

CLIMATE INVESTMENT FUNDS

FIP/SC.7/CRP.1
October 31, 2011

Meeting of the FIP Sub-Committee
Washington, D.C.
October 31, 2011

PRESENTATION BY GOVERNMENT OF LAO PDR
ON THE LAO PDR FIP INVESTMENT PLAN



Lao PDR FIP Investment Plan



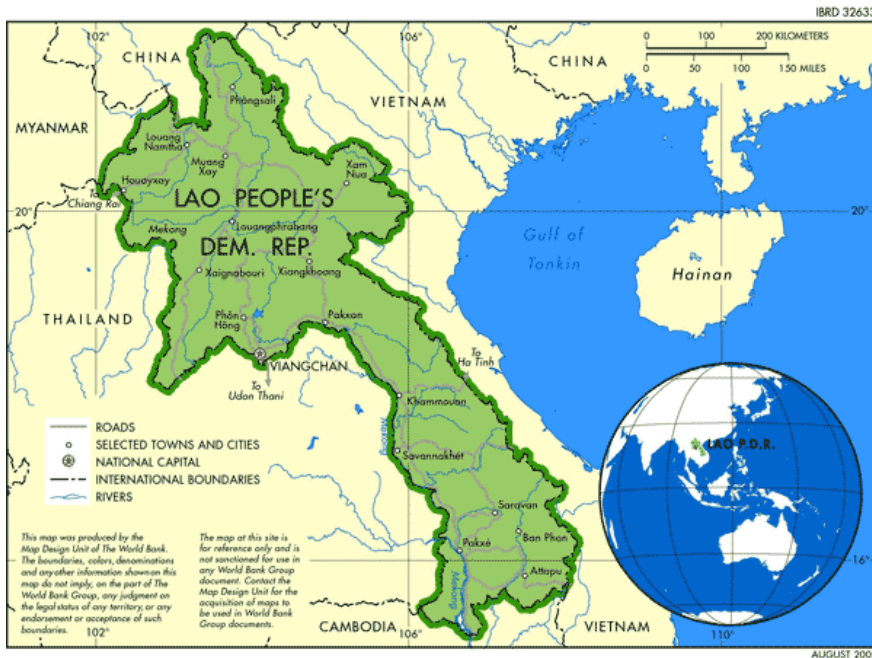
**Mr. Khamphay Manivong, DDG of the Department of Forestry
Ministry of Agriculture and Forestry (MAF)**

FIP Sub-Committee Meeting
Washington D.C., October 31, 2011

Outline

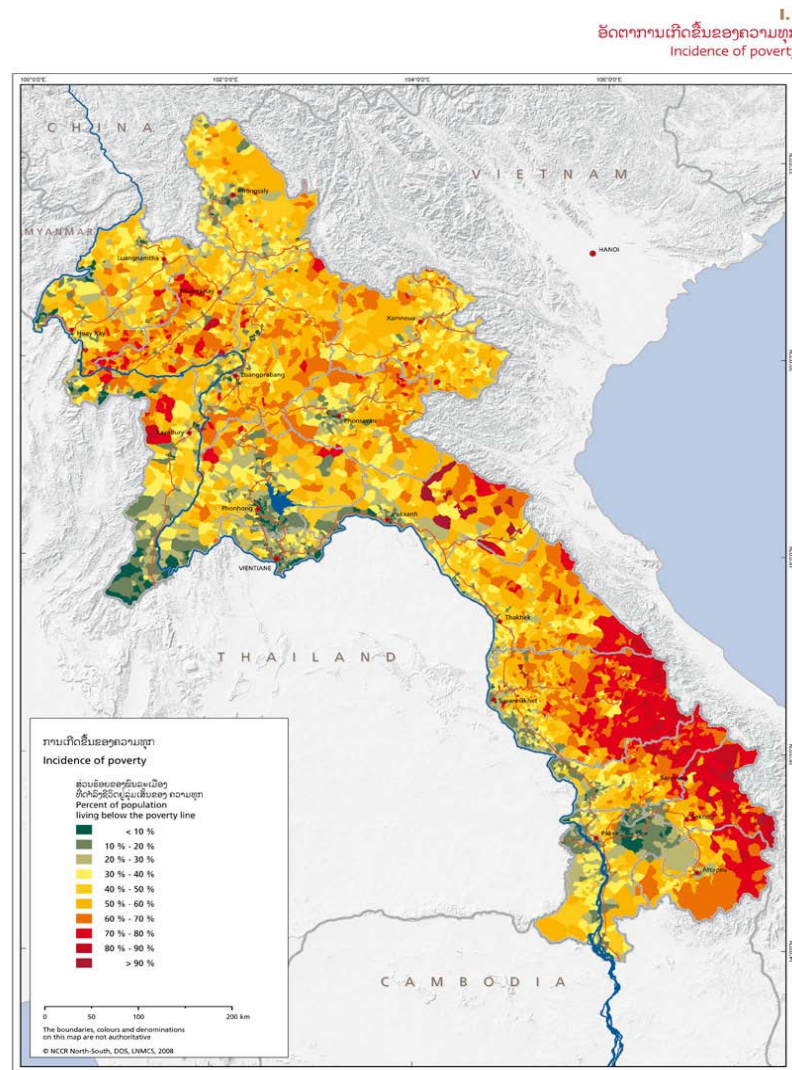
- **Background**
 - FIP development process
 - Forest categories and cover in Lao PDR
 - Legal framework
- **Drivers of Deforestation and Forest Degradation**
- **Lao PDR FIP Investment Plan**
 - Thematic areas
 - Proposed projects
 - Financing Plan
- **Institutional Arrangement & Governance**
- **Consultation process & link to DGM**

Country Fact Sheet



- **Area:** 236800 km²
- **Topography:** 80% mountainous
- Numerous rivers contributing about 35% of the whole Mekong Basin flow
- **Population:** 6.2 million (female: %); density: 26/sq.km; GR: 2.4%;
- **No. of villages:** approx. 11000
- Around 80% live in rural area, heavily dependent on subsistence agriculture and collection of forest produce
- **GNI per capita: \$1040** (2010)

Target districts are among the poorest



55% of the total income of the rural communities is derived from NTFPs, excluding daily consumption

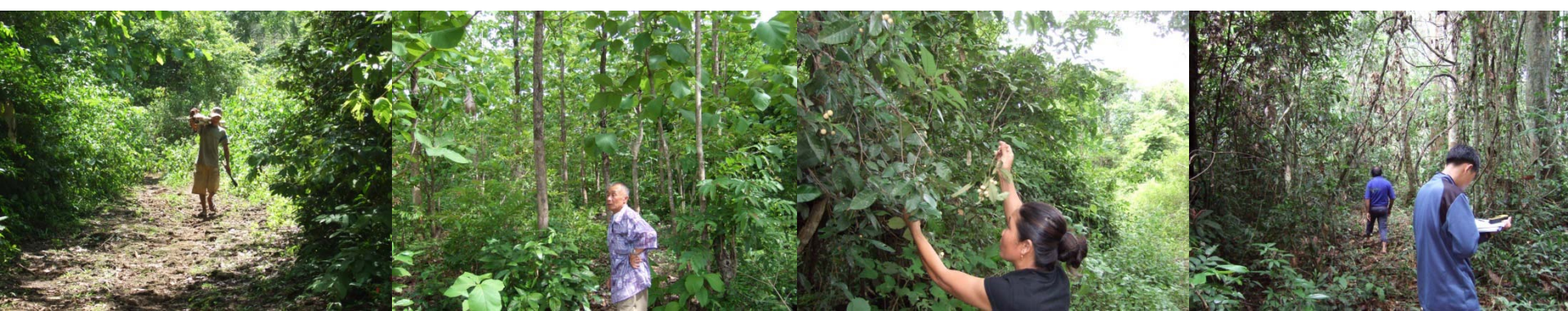
Forest Cover in Lao PDR - Trends

| Year | 1940 | 1982 | 1992 | 2002 | 2010 |
|------|------|------|------|------|------|
| (%) | 70+ | 49.1 | 47.2 | 41.5 | 40.3 |



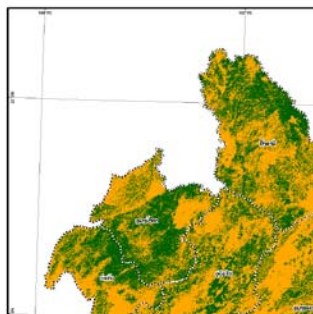
Forest and Land Use

| Land use type | Area (million ha) |
|---|-------------------|
| Current forest area | 9.5 (40%) |
| Potential forest area (stocking <20% canopy including areas classified as degraded forests) | 8.3 (35%) |
| Other land uses (including agriculture, urban areas, etc.) | 5.9 (25%) |



Forest Cover by Category

Total of 9.5 M ha of forest cover area (40.3% of the total land area) approx. 1.4% loss annually



| Forest Categories | Total Area (million ha) | Forest cover (Forested area) | |
|---------------------------------------|----------------------------|---------------------------------|---|
| | | Million Ha | % within Category/ % of total land area |
| Protection Forest Area | 8.2 | 3.13 | 38.17/13.23 |
| Conservation Forest Area | 4.7 | 2.64 | 56.17/11.14 |
| Production Forest Area | 3.1 | 1.48 | 47.74/ 6.26 |
| Areas outside Three Forest Categories | 7.68 (Incl. Plant) | 2.00 (excl. plant) | 26.04/ 8.44 |
| Plantation | | 0.3 | 1.27 |

Drivers of Deforestation and Degradation



- Hydropower and mining
- Large scale conversion to cash crop and tree plantation
- Conversion by smallholders



**Drivers of
deforestation**

**Drivers of
degradation**

- Illegal/unrecorded logging
- Shifting cultivation



Estimate of average yearly emissions of CO₂ from 2012-2020

| Results with default settings | | | | |
|---|------------------------|--|---|---|
| Total annual emissions | | Average annual area affected ('000 ha) | Average annual emissions (million tCO ₂ e) | Percent of total emissions of CO ₂ |
| Total annual emissions from C stock change in natural forests | | | -46.84 | 100.0% |
| Total annual emissions by shifting cultivation | | 57.3 | -9.95 | 21.25% |
| Total annual emissions due to land clearance | | 67.2 | -9.28 | 19.82% |
| Of which: | Commercial concessions | 34.2 | -4.72 | 10.08% |
| | Smallholder cash crops | 14.7 | -2.02 | 4.32% |
| | Hydropower | 13.1 | -1.81 | 3.87% |
| | Mining | 5.1 | -0.70 | 1.50% |
| | Infrastructures | 0.2 | -0.02 | 0.05% |
| Total annual emissions due to forest degradation | | 9,776.7 | -23.34 | 49.83% |
| Total annual emissions net of sequestration plantations | | 67.2 | -4.26 | 9.10% |
| Total annual net emissions (adjusted for sequestration) | | -51.10 | | |

Opportunities for GHG Abatement

Strategic options

1. Establishing a regulatory framework to minimize carbon emissions from mining and hydropower projects
2. Directing the expansion of cash crops and tree plantations to degraded areas
3. Forest harvesting in managed forests moving away from unregulated and illegal logging
4. Developing alternative livelihoods to reduce forest degradation from shifting cultivation
5. Carbon sequestration through forest regeneration and reforestation

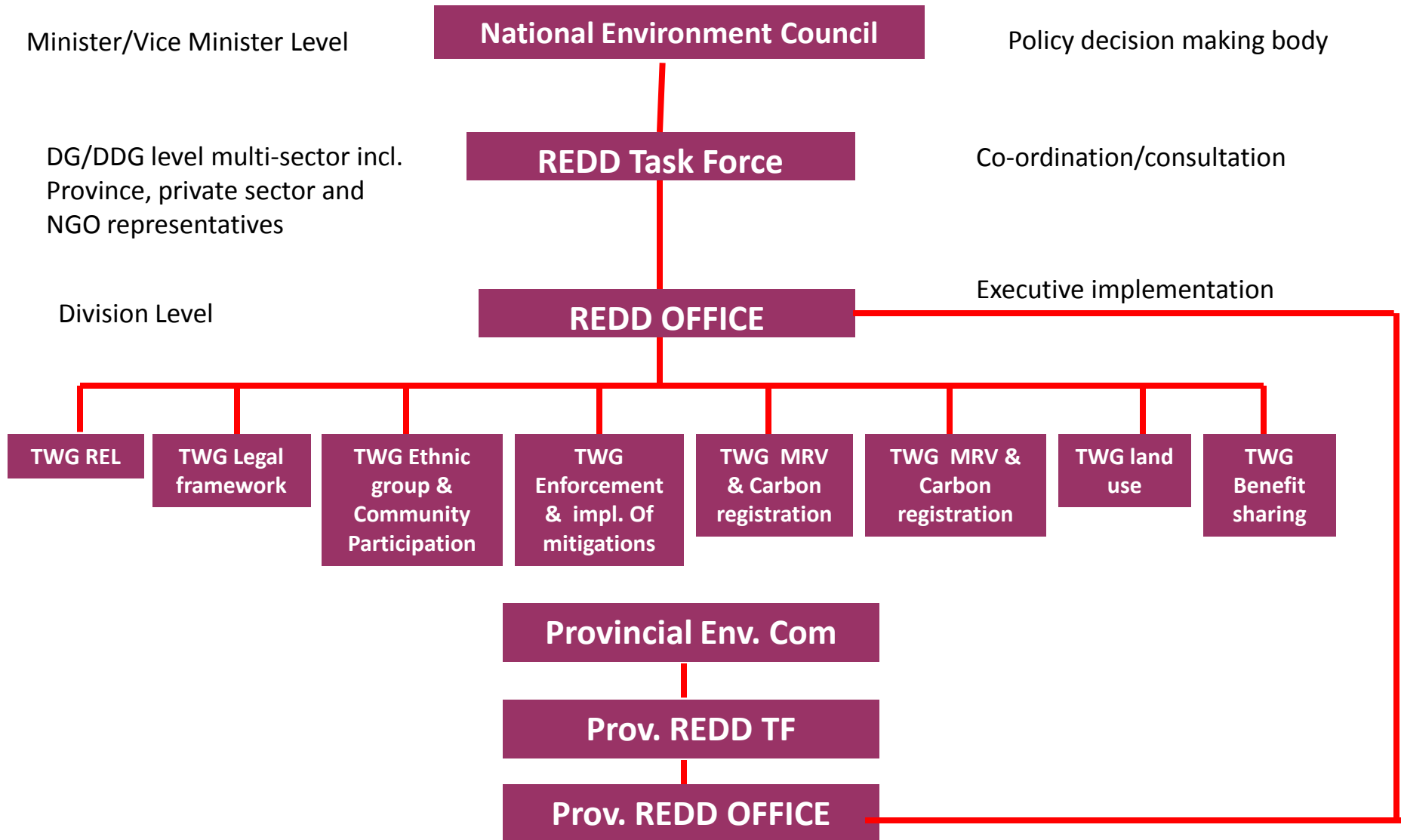
Enabling policy and regulatory environment

- Existing forest and related legislations:
 - Forestry Law 1996 and Revised 2007
 - PM decree on Production Forests 2010
 - Draft Presidential Decree on Benefit Sharing from Production Forests (2011)
 - Wildlife and aquatic Law (2008)
 - PM decree on Forest Protection (2011)
 - PM decree on protected Areas (in progress)
 - Ministerial regulation on Village Forest Management
 - PM Instruction No. 17
 - PM Decree on Delineation and Allocation of Land and Forest for tree planting and protection
 - Land Law (1997 revised in 2007)
 - Environment Protection Law (1999)
 - Forestry Strategy to 2020
 - National Biodiversity Strategy and Action Plan
 - Climate change strategy
- Adequate but **enforcement is generally weak**

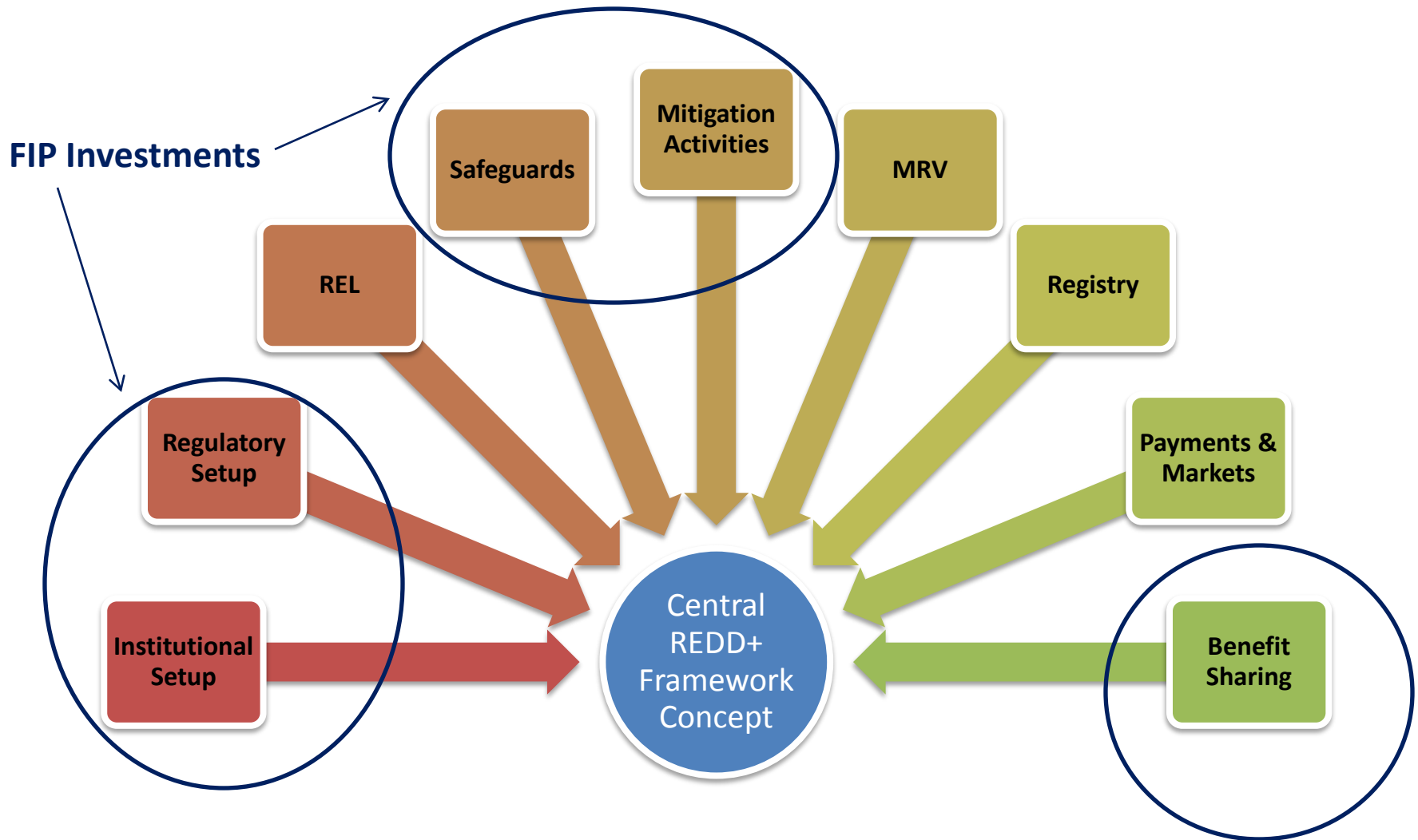
Governance

- 3 main responsible ministries:
 - MAF (DOF and DOFI and PAFO at province level and DAFO at district level) – responsible for Production forests and non-classified land.
 - MONRE (Dept. of Forest Preservation and its sections at provincial and district plus NPA Units) – responsible for conservation and protection forests.
 - MOIC (Dept. of Import and Export)– responsible for forest products trade, processing, industry

Proposed Structure for the REDD+ Activities in Lao PDR



National REDD+ Framework Components



Linking FIP with FS2020 & R-PP

The rationale:

To be able to attain the 70% forest cover target of FS2020:

- Protect the remaining forests
- Restore degraded forest land
- Value the standing forests (PES, REDD+)
- Socialize forest management (by all and for all)
- Integrate forest mgnt with other developments (land, agriculture productivity, etc.)

**REDD+
with FIP &
other
supports**

FIP IP Thematic Areas & Proposed Projects

PSFM in state managed forests (production, conservation and protection forests)

Village forestry

Small holder forestry and link to ITP development

Enabling Framework
(including hydro, mining, infrastructure)



1. Protecting Forests for Sustainable Ecosystem Services (ADB)
2. Smallholder Forestry Project (IFC)
3. Scaling-Up Participatory Sustainable Forest Mgmt (WB)

Project 1: Protecting Forests for Sustainable Ecosystem Services (ADB)

- Piloting PSFM in 2-3 protection forests and 1-2 conservation areas
- Piloting village and smallholder forestry in adjoining areas
- Strengthening the legal, governance, incentives and REDD+ framework (Developing PES to ensure protection of high conservation value based on the Decree on Protection Forests 2010)

Expected CO2 reduction

| Year | Shifting cultivation | | Natural forest | | | | Total (tCO ₂) |
|-----------|----------------------|-------------|---------------------------------|---|--------|-------------------------|---------------------------|
| | Emissions Avoided | Sequestered | Emissions avoided Deforestation | CO ₂ sequestered Degradation | Growth | Restoration plantations | |
| Base year | 83,076 | | 31,703 | 275,322 | | | 390,101 |
| 2012 | 8,308 | 2,342 | 34,873 | 15,971 | 58,709 | 313 | 120,516 |
| 2013 | 16,615 | 3,712 | 38,044 | 17,423 | 58,709 | 1,428 | 135,931 |
| 2014 | 24,923 | 4,684 | 41,214 | 18,874 | 58,709 | 3,896 | 152,300 |
| 2015 | 33,230 | 5,438 | 44,384 | 20,326 | 58,709 | 8,279 | 170,367 |
| 2016 | 41,538 | 6,054 | 47,555 | 21,778 | 58,709 | 18,072 | 193,706 |
| 2017 | 49,845 | 6,575 | 50,725 | 23,230 | 58,709 | 34,908 | 223,992 |
| 2018 | 58,153 | 7,026 | 53,895 | 24,682 | 58,709 | 70,660 | 273,125 |
| 2019 | 66,460 | 7,424 | 57,066 | 26,134 | 58,709 | 147,480 | 363,273 |
| 2020 | 74,768 | 5,760 | 60,236 | 27,586 | 58,709 | 291,101 | 518,160 |

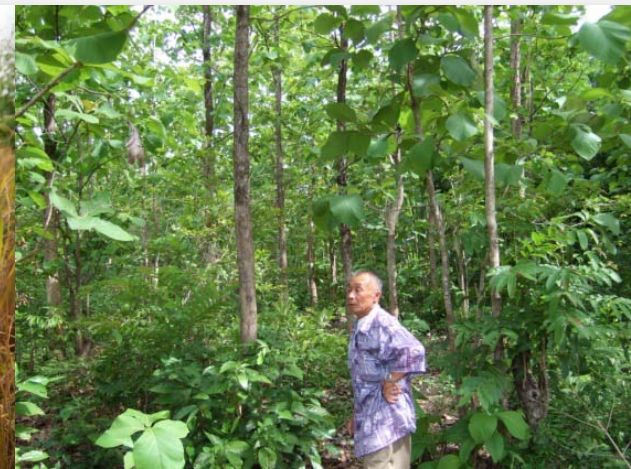
Existing pilots: Nam Theun 2 hydro project, Sepon Gold-Copper Mine, etc.



Project 2: Smallholder Forestry Project (IFC)

- Industrial Tree Plantation (ITP) Development
- Smallholder woodlot development (in villages of selected private enterprises)
- Strengthening legal, governance, incentives, and REDD+ framework (land registration, model contracts, screening investors, defining degraded land for plantation dev.)
- Village forestry

Examples: Oji Plantation Company (contract farming or 2+3 model is applied for 15% of the total planted areas) , Stora Enso (pilot agroforestry), FSC for teak plantation in Luangphabang



Project 3: Scaling-up PSFM (WB)

- Expanding PSFM in Production Forest Areas (currently 16 of 51 designated PFAs are included in SUFORD –42% of PFA area)
- FIP will allow inclusion of
 - Village land and forest management including communal tenure
 - Smallholder forestry and village development
 - Strengthening legal, governance, incentives, and REDD+ framework (including FLEG, salvage, benefit sharing)

Expected CO₂ reduction

| Changes in CO ₂ emissions from forest protection & restoration | | | | |
|---|---------------------|---------------------|-------------------------|-------------------------------|
| | Outside PFA | | PFA | Total net change in emissions |
| | Emissions avoided | Sequestration | Restoration plantations | |
| Base year | (tCO ₂) | (tCO ₂) | (tCO ₂) | (tCO ₂) |
| 2012 | 121,553 | 215,596 | 349 | 337,497 |
| 2013 | 121,553 | 217,743 | 932 | 340,228 |
| 2014 | 121,553 | 219,891 | 1,801 | 343,244 |
| 2015 | 121,553 | 222,038 | 2,116 | 345,707 |
| 2016 | 121,553 | 224,186 | 3,299 | 349,038 |
| 2017 | 121,553 | 226,333 | 2,287 | 350,173 |
| 2018 | 121,553 | 228,480 | 2,930 | 352,963 |
| 2019 | 121,553 | 230,628 | 7,678 | 359,859 |
| 2020 | 121,553 | 232,775 | 4,914 | 359,242 |
| | 1,093,974 | 2,017,670 | 26,307 | 3,137,951 |

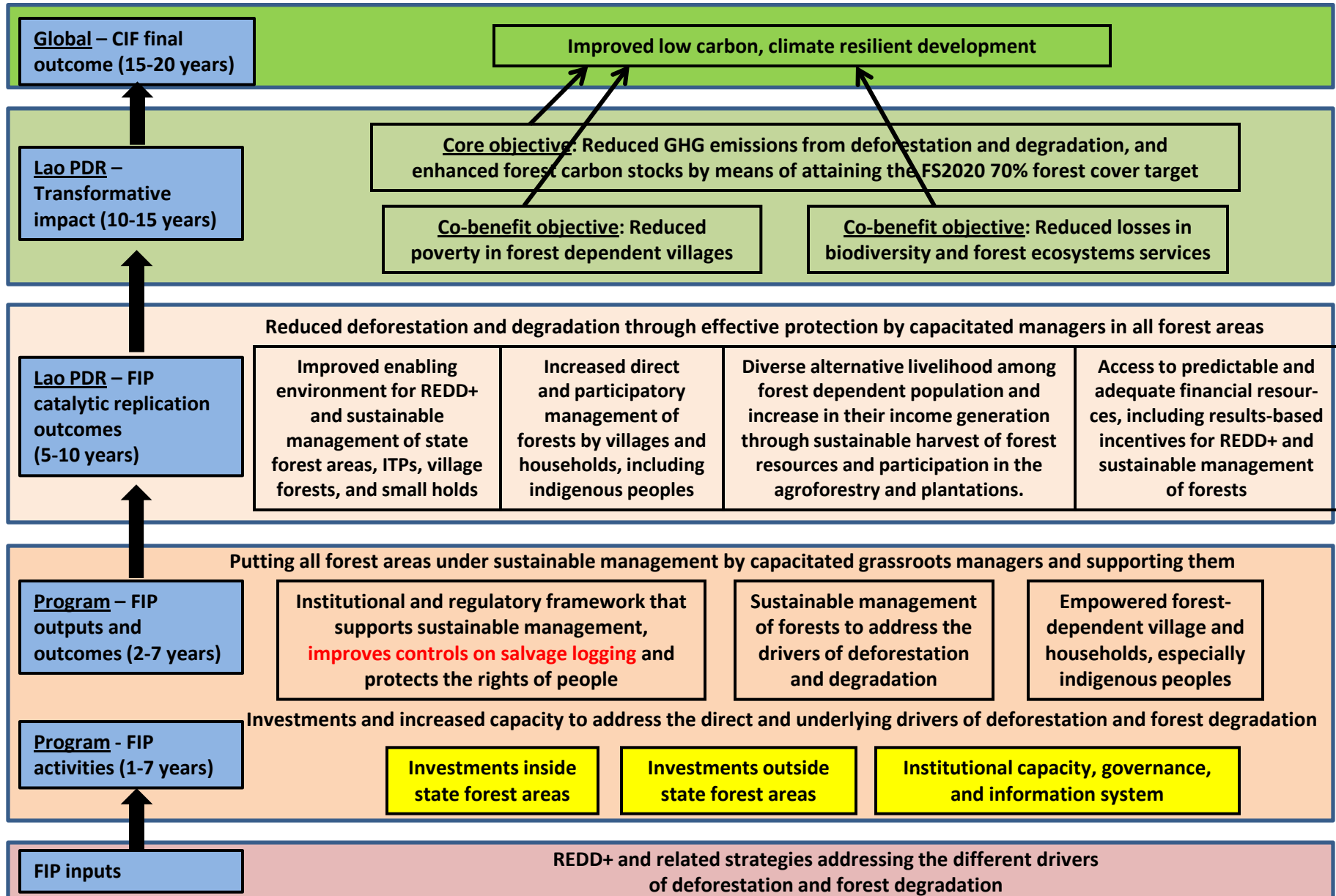


Forest Management Context in Lao PDR

Why Participatory Sustainable Forest Management (PSFM)?

- Community livelihoods are closely linked to forests.
- Participation of forest dependent communities is key to successful forest management
- The concept was introduced in 1995 as part of FOMACOP and has been widely implemented under SUFORD in production forests
- With FIP support Government is expanding the role of communities in all types of designated forest (protection and conservation forest as well as in forests outside designated forest areas (village forest).

Logic Model of the FIP Lao Investment Plan



Summary of Lao PDR Investment Plan

| Project/Program Concept Title | MDB | Requested FIP Amount (\$ million) | | | Public Sector / Private sector | Expected MDB co-financing (\$ m) | Preparation grant request (\$ m) |
|---|-----|-----------------------------------|-----------|----------|--------------------------------|----------------------------------|----------------------------------|
| | | TOTAL | Grant | Loan | | | |
| 1. Protecting Forests for Ecosystem Services | ADB | 13.34 | 13.34 | 0 | Public | 20 (SNRMPE P) + 20 (BCC) | 0.50 |
| 2. Smallholder and Private Enterprise Partnership Project | IFC | 3.3 | 3.33 | 0 | Public / Private | 10 (Private sector loan) | 0.30 |
| 3. Scaling-up Participatory Sustainable Forest Management (PSFM) | WB | 13.33 | 13.33 | 0 | Public | 17.1 + 8.29 GEF /WB +15 (TBC) | 0.50 |
| TOTAL | | 30 | 30 | 0 | | 90.29 | |

^[1] Includes preparation grant and project/program amount.

Institutional Arrangement for FIP

Project 1 (Protecting Forests for Sustainable Ecosystem Services)

- Will be implemented by Dept. of Forest Preservation (DFP) of the Ministry of Environment and Natural Resources (MONRE) and its local offices
- ADB in close coordination with the implementing agency and REDD Office;

Potential Risks:

- Risks have been assessed to be small.
- DFP has just recently been established and will take time to define operational guidelines for local levels.

Institutional Arrangement for FIP

Project 2 (Smallholder Forestry Project)

Implementation Arrangement:

- GOL : MAF, MONRE (Land Dept.), Ministries of Planning and Investment, and Commerce and Industry
- MDB: IFC provides financing and advisory services
- Private enterprises: ITP investment
- Farmers: using their land, labor, and other inputs received to establish woodlots
- Private Enterprise: providing extension services, seedlings, fertilizer and other inputs, and market guarantee to farmers

Risks:

- Technical risks have been assessed as small (LUPLA; Species suitable; Substantial markets available; Enterprise partners to be screened).
- Environmental and social risks assessed to be small (enterprises selected on the basis of meeting high environmental and social standards and good practices; areas will be limited to villagers' plots - old shifting cultivation and degraded plots; no planting in natural forest areas – mosaic approach to be adopted)

Institutional Arrangement for FIP

Project 3 (Scaling-up PSFM)

- Implemented by the Department of Forestry at national, provincial and district level in partnership with Village Forestry Organizations at Forest Management Unit level.
- Relevant land management offices of participant districts will support Participatory Land Use Planning – Land Allocation (PLUP–LA) process.
- The implementation of PSFM in Conservation and Protection forests will be on a pilot scale in the initial period of FIP financing with a view to replicating and expanding implementation subsequently
- MDB (WB) to provide support and review safeguard compliance
- MFA of Finland will continue to provide technical support services.

Risks:

- Risks have been assessed to be small.
- Villagers' motivation to participate in areas where forests are already degraded
- Communication and coordination challenges in ethnic communities

Institutional Arrangement for FIP

- The REDD Office (to be established) will oversee and provide support services (one stop shop) to all REDD+ related activities and ensure coordination between the government and development partners;
- The line Ministries (implementing agencies) will monitor and evaluate the effectiveness of each project implementation following MDB relevant policies.

FIP Consultation & Participation of Stakeholders



- **Consultations:** at the central and selected provincial levels
- **Stakeholders:** Govt agencies, key DPs (including international NGOs), CSOs, private sector, academia and mass organization representatives (LNFC who is ethnic group representative, Lao Women's Union)



FIP Consultations held to date...

- Stakeholder Consultations held during Scoping Mission (Jan 2011)
- Regional Consultation Workshop on the design of the DGM (Jan 2011)
- Stakeholder Consultations held during Joint Mission (June 2011)
- National Workshop to discuss initial design concepts (June 2011)
- National Stakeholder Consultation Workshop (September 2011)
- Internal Consultation with Implementing Agencies (August 2011)
- Sub-National Stakeholder Consultation Workshops
 - Luang Prabang (September 2011)
 - Savanakhet (September 2011)
- Extensive and inclusive consultations will be implemented during project preparation including through Dedicated Grant Mechanism (DGM)

Linkages between FIP IP & DGM

- Asia Regional DGM design workshop held in Vientiane (date)
- Initial discussions with potential implementing partners and interested CSOs held in Jan, Jun and Aug 2011
- Potential support to be aligned with the DGM guidelines
- Expected activities to include capacity building for local people on land use rights, communal forest mgmt, REDD+
- Further details on potential DGM activities and implementation modalities to be agreed during project preparation



Key comments from External Reviewers

| Reviewer Comment | Team Response |
|--|---|
| Overly-ambitious and unfocussed given national capacity and competing development programs. | <ul style="list-style-type: none"> - Proposed actions are highly focused on the main causes of degradation /deforestation - Activities that are not yet ready for full-scale implementation are to be piloted - Proposal builds on ongoing MDB projects and uses existing knowledge capacity (FM, Procurement, M&E) and legal frameworks |
| Land allocation actually exacerbates ethnic poverty | New Participatory Land-use Planning (PLUP) Manual gives clear guidance on how to strengthen local land tenure and enhance agricultural productivity |
| Some small-holder programs have increased smallholder indebtedness and resulted in increased C emissions and ecosystem degradation | All proposed FIP projects support alternative livelihoods . The projects will work with private sector partners who follow best practices in smallholder forestry. |

Key comments from External Reviewers

| Reviewer Comment | Team Response |
|--|---|
| Need to reference monitoring and evaluation mechanisms that will demonstrate “cost-effectiveness” of FIP | National MRV development is financed by bilaterals and FCPF. Efforts in this regard are detailed in the Lao RPP. FIP will support local MRV at community level. |
| Downsizing of timber industry to remove excess processing capacity | Limited success to date but efforts expected to continue under WB/Finland financing. Govt to consider additional FIP financing during project design. |
| | |

Conclusions

- We expect significant carbon reductions from FIP investments through:
 - Piloting transformative innovative approaches
 - Scaling-up successful forest management programs
 - Leveraging private sector experience in smallholder partnerships and agroforestry best practices
- We restore our forests by developing alternative livelihoods and addressing tenure security
- We will minimize carbon emissions from mining and hydro by strengthening regulations and forest law enforcement