

Inception Report

Reference Number (FP117): *Implementation of the Lao PDR Emission Reductions Program through improved governance and sustainable forest landscape management*

Accredited Entity Name: *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*

Inception report due to: *26. February 2021*

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List of Abbreviations

ACB	ASEAN Centre for Biodiversity
ADB	Asian Development Bank
AE	Accredited Entity
AMA	Accreditation Master Agreement
APR	Annual Progress Report
ASEAN	Association of South East Asian Nations
BCAMP	Biodiversity Conservation and Management of Protected Areas in ASEAN Project
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
BSP	Benefit Sharing Plan
BUR	Biennial Update Report
CliPAD	Climate Protection through Avoided Deforestation
COVID-19	Coronavirus Disease 2019
CSO	Civil Society Organisation
DAFO	District Agriculture and Forestry Office
DAP	District Action Plan
DoF	Department of Forestry
DPMU	District Project Management Unit
EE	Executing Entity
EEPSEA	Economy and Environment Program for South East Asia
ENPV	Economic Net Present Value
EPF	Environment Protection Fund
ER-P	Emission Reductions Program
ER-PA	Emission Reductions Payment Agreement
ER-PD	Emission Reductions Program Document
ER-PIN	Emission Reductions Program Idea Note

ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESS	Environmental and Social Safeguards
EU	European Union
E&S	Environmental & Social
FAA	Funded Activity Agreement
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FFRDF	Forestry and Forest Resource Development Fund
FIP	Forest Investment Program
FIPD	Forest Inventory and Planning Division
FLEGT	Forest Law Enforcement, Governance and Trade
FLR	Forest Landscape Restoration
FP	Funding Proposal
FPF	Forest Protection Fund
FPIC	Free, Prior and Informed Consent
F-REDD	Forest Management and REDD+
FREL	Forest Reference Emission Level
FRL	Forest Reference Level
GAP	Good Agricultural Practices
GCF	Green Climate Fund
GHG	Greenhouse Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoL	Government of Lao PDR
GRM	Grievance Redress Mechanism
GWB	German Act against Restraints of Competition (Gesetz gegen Wettbewerbsbeschränkungen)
HDI	Human Development Index

ICBF	Integrated Conservation of Biodiversity and Forests
IFAD	International Fund for Agricultural Development
IFC	International Finance Cooperation
IPCC	Intergovernmental Panel on Climate Change
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LEAP	Law Enforcement Action Plan
LENS2	Second Lao Environment and Social Project
LFND	Lao Front for National Development
LLDC	Landlocked Least Developed Country
LWU	Lao Women's Union
M&E	Monitoring and Evaluation
MAF	Ministry of Agriculture and Forestry
MEM	Ministry of Energy and Mines
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoNRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MRV	Measuring, Reporting and Verification
MSP	Multi-Stakeholder Platforms
MTR	Mid-Term Review
NAPA	National Adaptation Program of Action
NDA	National Designated Authority
NDC	Nationally Determined Contributions
NFMS	National Forest Monitoring System
NPA	National Protected Area
NPMU	National Project Management Unit
NPSC	National Project Steering Committee
NRS	National REDD+ Strategy

NTFP	Non-Timber Forest Product
NUOL	National University of Laos
OM	Operation Manual
PAFO	Provincial Agriculture and Forestry Office
PAM	Policy Actions and Measures
PDMS	Provincial Deforestation Monitoring System
PFA	Production Forest Area
PICSA	Participatory Integrated Climate Services for Agriculture
PLUP	Participatory Land Use Planning
PMO	Prime Minister's Order
PO	Project Owner
POFI	Provincial Office of Forest Inspection
PPMU	Provincial Project Management Unit
PPSC	Provincial Project Steering Committee
PRAP	Provincial REDD+ Action Plan
PS	Performance Standards
PSAP	Promotion of Sustainable and Deforestation-free Agricultural Practices and Value Chains
PSVPA	Private Sector-Village Partnership Agreement
RBM	Results-Based Monitoring
RECOFTC	The Centre for People and Forests
REDD+	Reduced Emissions from Deforestation and Forest Degradation
REL	Reference Emission Level
RL	Reference Level
R-PP	Readiness Preparation Proposal
SDG	Sustainable Development Goal
SEDP	Socio-Economic Development Plan
SESA	Strategic and Social Environmental Assessment
SFM	Sustainable Forest Landscape Management

SME	Small and Medium Enterprise
SOP	Standard Operating Procedure
SRIWMS	Sustainable Rural Infrastructure and Watershed Management Sector Project
SUFORD	Sustainable Forestry for Rural Development Project
S+G	Safeguards & Gender Management System
TA	Technical Assistance
TLAS	Timber Legality Insurance System
TNA	Technology Needs Assessment
ToC	Theory of Change
TSC	Technical Service Centre
UNDRIP	United Nations Declaration on the Rights of Indigenous People
UNFCCC	United Nations Framework Convention on Climate Change
UXO	Unexploded Ordnance
VDF	Village Development Fund
VgV	German Regulation on the Award of Public Contracts (Vergabeverordnung)
VOB	German Construction Contract Procedures (Vergabe- und Vertragsordnung für Bauleistungen)
VOL	Regulations on the Awarding and Contracting of Services (Vergabe- und Vertragsordnung für Leistungen)
VLFMC	Village Land and Forest Management Committee
VFAG	Village Forestry Agriculture Grant
VilFoMA	Village Forest Management Agreement
VFMP	Village Forest Management Program
VPA	Voluntary Partnership Agreement
WB	World Bank

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GENERAL INFORMATION

GENERAL INFORMATION ON THE FUNDED ACTIVITY

1. Funded Activity Title:	Implementation of the Lao PDR Emission Reductions Program through improved governance and sustainable forest landscape management
2. Funding Proposal Number:	FP117
3. Date of Board approval - Board Meeting Number:	14.11.2019 at B.24
4. Accredited Entity:	(GIZ) GmbH
5. Focal Point of the Accredited Entity for this Project:	Dr. Nana Künkel Head of GCF Oversight Unit + 49 (0)30 338 424- 585 nana.kuenkel@giz.de
6. Executing Entity(ies):	1) The Government of Lao PDR, represented by the Ministry of Agriculture and Forestry (MAF) and the Ministry of Natural Resources and Environment (MoNRE) 2) JICA 3) GIZ Laos
7. Implementation Period:	<i>From:</i> 5/19/2020 <i>To:</i> 5/18/2024
8. Current year of Implementation:	Year 1
9. Closing Date ¹ :	11/18/2023
10. Investment Manager ² :	Not applicable.
11. Investment Period ³ :	Not applicable.
12. Date of Submission of the Report:	2/26/2021
13. Reporting period covered in this report:	From: 5/19/2019 To: 12/31/2020
14. Total Project Budget ⁴ :	Grant: 65,191,096 EUR
15. Total amount of GCF Proceeds Approved:	Grant: 15,160,596 EUR
16. Total amount of GCF Proceeds disbursed (cumulative) to the Accredited Entity:	Grant: 3,678,165 EUR AE Fee: 214,180 EUR Total: 3,892,345 EUR

¹ Refers to the date on which the Accredited Entity's right to receive Disbursements in respect of the Funded Activity will terminate, as defined in the relevant Funded Activity Agreement.

² If applicable.

³ If applicable.

⁴ Total project budget including co-financing as approved by GCF.

1 INCEPTION WORKSHOP OBJECTIVES AND OVERVIEW

1.1 OVERALL (SUMMARY) PROJECT INCEPTION REPORT (1 page)

Background of the project (approval of FP, FAA sign, explaining the inception period and what happened etc)

The project 'Implementation of the Lao PDR Emission Reductions Program through improved governance and sustainable forest landscape management' (I-GFLL) reached effectiveness on May 19th 2020. The project (hereafter Project 1) aims at reducing GHG emissions from land use, deforestation, forest degradation, and through sustainable forest management as well as conservation and enhancement of forest carbon stocks. The intended outcomes are (1) strengthened institutional and regulatory systems for low-emission planning and development as well as (2) improved management of land and forest areas contributing to emission reductions. With this, Project 1 supports the implementation of GoL's Program 'Promoting REDD+ through Governance, Forest landscapes & Livelihoods in Northern Lao PDR' (GFLL) in three of the six program provinces. If GoL's GFLL program is successful, in 2025 GoL will receive performance-based payments from the FCPF Carbon Fund of the World Bank of up to USD 42 million for the reduction of 8.4 million-ton CO₂eq over a period of 5 years.

Project 1 has a duration of four years and it is intended to develop a 2nd project in parallel (Project 2), in order to cover the remaining three provinces of GoL's GFLL program. To reach the above-mentioned project objective, it encompasses three outputs, notably strengthening the enabling environment for REDD+ implementation, supporting market solutions for deforestation-free agriculture and agroforestry and the implementation of sustainable forest landscape management and forest landscape restoration.

The project is implemented together with the Department of Forestry (DoF), Ministry of Agriculture and Forestry (MAF) and their subordinate provincial and district offices. The Lao Environment Protection Fund (EPF) is the national executing entity, tasked to forward the GCF proceeds to the final recipients at national, provincial and district level. Moreover, JICA is an executing entity and ADB, IFAD and KfW are cooperation partners of Project 1.

This report covers the inception phase of Project 1. It focuses on the status of the project set-up, changes concerning the project design versus the Funding Proposal as well as accounts for the progress of activities implemented so far.

Progress made in the inception phase

During the inception phase, the main achievements of the project include:

- **Institutional progress:** The revised **Forestry Law** was approved by the National Assembly in June 2019 and signed by the President in July 2019. The Forestry Law now takes into account the right of local communities to use forest resources (including commercial timber use from Village Use Forests). The forest cover target of 70% is maintained through all key policy documents. The amended **Land Law** has been approved by the National Assembly on 21 June 2019. Project Management Units at National (NPMU), Provincial (PPMU) and District (DPMU) levels have been set up by the government authorities concerned and 22 Project Owners (POs, notably 4 Departments at national level, 3 Provincial Agriculture and Forestry Offices and 15 District Agriculture and Forestry Offices) to implement activities are identified and initiated their assignments. By December 2020, Project 1 confirmed the final selection of **target areas** in 15 districts. A total of 240 target villages have been selected based on the defined criteria and clustered by taking into account Forest Landscape Management Approach. BMZ has commissioned CliPAD IV / I-

GFL (Project 1) based on the amended offer for the ongoing module on 22 April 2020 and increased its **funding** by EUR 5,200,000. The new total budget of the BMZ commission is EUR 22,641,896 which includes EUR 1,300,000 (ongoing module), EUR 5,200,000 (increased BMZ funds) and EUR 16,141,896 (GCF Proceeds, incl. AE Fee).

- Output 1 Enabling environment for REDD+ implementation:** The **Emission Reductions Payment Agreement** (ER-PA) between the World Bank and GoL was signed in Jan 2021. The **EPF** established the Climate Change Funding Window on April 2019 to adopt funds from GCF and related climate change funds, meaning Project 1 operated under the EPF Climate Change Funding Window. The name and concept of Village Development Funds (VDFs) was changed to **Village Forest and Agriculture Grants (VFAGs)**. VFAG guidelines have been updated in October 2020 to ensure consistency with GIZ and EPF financial guidelines. Currently 170 villages are selected in 13⁵ districts in which villagers are eligible for three types of VFAG funds: (1) cash for work, (2) up-front payments (investment payment), and (3) performance-based (Bonus payments). A **new guideline on Participatory Land Use Planning (PLUP 2.0)** by mainstreaming Forest Landscape Restoration (FLR) principles was composed. The new guideline will be applied during Land Use Planning in all new target villages.

In the Inception phase of the **Safeguards** consultancy, all Action Inputs included in the project's Master Budget have been thoroughly checked for **risks** associated with gender, ethnic minority status, disability status, literacy, and other axes of vulnerability, with mitigation measures proposed for individual action inputs where risks have been identified. These risks have been integrated into the Quarterly Plans of all 22 Project Owners and rated for their probability and impact potential by implementing agencies. The project's ESMP and Gender Action Plan have also been adapted into an ESMP checklist, to be used by implementing partners before project activities.
- Output 2 Market solutions for agricultural drivers of deforestation:** The Project has developed guidelines for the **"Promotion of Sustainable and Deforestation-free Agricultural Practices and Value Chains" (PSAP)** approach in Dec 2020. The PSAP approach aims at widely promoting sustainable agricultural practices with upland farmers in the three project provinces of Sayaboury, Luang Prabang and Houaphan. PSAP is based on the results of Participatory Land Use Planning 2.0 (PLUP 2.0) to be conducted in each target village. PSAP will be guided by a so-called "White List", a comprehensive list of thirty-five (35) sustainable agricultural practices and crops to be promoted. The PSAP teams are establishing comprehensive **private sector analysis** for their district, including companies from the provincial or national level, which are active in their district. In order to do this, they identify and collect information on all private or state companies involved in marketing agricultural products from the district area.
- Output 3 Climate change mitigation action through forestry:** The DoF regulation on Village-Driven Forest Management is largely based on the steps, outlined in the previously developed and successfully piloted CliPAD "Village Forest Management and Implementation Guidelines" and will now be applied in the 170 new (Project 1) target villages. The KfW supported Project CliPAD FC (cooperation Project of GIZ CliPAD) has been successfully completed after 10 years in December 2019. All 70 CliPAD villages in Sam Neua and Houameuang District, which manage and protect their forests in line with the mentioned "Village Forest Management and Implementation Guidelines", have received 100% of the bonus payments, for performing as agreed in the Village Forest Management Agreements. Out of 170 new villages, 37 villages are located in/adjacent to NPAs and are identified as so-called guardian villages. **Nam Et-Phou Louey** National Protected Area was upgraded in 2019 to a **National Park**, requiring a stronger administration and stricter law enforcement.

⁵ In the 2 other target districts, VFAGs don't need to be established any more, since this has already been done during the predecessor project CliPAD FC.

1.2 OVERVIEW INCEPTION WORKSHOP

On June 17th, 2020, the National Inception Workshop was organized in Vientiane, followed by the Provincial Inception Workshops in Luang Prabang on June 24, in Sayaboury on July 7, and in Houaphan on July 9. The Inception Workshop was organized to officially launch the I-GFLL Program (Project 1) funded by GCF and BMZ through GIZ-ClipAD, and co-financed by ADB, IFAD, JICA and KfW to implement the ER Program in the selected districts of Sayaboury, Luang Prabang, and Houaphan Provinces. Participants included members of the National REDD+ Task Force (which assumes the function as the Project Steering Committee), members of relevant ministries, departments, and divisions at national and provincial levels, Development Partners, Private Sector individuals, NGOs, and the German Development Cooperation.

The National level workshop was chaired by H.E. Thongpath Vongmany, Vice Minister of Agriculture and Forestry, H.E. Bounkham Vorachit, Vice Minister to Ministry of Natural Resources and Environment and co-chaired by the head of Development Cooperation of the German Embassy, Dr. Christina Seeberg-Elverfeldt.

Speaking at the signing ceremony, Mr. Thongpath Vongmany emphasized: "This agreement reflects our on-going commitment and strengthened bilateral cooperation between the governments of Laos and Germany. During the previous phases from 2009 to 2019 supported by the project, Laos made tangible progress towards achievement of the Sustainable Development Goals especially with respect to the mitigation of climate change by reducing Greenhousegas Emissions from the land use and forestry sector. The Project 1 will mitigate 5.6 million tCO₂eq during its 4-year implementation period. It benefits 355,800 people in 3 provinces of northern Laos by promoting sustainable management of forests, landscapes and agricultural resources. Working together, authorities at national and sub-national levels as well as non-state actors will improve conditions for the sustainable forest management and specifically for Reducing Emissions from deforestation and Forest Degradation (REDD+)."

At the occasion of the Inception Workshop, the signing of the Project Implementation Agreement by the Department of Forestry (Ministry of Agriculture and Forestry) and GIZ took place in the presence of H.E. Thongpath Vongmany, Vice Minister of Agriculture and Forestry, H.E. Bounkham Vorachit, Vice Minister to Ministry of Natural Resources and Environment and H.E. Jens Lütkenherm, German Ambassador to Laos and representatives from the Ministry of Planning and Investment.

Ambassador Lütkenherm said: "We congratulate the Lao government on how much progress has been made towards our joint goals towards climate protection through sustainable forest and agriculture management, which Germany supports. The project will continue strengthening the capacity of the Lao government, private sector and forest-dependent communities in 3 provinces to manage the country's forests more sustainably and protect them more effectively for future generations' benefits. The REDD+ framework conditions in Laos will be strengthened and we will invest into agriculture and forest management to address the drivers of deforestation and forest degradation. We want to see the project to allow the people of Laos to benefit ultimately from result-based payments".

The Inception Workshops included the following objectives and topics:

1. Sensitise stakeholders on project objectives, expected activities, outputs, outcomes and impacts
2. Development of the Provincial REDD+ Action Plans (PRAP), the Drivers of deforestation and forest degradation and Policy Actions and Measures (PAMs)
3. GCF Funding 'Implementation of Governance, Forest Landscapes and Livelihood (I-GFLL/Project 1)' Program: Background and next steps, review initial project deliverables and implementation arrangements vis-a-vis the prevailing situation and discuss necessary updates to reflect changes that have occurred between project approval, project start date and the end of the inception phase

4. Project 1 Organizational Structure and Planning, Monitoring and Reporting System (MRV) and sensitise stakeholders on GCF requirements such as Environment and Social Safeguards (ESS) and project specifics concerning the Environmental and Social Safeguards Management Plan (ESMP) and the Gender Action Plan
5. Present the governing structure of the project under the Department of Forestry, Ministry of Agriculture and Forestry as well as the role and responsibility of Environment Protection Fund (EPF)

The Inception Workshop series was designed in a multi-stakeholder approach, comprising information and sensitisation sessions as well as moderated question and answer rounds to ensure full understanding of the project by all participants. Interactive work sessions in break-out groups and presentation of results in an open forum helped to develop a joint understanding and agreement on the way forward.

2 PROJECT STRATEGIC CONTEXT AND CHANGES

2.1 FUNDED PROPOSAL UPDATED BASELINE

Context (from Funding Proposal, FP):

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 million and an average per capita income of USD 2,270. The country has a human development index (HDI)⁶ of 0.601, ranking it 139th (out of 189) globally. 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.

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. 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 protection. Lao forests are at the heart of the globally recognised Biodiversity Hotspot Indo-Burma. 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. 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.

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. Overall, the forestry and land use change sector is responsible for 67% of Lao PDR's emissions, and agriculture contributes a further 28%.

In its Second National Communication to the United Nations Framework Convention on Climate Change (UNFCCC), Lao PDR identifies itself as an LDC with limited adaptive capacities that is highly vulnerable

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>

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.

Policy Framework (from FP):

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).

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 combatting climate change.

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.

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 Program Idea Note (ER-PIN) was approved in March 2016 and its Emission Reductions Program Document (ER-PD) was accepted into the FCPF Carbon Fund without conditions at the 18th Carbon Fund Participants Meeting in June 2018. 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 Program (ER-P) area. Project 1 and the following projects of the envisaged program 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.

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 in-

cludes 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).

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. A national moratorium on logging in production forests has been also in effect since 2013 in order to protect natural forests from unsustainable exploitation. 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. 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.

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 program, 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.

Current status and changes compared to Funding Proposal

The revised Forestry Law was approved by the National Assembly in June 2019 and signed by the President in July 2019. The Forestry Law now takes into account the right of local communities to use forest resources (including commercial timber use from Village Use Forests). The forest cover target of 70% is maintained through all key policy documents.

Since Dec 2019, the Forest Strategy 2020 (FS 2020) has been updated in line with Government's Vision 2030 and international initiatives is one of the top priorities for the Forestry Sector of Lao PDR.

The amended Land Law has been approved by the National Assembly on 21 Jun 2019.

Currently, the 9th National Socio-Economic Development Plan (9th NSEDP, 2021-2025) is in preparation including a heightened commitment to reduce greenhouse gas emissions to a net zero.

Laos has joined the NDC Partnership in June 2019 and Lao PDR's National Determined Contributions (NDCs) are currently being updated. The Lao PDR 2020 NDC Update shows 3 national GHG emissions scenarios: Baseline; unconditional mitigation 2030; conditional mitigation 2030 towards net zero 2050. It

also gives updated and extended mitigation and adaptation targets and aims at increased transparency and consistency as well as strengthened monitoring and reporting and verification.

Based on the ER-PD, the Emission Reductions Payment Agreement (ER-PA) was signed between the GoL and FCPF Carbon Fund of the World Bank in January 2021. As one of the pre-conditions for the ER-PA, a Benefit Sharing Plan (BSP) has been elaborated and acknowledged by the World Bank. Moreover, the Forest Protection Fund (FPF, formerly the Forest and Forest Resource Development Fund, FFRDF) has been designated as the REDD+ Fund according to BSP and Forestry Law.

Project Area (from FP):

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. This Project addresses the three provinces of Houaphan, Sayaboury and Luang Prabang (see Figure 1) 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.

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, Sayabouri, Thongmixai
- Luang Prabang Province: Nan, Phonthong, Phonxai, Viengkham, XiengNgeun

The selection process for the districts combined detailed quantitative and qualitative considerations, which are described in Chapter 2.5 of the Feasibility Study. 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.

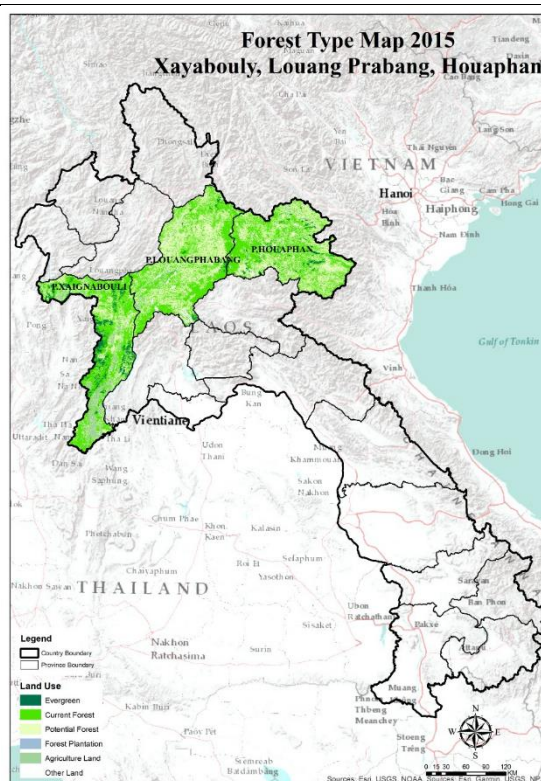


Figure 1: The Project Area in the Lao PDR Context (highlighted in green)

Current status and changes compared to Funding Proposal

By December 2020, the final selection of target areas for Project 1 has defined 15 districts and a total of 240 target villages have been selected based on the defined criteria and clustered by taking into account Forest Landscape Management Approach.

The final target districts are:

1. Houaphan Province: Hiem, Houameung, Viengxai, Xam Nuea, Xamtai, Xone, Sopbao
2. Sayaboury Province: Hongsa, Phaklai, Sayaboury, Thongmixai
3. Luang Prabang Province: Nan, Phonthong, Viengkham, Xieng Ngeun

In the previous CliPAD target districts of Houameung and Xam Nuea, there are a total of 70 target villages, which are continued to be served in Project 1, however only for Village Forest Management activities. The Additional 170 target villages are equally distributed over the remaining districts, amounting to 13 villages per district in average.

Another 70 target villages in 2 districts in Sayaboury and Luang Prabang province are addressed by the KfW Village Forest Management Project, which is a cooperation partner of Project 1.

Baseline Scenario (from FP)

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)) and the

FCPF Carbon Fund (the Reference Level (RL) of the ER-P). 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 program 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).

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%).

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. 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. 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.

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. 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.
- 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.

Current status and changes compared to Funding Proposal

The Department of Forestry (DoF) under the Ministry of Agriculture and Forestry (MAF) has finalised its 3rd National Forest Inventory in 2019/2020. In addition, Lao PDR submitted its 1st BUR to the UNFCCC in July 2020. The project is confident to reduce emissions during the 4 years period (project 1) of 5.6 million t CO₂eq as anticipated. Taking the updated figures into consideration and in anticipation of a revised FRL for future projection, the 6 programme provinces would be able to reduce at least 19.4 million t CO₂eq over the time period of 9.5 years. Hence, Project 2, as already proposed in the FP 117, would be able to reduce at least additional 13.8 million t CO₂eq.

Project Outcomes (from FP)

The project aims at reducing GHG emissions and enhancing removals from Lao PDR's forests (paradigm shift objective). Therefore, the expected Fund-level Impact is reduced emissions from land use, deforestation, and through sustainable forest management and conservation and enhancement of forest carbon stocks are to be achieved. The project has 2 outcomes as a result of project activities, actions, and outputs. Through creating an enabling environment for REDD+ implementation (output 1), market solutions for agricultural drivers of deforestation (output 2), and climate mitigation action through forestry (output 3), the project aims to strengthen institutional and regulatory systems for low-emission planning and development (Mitigation outcome 5.0) and improve management of land and forest areas contributing to emissions reductions (Mitigation outcome 9.0).

Overall Goal (from FP)

The program, 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 program 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.

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.

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 program 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.

All three constituent projects of the program 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.

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 program 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 program (Project 1-3) is, therefore, more efficient and effective in terms of both its costs and impacts.

Current status and changes compared to Funding Proposal

Based on the developed and officially approved programmatic approach and the collected experiences (initial lessons learnt) GIZ is in the process to initiate the development of Project 2 (which now would include former Projects 2 and 3).

According to the revised Forestry Law, the Forest and Forest Resource Development Fund (FFRDF) has been renamed to Forest Protection Fund (FPF). The GoL-led Governance of Forest Landscapes and Livelihoods (GFLL) program has designated the FPF as REDD+ Fund as stipulated in the Benefit Sharing Plan (BSP), which is part of the GoL-WB ER-PA. GoL has now one year time to build the capacity of the FPF, in order to pass World Bank due diligence and thereby prepare the FPF for Project 2. The FPF lacks currently the institutional capacity, which is required to act as REDD+ Fund; hence, the FPF would not be able to handle the GCF Grant of Project 1, as the center piece of the Funded Activity. Therefore, GIZ still maintains the Climate Change Window under the EPF to channel the GCF proceeds

to the final recipient, as stipulated in the Funding Proposal and the Grant Agreement. Therefore, the focus of Project 1 is on capacity building of the FPF first, before the Fund is able to channel REDD+ funds within 1 year. For Project 1 the EPF will remain to function as Climate Change Funding Window.

Moreover, GIZ financial regulations do not allow funds to be forwarded twice (e.g., from the GIZ-AE to the EPF and then to the FPF). Therefore, the FPF had to be taken out of Project 1 structure.

Barrier Assessment (from FP)

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. 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.
- **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.
- **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.
- **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'. 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.

Current status and changes compared to Funding Proposal

There are no changes in the barrier assessment.

2.2 TARGET BENEFICIARIES

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:

The '**global beneficiary**' will receive a net present value benefit from the program worth almost EUR 1.5 billion⁷ in the form of 144.7 million tCO₂eq in GHG savings accrued thanks to the creation of the enabling environment for REDD+ implementation over the 20-year program lifetime.⁸

The '**local beneficiary in Laos**', notably 120,000 direct beneficiaries and a further 235,800 affected indirectly, will benefit from Project 1.

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

Table 1⁹: Expected total number of direct and indirect beneficiaries, (disaggregated by sex)

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,

⁷ At 10% discount rate over the 20-year program lifetime.

⁸ 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 program do not materialise.

⁹ This table was taken from the Funding Proposal

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.

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), the program in which Project 1 is embedded offers significant potential to contribute positively to gender equality.

Ethnic-sensitive development benefits. Specific needs of ethnic and indigenous groups include (see the Ethnic Group Development Planning Framework in the Feasibility Study): 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.

Current status and changes compared to Funding Proposal

As result of the increased number of target villages (240 villages instead of 200 in FP), also the number of direct and indirect beneficiaries is expected to increase to 135.000 and 253.700 respectively. The KfW supported Project CliPAD FC (cooperation Project of GIZ CliPAD) has been successfully completed after 10 years in December 2019. Since the project will continue working in the 70 CliPAD FC target villages, and those villages have just received the results-based payment from KfW, it has been decided that these villages will not receive investment payments by Project 1. The thereby freed up budget is used to increase the number of target villages by 40 to 240 villages.

2.3 PERFORMANCE AGAINST THE GCF INVESTMENT CRITERIA

2.3.1 IMPACT POTENTIAL

Mitigation/adaptation impact potential (from FP)

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)) and the FCPF Carbon Fund (the Reference Level (RL) of the ER-P).

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 Framework. 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.

The ER-P Reference Level accounting area covers precisely the same 6 provinces (Bokeo, Houaphan, Luang Namtha, Luang Prabang, Oudomxay and Sayaboury) as are covered by the program: the geographical footprints of the ER-P Reference Level and the program are identical. Correspondingly, the

ER-P Reference Level for Houaphan, Sayaboury and Luang Prabang equates to the reference level for Project 1.

Forest Impact (from FP)

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.

Current status and changes compared to Funding Proposal

Initial information collection collected by Project 1 suggests that the area under sustainable forest management will increase significantly (but no precise data is available yet).

2.3.2 PARADIGM SHIFT POTENTIAL

Potential for scaling up and replication (from FP)

There is substantial potential for scaling-up and replicating the program and its activities. If Projects 1, 2 and 3 are considered together, the program 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 program 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 program interventions.

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.

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 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.

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.

Potential for knowledge and learning (from FP)

Comprehensive communication and exchange of information about topics of crucial relevance for land users, policymakers 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 National Designated Authority (NDA) at MoNRE (the same institution as the GCF NDA) will ensure the provision of relevant information to the DNA for its Biennial Update Report (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.

Contribution to the creation of an enabling environment (from FP)

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 Program.

Contribution to regulatory framework and policies (from FP)

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.

Current status and changes compared to Funding Proposal

There are no changes to the Paradigm Shift potential

2.3.3 SUSTAINABLE DEVELOPMENT POTENTIAL

Environmental, social and economic co-benefits, including gender-sensitive development impact (from FP)

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.

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).

Current status and changes compared to Funding Proposal

There are no changes to the Sustainable Development Potential

2.3.4 NEEDS OF THE RECIPIENT

Climate Vulnerability

n/a

Financial, economic, social and institutional needs (from FP)

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.

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 centres¹⁰, which is below the national average. 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. 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-poor, 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.

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.
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. •

¹⁰ Urban is classified as a town with more than 5,000 inhabitants.

- **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.

Current status and changes compared to Funding Proposal

FPF Institutional Capacity

As stated before, the Forest and Forest Resource Development Fund (FFRDF) has been renamed to Forest Protection Fund (FPF). The GoL-led Governance of Forest Landscapes and Livelihoods (GFLL) program has designated the FPF as REDD+ Fund. However, Project 1 evaluated that the FPF lacks currently the institutional capacity, which is required to act as REDD+ Fund; hence, the FPF is not yet able to handle the Project 1 GCF Grant, as the center piece of the Funded Activity.

As agreed in the Emission Reductions Program Agreement (ER-PA), GoL aims to increase the capacities of the FPF, in order to pass World Bank due diligence within one year time. The upcoming change of the designated Fund will be relevant for Project 2; however, not for the current phase of Project 1. Therefore, the focus of Project 1 is on capacity building of the FPF first, before the Fund is able to channel REDD+ funds within one year.

Impact of the COVID-19 Pandemic

Lao PDR's COVID-19 response has centered around border controls, with limited surveillance testing of the population. The World Bank and other financial institutions predict that the economic impacts of the border closures will be significant and long-lasting. So far, COVID-19-related border closures' impacts have been concentrated in the tourism and service sectors, but these economic downturns are beginning to appear in wider swathes of the economy, leading to worsening inflation and increasingly difficult operating conditions for micro, small, and medium enterprises. As of Q3 2020, the unemployment rate had already surpassed 25%, and the return of approximately 100,000 Lao migrant workers has resulted in an estimated \$125 million in lost remittances throughout 2020 (a reduction of more than 50% compared to 2019).

From a project perspective, the impacts of the COVID-19 mean that vulnerable communities in the project's target areas will be even more vulnerable than they were at the time of the project's conception phase, as subsistence agriculture smallholders and small-scale foresters lose access to other options for economic resilience.

Overall Financial Situation

The government's ability to assume additional debt obligations is severely constrained by the Lao fiscal and debt situation. Lao PDR 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.

2.3.5 COUNTRY OWNERSHIP

Coherence with National Climate Strategy and Plans and Policy (from FP)

The Project 1 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 Vision¹¹, the Nationally Determined Contribution (NDC) and the FCPF Emission Reductions Program – see Section 2.1 (Policy Framework) and Chapter 1 of the Feasibility Study for further details.

Current status and changes compared to Funding Proposal

The GCF project remains aligned with, and supportive of, Lao PDR's climate policies, including the elements contained within the 9th National Socio-Economic Development Plan (9th NSEDP, 2021-2025), including a heightened commitment to reduce greenhouse gas emissions to a net zero. The revised Forestry Law was approved by the National Assembly in June 2019. The Forestry Law now takes into account the right of local communities to use forest resources (including commercial timber use from Village Use Forests). Since Dec 2019, the Forest Strategy 2020 (FS 2020) has been updated in line with Government's Vision 2030 and international initiatives is one of the top priorities for the Forestry Sector of Lao PDR. The Lao PDR 2020 Nationally Determined Contribution Update shows three national GHG emissions scenarios: Baseline; unconditional mitigation 2030; conditional mitigation 2030 towards net zero 2050. It also gives updated and extended mitigation and adaptation targets and aims at increased transparency and consistency as well as strengthened monitoring and reporting and verification. The Emission Reductions Payment Agreement (ER-PA) between the World Bank and GoL was signed in Jan 2021, finalizing the process of REDD+ Readiness.

Coherence with GCF Country Program (from FP)

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 and by the NDA, as reflected in the Lao PDR Country Program presented in February 2019 at the GCF Coordinated National Dialogue meeting.

Current status and changes compared to Funding Proposal

Supporting an increase and maintenance of national forest cover through forest restoration, conservation, improved forest governance and private sector investment" remains a priority area in the updated 2020-23 Lao PDR GCF country program.

The I-GFLL program (Project 2) is part of the GCF country pipeline.

¹¹ 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 programs 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 program addresses 4 of the key forest stressors and is aligned primarily with strategic programs 1, 4 and 5, with a contribution to 3.

Capacity of accredited entities and executing entities to deliver

Accredited Entities (from FP)

GIZ: 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.

Current status and changes compared to Funding Proposal

No changes in Accredited Entities as compared to Funding Proposal

In addition, GIZ AE conducts and facilitates quarterly risk dialogues using a two-level (working level and directors' level) approach and including colleagues from all participating units/departments (technical, financial, legal etc. as well as nationally based and in HQ). This ensures risk identification, assessment and steering based on a maximum amount of GIZ-wide knowledge and experience. Additionally, GIZ Oversight will conduct risk dialogues directly with the non-GIZ national EE using the described approach.

Executing Entities (from FP)

GIZ: 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: (1) Managing the project budget of GIZ as Executing Entity that is spent in the country, (2) Liaising with the GIZ Country Office regarding budget and finances, monitoring and reporting, staff and appraiser contracts, (3) Reporting to the German Embassy and BMZ regarding their financial contributions to the project as well the overall progress of project implementation, (4) Liaising with, and reporting to, the National Project Steering Committee and Provincial Project Steering Committees, (5) Coordinating with, and reporting to, line ministries involved in the project (MAF, MoNRE) as well as the MPI.

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). 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.

GIZ as an Executing Entity will be responsible for a GCF budget for Project 1 of EUR 4,100,000.

Current status and changes compared to Funding Proposal

BMZ has commissioned Project 1 (CliPAD IV / I-GFLL) based on the amended offer for the ongoing module on 22 April 2020 and increased its funding by EUR 5,200,000.

The new total budget of the BMZ commission is EUR 22,641,896 which includes EUR 1,300,000 (ongoing module), EUR 5,200,000 (increased BMZ funds) and EUR 16,141,896 (GCF Proceeds, incl. AE Fee)¹². The recruitment process for a total of 40 GIZ staff (27 out of them are newly recruited) is completed, and all new staff have undergone induction workshops and been included into annual planning processes and are now deployed to the provinces.

GIZ has initiated the establishment of the Project Management Units on all 3 levels, national, provincial and district.

The first Annual Workplan and Budget for the remaining 2 quarters of 2020 was elaborated and approved by the Department of Forestry.

The GIZ Country Office Laos provides support for financial management, recruitment, procurement, monitoring and reporting.

Project Management Units (from FP)

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, GIZ will be responsible for supporting the establishment and management of the NPMU by GoL, 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.

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.

¹² As agreed with the GCF expenditures of the BMZ Financing which lay before the Date of Effectiveness but are part of the co-financing of BMZ for this Funded Activity were included in the first Financial Information (covering the period from 19 May 2020 (Date of Effectiveness) until 30 June 2020).

Current status and changes compared to Funding Proposal

National Project Management Unit (NPMU) has been established in the REDD+ Division, Department of Forestry by MAF Minister Decision and all appointed staff are mandated and have initiated their assignments (September 2020).

All three Provincial Project Management Units (PPMUs) have been established and approved by the respective provincial governors and all appointed staff are named and have initiated their assignments. Project 1 Project offices are established and functional (October 2020).

15 District Project Management Units (DPMUs) have been established and approved by the respective district governors and all appointed staff are named and have initiated their assignments.

In the framework of the drafting of the Operation Manual, Project Owners have been defined and officially appointed as key implementing agencies, responsible for implementing Project 1 activities, including planning, financial management, monitoring and reporting. A total of 22 Project Owners have been listed and cover relevant aspects of Project 1.

- National Level: Department of Forestry (MAF), Department of Forest Inspection (MAF), Department of Land (MoNRE), Lao Front for National Development.
- Provincial Level, each in Luang Prabang, Sayaboury and Houaphan: Provincial Agriculture and Forestry Offices (PAFOs)
- District Level, in each of the 15 Districts: District Agriculture and Forestry Offices (DAFOs)

Planning and training workshops have been held with all Provincial Project Owners (PPMUs and DPMUs). Workplans for Q4 of 2020 have been agreed on and Project Owners have been agreed by the EPF, regarding financial guidelines, procurement procedures and other relevant issues. The opening of the bank accounts by all Project Owners has been completed.

Government of Lao PDR (from FP):

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.

Current status and changes compared to Funding Proposal

The EPF is mandated by the GoL to act as the national Executing Entity of Project 1. Based on the GoL-GIZ Grant Agreement signed by MAF Minister Dr. Liane Thykeo and MoNRE Vice Minister Mme. Bounkham Vorachit on 15.05.2020, the EPF administers EUR 11,100,000 out of the GCF grant.

An Operational Manual, which sets out the requirements for operationalizing the Project 1 program and managing financial flows under the EPF has been developed and approved by the GCF and GoL during the Inception Phase.

Finance-, admin-, and procurement staff of the EPF have been recruited and mandated to be in charge for Project 1. Online and on-the-job trainings have been conducted by the financial division of GIZ Headquarters and GIZ Laos.

JICA (from FP):

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 (EUR 1,600,000 co-finance) in the context of its F-REDD II project to:

- Support law enforcement (Activity 1.4) and land use planning (Activity 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 (Local incentives for Good Agriculture Practices, GAP) and 3.1 (Village Forest Management) in the province of Luang Prabang

Current status and changes compared to Funding Proposal

The subsidiary agreement between JICA and the GIZ, which forms the basis for JICA as Executing Entity has been negotiated but has yet to be signed. Regular meetings with GIZ are being held and a joint workplan has been agreed upon.

Furthermore, JICA contributions foreseen for Activities 1.5, 2.1 and 3.1 have been cancelled. However: 1) the provincial activities (1.5, 2.1 and 3.1) planned for JICA will be taken over by GIZ. They will be fully integrated into planned activities for GIZ without causing additional costs to GIZ

and

2) activities at national level (National Forestry Inventory, financed by JICA) will only be conducted at a later stage in 2025, beyond the Project 1 lifetime.

As a result, JICA's contribution to Project 1 and co-financing through its F-REDD II project, is envisaged to decrease to EUR 1,200,000.

The commissioning of the JICA project F-REDD II has been postponed due to COVID related issues, however the ongoing JICA project F-REDD I has been extended without additional costs. Therefore, JICA fully complies with their cooperation commitments.

Engagement with NDAs, civil society organisations and other relevant stakeholders (from FP)

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 program). Extensive engagement with stakeholders has also been conducted for the elaboration of the ER-PD and National REDD+ Program, which laid a strong foundation for the design of GCF Project 1.

Engagement with the NDA: 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 Program (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 program. Representatives of the NDA have attended cross-sectoral multi-stakeholder workshops to provide feedback on the project and the broader program. A letter of no-objection has been provided by the NDA, 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: 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: 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.

Engagement with Civil Society Organisations: 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 (ViFoMAs), 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, such as capacity building and facilitate communication.

Most importantly, 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.

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: Additional consultations have been held to support the development of the GCF funding proposal, which 1,066 participants have attended.¹³ Consultations have been held with the following stakeholders at the national, province, district and village level:

Stakeholder engagement during project implementation:

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.

Current status and changes compared to Funding Proposal

No changes to stakeholders and their engagement

2.3.6 EFFICIENCY AND EFFECTIVENESS

Cost-effectiveness and efficiency (from FP)

The project 1 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 EUR 2.7 per tonne of CO₂eq. For reference, the abatement cost of another approved GCF REDD+ Phase 2 project (FP19, Ecuador) is EUR 2.5/tCO₂eq.

Co-financing, leveraging and mobilized long-term investments (mitigation only) (from FP)

Co-Financiers for Project 1:

The **Government of Lao PDR** will contribute co-finance of EUR 11,800,000 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 EUR 330/month. The government co-financing contribution also includes EUR 2,000,000 to implement land registration and land titling.

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 EUR 2.6/day rate. This equates to a total labour input of approximately EUR 980,000 to Project 1. SME inputs equate to EUR 5,700,000. In total, therefore, beneficiary inputs amount to EUR 6,600,000.

¹³ Note that some participants may have participated in more than one consultation or workshop.

BMZ financing: The total BMZ financing for the project amounts to EUR 10.0 million. Of this, EUR 5,200,000 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 EUR 4,800,000 of BMZ financing will be implemented by KfW through its Village Forest Management Program (VFMP) in 2 districts (Phiang and Phonxay) of two Project 1 target provinces (Sayaboury and Luang Prabang).

JICA will provide EUR 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 EUR 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, Sayaboury 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 EUR 7,700,000 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.

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.

Co-finance Summary – Project 1

- Project 1 GCF budget: EUR 15,160,596
- Project 1 co-finance: EUR 48,830,495
- Project 1 co-finance ratio: 3.2

Current status and changes compared to Funding Proposal

It is becoming obvious that the GoL contribution has been overestimated during the project design phase. While the number of GoL staff and time allocated for Project 1 largely remains as expected,

the monthly salaries are lower than the 330 EUR per month with which the contribution amount was estimated.

JICA contributions foreseen for Activities 1.5, 2.1 and 3.1 have been cancelled. However: 1) the provincial activities (1.5, 2.1 and 3.1) planned for JICA will be taken over by GIZ and carried out as planned and 2) activities at national level (National Forestry Inventory, financed by JICA) will only be conducted in 2025 and are therefore beyond the project lifetime. As a result, JICA's contribution and co-financing through its F-REDD II project, is envisaged to decrease from EUR 1,600,000 to EUR 1,200,000. The commissioning of the JICA project F-REDD II has been postponed due to COVID related issues, however the ongoing JICA project F-REDD I has been extended without additional costs. Therefore, JICA fully complies with their cooperation commitments.

There are no further changes to other co-funding contributions.

Financial viability (from FP)

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.

Current status and changes compared to Funding Proposal

There are no changes.

Application of best practices (from FP)

Land use practices commonly applied in the project area are characterised by low productivity and cannot typically be considered ‘good agricultural practice’¹⁴. 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.

The UNFCCC Technology Needs Assessment (TNA) explicitly identifies agriculture (alongside forestry) as one of two key sectors for climate change mitigation and as one of two key sectors (alongside water) for climate change adaptation in Laos. 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).

Current status and changes compared to Funding Proposal

There are no changes.

2.4 THEORY OF CHANGE (IF CHANGES OCCURRED)

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. Program and constituent Project 1 interventions will target the barriers to REDD+ application and scale-up identified above.

¹⁴ 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>

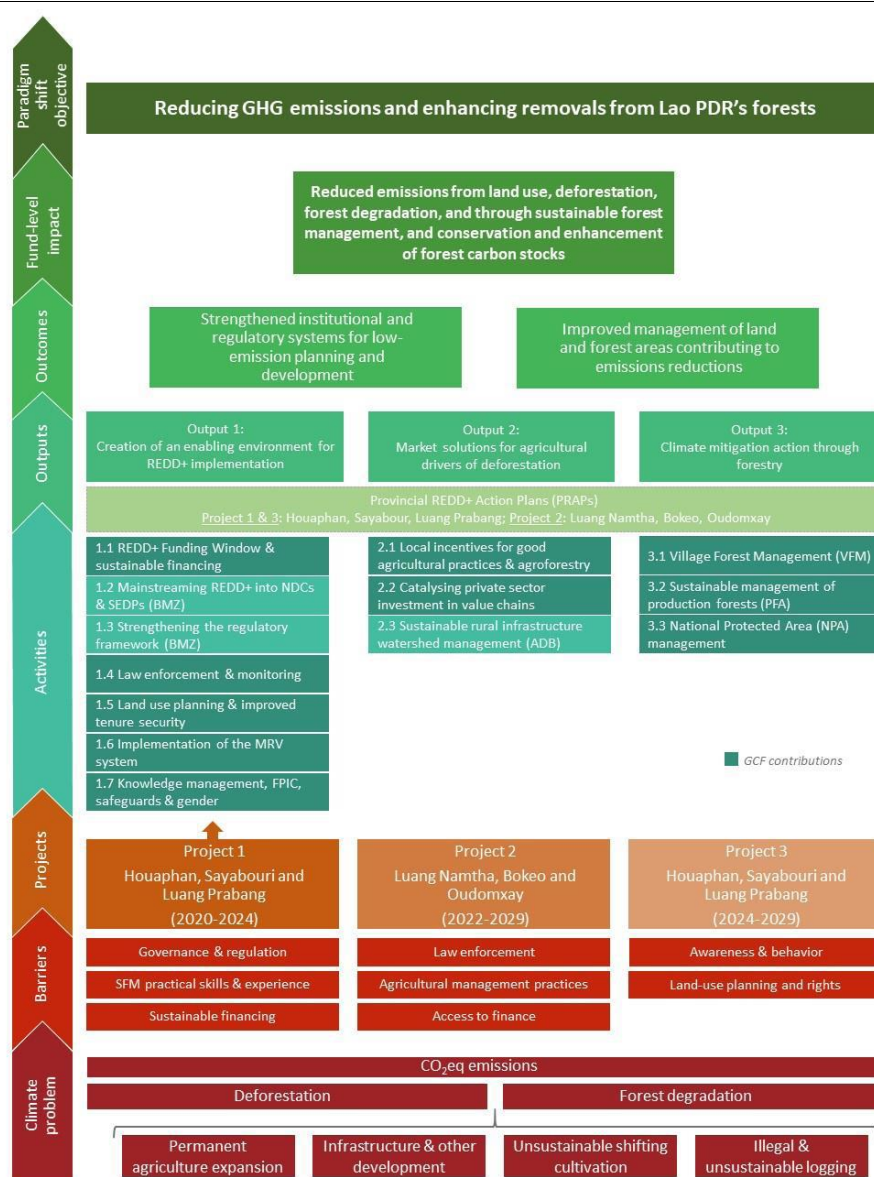


Figure 2: Theory of Change

Current status and changes compared to Funding Proposal

There have been no changes made to the Theory of Change.

2.5 OPERATIONAL MANUAL (IF APPLICABLE)

Following the development of the Funding Proposal (FP) in September 2019 and the signing of the Funding Activity Agreement (FAA) between GIZ and GCF on December 23rd, 2019, GIZ, as the Accredited Entity (AE) was given 150 days to prepare the project to meet GCF standards and comply to its regulations. As a result, the Operational Manual (OM) was developed in March/April of 2020.

This Operational Manual is for the Implementation of the Governance Forest Landscapes and Livelihoods Project 1 under the Grant Agreement between the Government of Lao PDR represented by Ministry of Agriculture and Forests (MAF) and Ministry of Natural Resources and Environment (MoNRE) and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) for which the basis is the German Federal Ministry for Economic Cooperation and Development (BMZ) commission dated 22.04.2020 and the Funded Activity Agreement between GIZ and the Green Climate Fund (GCF) for the Funding Proposal FP117 'Implementation of the Lao PDR Emission Reductions Program through improved governance and sustainable forest landscape management'.

The Operational Manual will be used in connection with the GIZ manuals and guidelines provided, in particular:

- Award Procedure / Procurement Guidelines
- Financial Guidelines
- The Environmental and Social Assessment (ESIA) incorporating the Ethnic Groups development Planning Framework and inclusive of an Environmental and Social Management Plan (ESMP)
- Resettlement Policy Framework
- Gender Action Plan

In case of stricter regulations applicable to EPF according to its own mandate and as far as these EPF regulations are not inconsistent with the GIZ manuals and guidelines, the EPF is entitled to follow its own manuals and guidelines.

Current status and changes compared to Funding Proposal

The Project 1 Operations Manual was developed in March/April 2020 remains valid and has been used as basis for the detailed development of the I-GFLL (Project 1) systems. An updated version currently is not required, however remains an option in case any substantial adaptations to the systems will be necessary.

In order to further specify on payment modes to villages, the Village Forestry Agriculture Grant (VFAG) Manual, annexed to the Operations Manual, was drafted in Nov 2020. It details processes and regulations for investment payments (agriculture), cash-for-work-payments (forestry) and bonus-payments (for successful forest cover retainment).

3 PROJECT IMPLEMENTATION PROGRESS UPDATE

3.1 PROJECT COMPONENTS AND ACTIVITIES, OUTPUTS, AND MILESTONES

FP
B.3

Overall project Progress

Figure 3 describes the overall program structure

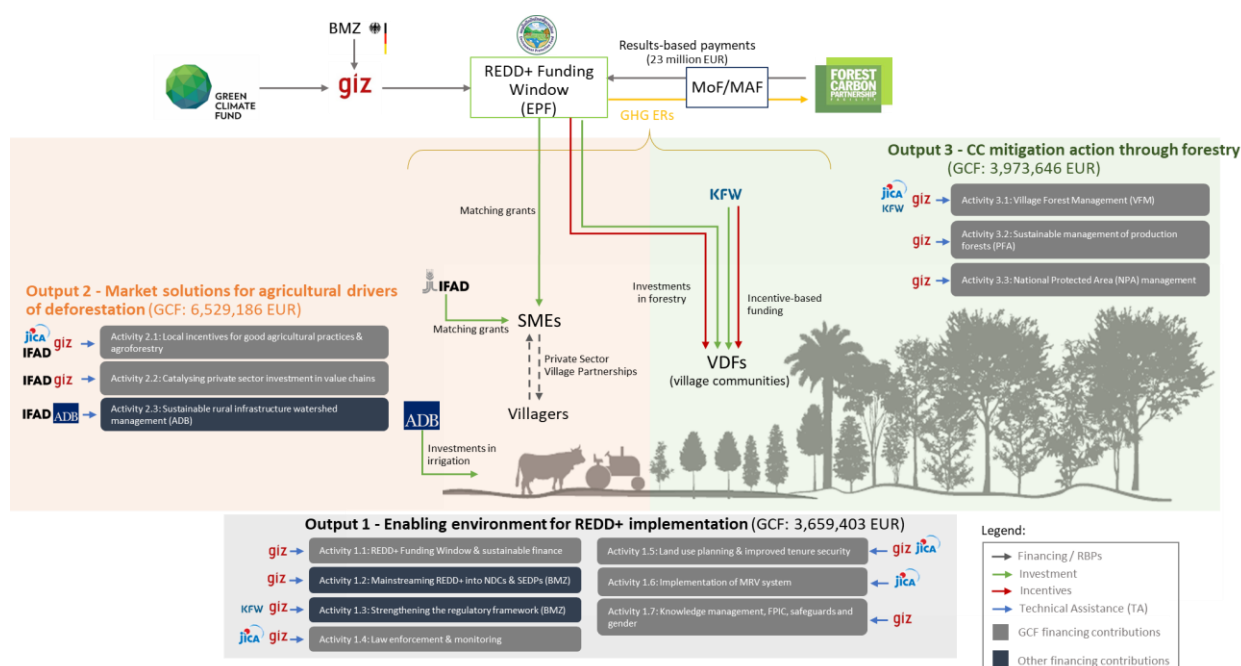


Figure 3: Overall Program Structure

Out-
put 1:

Enabling environment for REDD+ implementation (from FP)

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.

Activity
1.1

REDD+ Funding Window and sustainable finance (from FP)

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 channeling 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.

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). 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.

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, 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. 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.

Current status and changes compared to Funding Proposal

The EPF established the Climate Change Funding Window, dated 30 April 2019 to adopt funds from Green Climate Fund and related climate change funds, meaning the Project 1 is operated under the EPF Climate Change Funding Window.

As stated before, the Forest and Forest Resource Development Fund (FFRDF) has been renamed to Forest Protection Fund (FPF). The GoL-led Governance of Forest Landscapes and Livelihoods (GFLL) program has designated the FPF as REDD+ Fund. The FPF lacks currently

	<p>the institutional capacity, which is required to act as REDD+ Fund; hence, the FPF is not able to handle the Project 1 GCF Grant, as the center piece of the Funded Activity.</p> <p>As agreed in the Emission Reductions Program Agreement (ER-PA) between GoL and the World Bank, GoL has now one year time to build the capacity of the FPF, in order to pass World Bank due diligence. This will be of relevance for Project 2; however, not for the current Project 1. Therefore, the focus of project 1 is on capacity building of the FPF first, before the Fund is able to channel REDD+ funds within 1 year.</p> <p>The name and concept of Village Development Funds (VDFs) was changed to Village Forest and Agriculture Grants (VFAGs). VFAG guidelines have been updated in October 2020 to ensure consistency with GIZ and EPF financial guidelines. Currently 170 villages are selected in 13 districts in which villagers are eligible for three types of VFAG funds: (1) cash for works, (2) up-front payments (investment payment), and (3) performance-based (Bonus payments). The 70 former CliPAD TC/FC villages are eligible for cash for work funds only.</p>
<p>Activity 1.2:</p>	<p><u>Mainstreaming REDD+ into the NDC and socio-economic development plans (SEDPs) (from FP)</u></p> <p>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 plans, 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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>The Provincial REDD+ Action Plan (PRAP) activity has been integrated into the 8th Provincial 5-Year Socio-economic Development plan (SEDP 2016-2020) of Luang Namtha and Houaphan provinces. PRAP activities are planned to be integrated into the first quarterly plan of 2021 in 7 districts of Houaphan and 2 districts of Luang Prabang provinces. For 2 districts in Luang Prabang and 4 districts in Sayaboury, the PRAP activities will be incorporated into Q2 quarterly plan of the respective provinces.</p> <p>Originally, the PRAP activity should have been integrated into the 9th Provincial and District 5-Year Socio-economic development plan (2021-2025), however, this was not possible due to delay in PRAP process. Therefore, PRAP activities will be integrated into Provincial and District Annual development plans.</p> <p>The risk is that the PRAP activities might not be considered for the Annual plan if its justification is not sufficient. PRAP activities, among other development activities to be included in the Annual Development Plan, requires justification. That may have an effect on REDD+ mainstreaming into development plans.</p> <p>See also logframe in the annex.</p>

<p>Activity 1.3</p>	<p><u>Strengthening the regulatory framework (from FP)</u></p> <p>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. Support is needed to address the gaps and inconsistencies in the regulatory framework to create an enabling environment that incentivizes 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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>The Lao Forestry Law was revised and approved by the National Assembly in June 2019. Followed by the President's signature, it became effective on 25th of July 2019. The revision process was supported intensively by the previous CliPAD project through their active involvement in the international working group that provided advice to the Government of Lao's drafting committee.</p> <p>The revised law now establishes the legal framework for REDD+ in Lao PDR and has finally opened the door for the commercial use of timber from village forests under certain conditions. Article 39 gives villagers now the mandate for the management and protection of forests within the management area of their village. This Article also stipulates that village forest management planning shall be regulated by a separate specific regulation to be developed by DoF. In meantime, the mentioned regulation or the so called "Common Approach for Village Driven Forest Management Planning" is drafted by the Village Forestry and Non-Timber Forest Product Division of the Department of Forestry and is foreseen to be applied soon nationwide. Due to close cooperation, relevant lessons learned by Project 1 are incorporated in the regulation and the project gave support to the formulation.</p> <p>Article 65 governs the use of village forest timber and Non-Timber Forest Products (NTFPs) for commercial purposes by individuals, legal entities, or organization to which the state has given rights for legal use. Such uses of the forest include timber, NTFPs, tourism, recreation, forest ecosystem services, carbon trading and the supply of timber to the wood processing industry. This is the first time that commercial timber use from village forests is permitted and has thereby the potential to provide economic sustainability for village forestry in the country based on timber.</p> <p>Regarding the revision of sub-subsequent regulations and policies, the project provided technical inputs to the revision of the <i>Decree on Protected Areas</i> and the <i>Forestry Strategy 2021-2030</i>.</p> <p>Risks: To be in line with the revised forestry law, the revision of sub-subsequent national regulations and policies is needed and might take time. (e.g., detailed regulations regarding the commercial use of timber from village use forests). Consequently, this may lead to a later availability of expected income from timber revenues for villagers and to legal uncertainties. The latter one could be, at least partly, but with additional efforts, addressed through the development of appropriated rules for each province as an interim solution.</p>
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<p>Activity 1.4</p>	<p><u>Law enforcement and monitoring (from FP)</u></p> <p>Strengthened law enforcement is a key measure needed to support Lao PDR's commitment to REDD+, as well as other high-level initiatives including Prime Minister's Order (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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>An implementation approach for forest cover monitoring through a Provincial Deforestation Monitoring System (PDMS), which will be used in all three target provinces, is ready to apply in cooperation with F-REDD I project (JICA). The monitoring will start from February 2021 onwards in 70 villages in the Province of Houaphan (Districts Sam Neua and Houameuang) and will be extended to the remaining project villages according to the workplan.</p> <p>Risks: Due the COVID-19 pandemic, the unemployment rate is on rise (e.g., heavily effected tourism sector) and is leading to a return of jobless people from cities to their home villages. Additionally, the number of laborers, who returned from neighboring countries during the pandemic, is estimated to be 100,000+. This new situation could lead to an increased, unsustainable or even illegal use and encroachment of forest resources.</p>
<p>Activity 1.5</p>	<p><u>Land use planning and improved tenure security (from FP)</u></p> <p>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 favorable environment for investment in land. 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).</p> <p>Current status and changes compared to Funding Proposal</p> <p>A new guideline on Participatory Land Use Planning with Forest Landscape Restoration (FLR) principles mainstreamed was composed by Project 1 and is called "PLUP 2.0". In December 2020, "PLUP 2.0" was introduced to relevant development partners, provincial LUP authorities and representatives from the NPMU and completed through an exchange about previous experiences made regarding LUP implementation in each province. The new guideline will be applied during Land Use Planning in all new target villages.</p> <p>Risks: Delays of the implementation of other activities might force the field works of LUP to be taken place in rainy season which could lead to additional delay due to restricted accessibilities in some places during the wet season. In this case, additional but available and cost neutral human resources would implement more intensive and faster LUP during the following dry season.</p>

<p>Activity 1.6:</p>	<p><u>Implementation of the measurement, reporting and verification (MRV) system (from FP)</u></p> <p>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 Program (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 approach¹⁵. JICA has committed co-finance to support Activity 1.6 implementation.</p> <p>Current status and changes compared to Funding Proposal</p> <p>FREL report has been submitted by DoF to UNFCCC. The Technical Assessment of the FREL has been completed, and the final FREL report and the Technical Assessment report were disclosed on UNFCCC's website in 2019. DoF has also completed the 1st national MRV (2015-2018) against the FREL in 2020, and the results are being assessed by the UNFCCC. The National Forest Monitoring System (NFMS), a harmonised and transparent monitoring system for REDD+, has been developed in collaboration with F-REDD project (JICA) and in the meantime, a Technical Working Group under DoF has been supporting the mentioned development and its strategic roadmap.</p> <p>Risks: At this point, no potential risks were identified.</p>
<p>Activity 1.7:</p>	<p><u>Knowledge management, FPIC, safeguards and gender (from FP)</u></p> <p>This Activity will facilitate comprehensive communication and exchange of information about topics of relevance for land users, policymakers and the broader public to understand the purpose and benefits of REDD+ and the need for behavioral change of business-as-usual land use.</p> <p>Free, Prior, and Informed Consent (FPIC) is one of the mechanisms to ensure the respect for indigenous people's rights. It has become anchored in international law and practice since the signing of the United Nations Declaration on the Rights of Indigenous People (UNDRIP) in 2007 (the Lao PDR is also a signatory).</p> <p>The UNFCCC, in its description of social and environmental safeguards, makes explicit reference to UNDRIP regarding REDD+ activities in any areas where there are indigenous people. The UNFCCC COP 16 Decision (Paragraph 72) specifically requests Parties to address land tenure and gender issues when planning and implementing REDD+ activities.</p> <p>Project 1 support for FPIC is rooted in the Cancun safeguards mentioned above and its piloting has been supported by the TC and FC teams. The main process followed includes FPIC consultations taking place three times in the villages. The first time, called FPIC 1, is to do awareness raising on climate change and the benefits of forest, introduce the project and its activities. People are expected to consent (or not) to the project and its activities by the end of this meeting. At this early stage, however, Participatory Land Use Planning (PLUP) will have already been completed.</p>

¹⁵ 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 program – 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 program (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 program (including Project 1) will share MRV processes for emission reductions will ensure consistent GHG accounting and cost efficiencies for both initiatives.

	<p>There are two further FPIC meetings (FPIC 2 and 3) in the village held at later dates which are on reviewing FPIC 1 and signing the “Village Forest Management Agreement” (ViFoMA) and “local conflict resolution” respectively. FPIC is carried out by members of two organisations (LFNC and LWU) that do not necessarily have a strong stake in the outcome of consultations with the local communities.</p> <p>Additional information on safeguards is described in Section 6.3 in this report.</p> <p>Gender is further elaborated on in Section 6.5</p> <p>Current status and changes compared to Funding Proposal</p> <p>It has been decided to hire a consulting firm instead of one regional and one national part-time consultants for safeguards management and one national position for Information and Knowledge Management (as communicated in an Email to GCF Division of Mitigation and Adaptation on July 9th 2020 and agreed on July 8th in a phone call. The change was already reported in the first semi-annual financial report handed in to GCF on September 11th 2020).</p> <p>This set-up does on the one hand provide international consultant advice. On the other hand, it ensures strong linkages to PPMU and DPMU M&E staff through 3 Provincial-level M&E Consultants. A regional competitive tendering process was held and on 29 Dec 2020, the contracts with the awarded firm was signed. In the context of this tendering process, a detailed Technical Proposal was prepared, which lays out the foundation for the Information and Knowledge Management and Safeguards approach.</p> <p>Conceptually it has been ensured, that safeguards and gender related data is included into the same Cloud Database, which also contains all data required for M&E. Such an integrated approach is more cost-effective and efficient as all data relating to each activity (or ‘Step’) is reported simultaneously and recorded in the same system.</p> <p>In the Inception phase of the Safeguards consultancy, all Action Inputs included in the project’s Master Budget have been thoroughly checked for risks associated with gender, ethnic minority status, disability status, literacy, and other axes of vulnerability, with mitigation measures proposed for individual action inputs where risks have been identified.</p> <p>These risks have been integrated into the Quarterly Plans of all 22 Project Owners and rated for their probability and impact potential by implementing agencies.</p> <p>The project’s ESMP and Gender Action Plan have also been adapted into an ESMP checklist, to be used by implementing partners before project activities. Risks stated in the ESMP are subject of the quarterly risk dialogues conducted by the GIZ Oversight Unit.</p> <p>The FPIC concept has been further developed and adapted to the Project 1 approach and is now ready to be implemented. The FPIC Teams in the provinces have been set up.</p>
<p>Output 2</p>	<p><u>Market solutions for agricultural drivers of deforestation (from FP)</u></p> <p>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 districts of the Project 1) to reduce expansion pressure into forested landscape.</p>

Activity 2.1:	<p><u>Local incentives for good agricultural practices (GAP) and agroforestry (from FP)</u></p> <p><u>Capacity building on good agricultural practices and agroforestry:</u></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><u>Investment in good agricultural practices and agroforestry:</u></p> <p>The Project 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.</p> <p>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.</p> <p>Performance-based payments will be disbursed after two years based upon adherence to the PLUP that has been developed, particularly the protection of forest cover according to the PLUP. VDFs will be eligible to receive part or all of the remainder of the funds according the percentage of forest cover remaining after two years. If forest cover is less than 75% of the PLUP, VDFs will not be eligible to receive funds.</p> <p>Based on a formalised and approved private-sector village partnership agreements (PSVPAs) developed under Action 2.2.3, private sector enterprises will be eligible for grants from the REDD+ Funding Window covering 50% of the establishment costs for village-based agroforestry (up to EUR 200/ha, approximately 50%). The remaining 50% will be financed by the enterprises, as per the PSVPA. (Referred to as Matching Grants).</p> <p><u>Knowledge management and sharing of successful experiences for replication:</u></p> <p>According to the cropping calendar, exchange workshops between villages in each "kumban" (village cluster) and district will be organised. The exchange workshops will contribute to knowledge exchange and sharing of lessons learned by each of the villages. Successful experiences and lessons learned will be documented and disseminated for promotion and upscaling within the provinces and Lao PDR.</p>
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Current status and changes compared to Funding Proposal

The Project has developed guidelines for the “Promotion of Sustainable and Deforestation-free Agricultural Practices and Value Chains” (PSAP) approach in Dec 2020. The PSAP approach aims at widely promoting sustainable agricultural practices with upland farmers in the three project provinces of Sayaboury, Luang Prabang and Houaphan. PSAP is based on the results of Participatory Land Use Planning 2.0 (PLUP 2.0) to be conducted in each target village.

The PSAP will attempt to provide a direct link between land use planning for the entire village and a more detailed planning of sustainable agricultural practices at household level and the agricultural extension activities needed for their realisation. PSAP will be guided by a so-called “White List”, a comprehensive list of thirty-five (35) sustainable agricultural practices and crops to be promoted. The White List and PSAP guidelines were developed by an external Expert, in conjunction with the National and Provincial Project Advisors.

The sustainable agricultural practices and crops that are listed in the White List have been selected based on the key selection criteria of sustainability and the fact that they are deforestation-free activities. Key aspects are for example permanent soil cover, multi-storey cropping like agroforestry, intercropping, crop rotations and protection of forest zones. The thirty-five (35) elements of the list are divided into three levels of priority and seven categories (agro-forestry, NTFPs, perennial crops, annual crops, vegetable gardens, livestock, apiculture).

In addition, the practices proposed are adapted to the local situation in upland villages of Northern Lao PDR including the local climate and soils. They are also suitable for local deforestation-free value chain development in collaboration with local companies. On the other hand, the selected activities in the White List are not based on economic criteria. There could be more profitable agricultural activities, but these would damage or threaten the forest areas. This might create the risk of farmers not showing high interest in some of the white-listed products, however, the large number of products proposed will likely allow beneficiaries to find satisfactory options. Moreover, the project expects to instigate a behavioural change and its objectives are focused on protecting forest resources, not necessarily on increasing agricultural income.

After the field surveys, the PSAP team together with the Village Land and Forest Management Committee (VLPMC) will draft the Village Agricultural Activity and Investment Plan, which will later be submitted to the VFAG (formerly VDF) plenary session for funding approval.

The Figure 4 below shows the integration of the newly developed PSAP and White List into the workflow in target villages and their link to the VFAG funding.

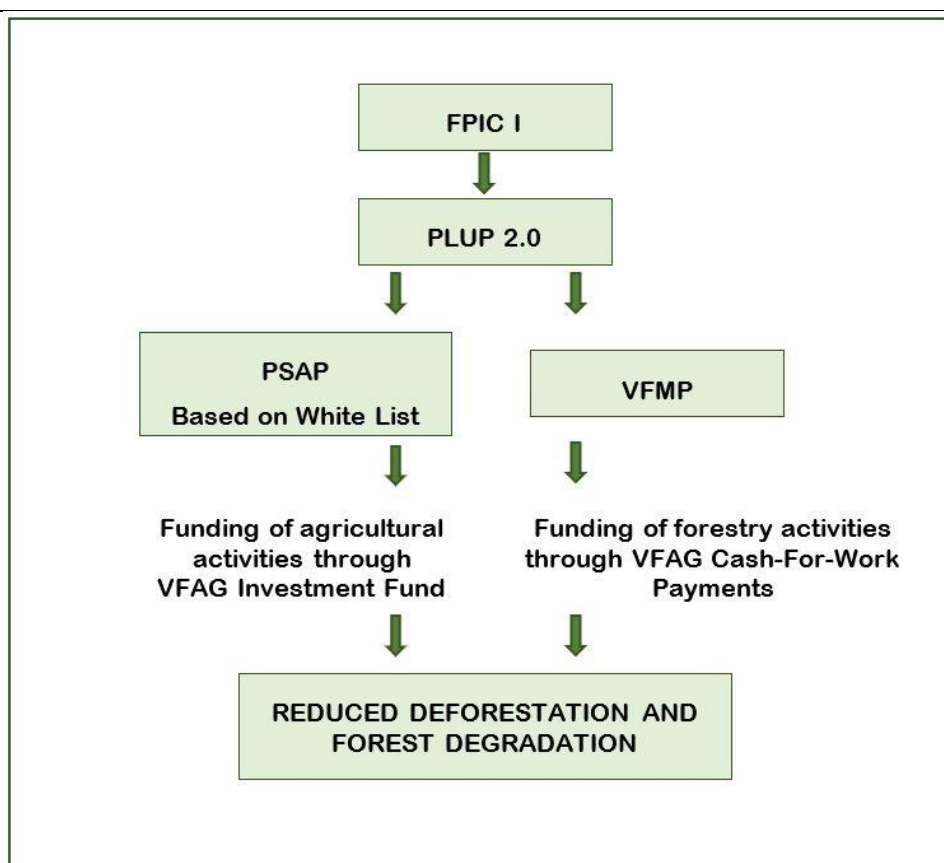


Figure 4: PSAP and White List in the workflow.

The approaches of funding through VFAG (formerly VDF), the PSVPA and Matching Grants, and the Knowledge Management and Sharing have not changed fundamentally from the description found in the Funding Proposal and summarized in the paragraph above.

See also logframe in the annex.

Activity
2.2:

Catalysing private sector investment in value chains (from FP)

Project 1 will support value chain analysis to identify (the absence of) linkages between value chain actors, quantify value-added along the value chain, and identify gaps, potential efficiency and profitability gains, and thereby contribute to inclusive value chain competitiveness. Value chain analysis at the provincial level will analyze existing as well as potential new value chains.

In-depth value chain assessment of key agricultural commodities:

In-depth value chain studies for key existing and alternative agricultural commodities (~3 commodities per province) will be implemented at the provincial level. The specific role of women will be assessed to promote enhanced participation of women in agricultural production and trade. Further criteria for the assessment and selection of key agricultural commodities will include: potential for competitiveness; potential for growth (by quality or quantity); potential for value addition, potential for upscaling; and cross-cutting issues such as GHG mitigation impacts.

Following the in-depth value chain studies, a workshop will be organized to share and agree study results with the NPMU, PPMUs, PAFO, DAFO and TSC staff, and selected lead farmers. Results of the in-depth value chain studies will inform, and will be linked with, outreach activities (Activity 2.1).

Establishment of public-private dialogue to promote village-based agroforestry

Action 2.2.2 will establish private-public sector dialogue platforms to improve communication and coordination of actors on village-based agroforestry in Lao PDR. The dialogue platforms will be implemented at the national 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).

Formalization 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 as detailed previously.

Multi-Stakeholder Platforms (MSPs) on value chain development

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.

Business development support to agribusiness SMEs

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.

Current status and changes compared to Funding Proposal

A major change from the Funding Proposal resides in the switch from “in-depth value-chain analysis” on a limited number of agricultural products (about 3 per province) to a “private sector analysis” to identify companies involved in the production or trade of any of the thirty-five (35) white-listed products. The inception phase has shown that sufficiently enough value chain studies are available and no further studies are currently needed. The previously described White-List and PSAP teams are the starting point for the strategy that is currently being implemented.

A risk associated with having a large number of products (35) to choose from, might be that only a small number of villagers chose the same product in the same village. This might make the logistics of purchasing said product in that village unappealing for the private sector. However, the PSAP teams will ensure that farmers are aware of the products purchased by local

	<p>companies and produced in the nearby villages; therefore, enabling them to make informed decisions.</p> <p>The PSAP teams are establishing comprehensive private sector analysis for their district, including companies from the provincial or national level which are active in their district. In order to do this, they identify and collect information on all private or state companies involved in marketing agricultural products from the district area.</p> <p>For each selected White List activity that requires support from the private sector, the PSAP team will establish links to private service providers in the form of traders, processing companies and initiate contract farming arrangements for private companies from the “private sector analysis”. The DAFO staff will have to play an important role in networking with local private sector companies and will be supported in this by PAFO and GIZ staff.</p> <p>The establishment of public-private dialogue platforms to promote village-based agroforestry, the formalization support for the PSVPA, the multi-stakeholder platforms (MSPs) on value chain development and the business development support to agribusiness SMEs remain to be implemented as described in the Funding Proposal and summarized in the previous paragraph.</p> <p>See also logframe in the annex</p>
Activity 2.3:	<p><u>Sustainable rural infrastructure watershed management (from FP)</u></p> <p>Activity 2.3 builds on the planned ADB project, Sustainable Rural Infrastructure and Watershed Management Sector (SRIWMS) project, which has been designed in conjunction with Project 1. The SRIWMS 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.</p> <p>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 SRIWMS 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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>Even though the SRIWMS project has encountered COVID-19 related delays in the implementation of its activities, progress has been made in several areas. General set up of the project such as management level human resources recruitment, development of Operational Guidelines and procurement of equipment have been achieved for the most parts. The foreseen project implementation remains the same as stipulated in the Funding Proposal.</p>
Output 3	<p><u>Climate change mitigation action through forestry (from FP)</u></p> <p>Output 3 will build upon Output 1 (enabling environment) and will reduce emissions through sustainable forest landscape management and the promotion of forest landscape restoration</p>

	(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.
Activity 3.1:	<p><u>Village forest management (from FP)</u></p> <p>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. 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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>Through a participatory approach with NPMU, PPMUs and DPMUs and according to agreed selection criteria for Project 1 villages (e.g., adequate forest area, ecosystem services for ADB's SRIWMS irrigation systems, road access, low or no occurrence of Unexploded Ordnance (UXO)) 170 new project villages were selected.</p> <p>The KfW supported Project CliPAD FC (cooperation Project of GIZ CliPAD) has been successfully completed after 10 years with a final workshop in Viengxay, Houaphan Province in December 2020. All 70 project villages in Sam Neua and Houameuang District have received 100% of the possible bonus payments, for maintaining their village forestry area, as agreed in the Village Forest Management Agreements, signed between villagers and district authorities. Those former CliPAD villages are also part of Project 1 but will not receive a second time the so-called bonus payment (only cash for work payments, to implement annual village forest management plans).</p> <p>Furthermore, DoF has agreed to scale up the application of the CliPAD <i>Village Forest Management Planning (VFMP) and Implementation Guidelines</i> to all project villages, which were developed by CliPAD in the past.</p> <p>As a cooperation partner of Project 1, the Village Forestry Management Project (VFMP), funded by the (BMZ) through KfW, consists of three phases: (i) inception (1 year), (ii) implementation (4 years) and (iii) consolidation (2 years). The one-year inception phase began in July 2019 and was interrupted by COVID 19 impacts, what caused a delay of about 6 months. VFMP is currently starting its implementation phase in two districts (District Phieng in the Province Sayaboury and District Phonexay in the Province Luang Prabang) and 70 villages.</p> <p>As agreed in the Cooperation Agreement between GIZ and KfW and an Interface Paper, the collaboration is well established and a regular exchange is taking place (e.g., share reports and lessons learnt, develop jointly guidelines and training material, harmonize approaches).Risks: According to the revised Forestry Law 2019, a commercial timber use in village use forests is now possible. But to do so, the ongoing development of a "Timber Legality Definition for natural timber from village use forests" and "Timber Legality Insurance System (TLAS)" has to be completed and might take time. Beside this, several forest officials have doubts about the ability and sincerity of villagers, to follow the correct and sustainable implementation of harvesting plans and operations in their entrusted forests. This mistrust might lead to a delayed realization of the envisaged and appreciated commercial timber use. As a result, expected and additional income from timber revenues for villagers might be delayed and might lead to illegal harvesting activities to generate income. To avoid the possible and described conflicts, Project 1 will inten-</p>

	<p>sify the planned support concerning the commercial and legal use of Non-Timber Forest Products (NTFPs). Supplementary, regular patrolling and forest cover monitoring (Activity 1.4) are accompanying measures to mitigate encroachment in forest areas.</p>
Activity 3.2	<p><u>Sustainable management of production forests (from FP)</u></p> <p>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). 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.</p> <p>In 3 districts in the Project 1 area (Sayaboury Province – Phiang, Sayaboury and Hongsa districts), there is commercial potential for sustainable harvesting. Project 1 will work with the government on a new/revised regulation that allows harvesting if the forest management entity can demonstrate long-term sustainability.</p> <p>Current status and changes compared to Funding Proposal</p> <p>DoF lays out in their strategy from 2021 to 2030, to promote natural regeneration on about 250,000 ha in PFAs and to establish around 450,000 ha of plantations in partnership with private sector.</p> <p>In contrast to the original planning, but without any negative effect, the activity will be supported as part of a specific Village Forest Management approach for PFAs by Project 1 in the districts of Hongsa and Sayaboury and now also through the KfW financed Village Forest Management Program (VFMP) in the district Phiang.</p> <p>Risks: Since the suspension of timber harvesting in production forests is still not lifted (Prime Minister's Order No. 31), harvesting activities are consequently on halt, and the time of an abrogation is vague. Anyway, this is not affecting the revision or formulation of new regulations, which should lead to a sustainable management of production forests. As a result, expected and additional income from timber revenues for villagers might be delayed and might lead to illegal harvesting activities to generate income. To avoid the possible and described conflicts, Project 1 will intensify the support concerning the commercial and legal use of Non-Timber Forest Products (NTFPs). Supplementary, regular patrolling and forest cover monitoring (Activity 1.4) are accompanying measures to mitigate encroachment in forest areas.</p>
Activity 3.3	<p><u>National Protected Area management (from FP)</u></p> <p>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.</p> <p>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 KfW project Integrated Conservation of Biodiversity and Forests (ICBF) project will be followed</p>

	<p>(Village Fund Disbursement / Management Guidelines), which permit activities such as the following:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Current status and changes compared to Funding Proposal</p> <p>Nam Et-Phou Louey was upgraded in 2019 from a National Protected Area to a National Park, requiring a stronger administration and stricter law enforcement.</p> <p>The development of management plans of Nam Xam NPA (Houaphan) and Nam Pouy NPA (Sayaboury), which was planned to be financed by Project 1, is covered now by LENS2 (World Bank) for Nam Xam NPA and through the Biodiversity Conservation and Management of Protected Areas in ASEAN (BCAMP) Project of the ASEAN Centre for Biodiversity (ACB), with the support of the European Union (EU) for Nam Pouy NPA. Out of 170 new villages, 37 villages are located in/adjacent to NPAs and are identified as so-called guardian villages. The ICBF and LENS2 implementation approaches for conservation agreements have been reviewed by the Project 1 project and an agreed concept will be applied in the mentioned guardian villages.</p> <p>Risk: At this point, no potential risks were identified.</p>
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3.2 PROJECT IMPLEMENTATION TIMETABLE

As described above, the Project 1 team has achieved a large number of results and deliverables during the inception phase, which are all required to kick-off the implementation of the project activities. Amongst others, a variety of guidelines and formats have been prepared, databases set up, staff hired, agreements and contracts signed, goods and services procured, target-villages selected, kick-off workshops, inception workshops and others held, project management structure set up, institutional framework conditions facilitated, fund-flows enabled and carried out and stakeholders identified and trained. The number of these required outputs and deliverables had been underestimated and as many tasks have been considerably more time-consuming.

Also, the effects of the COVID-19 pandemic have resulted in a number of delays, e.g., through the country-wide lock-down in April and May 2020; through the late deployment of international staff unable to obtain visa and to enter the country on time; through GIZ staff having to be repatriated; through gatherings and travel being restricted at times; and through the financial crisis within the government, leading to inefficiencies.

Therefore, the implementation in the field can only be initiated in Feb 2021 instead of October 2020 as originally planned.

To see changes in milestones scheduling, see Annex 2.

3.3 PROJECT IMPLEMENTATION MODALITY AND GOVERNANCE STRUCTURE

3.3.1 INSTITUTIONAL / IMPLEMENTATION ARRANGEMENTS

This sub-section presents the project implementation arrangements between GIZ AE and the EEs including changes occurred during the inception phase as well as each IPs' roles and responsibilities versus the project log frame. The section also introduces the governing structure of the project including roles and responsibilities, reporting and communication lines as well as conflict resolution mechanisms.

Institutional Arrangements

Project Steering Structure (from FP)

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.

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.

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.

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, Sayaboury and Luang Prabang will each have a PPSC; for Project 2, the provinces of Luang Namtha, Bokeo and Oudomxay will each have a PPSC.

Current status and changes compared to Funding Proposal

The Steering Structure of the project has been confirmed as described in the Funding Proposal and deems to be functional. (See Figure 5)



Figure 5: Project Organization Chart

Cooperation and Contractual Arrangements (from FP)

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.

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

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. (See Figure 6)

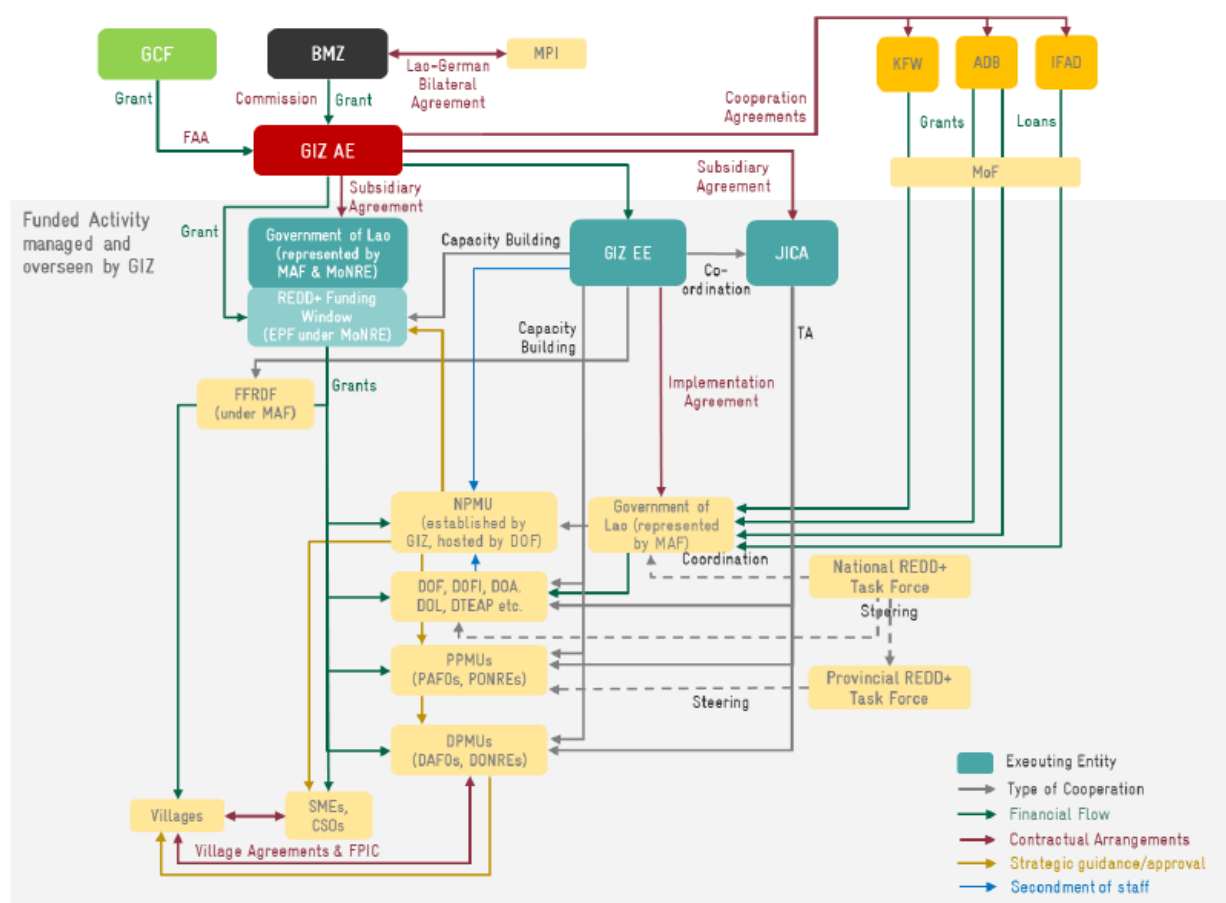


Figure 6: Cooperation and Contractual Arrangements

Current status and changes compared to Funding Proposal

These legal arrangements have been established and agreements are in place:

- BMZ Commission received on 22 Apr 2020.
- FAA between GIZ (as the Accredited Entity) and the GCF signed on 23 Dec 2019.
- Lao PDR-Germany bilateral agreement with the MPI (Lao – German Government negotiations) signed on 25 Sep 2020.
- 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 signed on 15 May 2020.
- A project implementation agreement between GIZ Laos and MAF signed on 17 Jun 2020.
- A co-operation agreement between GIZ AE and ADB signed on 13 Aug 2020.
- A co-operation agreement between GIZ AE and IFAD signed on 12 Jun 2020.
- A co-operation agreement between GIZ AE and KfW signed on 25 Sep 2020.
- A subsidiary agreement between GIZ AE and JICA has been negotiated and is pending approval.

Implementation Arrangements (from FP)

Project Management, Implementation and Execution Structure

Accredited Entities:

GIZ: 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)

Executing Entities:

GIZ: 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.

GIZ will be responsible to support 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). 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.

GIZ as an Executing Entity will be responsible for a GCF budget for Project 1 of EUR 4,100,000.

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.

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.

Government of Lao PDR: 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: 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 (EUR 1,600.000 co-finance) in the context of its F-REDD II project to:

- Support law enforcement (Activity 1.4) and land use planning (Activity 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 (Local incentives for Good Agriculture Practices, GAP) and 3.1 (Village Forest Management) in the province of Luang Prabang

Current status and changes compared to Funding Proposal

Overall Implementation Arrangements as described in the Funding Proposal are confirmed and in place.

During the project implementation, GIZ upholds a double function as an Accredited Entity (AE) and as an Executing Entity (EE). GIZ ensures a clear and strict separation between the two different roles. The AE and the EE roles of GIZ are located in different units within GIZ's organizational structure. While quality assurance and oversight functions pertaining to GIZ's AE role are assumed by a dedicated GCF Oversight unit in GIZ's headquarter the EE role is assumed by GIZ's operation EE structure in Lao PDR. Both structures are strictly separated and are accountable to different management structures within GIZ at the level of departments. The subsidiary agreement between JICA and the GIZ, which forms the basis for JICA as Executing Entity has been negotiated yet, has to be signed. Regular meetings with GIZ are being held and a joint workplan has been agreed upon.

Furthermore, JICA contributions foreseen for Activities 1.5, 2.1 and 3.1 have been cancelled. However: 1) the provincial activities (1.5, 2.1 and 3.1) planned for JICA will be fully taken over by GIZ and carried out as planned and without causing additional costs and 2) activities at national level (National Forestry Inventory, financed by JICA) will only be conducted in 2025 and are therefore beyond the project lifetime. As a result, JICA's contribution and co-financing through its F-REDD II project, is envisaged to decrease from EUR 1,600,000 to EUR 1,200,000.

The commissioning of the JICA project F-REDD II has been postponed due to COVID related issues, however the ongoing JICA project F-REDD I has been extended without additional costs. Therefore, JICA fully complies with their cooperation commitments.

Conflict Resolution Mechanism (from FP)

Project grievance redress mechanism: 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.

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, 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 for further details.

Current status and changes compared to Funding Proposal

A concept note on the I-GFLL (Project 1) Grievance Redress Mechanism (GRM) is currently being prepared, based on the EPF Grievance Redress Mechanism Guidelines, developed in 2020 and the mechanism outlined in the Feasibility study, which is based on GRM mechanisms developed in the context of the for National REDD+ Policy Framework in Lao PDR. The concept note clarifies how the GRM mechanism will be integrated into I-GFLL's other activities and institutional structures. GRM Posters, informing about

potential grievance channels, will be introduced to beneficiary villages in conjunction with the FPIC 3 process. Grievance channel include e.g.: direct reporting of grievances to implementers, hotlines, petitions, online tools and the regular GoL grievance mechanisms on the village level (Village Mediation Unit) and beyond. Grievances will be received and aggregated with the support of the project's ESMP team and the designed response processes will be followed. GRM processes will be fully functional in line with the start of Project 1 implementation in target villages.

Reporting and Communication Lines

Monitoring, reporting and evaluation arrangements (in addition to the ESMP and Gender Action Plan) 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.

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

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.

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.

Current status and changes compared to Funding Proposal

No changes in Reporting and Communication Lines as described in Funding Proposal. The overall responsibility and oversight for M&E system/approach and reporting lies with the GCF AE unit of GIZ head office.

Reporting and Communication lines are by now conceptualized and all, M&E, ESMP and gender reporting integrated into a single system (for more details, see section 6.1).

NPMU and national level Project Owners have been trained on the planning and reporting system in Jan 2021 and trainings for PPMUs, DPMUs and province- and district level Project Owners are held in Feb 2021, thereby laying the groundwork for the planning, implementation and reporting of GCF managed funds.

4 FINANCIAL MANAGEMENT

This section provides details about project level financial management. It also includes an overview of roles and responsibilities in the project's financial management structure.

The project's financial management is regulated by the rules and procedures of GIZ as well as relevant conditions mandated by the GCF in the AMA and FAA. The subsidiary agreements regulate the financial management of the GCF proceeds being transferred to the EEs in accordance with GIZ standard rules and procedures and relevant GCF conditions.

The GCF Oversight Unit at headquarters is responsible for receiving the GCF proceeds as well as disburse, administer and process the funds to the EEs. It further has the overall responsibility for the proper use of the GCF proceeds and keep adequate documentation and provide financial reports to the GCF. The oversight and quality assurance are guaranteed in cooperation with the specific departments and corporate units in GIZ's headquarters:

- GIZ finance department – responsible for strategic and operational financial control of the company; maintaining standards of financial management, financial control, accounting, elaboration of annual statements of accounts, etc.
- Procurement department – responsible for procurement, contracting, setting up grant agreements with EEs; executing and monitoring tender processes; and
- Corporate legal unit – responsible for internal legal advice, support in transferring GCF-specific conditions and covenants to GIZ procedures, providing advice to local partners on issuing legal opinions on the signing of grant agreements, etc.
- GIZ Oversight Unit – responsible for project implementation, communication with the GCF, 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, establishing internal control routines, etc.

As a general principle, GIZ disburses funds to EEs in accordance with the progress of the project. The Executing Entities 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). In line with international auditing standards independent external auditors will perform annual financial audits for the grant agreements as well as for the financial statement submitted to the GCF as stipulated in the AMA.

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.

Current status and changes compared to Funding Proposal

The subsidiary Agreement between the Government of Lao PDR (represented by MAF and MonRE) and GIZ has been duly signed and GIZ standard operating procedures for the financial management are set in place. With this Agreement GIZ had also fulfilled the necessary conditions precedent for the first disbursement of GCF Proceeds.

On August 11, 2020 the first proceeds of EUR 3,678,165 and EUR 214,180 as AE Fee has been disbursed by GCF to GIZ.

A Schedule of Financial Requirements for the entire project period (budget forecast for each quarter) as well as the first disbursement request have been developed by the EPF and submitted to GIZ AE. Based on this request, the EPF has received the first disbursement of GCF proceeds from GIZ.

GIZ is continuously monitoring the progress of EPF in fulfilling the due diligence requirements. As mentioned in the Due Diligence Report, the EPF continues to have difficulties with their accounting software. As solution, the EPF has decided to procure a new software system. The related procurement process has been carried out and the introduction and roll out of the new accounting software is planned to take place in the course of this year.

Regarding the Project 1 budget there are several needs for adjustment identified:

- The reduction of co-financing by GoL and JICA (as described in section 2.3.5 - 6. above). The reduction has no implication on projects objectives or indicators, neither on the technical activities planned.
 - It is becoming obvious that the GoL contribution has been monetarily overestimated during the project design phase. While the number of GoL staff and time allocated for Project 1 largely remains as expected, the monthly salaries are lower than the 330 EUR per month with which the contribution amount was estimated.

JICA financial contributions foreseen for Activities 1.5, 2.1 and 3.1 have been cancelled. However: 1) the provincial activities (1.5, 2.1 and 3.1) planned for JICA will be taken over by GIZ and carried out as planned and 2) activities at national level (National Forestry Inventory, financed by JICA) will only be conducted in 2025 and are therefore beyond the project lifetime. As a result, JICA's contribution and co-financing through its F-REDD II project, is envisaged to decrease from EUR 1,600,000 to EUR 1,200,000. The commissioning of the JICA project F-REDD II has been postponed due to COVID related issues, however the ongoing JICA project F-REDD I has been extended without additional costs. Therefore, JICA fully complies with their cooperation commitment through its F-REDD II project.
- Reallocation of staff costs to international and local consultants (as communicated in an Email to GCF Division of Mitigation and Adaptation on July 9th 2020 and agreed on July 8th in a phone call. The change was already reported in the first semi-annual financial report handed in to GCF on September 11th 2020 it was already agreed with the GCF to handle the change as a change of contract modality).
- Reflecting indirect costs in activities 1.4 and 1.6. Please also see semi-annual financial report. In difference with the initial planning, indirect costs also incur within this budget activity. During the planning phase of the project/budget it was not expected that direct costs which incur indirect costs will also come up in this activity. This is due to the fact of general direct costs that need to be distributed to all activities based on the causation principle.
- Reallocation of staff costs to travel costs for those national staff paid under GCF budget into the GCF budget. There is a lack of travel costs for national staff that can be compensated by staff costs.
- The MTR is currently not budgeted in the project Master Budget.
- The GCF has already confirmed, that Project 1 can display all eligible expenditure since the beginning of the project within GIZ financial reports even though the costs incurred before effectiveness of the FAA. As for the BMZ commissioning there had already been costs for Equipment (8 cars, 45 motorcycles, IT Equipment) and for professional/ contractual services (assessment of existing

VDFs in all target villages; concept development to address the situation identified in the assessment / sustainable channelling of climate finance to target villages) which incurred end of 2019. These costs were budgeted as BMZ co-financing (under Budget lines 1G, 1J, 3D, PM6).

In a first step, GIZ will adapt the internal project calculation to reflect the above-mentioned needs and will then consult with GCF, if the changes will be within the permitted reallocation as governed by Clause 6.01 of the FAA. The budget adjustment is planned to be discussed with GCF in Q3 2021.

Regarding the BMZ budget and the agreement with the GoL it has to be noted:

- Reallocation of BMZ Budget (223.662 EUR) from Subsidiary Agreement with GoL to international/local consultants.
- Due to the debt crisis, some budgetary constraints have emerged resulting in the GoL not being able to provide admin budget to the EPF. Also, the GIZ-GoL Grant Agreement for Project 1 does not foresee an admin budget for the EPF. This needs to be addressed by a revision and re-allocation of the budget in the subsidiary agreement. This will be done by a contract amendment.
- The new total budget of the BMZ commission is EUR 22,641,896 which includes EUR 1,300,000 (ongoing module), EUR 5,200,000 (increased BMZ funds) and EUR 16,141,896 (GCF Proceeds, incl. AE Fee).

Procurement

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.

Current status and changes compared to Funding Proposal

Procurement of Goods and Services has been initiated and is ahead of schedule.

Independent External Auditing

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.

Current status and changes compared to Funding Proposal

The tender to contract an independent external auditor who will perform the annual financial audit is currently in progress. No changes compared to Funding Proposal.

General conditions and covenants from FAA and AMA

The project ensures that all conditions and covenants specified in the Accreditation Master Agreement (AMA) as well as all general conditions and covenants specified in the Funded Activity Agreement (FAA) are adhered to during implementation. This is guaranteed through the forwarding of all relevant GCF conditions and covenants to the project partners in contractual arrangements as specified in the FAA implementation arrangements. In addition, GIZ specific rules and procedures in accordance with the AMA, are stipulated in the subsidiary agreement with the EE. All contracts clearly outline roles and responsibilities of the contractual partner including activities and deliverables of the project log frame, ESMP and Gender Action Plan as well as the related timelines.

The Project entered into a number of contractual arrangements. The co-financing from BMZ was obtained through the respective commissioning on 22nd of April 2020. The implementation agreement with MAF was entered into on 17th June 2020.

The co-operation agreement with KfW was entered into on 25th September 2020, the co-operation agreement with ADB was entered into on 13th August 2020, and the co-operation agreement with IFAD was entered into on 12th June 2020.

Furthermore, the subsidiary agreement with the Government of Lao PDR (MAF and MoNRE) was entered into on 15th May 2020. These contractual arrangements secure the relevant co-financing contributions.

The subsidiary agreement with JICA is negotiated and agreed on in all details. However, the final signature is pending. It will be concluded in the first six months of 2012.

In addition, an Operational Manual was developed by 28th April 2020, outlining requirements for operationalizing the Implementation of Project 1 and managing financial flows under the EPF Climate Change Funding Window. The OM (and potential updates in the course of Project 1) is an integral element of the relevant subsidiary agreement with the GoL (Annex 5 of the Subsidiary Agreement GIZ and MAF/MoNRE).

5 COMPLIANCE DETAILS - COVENANTS AND CONDITIONS FROM THE AMA, FAA

General conditions and covenants from FAA and AMA

The project ensures that all conditions and covenants specified in the Accreditation Master Agreement (AMA) as well as all general conditions and covenants specified in the Funded Activity Agreement (FAA) are adhered to during implementation. This is guaranteed through the forwarding of all relevant GCF conditions and covenants to the project partners in contractual arrangements as specified in the FAA implementation arrangements. In addition, GIZ specific rules and procedures in accordance with the AMA, are stipulated in the subsidiary agreement with the EE. All contracts clearly outline roles and responsibilities of the contractual partner including activities and deliverables of the project log frame, ESMP and Gender Action Plan as well as the related timelines.

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Project specific conditions and covenants

The below listed items were determined as specific to the project.

Selected Project Specific Conditions/Covenants from FAA	Sensitisation of Stakeholders	Implications on their Roles/ Responsibilities	Timeline/ Compliance
FAA Clause 10.02 c) not amend or alter any co-financing Agreements in such a way that the Co-Financing is reduced or delayed unless it is previously consulted with, and consented by, the Fund and promptly inform the fund of any cancellation, reduction or prepayment of any of the Co-Financing.		JICA has two roles in the context of Project 1, both as co-financing entity and as implementing agency. JICA does neither receive nor implement GCF proceeds. JICA is considered as Executing Entity, since they provide technical assistance to the project with their own funds.	The co-financing agreement with JICA will be concluded in the first six months of 2021. The final signature is still pending. JICA contributions foreseen for Activities 1.5, 2.1 and 3.1 have been cancelled. 1) the provincial activities (1.5, 2.1 and 3.1) planned for JICA will be taken over by GIZ and carried out as planned and 2) activities at national level (National Forestry Inventory, financed by JICA) will only be conducted in 2025 and are therefore beyond the project lifetime. As a result, JICA's contribution and co-financing through its F-REDD II project, is envisaged to decrease from EUR 1.6 million to EUR 1.2 million. The commissioning of the JICA project F-REDD II has been postponed due to COVID related issues, however the ongoing JICA project F-REDD I has been extended without additional costs.

			Therefore, JICA fully complies with their cooperation commitment through its F-REDD II project.
FAA Clause 10.02 f) Ensure that the Project activities/the Final Beneficiary(ies) for the implementation of Activities related to the establishment and operationalization of the REDD+ Funding Window under Outputs 1, 2 and 3 of the Funded Activity are selected in accordance with the Eligibility Criteria	The OM sets out the eligibility criteria for the final recipients and lays out the operative processes for the final approval (done by the NPMU Management Team). The process is contractually ensured through the Subsidiary Agreement with the Government of Lao PDR.	First, GIZ confirms the accordance of annual and quarterly plans with the Funding Proposal. Then, the NPMU Management Team is responsible for ultimately approving at national, provincial and district level the Quarterly Plans submitted by the Project Owners, (Final recipients). The EPF then disburses the funding.	Compliant throughout the whole project
FAA Clause 10.02 n) Prior to commencing any activities that have potential application of the Accredited Entity's safeguards or standards on indigenous peoples and cultural heritage, submit to the Fund (i) the relevant indigenous peoples plan for such activities; and (ii) upon the request of the Fund, evidence, satisfactory to the GCF Secretariat, that free, prior and informed consent from the relevant indigenous communities has been obtained for the purposes of the Project;	FPIC is implemented according to GIZ standards on indigenous peoples and cultural heritage in all target villages, including those with indigenous communities prior to any village level project activities.		Compliant throughout the whole project

In order to ensure compliance with contractual obligations as well as procedures agreed in the inception workshop, a number of mechanisms were set-up to allow for a smooth exchange of information as well as continuous monitoring. test

- Weekly project jour fixe between GIZ AE and GIZ EE to monitor progress of activities based on planning documents and M&E data (incl. progress of Gender Action Plan, ESMP, etc.) to monitor disbursed funds and ensure compliance of all EEs
- Quarterly risk dialogue between GIZ AE and GIZ EE to assess risks and agree on mitigating measures (e.g. commercial performance of EEs, ESMP, etc.)
- Annual supervision formats of the GIZ AE with the EEs (jointly and/or individually) to assess and discuss project progress as well as performance
- Annual meetings of the Project Steering Committee

- Weekly meetings of the Management Team
- Weekly Monitoring meetings with EPF
- Monitoring meetings with cooperation partners:
 - o JICA: bi-weekly
 - o KfW: monthly
 - o ADB and IFAD: quarterly

6 PROJECT MONITORING AND EVALUATION ARRANGEMENTS

6.1 AE MONITORING AND EVALUATION REQUIREMENTS

This sub-section describes the general M&E framework of the project including the role and responsibilities of the GIZ AE versus the EE. The GIZ AE ensures monitoring and evaluation as set out in the “Monitoring and accountability framework for accredited entities”. The monitoring is carried out in a two-level approach: firstly, at GIZ EE level and secondly, at GIZ AE level. The GIZ EE serves for GIZ AE as lead EE and ensures coordination of EE versus the AE. In addition, the GIZ AE’s monitoring role is twofold. It assesses the implementation progress of the project versus the logical framework as well as the compliance with GCF policies and procedures. For EEs, the GIZ AE also observes the adherence to GIZ rules and procedures.

Monitoring, reporting and evaluation arrangements (in addition to the ESMP and Gender Action Plan) 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.

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

Current status and changes compared to Funding Proposal

There are no contents-wise changes in the Monitoring and Evaluation Requirements as compared to the Funding Proposal. However, it has been decided to hire a consulting firm instead of one regional and one national consultant. The Firm solution does on the one hand provide international consultant advice and capacities to design and operate the Cloud Database. On the other hand, it ensures strong linkages to PPMU and DPMU M&E staff through 3 Provincial-level M&E Consultants. A regional competitive tendering process was held and on 5 Nov, the contracts with the awarded firm was signed.

As part of the preparation of the monitoring system, the consulting firm has facilitated Annual and Quarterly Planning Processes for (Q1) 2021, which have specified Action Inputs as listed in the Master Budget into Steps for each of the 22 Project Owners. These Project Owner Annual and Quarterly Plans are based on the Results Framework and include a Risk Management Log, which also integrates ESMP and gender-related risks. Thereby a comprehensive, results-based planning and monitoring systems is in place.

A Cloud Database has been established, which will allow 'live' follow up of the implementation progress online and ensure, that all data required to monitor indicator fulfilment is collected and submitted. The Cloud Database follows an integrated approach, which does not only collect M&E-related data, but also include ESMP and Gender Action Plan related information and checklists.

MS Excel based Activity Request and Report forms, which form the 2nd pillar of the system, have been harmonized with GoL requesting and reporting procedures.

Project monitoring and risk oversight is complemented by a quarterly "risk dialogue" taking place between the GIZ AE and GIZ EE. This monitoring tool is an additional tool, next to the standard detailed risk assessment sheets of GIZ, with a focus on preidentified risks (from FP, ESMP, Due Diligence Studies etc.) to enable their continuous monitoring. Risks are identified and corrective measures are already and will continuously be elaborated. The success of the corrective measures will be evaluated after a short time. Depending on the characteristic of the identified issues, specific solutions can be elaborated on different levels.

6.2 M&E OVERSIGHT AND RESPONSIBILITIES

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.

Independent monitoring and evaluation studies

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 program (including subsequent constituent projects) and the effects of such restructuring on the program'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).

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

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

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

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 program. 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 2.3.1).

Current status and changes compared to Funding Proposal

Initial assessments by the M&E Consulting Team have shown that no HH-level Baseline Survey is required and HH-level surveys will only have to be implemented mid-term and end of project.

It has also shown that the MTR is currently not budgeted in the project Master Budget. This needs to be addressed in the context of Budget Re-allocation, planned for Q3 2021.

Processes and Forms for the Monitoring System to follow-up the implementation of activities have been designed (see chapter above) and clarify that the monitoring information will be (based on the quarterly plans) reported by Project Owners and approved and aggregated by the relevant PMUs quarterly, thereby exercising their oversight function.

The National Forest Monitoring System (NFMS), as mentioned in Activity 1.6, has been developed in collaboration with JICA and the forest cover monitoring will be implemented in a similar fashion.

Forest cover monitoring is done by assessing the area actually covered by forest, within the forest areas determined during PLUP. Satellite imagery is used to calculate and compare the percentage of covered area. The comparison is done on a two-week basis in order to determine either the absence of change, the change from Forest to Agriculture or from Forest to Infrastructure and the extent of it (area).

Decreases in forest cover trigger on-site visits by local DAFOs in order to verify and report the extent of the violation as well as make the violators accountable and create awareness in the local community. Reporting by POFI to GIZ/JICA will follow on-site visits.

Following the same model, a comparison between initial and current values will be done after two years. Results of this comparison will be the basis to trigger the performance-based payments for villages.

6.3 ENVIRONMENTAL AND SOCIAL SAFEGUARDS

This section describes how the project operationalizes its compliance with the GCF ESS as well as the GCF Environmental and Social Policy. It outlines sensitization measures during the inception workshop as

well as operationalization and clarification of roles and responsibilities among EE/IPs as well as GIZ AE and GIZ EE.

Medium and high-risk programs/projects disclose the ESIA and ESMP to the public to enable effective stakeholder participation, ensuring access to project information in an accessible and culturally appropriate manner. It further enables stakeholder to provide feedback, raise concerns, or file grievances, as necessary. While the Funding Proposals will be submitted in phases (first Project 1, followed by Project 2 and Project 3), the ESS covers the entire program, covering all planned projects and related activities.

The GCF uses an interim Environmental and Social Policy based on the Performance Standards (PS) of the International Finance Cooperation (IFC), which is compatible with GIZ's Safeguards & Gender Management System (S+G).

The PS that apply to the project are:

PS1: Assessment and management of environmental and social risks and impacts

PS2: Labour and working conditions

PS3: Resource efficiency and pollution prevention

PS4: Community health, safety and security

PS5: Land acquisition and involuntary resettlement

PS6: Biodiversity conservation and sustainable management of living natural resources

PS7: Indigenous peoples

PS8: Cultural heritage

The program triggers PS1-2 and PS4-8.

Based on the above, the preparation of an Environmental and Social Assessment in compliance with the GIZ's and GCF's environmental and social policies was part of the project planning. Following the assessment, mitigation measures and thus an ESMP was developed.

To comply with the Environmental and Social Safeguards, GIZ tasked an independent consultant with reviewing the draft program documents, background studies and data, and consulting the GIZ program preparation team. The consultant has identified and assessed potential unintended negative impacts of the program and formulated recommendations and relevant observations for subsequent assessments and plans in this report. GIZ will produce a separate Gender Assessment and Gender Action Plan, as well as an Environmental and Social Management Plan (ESMP). The ESMP will include mitigation hierarchies to manage and mitigate risks (as per Performance Standard 1 and the Indigenous Peoples Policy), and detailed mitigation and/or compensation measures, which are necessary to make the program compliant with the GIZ's and GCF's Environmental and Social (E&S) Policies including the GCF's Indigenous Peoples Policy.

Current status and changes compared to Funding Proposal

GIZ has finalized the development of the ESMP in Sept 2019 and submitted it together with the Funding Proposal, approved by the GCF. The ESMP details potential unintended negative impacts and external risks, including landscape specific aspects. It describes institutional implementation arrangements and staffing and budget requirements and details 10 ESMP Actions to be implemented in Project 1.

Also, the Gender Action Plan has been finalized by June 2019. The Gender Action Plan details gender specific measures and actions and indicators for all Project 1 "activities".

These documents have been elaborated on by a Consulting Firm procured through competitive bidding in Dec 2020 in order to further develop and implement the Safeguards Monitoring system. Detailed information on knowledge management, safeguards and gender is given in Section 3.1, Activity 1.7 in this report.

Concerning Performance Standards, the following progress could be attained. (note: most performance standards will only become relevant as soon as implementation of project activities in target villages has started)

PS1: Assessment and management of environmental and social risks and impacts

The ESMP and Gender Action Plan have been delivered and incorporated into a risk assessment of the action inputs contained within the project's Master Budget. Where risks have been identified, mitigation measures have been proposed.

PS2: Labour and working conditions

There has been no change compared to the Funding Proposal.

PS4: Community health, safety and security

There has been no change compared to the Funding Proposal.

PS5: Land acquisition and involuntary resettlement

There has been no change compared to the Funding Proposal.

PS6: Biodiversity conservation and sustainable management of living natural resources

There has been no change compared to the Funding Proposal.

PS7: Indigenous peoples

There has been no change compared to the Funding Proposal.

PS8: Cultural Heritage

There has been no change compared to the Funding Proposal.

6.4 RISK MANAGEMENT STRATEGY

Project Risk Mitigation Approach (from FP)

Of the eight GCF interim Environmental and Social Safeguards, the project triggers seven 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 (from FP)

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, accompanied by a stakeholder engagement plan, a gender action plan, a project redress mechanism and a knowledge management plan. 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.

Current status and changes compared to Funding Proposal

All key risks as identified in the ESMP, ESIA and Funding Proposal and Gender Action Plan have been listed in detail and assessed for their relevance to the project's activities. During the Annual and Quarterly Planning process, these risks have been included in all 22 Project Owners' Plans and assessed by stakeholders for their probability and impact.

Baseline data-collection has been mainstreamed into processes for different activities (e.g., Agriculture, Forestry, Land Use Planning) and is integrated into the M&E system and the Cloud database.

Land Titling will not be supported by the project, since it has no influence on mitigation in contrast to Land Use Planning. Therefore, Land Use Planning is done by the project, which is considered the first step in land titling in rural Laos.

Information on credit availability has shown not to be relevant for the project, since the project provides grants to farmers in target villages.

An updating of maps will be done on village level in conjunction with Land Use Planning process. No maps on provincial level are needed for the purpose of the project.

Performance Standard 2: Labour and working conditions (from FP)

This performance standard was assessed as having a low risk, according to the ESIA.

Current status and changes compared to Funding Proposal

There has been no change.

Performance Standard 4: Community health, safety and security (from FP)

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.).

Current status and changes compared to Funding Proposal

The primary change regarding PS4 relates to the potential onward transmission of the coronavirus which causes COVID-19, especially if vaccination efforts in rural areas of Lao PDR lag significantly behind those of developed countries, as well as urban centers within Lao PDR. If COVID-19 transmission rates were to spike in Vientiane Capital, it would be prudent to pause activities in rural areas of the project’s target village clusters, especially by limiting the domestic movement of project staff from Vientiane Capital to rural areas.

Performance Standard 5: Land acquisition and involuntary resettlement (from FP)

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.¹⁶

Current status and changes compared to Funding Proposal

GIZ has tasked a consultant with reviewing the action inputs contained within the project's Master Budget and identifying social and environmental safeguards risks which may be posed by individual action input items. Where individual action inputs may pose safeguards risks, mitigation measures have been proposed.

For PS5, ethnic minority status, especially as related to indigenous people within Lao PDR, has been included in the ESMP Checklist, to be used by project staff and implementing partners before all project activities. In the case of PS5, this will be particularly relevant if any project activities involve land acquisition or involuntary resettlement, although this is not foreseen frequently.

Performance Standard 6: Biodiversity conservation and sustainable management of living natural resources (from FP)

ESIA observation: There is potential that some of the agricultural activities, especially promotion of agroforestry, will turn the Revegetated 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-truth 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.

¹⁶ 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.

- 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.

Current status and changes compared to Funding Proposal

The ESMP Checklist includes specific checks regarding biodiversity conservation and sustainable management of living resources, to ensure that all project activities implemented in potentially vulnerable areas consider the potential effects of project activities on biodiversity and living resources. In instances where the ESMP Checklist and associated

Performance Standard 7: Indigenous peoples (from FP)

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.
- 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.

Current status and changes compared to Funding Proposal

GIZ has tasked a consultant with reviewing the action inputs contained within the project's Master Budget and identifying social and environmental safeguards risks which may be posed by individual action input items. Where individual action inputs may pose safeguards risks, mitigation measures have been proposed.

For PS7, ethnic minority status, especially as related to indigenous people within Lao PDR, has been included in the ESMP Checklist, to be used by project staff and implementing partners before all project activities. GIZ and implementing partners continue to plan for the provision of information in appropriate ethnic languages, with translators made available as necessary.

Performance Standard 8: Cultural heritage (from FP)

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* (village cluster) 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.

Current status and changes compared to Funding Proposal

GIZ has tasked a consultant with reviewing the action inputs contained within the project's Master Budget and identifying social and environmental safeguards risks which may be posed by individual action input items. Where individual action inputs may pose safeguards risks, mitigation measures have been proposed.

For PS8, cultural heritage, has been included in the ESMP Checklist, to be used by project staff and implementing partners before all project activities. If project activities are determined to have significant potential

impacts on cultural heritage sites, it is strongly advised that project activities and implementation plans are revised to minimise potential damage to cultural heritage sites.

6.5 GENDER ASSESSMENT AND GENDER ACTION PLAN

This section describes how the project operationalizes its compliance with the GCF Gender Policy. It outlines sensitization measures during the inception workshop as well as operationalization and clarification of roles and responsibilities among EE/ as well as GIZ AE and GIZ EE.

A comprehensive gender assessment was carried out in the context of project planning and a gender action plan was drawn up to thus translate the GCF Gender Policy as well as the outcome of the gender assessment into action.

Gender Action Monitoring Plan (GAMP)

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.¹⁷ 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.

The project design addresses the identified gender gaps:

- **GAP:** The current draft of the new Forestry Law and the PRAPs do not reflect the gender aspects of forestry.
Mitigation: 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.
- **GAP:** 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.
Mitigation: 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.
- **GAP:** 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.
Mitigation: 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 fulfil the necessary requirements to become committee members (e.g. minimum education

¹⁷ 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.

standard OR passing of a standard oral test), which will address women's generally lower educational qualifications.

- **GAP:** 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.

Mitigation: 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.

- **GAP:** 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.

Mitigation: 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.

- **GAP:** 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.

Mitigation: 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.

- **GAP:** Microfinance is often perceived as too risky (when it is available – most microfinance institutions focus on urban and peri-urban areas).

Mitigation: 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.

Current status and changes compared to Funding Proposal

GIZ has tasked an international consultant to review the Gender Action Plan and to review the project's Master Budget at the level of action inputs from a safeguards perspective, with a specific focus on potentially negative effects along gender lines for vulnerable populations living in the project's target village clusters. As such, gender has been included as a component within the ESMP Checklist, to be used by all project staff and implementing partners before project activities. With accompanied training materials, implementing partners and project staff are instructed to consider whether the project's activities would have negative effects, along a gender lens, and if planned activities are determined likely to have negative gender-based effects, it is strongly recommended that activities and implementation plans be revised to mitigate negative gender-based impacts.

7 SUMMARY AND RECOMMENDATIONS

The Executive Summary (Section 1) depicts the main achievements and significant changes of the project and the Inception Workshop Objectives and Overview showcases how stakeholders came together to jointly discuss and agree on the project's approach and procedures as well as to clarify roles and responsibilities and the project's governance.

The Project Strategic Context and Changes (Section 2) describes institutional progress made in the inception period such as the approval of the revised Forestry Law and the amended Land Law in June 2019. A significant decision made by GoL was the designation of the FPF as the REDD+ Fund. GoL has now one year time to build the capacity of the FPF, in order to pass World Bank due diligence. This may be relevant for Project 2. Currently, GIZ maintains the Climate Change Window under the EPF to channel the GCF proceeds to the final recipient, as stipulated in the Funding Proposal and the Grant Agreement. Lastly, the impacts of the COVID-19 pandemic mean that vulnerable communities in the project's target areas will be even more vulnerable than they were at the time of the project's conception, as subsistence agriculture smallholders and small-scale foresters lose access to other options for economic resilience.

The Project Implementation Progress (Section 3) has achieved a large number of outputs and deliverables during the inception phase, which are all required to kick-off the implementation of the project activities. Amongst others, a variety of guidelines and formats have been prepared, databases set up, staff hired, agreements and contracts signed, goods and services procured, target-villages selected, kick-off workshops, inception workshops and others held, project management structure set up, institutional framework conditions facilitated, fund-flows enabled and carried out and stakeholders identified and trained. Furthermore, the effects of the COVID-19 pandemic have resulted in a number of delays, e.g., through the country-wide lock-down in April and May 2020; through the late deployment of international staff unable to obtain visa and to enter the country on time; through GIZ staff having to be repatriated; through gatherings and travel being restricted at times; and through the financial crisis within the government, leading to inefficiencies.

The Project Implementation Progress includes: (1) the establishment of the EPF as the Climate Change Funding Window as of April 2019, (2) changing the concept of VDFs to VFAGs, in which new VFAG guidelines have been updated in October 2020 to ensure consistency with GIZ and EPF financial guidelines. The Project has developed guidelines for the "Promotion of Sustainable and Deforestation-free Agricultural Practices and Value Chains" (PSAP) approach in December 2020. The PSAP approach aims at widely promoting sustainable agricultural practices with upland farmers in the project provinces. Through a participatory approach with NPMU, PPMUs and DPMUs and according to agreed selection criteria for Project 1 villages, 170 new project villages were selected. A concept note on the Project 1 Grievance Redress Mechanism (GRM) is currently being prepared, based on the EPF Grievance Redress Mechanism Guidelines, developed in 2020. GRM processes will be fully functional in line with the start of Project 1 implementation in target villages.

The Financial Management (Section 4) is regulated by the rules and procedures of GIZ as well as relevant conditions mandated by the GCF in the AMA and FAA. Subsidiary agreements regulate, among other, the financial management of the GCF proceeds being transferred to the EEs in accordance with GIZ standard rules and procedures and relevant GCF conditions. The subsidiary Agreement between the Government of Lao PDR (represented by MAF and MonRE) and GIZ has been duly signed and GIZ standard operating procedures for the financial management are set in place. On August 11, 2020 the first proceeds of EUR 3,678,165 and EUR 214,180 as AE Fee has been disbursed by GCF to GIZ. However, regarding the project budget, several needs for adjustment have been identified. For details, please see section 4.

The compliance with conditions and covenants specified in the AMA and FAA (Section 5) during project implementation is ensured through the forwarding of all relevant GCF conditions and covenants to the project partners in contractual arrangements as specified in the FAA implementation arrangements. In addition, GIZ specific rules and procedures in accordance with the AMA, are stipulated in the subsidiary agreement with the EE. All contracts clearly outline roles and responsibilities of the contractual partner including activities and deliverables of the project log frame, ESMP and Gender Action Plan as well as the related timelines.

The OM was elaborated. A number of mechanisms were set-up to allow for a smooth exchange of information as well as continuous monitoring such as the weekly project jour fixe between GIZ AE and GIZ EE, a quarterly risk dialogue, and annual meetings of the Project Steering Committee.

The Project Monitoring and Evaluation Arrangements (Section 6) are based on a clear division of roles and responsibilities between GIZ AE and GIZ EE with regard to monitoring project progress as per log frame as well as compliance with ESS/ESMP and Gender Action Plan. The two-level monitoring between GIZ EE and GIZ AE approach is based on a M&E framework and a robust RBM system implemented by GIZ EE to which all partners contribute to. The approach also includes assessing challenges and risks in implementation; the latter being a formalised process for risk monitoring and reporting between GIZ AE and GIZ EE. Evaluation arrangements are undertaken by GIZ AE.

As elaborated above, the key recommendations for the Project 1 project are:

- The concept and approach of Project1 is proven methodologically sound and consistent.
- The combination of GCF financial and BMZ technical cooperation is highly functional and a comparative advantage as compared to sole financial or sole technical cooperation, as investment as well as advisory aspects are considered complementary. The synchronized combination of financial and technical co-operation results to be a win-win for final beneficiaries.
- The capacity of the FPF, selected as REDD+ Fund by the GoL, needs to be raised to enable its use as Funding Window for Project 2. As agreed very recently in the Emission Reductions Program Agreement (ER-PA) between GoL and the World Bank, GoL has now one year time to build the capacity of the FPF, in order to pass World Bank due diligence. This seems to be a very short period. Therefore, one aspect of Project 1 is on capacity building of the FPF. Lessons learned from the creation and implementation of the Climate Funding Window located at the EPF will be made fully available by Project 1 to support a seamless transition of the REDD+ Funding Window from EPF to FPF.
- A comprehensive monitoring system is already in place, which is particularly important to derive lessons learned from Project 1 to be applied in Project 2.
- The concept of Project 1 is prepared with a high level of detail and strictly organized according to budget lines. This is often hard to operationalize and to implement. Re-allocation may therefore be necessary.
- Therefore, mechanisms to ensure a level of flexibility and the possibility to adapt and change of the implementation concept should be discussed with the GCF.
- An updated project proposal (budget), addressing all aspects mentioned in Section 4, will be handed in Q3 of 2021.
- A no-cost extension of the implementation period by 6 months should be discussed on and agreed with the GCF. Delays occurred due to the COVID-19 pandemic would be addressed by the extension.
- To fully support the implementation of the Lao Emission Reduction Programme, GIZ will initiate the development of Project 2 in a timely manner.

8 ANNEXES

Annex 1: Revised Implementation Timetable/Work Plan (if applicable)

Annex 2: Revised Logic Framework (if amendments to target or as a condition to the FAA)

Annex 3: M&E Plan

Annex 4: Safeguards and Gender Monitoring Plan