**RESPONSES TO SUB-COMMITTEE COMMENTS MADE AT THE TIME OF ENDORSEMENT OF THE INVESTMENT PLAN**

**Project: Protecting Forests for Sustainable Ecosystem Services**

**Country: Lao PDR Date: 8 April 2016**

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| US:<br>Looking down the road to the presentation of individual projects outlined in the plan, we would find it extremely helpful for each project document to:<br>• identify the context and relevance of the project in relation to the bigger REDD+ picture in Lao PDR,<br>• explain fully the interventions and approaches proposed, as well as<br>• how such interventions/approaches will deal with key drivers and promote "transformational change,"<br>• explain how FIP financing is additional (keeping in mind FIP financing modalities), and<br>• address the sustainability and economic viability of approaches advocated. | 1/25/2012 | **Context and relevance of the project in relation to the bigger REDD+ picture in Lao PDR:**<br>• As noted in the project summary sheet (cover page), Lao has participated in the international dialogue on REDD since 2008 and has implemented a range of REDD+ activities with support of several bilateral and multilateral development partners. However, most of these interventions were in central and northern provinces.<br>• The Project will contribute to scaling up successful experiences from a diverse array of REDD+ demonstrations, and enhance REDD+ readiness and implementation capacity of in two southern provinces of Lao PDR (Attapeu and Sekong) to benefit from future REDD+ arrangements.<br>• Unlike other REDD+ interventions, the Project leverages a larger landscape-based conservation project and targets watershed protection forest areas, which are largely outside the designated state forest estate.<br><br>**How will such interventions/approaches deal with key drivers and promote "transformational change":**<br>• The Project addresses several key drivers of deforestation and forest degradation in Lao PDR, namely unsustainable wood extraction, pioneering shifting cultivation, agricultural expansion and prevention of fires.<br>• The interventions and approaches are described in the Cover Page and further elaborated upon in the Project Administration Manual.<br>• The Project aims to bring about **transformational change** by integrating REDD+ interventions through country systems at the subnational level as explained in the Cover Page.<br>• **Transformational change** is expected in forest-related institutions, policies, technologies, and behavior of stakeholders. Specifically, the project will<br>(i) strengthen institutional capacity of the Ministry of Natural Resources and Environment (MONRE) and its provincial and district counterpart offices to implement REDD+, including strengthening capacity in landscape- |

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| | | based conservation zoning and planning, participatory land use planning, and REDD+ readiness conditions [i.e. establishing monitoring, reporting and verification (MRV) arrangements and reference emission levels (RELs)] ;<br>(ii) support the advancement of REDD+ policy in Lao PDR, specifically by integrating REDD+ within the biodiversity conservation policy framework;<br>(iii) enhance the use of appropriate technologies in REDD+ implementation, such as remote sensing, GIS and spatial planning tools;<br>(iv) support the effective involvement of the private sector in addressing deforestation and forest degradation, especially by working with concessionaires of hydro-power projects located downstream of the project area; and<br>(v) enhance capacity of local communities to participate in REDD+ by creating awareness and supporting community-based sustainable forest management and sustainable alternative rural livelihoods.<br><br>**Additionality of FIP financing**<br>• FIP financing is additional in terms of integrating REDD+ concerns in landscape-based biodiversity conservation policy efforts.<br>• FIP financing will leverage the institutional and financing arrangements established under the BCC project and brings a REDD+ focus to the broader framework of biodiversity conservation operations in the Country.<br>• REDD+ readiness and implementation capacities of national and provincial institutions and communities in target areas cannot be strengthened without FIP funds.<br>• Without the FIP funds, the GHG emission reduction of about 1 million tons per year would not have been achieved (investment additionality), and further degradation of ecosystem services would have continued.<br>• FIP funding for the project also meets the principles of (a) financial additionality (new and additional finance); (b) environmental additionality, (emission reductions are “real, measurable, and long-term in relation to the mitigation of climate change); and (c) program additionality (proposed activities would not have gone ahead without FIP finance). |

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| | | **Sustainability and economic viability of approaches**<br><br>The sustainability and economic viability of the proposed approach are presented in the Cover Page and the Economic and Financial Analysis Appendix.<br>• The economic internal rate of return (EIRR) of the proposed activities is estimated at 15.1% based on the economic cost of interventions to address the drivers of deforestation and forest degradation and emission reductions estimated over a 30-year project life. The investment remains economically viable when costs are increased 10% or revenues decreased by 10%, when both of these changes are combined, or with a one-year benefit lag. In particular, EIRRs of the tested sensitive cases are in the range of 12.8-14.3%, above the threshold of 12%. This compares favorably with investments in the forestry sector.<br>• The Project is considered economically viable on the basis of quantified benefits of reduced emissions from carbon sequestration using an economic price for $CO_2$ estimated through a damage and avoidance cost approach.<br>• Other unquantified benefits attributable to the project include the incremental gains from improved farming and livestock rearing practices, biodiversity values from increased forest protection, and soil and water conservation values.<br>• The project interventions are considered to be independently sustainable. The promulgation of regulations by the provincial governments of Attapeu and Sekong giving recognition to biodiversity conservation corridors in the provincial planning and budgeting process (an outcome of the policy dialogue supported by the BCC Project) , ensures that the forestry interventions supported under the Project will be sustained.<br>• The agroforestry interventions will be financially viable and expected to generate returns that ensure their sustainability. Ultimately the sustainability of the Project interventions will be strengthened by generating revenue from REDD+ transactions. |
| NORWAY:<br>We welcome and support the suggestion that the projects strengthen the focus on the issues mentioned by the US. | 1/25/2012 | • Response to the US comments is given above. |

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| UK:<br>The UK supports approval of the Lao Investment Plan, but recommends further work during project design to address comments raised by independent reviewers. The main questions of concern raised in the independent review are around the lack of focus in the investment plan, as well as the likely impact on swidden farmers and ethnic minorities.<br><br>• We recommend undertaking a rigorous problem analysis when preparing the proposed projects and using this as the basis for defining specific interventions to be financed. We would like to see a clear evidence-based approach articulated when projects are presented to the board for approval. | 4/18/2012 | **Problem Analysis and Evidence-based Approach**<br>• A rigorous problem analysis was carried out during the Project design phase, as explained in the Feasibility Study. The objective of the study was to design innovative methods to increase carbon sequestration, prevent land degradation, and enhance biodiversity conservation in the BCC landscape while also incorporating a viable mechanism to incentivize local communities for safeguarding these ecosystem services without any adverse impacts on swidden farmers and local communities.<br>• The study involved identification of "hot spots" of deforestation and forest degradation in the BCC landscape using remote sensing imagery and supported by verification through site visits and interviews with provincial and district authorities and experts.<br>• The analysis showed that Attapeu and Sekong provinces account for about 1.7 million ha of forest, the equivalent of 18% of the country's total forest area. Much of the forest in these provinces is located in upland areas characterized by elevations of above 200 meters above sea level and mountainous terrain with steep slopes and very deep valleys which are subject to erosion. Apart from carbon sequestration, there would be significant environmental benefits from maintaining and restoring forest cover in these areas due to improved soil and water conservation.<br>• An extensive stakeholder engagement process (about 30 community level and 15 provincial and national meetings as described in the Summary Poverty Reduction and Social Strategy) was also carried out in parallel to identify the key drivers of deforestation and forest degradation and to determine appropriate interventions for the targeted communities.<br>• The analysis showed that Phouvong district of Attapeu Province and Dak Cheung district of Sekong Province are among the country's poorest districts. They comprise primarily of upland communities made up of poor households of ethnic minority origin, mainly from the Brao and Yae and to a lesser extent the Ta-Lieng groups. Their main sources of income are from rotational cultivation, rain-fed upland rice cultivation, rearing of livestock and harvesting of non-timber forest products. Incomes are supplemented by providing wage labor especially across the border in Viet Nam.<br>• The analysis showed that the main drivers of deforestation and forest degradation in the project area are forest clearance for pioneer rotational |

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| • We also recommend preparing a strong consultation and engagement plan, explicitly addressing the questions raised over shifting cultivators and ethnic minorities raised in the independent review of the investment plan.<br><br>• We would like to see evidence of how consultation and outreach to these groups has shaped and influenced the projects | | agriculture combined with short-term rotations and forest clearance by small/medium enterprises for commercial crops.<br>• Based on rigorous problem analysis, several livelihood interventions were proposed in the project. These include agroforestry systems, agro-silvo-pastoral systems (crops, tree and livestock) and silvo-pasture (trees and livestock) and they have been proven to be effective in addressing the drivers of deforestation and forest degradation in Lao PDR while at the same time improving livelihoods of targeted communities after a 3-year period.[1] [2] [3]<br>• The majority of villagers support the proposed agroforestry interventions. They also support the proposed community-based forestry interventions to establish both production and conservation forests within village areas.<br><br>**Stakeholder Consultation and Engagement Plan:**<br>• The Project conducted extensive consultations with different stakeholders during project design. Nearly 30 community level and 15 provincial and national meetings were held to identify key concerns of local communities, farmers and ethnic groups.<br>• A stakeholder consultation and participation plan was developed as a linked document.<br>• The project design examined multiple ways that can benefit ethnic groups who have customary ownership of forests, farmers who engage in rotational fallow farming, and female-headed households who lack labor to engage in farming even though they have rights to the common lands.<br>• In view of the predominance of ethnic minorities in the area, an Ethnic Group Development Framework (Annex 7 to the Cover Page) was developed. The Framework describes the consultation and participation process that will be followed during project implementation.<br>• The stakeholder consultation and outreach program during project design helped shape the project interventions, notably the livelihood development interventions and the community based forestry interventions. The |

[1] Douangsil, T. and S. Pounagchompu. 2012. *Agroforestry Systems for Upland People in Lao PDR: Production, Benefit and Farmers' Satisfaction Analysis.* International Journal of Environmental and Rural Development, 2012 3-2.

[2] JICA, 2007. Ex-post Evaluation of Forest Conservation and Afforestation Project Phase II in Lao PDR.

[3] Rahman, S.A., Jacobsen, J.B., Healey, J.R., Roshetko, J.M. and T. Sunderland. 2016. *Finding alternatives to Swidden Agriculture: Does Agroforestry Improve Livelihood Options and Reduce Pressure on Existing forest?* Agroforestry Systems. DOI 10.1007/s10457-016-9912-4

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| when they are submitted to the board for approval. | | agroforestry with crops and livestock support activities were designed based on evidence of successful application and confirmation of acceptance by village members. Similarly, the community-based forest management activities were designed following past successful practice and expression of interest by village members. |