain information is being provided in confidence. Accordingly, the accredited entity is providing to the Secretariat the following two copies of the funding proposal, including all annexes:

- full copy for internal use of the GCF in which the confidential portions are marked accordingly, together with an explanatory note regarding the said portions and the corresponding reason for confidentiality under the accredited entity's disclosure policy, and
- redacted copy for disclosure on the GCF website.

The funding proposal can only be processed upon receipt of the two copies above, if containing confidential information.

H. ANNEXES

H.1. Mandatory annexes

- Annex 1 NDA No-objection letter(s) **(template provided)**
- Annex 2 Feasibility study - and a market study, if applicable
- Annex 3 Economic and/or financial analyses in spreadsheet format
- Annex 4 Detailed budget plan **(template provided)**
- Annex 5 Implementation timetable including key project/programme milestones **(template provided)**
- Annex 6 E&S document corresponding to the E&S category (A, B or C; or I1, I2 or I3):
(ESS disclosure template provided)
 - Environmental and Social Impact Assessment (ESIA) or
 - Environmental and Social Management Plan (ESMP) or
 - Environmental and Social Management System (ESMS)
 - Others – Indigenous People’s Plan is contained in the feasibility study
- Annex 7 Summary of consultations and stakeholder engagement plan
- Annex 8 Gender assessment and project/programme-level action plan **(template provided)**
- Annex 9 Legal due diligence (regulation, taxation and insurance)
- Annex 10 Procurement plan **(template provided)**
- Annex 11 Monitoring and evaluation plans **(template provided)**
- Annex 12 AE fee request **(template provided)**
- Annex 13 Co-financing commitment letter, if applicable **(template provided)**
- Annex 14 Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule

H.2. Other annexes as applicable

- Annex 15 Evidence of internal approval **(template provided)**
- Annex 16 Map(s) indicating the location of proposed interventions
- Annex 17 Multi-country project/programme information **(template provided)**
- Annex 18 Appraisal, due diligence or evaluation report for proposals based on up-scaling or replicating a pilot project
- Annex 19 Procedures for controlling procurement by third parties or executing entities undertaking projects financed by the entity
- Annex 20 First level AML/CFT (KYC) assessment
- Annex 21 Operations manual (Operations and maintenance)
- Annex 22 Other references

* Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.