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Report No: 61687 - LA

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 15.8 MILLION
(US\$25 MILLION EQUIVALENT)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

POVERTY REDUCTION FUND PROJECT II

APRIL 26, 2011

Southeast Asia Sustainable Development
Sustainable Development Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 30, 2011)

Currency Unit = Lao KIP
8045 = US\$1

FISCAL YEAR

October 1 – September 30

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
CDD	Community-Driven Development
CRPF	Compensation and Resettlement Policy Framework
DA	Designated Account
DRM	Disaster Risk Management
EGPF	Ethnic Group Policy Framework
EIA	Environmental Impacts Assessment
ESMF	Environmental and Social Management Framework
FM	Financial Management
FRALA	Framework for Resettlement and Acquisition of Land or Assets
FRM	Feedback and Resolution Mechanism
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GoL	Government of the Lao PDR
HHs	Households
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IEC	Information Education Communication
IEE	Initial Environmental Examination
IFR	Interim Unaudited Financial Statement
JSDF	Japan Social Development Fund
LDC	Least Developed Country
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MIC	Middle Income Country
MIS	Management Information System
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
NCB	National Competitive Bidding
NGPES	National Growth and Poverty Eradication Strategy
NLCRDPE	National Leading Committee for Rural Development and Poverty Eradication
NSEDP	National Socio-Economic Development Plan

O&M	Operations and Maintenance
ORAF	Operational Risk Assessment Framework
PMT	Project Management Team
POM	Project Operational Manual
PrMO-MOF	Procurement Management Office of the Ministry of Finance
MOF	Ministry of Finance
PRF	Poverty Reduction Fund
PRF I	Poverty Reduction Fund Project I (2003 – 2011)
PRF II	Poverty Reduction Fund Project II (2011 – 2016)
SDC	Swiss Agency for Development and Cooperation
SIL	Specific Investment Loan
SOE	Statements of Expenditures
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program

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Table of Contents

I.	Strategic Context.....	1
A.	Country Context	1
B.	Sectoral and Institutional Context.....	2
C.	Higher Level Objectives to which the Project Contributes.....	4
II.	Project Development Objective (PDO)	4
A.	PDO.....	4
1.	Project Beneficiaries.....	5
2.	PDO Level Results Indicators	5
III.	Project Description	6
A.	Project components.....	6
B.	Project Financing.....	9
1.	Lending Instrument.....	9
2.	Project Cost and Financing.....	9
IV.	Implementation	10
A.	Institutional and Implementation Arrangements	10
B.	Results Monitoring and Evaluation	11
C.	Sustainability	12
V.	Key Risks and Mitigation Measures	12
VI.	Appraisal Summary	13
A.	Economic and Financial Analysis	13
B.	Technical	14
C.	Financial Management	14
D.	Procurement.....	15
E.	Social	15
F.	Environment	16
	Annex 1: Results Framework and Monitoring	18
	Annex 2: Detailed Project Description	22
	Annex 3: Implementation Arrangements.....	29
	Annex 4: Operational Risk Assessment Framework (ORAF).....	39
	Annex 5: Implementation Support Plan.....	42
	Annex 6: Team Composition.....	47
	Country At A Glance	48
	MAP IBRD 33431	49

LAO PEOPLE'S DEMOCRATIC REPUBLIC

LA-POVERTY REDUCTION FUND II

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

EASTS

Date: April 26, 2011 Country Director: Annette Dixon Sector Manager/Director: Jeeva A. Perumalpillai-Essex Project ID: P123480 Lending Instrument: Specific Investment Loan	Team Leader: Ingo Wiederhofer Sectors: Public administration- Other social services (100%) Themes: Rural services and infrastructure (50%); Participation and civic engagement (50%) Environmental category: Partial Assessment Joint IFC: Joint Level:		
Project Financing Data			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: For Loans/Credits/Others: Total Bank financing (US\$m.): 25.00 Proposed terms: Standard IDA Grant terms			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	10.00	0.00	10.00
IDA Grant	0.00	25.00	25.00
Lao PDR – Multi-Donor Trust Fund Program	0.00	12.00	12.00
SWITZERLAND: Swiss Agency for Dev. & Coop. (SDC)	0.00	10.00	10.00
Total:	10.00	47.00	57.00
Borrower: Ministry of Finance 23 Singha Road PO Box 46 Vientiane, Lao People's Democratic Republic Responsible Agency: Lao Poverty Reduction Fund Lao People's Democratic Republic Tel: (856-21) 261-480 Fax: (856-21) 261-481 pmt@prflaos.org http://www.prflaos.org/			

Estimated disbursements (Bank FY/US\$m)*									
FY	2012	2013	2014	2015	2016	2017			
Annual	2.00	4.00	6.00	6.00	5.00	2.00			
Cumulative	2.00	6.00	12.00	18.00	23.00	25.00			
Project implementation period: Start July 15, 2011 End: June 30, 2016 Expected effectiveness date: July 15, 2011 Expected closing date: December 31, 2016 *World Bank fiscal year starts on July 1, 2011 and ends on June 30, 2012, i.e., FY 2017 means the fiscal year starting on July 1, 2016 and ending June 30, 2017.									
Does the project depart from the CAS in content or other significant respects? [<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Ref. PAD I.C.									
Does the project require any exceptions from Bank policies? [<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Ref. PAD IV.G. Have these been approved by Bank management? [<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Is approval for any policy exception sought from the Board? [<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Does the project include any critical risks rated “substantial” or “high”? [<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Ref. PAD III.E.									
Does the project meet the Regional criteria for readiness for implementation? [X] Yes [<input type="checkbox"/>] No Ref. PAD IV.G.									
Project development objective Ref. PAD II.C., Technical Annex 3 The Project Development Objective is to improve the access to and the utilization of basic infrastructure and services for the Project’s targeted poor communities in a sustainable manner through inclusive community and local development processes.									
Project description [one-sentence summary of each component] Ref. PAD II.D., Technical Annex 4 The Project would be financed as a Specific Investment Loan (SIL) from IDA of approximately US\$25 million implemented over a period of five years, from 2011-2016. The Project would consist of three components: (i) grants to communities for the financing of small-scale tertiary public infrastructure; (ii) training for communities and local government officials in the identification, planning, implementation, supervision and monitoring of community and local development investments; and (iii) project management.									
Which safeguard policies are triggered, if any? Ref. PAD IV.F., Technical Annex 10 The following safeguards policies have been triggered for PRF II. <ol style="list-style-type: none"> 1. Environmental Assessment (OP/BP 4.01) 2. Pest Management (OP/BP 4.09) 3. Indigenous Peoples (OP/BP 4.10) 4. Involuntary Resettlement (OP/BP 4.12) 									
Significant, non-standard conditions, if any , for: Ref. PAD III.F. Board presentation: N/A Loan/credit effectiveness: (a) the Subsidiary Grant Agreement between the Recipient and the Project Implementing Entity has been signed in form and substance acceptable to the Association; (b) the Recipient has adopted the Project Operational Manual, satisfactory to the Association;									

and

(c) a memorandum of understanding satisfactory to the Association has been signed between the Project Implementing Entity and MOF on disbursement procedures from the designated account to the Project Implementing Entity's project account.

Covenants applicable to project implementation:

The Recipient shall within nine (9) months of the Effective Date amend the Project Entity's Legislation to reflect the revised institutional arrangements of the PRF.

I. Strategic Context

A. Country Context

1. **Lao PDR has achieved significant progress in poverty reduction, since the initiation of market-oriented economic reforms in the mid 1980s.** The incidence of poverty has declined steadily over the last 15 years, from 46 percent in 1993 to 28 percent in 2008. The share of poverty was reduced by 30 percent in one decade, lifting one eighth of the total population out of poverty. Even though the population grew by more than one million between 1992/93 and 2007/8, the absolute number of the poor has declined to just over 1.5 million. Over the same period, about one third of the population has gained access to improved water and sanitation services, and the proportion with access to electricity rose from 16 percent in 1995 to 71 percent by 2010. Improvements have also been made in access to education and health services.

2. **However, Lao PDR remains one of the poorest countries in the region.** With an estimated per capita income of US\$740 in 2008, it is still classified by the United Nations as a Least Developed Country. Lao PDR ranks 133 out of 182 countries in the 2007 Human Development Index of the United Nations Development Program (UNDP). Considerable differences in poverty rates persist among different geographic areas and ethnic groups. The population comprises 49 different ethnic groups. The three major non Lao-Tai groups, who together constitute about 65 percent of the population, still record poverty rates above 42 percent, compared to 25 percent among Lao-Tai (considered the majority group). The pattern of poverty also depends on geography, with urban areas and districts along the Thai border experiencing more rapid growth and poverty reduction. In rural areas the incidence of poverty (32 percent) is almost double that of urban areas (17 percent). The most remote rural upland areas generally lag behind most. Villages that are distant from markets and which lack basic infrastructure record average poverty rates of 43 percent; a fall of just 5 percentage points since 2002/3. There are also substantial regional variations in poverty rates. The north of the country continues to lag behind other regions, and had a poverty head county of 32.5 percent in 2007/8 compared to 22.8 percent and 29.8 percent respectively in the South and Central regions.

3. **Non-income poverty also remains a serious issue and the country faces multiple challenges in meeting the Millennium Development Goals (MDGs).** The country still has much to do to meet a number of its MDG targets, including those related to nutrition, measles immunization, skilled birth attendance and some dimensions of gender equality. As with poverty, social indicators are worse in remote areas and among the non Lao-Tai ethnic groups. While urban areas have near 100 percent literacy rates, rural areas without roads have literacy rates below 75 percent, and the Chine-Tibet ethnic group records literacy rates below 40 percent.

4. **Furthermore, gender inequalities tend to be more pronounced among ethnic communities.** In general, women and girls are the most disadvantaged in the parts of the country where people in general are the poorest – those without access to road and those in non Lao-Tai ethnic groups. Good progress in the school enrollment rates of Lao-Tai girls has not been shared by either boys or girls from other ethnic groups. For example, Lao-Tai boys complete an average of 6.2 years of schooling, compared to only one year for Hmong-lu-Mien girls, and while 27

percent of women from households whose head speaks Lao give birth in a health facility, only six percent of those from households where the head speaks Hmong do so.

B. Sectoral and Institutional Context

5. The Government of Lao PDR (GoL) is committed to poverty reduction. The Government's strategy is articulated in the 2004 National Growth and Poverty Reduction Strategy (NGPES – the PRSP), and in the National Socio Economic Development Plan (NSED – the five-year plan) for the period 2006-2011. The NGPES identified 47 districts as priority areas for poverty reduction interventions. Efforts in these priority districts have focused on land reform, promotion of settled forms of agriculture, service delivery to village cluster centers, and the eradication of opium production.

6. The 7th five year National Socio-Economic Development Plan (NSED), which will cover the period 2011-2015, continues the emphasis on achieving the MDGs by 2015, and transitioning from the Least Developed Country status by 2020. The National Program for Rural Development and Poverty Eradication, which is a key input to the NSED, has identified the following five priority goals for increased Government attention in rural areas:

- (i) small-scale infrastructure and service delivery and livelihood development;
- (ii) decreasing the service and income gap between rural and urban areas;
- (iii) ensuring more integrated economic and social development, taking into account the importance of natural resource management and environmental conservation;
- (iv) encouraging the participation and initiative of local communities based on the participatory development approach; and
- (v) improved international and regional cooperation.

7. However, the Government's ability to implement its poverty reduction priorities is constrained by a lack of resources. Being one of the poorest countries in the region, the GoL lacks sufficient domestic financial resources to implement many of its development priorities. Administrative structures remain inadequately funded and of uneven capacity. There continues to be a predominance of a top-down orientation in policy making at all levels, although civil service reform efforts are under consideration. Civil society organizations are generally still in early stages of development; though a Non-Profit Associations Decree# 115 signed by the Prime Minister in April 2009 is opening up legal space for the development of these institutions. Party affiliated mass organizations, such as Lao Women's Union and the Lao Youth Union, have strong mobilization and grass roots outreach roles, but they have limited technical expertise.

8. A number of interlinked factors make poverty reduction in the Lao PDR challenging. Approximately 42 percent of Lao PDR's population lives in mid- and upland areas that are difficult to access for service delivery and are remote from markets. Language barriers, varying cultural practices and attitudes complicate communication. Private sector practices are also adding a layer of complexity. The country is rich in natural resources; more than half of the GDP of Lao PDR comes from natural resource exploitation. Commercialization and associated opportunities for off-farm jobs provide growth and employment opportunities in some areas. However, this increasing penetration of rural space by market actors is also increasing

vulnerability among some communities, particularly those who risk losing access to land or control over resources, or those who lack the skills needed to earn income in other ways.

9. **Notwithstanding the Vientiane Declaration on Aid Effectiveness and Harmonization (2006)**, multiple approaches to local development persist in Lao PDR. The Government has recently strengthened harmonization efforts. For example, the Poverty Reduction Fund (PRF) is participating in a task force co-chaired by the National Leading Committee for Rural Development and Poverty Eradication (NLCRDPE) and the Ministry of Planning and Investment (MPI) seeking to harmonize local development planning approaches. MPI has indicated that preliminary outputs will be shared with partners in 2011. In the meantime, different projects continue to implement their own approaches. Several projects focus on participatory planning and local government capacity-building in rural areas, including the District Development Fund, the Lao Northern Upland Development Project, and the Khammouane Development Project (PO87716). Most of these projects are focused on local development planning and local government capacity-building in limited geographic areas, and they tend to have modest funds for community grants.

10. **Building on its past achievements, the next phase of the PRF will continue to contribute to the Government's poverty reduction agenda.** Specifically, the PRF II will fill a gap by financing investments in small public infrastructure that facilitate poor communities' access to basic services and markets in relatively remote and inaccessible areas. The PRF's participatory approach also contributes to strengthening citizens' engagement and voice in local development.

11. **The PRF's institutional-set enables rapid delivery of services across sectors.** Established as an operationally autonomous entity overseen by a board of Directors (represented by various line-ministries), and chaired by the Deputy Prime Minister, the PRF has been able to work across sectors and locate staff in remote areas, in a manner that is difficult for sector ministries to maintain, given resource and capacity constraints. The PRF's community-driven development (CDD) approach has also demonstrated the value of community participation in and ownership of local development efforts, including for women and ethnic groups.

12. **The PRF I, was implemented from 2003-2011, with an initial IDA credit (US\$20 million, 2002-2008) supplemented with Additional Grant Financing (US\$15 million) from 2008-2011.** The Swiss Agency for Development and Cooperation (SDC) initiated support to the PRF in 2008, and has provided approximately US\$7 million since. The overall financing envelope of US\$42 million makes the PRF one of the largest multi-sectoral rural poverty reduction programs in the country. In addition, it is estimated that communities have contributed an additional estimated US\$6.5 million equivalent towards the implementation of PRF I, largely in the form of labor and local materials.

13. **The PRF has a successful track-record and has been able to deliver services in remote areas quickly and at scale.** To date, PRF I has provided support to approximately 2,185 communities in 8 out of 17 provinces, 30 out of 144 districts, including 23 of the Government's 47 priority poverty districts. Since its establishment in 2002, 3,396 sub-projects have been completed, including construction of 91 bridges, 62 health dispensaries, 1,237 water supply

points, and 155 irrigation schemes. PRF has also upgraded 3,042 km of 420 rural roads, and constructed and/or upgraded 597 schools. Overall, implementation has been satisfactory and PRF investments have enhanced the access of poor rural villages to socio-economic infrastructure and services.

14. **Since 2010, Government has also drawn upon the PRF to serve as an implementation platform for the rehabilitation of small-scale infrastructure damaged by the cyclone Ketsana.** This platform was provided through the Lao Upland Food Security Investment Project (LUFSIP, P120909), for an amount of US\$4.19 million. These efforts are financed by IDA and a grant from the European Commission, as well as through a grant from the Global Facility for Disaster Reduction and Recovery (GFDRR) supported by the Australian Agency for International Development (AusAID).

C. Higher Level Objectives to which the Project Contributes

15. **Over the next 10-15 years, the PRF will continue to be one of the government's main vehicles to reduce rural poverty through CDD activities, and to foster the adoption of a participatory planning, financing and implementation model for local service delivery in rural parts of the country.** In the short-term, the PRF would continue to fill a gap in the implementation of small infrastructure investment activities in remote rural areas in an efficient manner that is responsive to community needs and that fosters community ownership. The PRF will also assess the capabilities and support the increased involvement of local authorities in Project implementation with a view to strengthening their capacity to assume greater responsibility for community and local development activities currently executed by the PRF in the longer term.

16. **The Bank's support to the PRF is consistent with its Country Assistance Strategy (CAS) of 2005 and extended until 2011 (CAS Progress Report),** one objective of which is to improve social outcomes, including reducing poverty in the 47 Government priority poverty districts. A new CPS is currently under preparation.

II. Project Development Objective (PDO)

A. PDO

17. **The Project Development Objective** is to improve the access to and the utilization of basic infrastructure and services for the project's targeted poor communities in a sustainable manner through inclusive community and local development processes.¹

¹ For the purposes of the PRF II, sustainability will be assessed across the following dimensions: (i) developing a viable and replicable model for the government of community planning and financing (Component 2, Intermediate Result 2); (ii) increasing the role of local governments in coordinating and supporting the program (Component 2, Intermediate Result 2); (iii) enhancing the capacity of communities and local governments to plan and undertake local development activities (Component 2, Intermediate Results 1, 2, 3); and (iv) improving the overall design quality and operations and maintenance of sub-project infrastructure, including incorporating disaster-risk reduction designs into relevant sub-projects (Component 1, Intermediate Result 3).

1. Project Beneficiaries

18. **The Government has revised its poverty targeting focus from the district level to kum ban and household levels.** This new policy is specified in the provisions of Decree #285/PM on the Poverty Criteria and Development Criteria (2010-2015) of October 13, 2009. In line with Government's policy, the PRF II will adopt the kum ban as a unit for poverty targeting instead of the district.

19. **The Project has identified beneficiary kum bans for PRF II on the basis of the following criteria:**

- i) kum ban poverty criteria specified in Government's Decree #285/PM, specifically those related to poverty incidence, access to a road, access to water, and access to education and health services;
- ii) geographic location in terms of operational access and administrative cost-effectiveness;
- iii) the presence of other similar programs in these kum bans; and
- iv) the PRF will not work in villages which have been resettled in the last two years and/or which will be resettled imminently.

Using these criteria, and drawing upon the findings of the National Population and Housing Census of 2005, and the Lao Expenditure and Consumption Survey (LECS) III of 2002/3, the PRF and the NLCRDPE, with the assistance of the Center for Development and Environment of the University of Berne, prepared a national kum ban targeting list with poverty ratings.

20. **Based on this targeting process, PRF II would provide assistance to approximately 275 rural kum bans in 38 districts and 10 provinces.** The Project would continue to provide support to villages in six of the seven existing PRF I target provinces (Savannakhet, Saravanh, Houaphanh, Luang Namtha, Sekong and Xiengkhouang).² In addition, the Government has requested that the Project expands to villages in an additional four provinces (Phongsaly, Oudomxay, Luangphabang, and Attapeu).³

21. **This coverage represents a significant geographic expansion and a 25 percent increase in the number of kum bans** to be assisted when compared with the 220 kum bans that received support during the final cycle of PRF I. Approximately 130 kum bans that have been eligible for assistance in PRF I would remain eligible for PRF II assistance. The PRF would deepen its interventions in these kum bans.

2. PDO Level Results Indicators

22. **The key results to be achieved in PRF II by 2016 would be as follows:**

- i) Improved access to and utilization of basic economic and social services in at least 220 kum bans supported by the PRF;
- ii) PRF sub-projects are identified, planned and implemented through participatory processes that involve at least 40 percent of women and at least 60 percent of the poorest villagers in planning, decision-making implementation and monitoring; and

² Champasak province has received assistance under PRF I but will no longer be eligible for support in PRF II as it has successfully reduced poverty rates significantly in recent years.

³ In Attapeu, the PRF has served as an implementing agency for the LUFSIP since 2010.

- iii) Greater than 75 percent satisfaction levels reported by beneficiaries in targeted villages regarding improved service delivery and participatory local development planning, implementation and monitoring in a representative subset of sub-districts.

III. Project Description

A. Project components

23. **PRF II will build on a number of key lessons from PRF I.** Key lessons have been learned with respect to community sensitization and facilitation in multi-ethnic environments, the importance of ensuring the technical quality of investments, the need for adequate provisions for operations and maintenance, procurement in remote areas, and measures required to ensure the coherence of PRF activities with regular planning and investment processes at district and provincial levels. In the course of Project implementation, poverty targeting and participatory methods have improved. An internal review of the PRF undertaken by the World Bank have rated the relevance of the operation highly, and considered the attainability of the development objectives as likely. The review stressed the importance of further investment to enhance prospects for sustainability. This review also emphasized the importance of intensive implementation support, including for evaluation, safeguards and fiduciary aspects.
24. **Key refinements in PRF II Project design include the following:**
- i) **Poverty targeting.** The targeting approach will focus on kum bans (as opposed to districts), and will seek to reach the poorest communities and groups within those kum bans.
 - ii) **Multi-year planning.** The participatory planning process will be strengthened at village and kum ban levels and budgeted multi-year investment plans will be developed for each kum ban. These will be revalidated by communities annually. This approach will strengthen the community empowerment process as well as improve linkages with sector and local government investment planning processes;
 - iii) **Sustained investments.** The Project will provide four rounds of sub-project investments in each beneficiary kum ban over four years. This deepening of the PRF support is expected to: (a) allow for a concentration of investments that will help beneficiary kum bans graduate from poverty status, and (b) enhance the community empowerment process through a repeated learning-by-doing process, and an increased focus on implementation and maintenance of sub-projects;
 - iv) **Technical quality.** The Project will pay greater attention to the technical quality of sub-projects, drawing upon relevant sector guidelines, supporting greater involvement of sector personnel at district level in project appraisal and supervision, assignment of clear responsibilities for operations and maintenance, and enhanced monitoring of technical quality;
 - v) **Feedback and resolution.** The Project will further strengthen the PRF's system for receiving and responding to feedback and complaints from communities and other stakeholders by making it more accessible for villagers and by adopting a more proactive approach in soliciting feedback;
 - vi) **Gender issues.** Given persistent gender disparities, in particular in remote areas that are home to ethnic groups, the Project will develop a Gender Action Plan in the first six

months of implementation. The Action Plan will highlight the needs and constraints of both women and men, and seek to mainstream gender issues further into the Project, as well as identify specific activities that will contribute to women's equal participation and benefits.

- vii) **Disaster Risk Management (DRM).** Building on PRF I's experience following the Ketsana cyclone in 2009, and given its strong presence in remote areas, DRM concerns will be mainstreamed into the Project. For example, in areas that are prone to natural disasters, PRF-financed infrastructure will be strengthened and resilience will be factored into the design of sub-projects.
- viii) **Livelihoods pilot.** In response to the Government's request that the PRF also address livelihood challenges, the PRF II would support livelihoods activities on a parallel financing track through a grant (US\$2.6 million) financed by the Japan Social Development Fund (JSDF). The livelihood pilot would be implemented during three years in five districts in Houaphan and Savannakhet provinces, where PRF has a strong presence, and be closely aligned with the PRF's planning cycle. It would have a strong gender and ethnic group focus and seek to test models for effective and sustainable rural livelihood improvements for poor communities. Depending on the success of the pilot, options for scale-up and replication would be developed accordingly.
- ix) **Evaluation.** The Project will undertake a number of rigorous studies to assess results.

25. The PRF II will consist of the following three components: (i) Community Development Grants, (ii) Local & Community Development Capacity-Building Support and Learning, and (iii) Project Management.

Component 1: Community Development Grants (US\$40.9 million, 72 percent of project costs): This would finance the following activities:

26. **Planning for community and local development.** The kum ban planning process would be undertaken on a three year rolling basis. Villagers would prepare development plans that would be integrated at the kum ban level through an inclusive process led by elected village representatives. Kum ban plans would be revalidated on an annual basis through a participatory process at the village, kum ban and district levels. Emphasis will be placed on the provision of more and better community-level facilitation and the regular and rigorous monitoring and evaluation of community planning processes, especially in kum bans and communities in which the PRF has not operated before. Attention will be paid to further strengthening villagers' participation in sub-project planning, implementation and monitoring with the support of PRF kum ban facilitators. Planning will facilitate selection of investments that are responsive to specific community needs and take into account local maintenance capacities.

27. **Community sub-projects.** Sub-projects will be financed and implemented on an annual basis, with a commitment to four rounds of financing per target kum ban. Sub-projects will be selected for financing at the kum ban level by the PRF kum ban committee (consisting of elected villagers including women and ethnic groups). PRF district staff, district local government and sector officials would provide technical appraisal and validation of proposals. The final decision for sub-project financing would be made in a transparent manner by the PRF kum ban committee based on criteria to be specified in the Project Operations Manual (POM). PRF II sub-projects

would be required to meet appropriate technical standards for infrastructure agreed upon with relevant sector ministries. Activities to be financed under the grants would be open except for items specifically excluded through the project's negative list.⁴

Component 2: Local & Community Development Capacity-Building and Learning (US\$6.6 million, 12 percent of project costs, excluding contingency):

28. **Village & kum ban level.** This component will finance facilitators to train communities to assess their own needs, discuss these with local authorities, implement and supervise the construction of small public infrastructure investments, procurement, financial management, operations and maintenance (O&M), and lastly monitor outputs and outcomes at the community and kum ban levels. All village training activities will be directly related to planned and/or ongoing sub-projects financed under Component 1 (e.g., establishment of Parent Teacher Associations for schools, water user groups, upgrading of teachers or nurses, etc.) to increase the effectiveness and quality of sub-project implementation and utilization.

29. **District & Provincial level.** The component would finance training activities to strengthen the capacity of district and provincial officials to support pro-poor local and community development processes. This will include financing of training on community and local development planning, financial and contract management, supervision and procurement. This component would provide resources to facilitate their participation in relevant PRF II activities (e.g., ensuring coherence of kum ban plans with district and sector plans, technical appraisal of sub-projects, technical supervision of sub-projects, and supporting maintenance).

30. **Central level.** The component would provide support to the National Leading Committee on Rural Development and Poverty Eradication (NLRDPE) to refine its methodologies for national poverty targeting efforts, to provide oversight to the PRF, to strengthen the capacity of its staff to utilize participatory local development methods, and to strengthen coordination of PRF II investments with those of various sector ministries and other entities supporting rural development in Lao PDR.

31. **Monitoring, reporting and evaluations.** Project monitoring, reporting and evaluation activities would also be financed under this component. This would include equipment and operating costs for the Management Information System (MIS), preparation and dissemination of progress reports, maintenance of the PRF website, and a number of key studies.

Component 3: Project Management (US\$9.0 million, 16 percent of project costs, excluding contingency)

32. This component would finance the costs of implementing PRF II activities. It would include remuneration of national, provincial and district PRF staff; associated equipment and operating costs; accounting, procurement, financial management, internal controls, auditing, and other specialized areas.

⁴ The negative list is specified in Annex 1 of the project's Environmental and Social Management Framework (ESMF).

B. Project Financing

1. Lending Instrument

33. **IDA grant financing in support of PRF II will be provided through a Specific Investment Loan (SIL) instrument using standard IDA Grant terms.** The SIL is a flexible instrument that is appropriate to support the range of project activities. The justification for this instrument includes: (i) targeting of poorest villages and kum bans, and promoting the participation of ethnic groups in local development efforts; (ii) the need for enhanced capacity-building and technical assistance, especially in support of remote local governments and more remote ethnic groups; and (iii) strengthening monitoring, evaluation and reporting beyond traditional reporting of outputs, to focus increasingly on outcomes and qualitative aspects of service delivery.

2. Project Cost and Financing

34. **The overall project cost for PRF II will be US\$57 million.** Of this, IDA will finance US\$25 million. The GoL will provide a further US\$10 million from national budgetary resources. The SDC intends to finance US\$10 million equivalent and AusAID will provide a further US\$12 million equivalent through a Bank-administered Multi-Donor Trust Fund (MDTF). This MDTF will co-finance project activities as well as key studies, technical assistance and implementation support.⁵ The GoL and the Bank are continuing discussions with other potential partners to secure further financing.⁶ See Annex 2 for details on project costs.

C. Lessons Learned and Reflected in the Project Design

35. **A number of lessons from implementation of PRF I and other poverty alleviation programs in the country have been integrated in the modified approach of PRF II.** Extensive experiences with the CDD approach under the World Bank financed projects in other countries in the region, such as Kecamatan Development Project-PNPM Rural in Indonesia (P115052), KALAHI-Comprehensive and Integrated Delivery of Social Services in the Philippines (P114048), and Northern Mountains Poverty Reduction Program in Vietnam (P113493) also provide relevant lessons. The Project has incorporated the following lessons into its design:

⁵ AusAID has committed an amount of US\$12 million equivalent at this time. The Bank is currently in discussion with AusAID and other donors to further increase contributions to the MDTF. It is possible that this MDTF could reach up to US\$30 million during PRF II. The PRF has prepared contingency scenarios for how to manage an increase or decrease of the financing envelope available for PRF II. This would primarily be managed through either an increase or decrease respectively of the geographic scope of the Project.

⁶ The financial support of GoL will be provided in KIP, AusAID support will be provided in Australian Dollars, that of the SDC in Swiss francs. IDA financial support will be provided in Special Drawing Rights (SDR) of the IBRD.

Table 1: Lessons Learned from PRF I

Lesson Learned	Integration into PRF II Design
Specific measures are needed to ensure effective poverty targeting, especially in multi-ethnic environments.	<ul style="list-style-type: none"> • The selection of kum bans for PRF II support will be based on poverty incidence of the population, presence of other programs, and cost-effectiveness. • 75 percent of PRF II sub-projects will benefit poorest villages directly. • PRF II will increase use of facilitators from different ethnic groups, and make socialization and communication materials more responsive.
Multiple rounds of assistance are necessary at the community level to achieve poverty reduction impacts.	<ul style="list-style-type: none"> • All beneficiary kum bans will receive four rounds of assistance. • Planning and regular community engagement through facilitators will be extended over a four year period.
The annual planning cycle is not cost-effective and does not lend itself to alignment with sector planning processes.	<ul style="list-style-type: none"> • The Project will move from annual to multi-year planning cycles. Planning and decisions would be made at kum ban level with verification from district level, allowing communities to plan better and to align more closely with sector ministries' and district plans.
There are opportunities to increase the technical quality of infrastructure and strengthen supervision, including resilience and disaster risk aspects.	<ul style="list-style-type: none"> • Requirements for adherence to appropriate sectoral standards will be applied in order to ensure technical quality. • The splitting of sub-projects over multiple cycles will not be permitted. • Additional external technical audits will be conducted on regular basis. • DRM considerations will be mainstreamed.
Transparency and accountability measures are of paramount importance for community development projects.	<ul style="list-style-type: none"> • The Feedback and Resolution Mechanism will be further strengthened. • Transparency will be fostered through public display of information at village, kum ban and district levels, as well as the PRF web site.
Procurement procedures should be adapted more to community needs and capabilities.	<ul style="list-style-type: none"> • PRF II will adapt community procurement to community capacities, and draw upon good practice from other CDD projects. • Greater emphasis will be placed on procurement supervision, as part of the integrated fiduciary/technical process.

IV. Implementation

A. Institutional and Implementation Arrangements

36. **PRF II would continue to be implemented through the same delivery modality as PRF I**, given the successful track record of the current PRF implementation arrangements and the significant experience resident in this structure. The PRF is a legally established autonomous entity, formed and run in accordance with the Decree of the Prime Minister (222/PM) of September 29, 2006.

37. **In terms of oversight, the PRF will continue to be located within the Prime Minister's Office as part of the NLCRDPE.** It is envisaged that the NLCRDPE will play an enhanced role in the oversight and coordination of PRF II activities, especially at national level,

given a vision of greater integration of the PRF into regular Government systems. The decree governing the PRF will be amended within nine months of Grant signing to reflect these changes. The NLCRDPE would also conduct regular meetings to discuss areas of mutual interest with relevant sector ministries, sharing information on planning and joint field visits.

38. In collaboration with the NLCRDPE and provincial authorities, the PRF would support diagnostic analytical work in the first two years of PRF II. Such analytical work would focus on issues directly related to the PRF, such as capacity and training needs assessments of local authorities in districts in which it is operational. These assessments would inform future implementation options as well as local government capacity-building investments. Opportunities for operational pilots would be explored during the mid-term review. In the meantime, relevant local government and sector personnel would be involved in PRF II project activities on a regular basis with a view to strengthening their familiarity and capacity through a “learning-by-doing” approach. To formalize the coordination between the PRF and key sector ministries (in particular Education, Health, Public Works & Transport, Ministry of Agriculture and Forestry) written agreements on terms of engagement would be prepared.

39. The following elements of the PRF’s implementation arrangements would be enhanced further, based on lessons learned to date, as well as the needs associated with the modified approach and expansion to new kum bans envisaged in PRF II.

- i) **Financial Management.** The PRF has sound financial management systems in place. However, a scaled up PRF II will require an enhancement of PRF’s financial management (FM) systems while retaining flexibility for local variations based on differences on context. Measures to support further strengthening of FM systems will include: (a) the establishment of an internal controls unit; (b) pooling of financing; (c) harmonized FM reporting and external audit requirements; (d) enhanced accounting software; and (e) additional FM training for PRF staff, communities and local officials.
- ii) **Procurement.** PRF II will reinforce the Project’s procurement system, especially for sub-project grants. Increased use of adapted community contracting procedures will be encouraged.
- iii) **Accountability and transparency measures.** The existing accountability and transparency mechanisms will be strengthened under PRF II. Transparency and accountability measures will be included at all stages of the sub-project selection and implementation. PRF II will also strengthen its Feedback and Accountability Mechanism to handle grievances and complaints in a timely manner.
- iv) **Communication and training:** PRF already has a wide range of communication activities in place. Given the importance of effective communication, in particular in remote rural areas and with ethnically diverse communities, PRF II will further strengthen its communication activities and customize its communications more strategically for different purposes, audiences and stakeholders.

B. Results Monitoring and Evaluation

40. Monitoring and Reporting. PRF has established an extensive reporting and management information system (MIS). Reports from the field are generated regularly to produce monthly, quarterly, and annual progress reports. There are several improvements which

will be made in PRF II, including: (i) make semiannual reports more analytical, focusing more intensively on progress towards outcomes; (ii) using the MIS information more effectively for management decision-making as well as for external and internal communications; and (iii) improving the Feedback and Resolution Mechanism (FRM) database and reporting procedures.

41. **Special Studies.** As part of the monitoring and evaluation framework, the project will also undertake several special studies that will provide information on a number of issues, including results, beneficiary perspectives, technical quality, capacity-building and O&M aspects.

C. Sustainability

42. **The PRF is already one of the largest multi-sector rural poverty reduction initiatives in the Lao PDR.** The sustainability of PRF has already been broadly demonstrated: strong community participation ensures local ownership and investments in demand-driven sub-projects; local government participation provides additional support and an opportunity for institutionalization and scaling up of the approach; and village-level investments have been proven to be of adequate quality. The Government's commitment to provide significant national co-financing for PRF II augurs well for the future financial sustainability of these activities.

43. **In the longer-term, it is envisaged that responsibility for implementation of PRF activities would be integrated further into GoL service delivery institutions.** This will require: (i) greater clarity on the Government's policy, institutional and fiscal frameworks for service delivery and local development in rural areas; (ii) stronger technical and fiduciary capacity in local government; and (iii) a commitment from provincial and local authorities to participatory community development approaches as well as enhanced accountability for service delivery.

44. **To enhance prospects for institutional sustainability,** the PRF II will: (i) intensify investment in the capacity of communities to lead community-level planning and sub-project implementation and maintenance efforts, including through enhanced community planning processes and multiple years of investment that should help to embed processes and foster learning by doing; (ii) support ongoing efforts to harmonize community and kum ban development planning efforts; (iii) undertake local governance diagnostics, including capacity needs assessments, and systematically involve local government staff in sub-project appraisal and supervision; (iv) promote regular exchange of information with related programs, including during district validation meetings; and (v) strengthen the capacity of the NLCDRPE for rural poverty targeting and coordination.

V. Key Risks and Mitigation Measures

45. **Key risks for PRF II have been reflected in the Operational Risk Assessment Framework (ORAF)** for identifying risks and mitigation strategies in Bank projects (see Annex 4). The possibility of the existing PRF capacity being overstretched due to the deepening and the geographic expansion of PRF II has been identified as the key risk. Other risks include: (i) potential interference by different authorities in the selection of beneficiary target districts, kum bans, villages and sub-projects respectively; (ii) possible intra-village elite capture; (iii)

government or external partner co-financing not meeting expectations; (iv) challenges related to implementation of participatory approaches and inclusion of diverse ethnic groups; and (v) limited capacity of the local authorities to assume greater responsibility over time. Mitigation measures for these risks have been identified and integrated in the Project design.

46. **There are also risks associated with the Government's broader national policies and practices regarding village consolidation and resettlement.** As the country accelerates the use of its natural resources for growth, the number of development or investment projects (particularly hydropower, mining, and agribusiness) that require significant resettlement is increasing. Government has policy in place for dealing with this (Decree #192). However, the enforcement of this policy is uneven. In addition, the Government's own village consolidation policy is resulting in both a physical relocation process and an administrative process. Hence, there is a risk that PRF is investing resources in villages that will become resettled, which would be a waste of resources. There is also a risk that by putting PRF investments in consolidated villages, PRF may be used as an incentive for village consolidation. To mitigate these risks the approach developed under PRF I will remain in effect. The Project will not support resettlement which is not in line with good development policies and the Government's policies, nor will it allow that PRF be used as an incentive for village consolidation. Specifically, PRF investments in villages for which the Government has imminent plans or intentions to resettle and/or consolidate will not be allowed. PRF resources can also not be used in villages that have been resettled within the last two years. Furthermore, it should be noted that the design of PRF, which encourages investment in remote rural villages demonstrates the benefits of assisting communities in situ. The PRF will continue to collect and report on this in its progress reports, and Project donors will continue to monitor resettlement and village consolidation during Project supervision.

VI. Appraisal Summary

A. Economic and Financial Analysis

47. **Detailed cost-benefit calculations cannot be made upfront, because of PRF's demand driven operational cycle and extensive menu.** Experience from PRF I and other community-driven development projects, like social funds, financing similar small scale public infrastructure, however, has indicated favorable economic rates of return for individual sub projects.⁷ A unit cost comparison undertaken in the context of the PRF evaluation done by the Bank in 2008 indicates that PRF unit costs remain below the costs of many other development projects in Laos. In-kind community contributions, community-based procurement founded on knowledge of local costs, and PRF cost checks through comparisons with a centrally managed unit costs database help maintain construction costs below those of most other development projects undertaking similar activities. The other main benefits of the PRF are in capacity-

⁷ Economic analysis of 41 Indonesia Kecamatan Development Project sub-projects (roads, bridges, water supply and irrigation) carried out during the first Kecamatan Development Project found a weighted average ERR of 60 percent. Village infrastructure built through CDD cost on average 56 percent less than equivalent works built through sector or local government contracts. A cost-comparison based on the abovementioned sample using local government and private engineers to re-cost CDD-built infrastructure showed significant savings due to the elimination of some of the following costs: middlemen and outside contractors' overhead costs; double and/or triple handling of materials; frequent on-site design modifications; and extra charges for supervising projects in remote areas.

building and empowerment of rural citizens and local authorities, which are not amenable to cost-benefit analysis.

B. Technical

48. **PRF II will finance simple, village tertiary infrastructure related to road access, social and health services, irrigation, and disaster response activities.** In PRF I, approximately 90 percent of sub-project grant funds financed public village level infrastructure, mostly comprising investments in access (roads, bridges and drainage structures), school renovation and construction, village health facilities, water and sanitation, and irrigation and drainage investments.

49. **Assessments and surveys undertaken during PRF I generally show adequate functionality and acceptable sustainability of infrastructure sub-projects.** However, it is recognized that the technical quality of PRF investments requires further improvement. To this end, PRF II will (i) utilize appropriate sector standards to the extent these are available, with a clear focus on critical design elements which cannot be compromised, (ii) support harmonization of PRF planning and budgeting with sector investment and maintenance planning at district, provincial and central levels, and in accordance with associated schedules, (iii) ensure that all sub-projects are completed within one cycle, (iv) provide additional training to PRF engineers and facilitators, as well as to relevant government staff, including district engineers, and (v) intensify monitoring and external evaluation of technical quality, efficiency, sustainability and outcomes.

50. **Training for community O&M is provided for under the current project, and will be strengthened under PRF II.** The project will pay special attention to the role facilitators and project engineers have in ensuring that O&M plans are prepared in the context of the development of infrastructure proposals, and that they are implemented post-construction. Forging more and better links to local government sectors is a priority, as these are expected to contribute to the O&M of projects financed sub-projects. The effectiveness of different user fee modalities may also be explored.

C. Financial Management

51. **The FM assessment was carried out during the pre-appraisal and updated again during the appraisal mission.** This assessment built upon the FM assessment carried out for PRF I in 2002, findings of internal and external reviews, as well as discussion during the identification, pre-appraisal and appraisal missions. The implementing agency remains the PRF. FM arrangements have been determined to meet the minimum requirement of OP/BP 10.02 with the implementation of mitigation measures or enhancement of internal controls. The overall FM risk is assessed to be 'Moderate'.

52. **The two main risks that could impact the achievement of project's objectives** include: (i) misallocation of resources due to inadequate enforcement of internal controls and procedures at all levels; and (ii) the 'overstretch' of staff capacity to continue to provide timely and quality FM support due to the scale up of PRF II. These risks will be mitigated by: (i) enhancement of the internal control system, including the establishment of an internal controls

unit; (ii) retention of experienced staff from phase I and recruitment of additional FM staff required for additional provinces; (iii) additional training on FM at all levels; (iv) revision of the Finance and Administration Manual, as part of the POM, as a condition for effectiveness; (v) additional guidance in the form of simple FM guideline for kum ban teams; (vi) increased community awareness and a Feed Back Resolution mechanism; (vii) annual external audits; and (viii) bi-annual technical assessments.

D. Procurement

53. **A Bank procurement accredited staff carried out the procurement capacity assessment during the project pre-appraisal mission.** As under PRF I, the Poverty Reduction Fund Office in Vientiane will be fully responsible for procurement for national, provincial and district offices and will have overall responsibility for the supervision of village sub-project grants. The procurement of vehicles, offices equipment, furniture and renovation of offices will be closely reviewed and monitored by the PRF central office.

54. **The implementation of the sub-projects, including procurement, will be decentralized to the village level,** as the PRF project design is focused largely on the implementation of sub-project grants through a CDD process at village level. Similarly, the procurement of mostly very small value civil works and some goods will also be carried out at the village level through village implementation teams using either National Competitive Bidding (NCB), Shopping (with advertisement) or Community Force Account procedures. There will be increased attention to procurement training for elected village representatives, kum ban facilitators and PRF district staff. Key lessons learned from community contracting and maintenance under other CDD and infrastructure projects will be integrated in the POM.

E. Social

55. **Experience from PRF I indicates that the overall impacts of the project were socially positive and benefitted local communities, especially remote ethnic groups who had previously not been able to participate in development projects.** The same positive social impacts are expected for PRF II. Infrastructure sub-projects, however, may result in minor negative direct and indirect social impacts, leading to vulnerability if not adequately mitigated, especially when such sub-projects involve land acquisition or land donation. Therefore, the Bank's policy on resettlement (OP 4.12) has been triggered. Indirect impacts may also occur especially in the case opening access (through roads and bridges) to communities who lack awareness and knowledge of outside actors. This could increase risky behaviors (such as drug use, transmittal diseases, debt, human trafficking, etc.) in such communities.

56. **A review of PRF I found no major land acquisition and/or adverse negative impacts on local populations to date.** The land requirements stemming from sub-projects have been minor (ranging from 81m² to 7,850m²), and were addressed through land donations. Given that PRF II investments will be similar in nature to PRF I, the Framework on Resettlement and Acquisition of Land and Assets (FRALA), which was developed under PRF I and is in line with the Bank's OP 4.12, will continue to be applied under PRF II. The FRALA for PRF II has been updated, taking into consideration the lessons learned from PRF I, as well as the provision of

support to disaster risk management and piloting of livelihoods assistance in the course of PRF II, which is beyond the scope of the original Project.

57. **A Compensation and Resettlement Policy Framework (CRPF) has been developed, of which the updated FRALA is a key part.** This CRPF describes the general policies and procedures set out under the expanded FRALA, and identifies overall policies and procedures that would apply when land needs to be acquired and private assets are to be impacted under the Project, whether through voluntary donation or against compensation. The CRPF was reviewed by the task team and found in line with OP 4.12.

58. **The PRF II will continue to operate in areas that are home to numerous ethnic groups and the Bank's policy on indigenous peoples (OP 4.10) has been triggered.** PRF's approach for inclusion of all ethnic groups, (developed during for PRF I and further updated for PRF II) is specifically designed to ensure that priorities of ethnic groups are given due consideration when sub-projects are designed both in ethnically homogenous communities where ethnic groups are the dominant residents and in multi-ethnic communities where they live together with majority Lao people. Due attention will also be given to ensure that ethnic groups are consulted, that they do not suffer adverse impacts during the project and that they receive culturally compatible social and economic benefits. Throughout the PRF's sub-projects' implementation, steps are included to make sure that the varied cultures of the multi-ethnic society are respected and that gender issues are integrated at all levels. Specific measures addressing ethnic community issues have been included in the Ethnic Group Policy Framework (EGPF) which was prepared as a standalone document and which the Bank confirmed to be in line with OP 4.10 requirements.

59. **Adverse impacts on the known archeological, paleontological, historical, or unique natural values in the sub-project areas are unlikely,** therefore the Physical Cultural Resources policy (OP 4.11) is not triggered. However, a standard clause for "chance finds" will be included in the Environment Management Plan (which will be attached to civil works contracts), and appropriate follow up on these would be financed from project contingency resources as necessary.

F. Environment

60. **The Project is rated as a Category B project.** Two environmental safeguard policies, environmental assessment (OP 4.01) and pest management (OP 4.09) have been triggered. Safeguard review of PRF I confirmed that most civil works are small and of a CDD type, and could therefore be mitigated through good construction practices. The rehabilitation of irrigation, building of small irrigation/agriculture production, and/or control of infestation of diseases, however, may increase the use of pesticides and/or involve procurement of small amount of pesticides, herbicides, and insecticides. To mitigate this potential impact, a simplified Pest Management Plan (PMP) has been prepared outlining clear regulations and procedures for management of pesticides and/or toxic chemicals as well as providing knowledge on health impacts and safe use of pesticides and/or, when possible, promotion of non-chemical use alternatives such as organic farming.

61. **Furthermore, a screening criterion has been developed to exclude sub-projects with potential large and/or significant impacts using the “negative list” and to prepare and implement appropriate mitigation measures according to the nature and extent of the potential impacts.** An Environmental and Social Management Framework (ESMF) has been prepared based on the environmental management framework of the Social and Environmental Screening Guidelines used for PRF I, and taking into account its implementation experience.

62. **Although actual adverse impacts on local environment and local communities have not been observed, there is still a need for PRF to further strengthen safeguard reporting and recording systems.** There are opportunities to further improve coordination within the PRF (technical, community development, and monitoring and evaluation) and, when possible, to make an effort to reduce indirect impacts on potential degradation of natural resources in nearby natural habitats, conservation, and protected areas, and to enhance the positive impacts of the PRF II project. Specifically, there are opportunities to connect PRF II activities with natural resource protection, such as linking infrastructure development activities with conservation of forest resources, protected areas, and management of watershed areas. Additional safeguard training and support for implementation and monitoring of safeguard compliance (both environment and social) will be necessary particularly for the provincial and district/kum ban level staff. A budget has been allocated to such activities for the first three years of PRF II. The project will also prepare simple booklets and outreach materials on environmental issues for use by communities and district based staff of PRF.

63. **The project has been designed to demonstrate that beneficiary communities with requisite capacity could also benefit from conservation of natural resources.** There are opportunities to promote “clean communities” approaches in areas where infrastructure (like dispensary, markets, school, etc.) are provided. Increasing knowledge of these aspects will be explored during the PRF village socialization and planning processes.

64. **All PRF II safeguard documents have been submitted to the Bank, reviewed by environmental and social safeguard specialists, and found to be satisfactory.** The documents have been disclosed in Lao and English locally, loaded on the PRF’s website, and submitted to the InfoShop. These documents are as follows Compensation and Resettlement Policy Framework (CRPF); Ethnic Group Policy Framework (EGPF); Environment and Social Management Framework (ESMF) including Environmental Codes of Practice; and simplified Pest Management Plan (PMP). The ESMF, PMP, CRPF, and EGPF have been translated, and disclosed at PRF offices at central as well as provincial and district levels.

Annex 1: Results Framework and Monitoring

Results Framework

Project Development Objective (PDO): To improve access to and utilization of basic infrastructure and services for PRF II targeted poor communities in a sustainable manner⁸ through an inclusive community and local development process.												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR1	YR 2	YR3	YR4	YR5				
Indicator One: Improved access to and utilization of basic economic and social services in kum bans supported by PRF: <ul style="list-style-type: none"> - % increase in school enrollment - % increase in access to and utilization of health services - % HHs with improved access to and utilization of safe water resources - % increase in access to and utilization of roads - Lowest two quintiles benefit from above services. 	□	%	Baseline for randomized impact evaluation will be completed in Yr1 ⁹					>6% increase in primary school enrollment >6% increase in access and utilization of health services >8% increase in access to and use of safe water resources >8% increase in access to and use of roads	3 times during project, baseline, mid-term and final	Randomized impact evaluation	Contracted firm	Measure access and utilization rates for key basic services

⁸ For the purposes of the PRF II, sustainability will be assessed across the following dimensions: (i) developing a viable and replicable model for the government of community planning and financing (Component2, IR2); (ii) increasing the role of local governments in coordinating and supporting the program (Component2, IR2); (iii) enhancing the capacity of communities and local governments to plan and undertake local development activities (Component 2, IRs 1,2,3); and (iv) improving the overall design quality and operations and maintenance of sub-project infrastructure, including incorporating disaster-risk reduction designs into relevant sub-projects (Component 1, IR3).

⁹ According to Lao Expenditure and Consumption Survey 2007/08, nationally, 78% of rural children were enrolled; 9% of rural villages (w/ no road) had access to dispensary /health centre; 70% of villages have access in rainy and dry seasons; 72% HHs have safe water supply in dry season.

Indicator Two: Decision-making on allocation of PRF resources involve at least 40% women and 60% poorest community members	<input type="checkbox"/>	%	Process yet to begin for Phase II	40% women, 60% poorest	40% women, 60% poorest	40% women, 60% poorest	40% women, 60% poorest	40% women, 60% poorest	Annual reports	Project MIS	PRF	Ensure that decision-making process is participatory
Indicator Three: Greater than 75% satisfaction levels reported by beneficiaries in targeted villages regarding improved services and local development planning.	<input type="checkbox"/>	%	Process yet to begin for Phase II			>70%		>80%	3 times during project, baseline, mid-term and final, 2 times beneficiary assessment	Randomized impact evaluation, beneficiary assessment	Contracted firms	Gauge satisfaction of stakeholders with PRF and services
Indicator Four: Total number of beneficiaries of which x% are female.	X <input type="checkbox"/>	# beneficiaries	Depends upon types of activities chosen by communities during project						Annual	Project MIS	PRF	WB core indicator reporting requirement
INTERMEDIATE RESULTS												
Intermediate Result (Component One): Community Development Grants: Communities utilize block grants for socio-economic investment activities.												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	YR 1	YR 2	YR3	YR 4	YR5	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
Intermediate Result Indicator One: #/type of sub-project activities implemented	<input type="checkbox"/>		For CDD programs, there is no pre-set list of activities to be funded. The activities depend upon community priorities emerging from a participatory planning process. However, the project will be reporting upon #/type of activities each quarter						Quarterly & annual project reports	Project MIS	PRF consultants	Type of activities funded
Intermediate Result Indicator Two: x% of sub-project activities are of high technical quality	<input type="checkbox"/>	Quality of sub-projects	0			>70%		>85%	2 times during life of project	External technical quality studies	Independent contracted firm	Quality of investments
Intermediate Results Indicator Three: x% of sub-projects are being maintained and are operational two years after sub-project completion		Maintenance of sub-projects	0			>80%		>90%	2 times during life of project	External technical quality studies	Independent contracted firm	Maintenance of investments

<i>Intermediate Result indicator Four:</i> Sub-project activities are x% more cost effective compared to other means of delivering services (w/ similar technical standards)	<input type="checkbox"/>					>20%		>30%	2 times during life of project	External technical studies	Independent contracted firm	Cost-effectiveness of investments
Intermediate Result (Component Two): Local Development Capacity-building Support - Communities and local government officials increase their capacity to carry out local level planning and development.												
Intermediate Results Indicators*	Core	Unit of Measure	Baseline	YR 1	YR 2	YR3	YR 4	YR5	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
<i>Intermediate Result indicator One:</i> # of communities able to plan, implement and monitor their activities.	<input type="checkbox"/>	kum ban		150	200	220	250	250	Quarterly & annual project reports	Project MIS	PRF consultants	Measuring local capacity
<i>Intermediate Result indicator Two:</i> % of districts where district officials provide technical assistance and supervision to communities	<input type="checkbox"/>	district	0	70%	75%	80%	85%	85%	Quarterly & annual project reports	Project MIS, field reports	PRF	Gauge district level govt assistance & cap bldg.
<i>Intermediate Result indicator Three:</i> % PRF kum ban plans used by government and/or other development actors for planning and funding.	<input type="checkbox"/>	kum ban plans				25%		35%	Mid-term and final study	Government capacity study	External firm	Measuring spillover effects of PRF planning and investment process
Intermediate Result (Component Three): Project Management Project is supported administratively and managerially.												
Intermediate Results Indicators*	Core	Unit of Measure	Baseline	YR 1	YR 2	YR3	YR 4	YR5	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
<i>Intermediate Results indicator One:</i>		PRF		85%	90%	100%	100%	100%	Quarterly	PRF reports	PRF PMT	Ensure staffing is

X% of PRF fully staffed		staff										optimal to manage and execute program
<i>Intermediate Results indicator Two:</i> X studies/evaluations completed in a timely manner		number	0 for PRF II			3		5 (cumulative)	Several during life of project, mostly mid-term & final	Reports	PRF PMT, WB	Studies to inform project design and adaptive mgmt.
<i>Intermediate Result indicator Three:</i> Progress reports prepared on time.	<input type="checkbox"/>	Annual progress report		1	1	1	1	1 final	Annual	Project reporting system	PRF PMT	Annual progress reports
<i>Intermediate Result indicator Four:</i> MIS is improved to produce necessary information for monitoring program effectiveness and results		System				Qual assessment		Qual assessment	Min. 2 times during life of project	WB qual assessment	WB	Progress reporting and Computerized management information system

Annex 2: Detailed Project Description

1. The PRF II consists of the following three components: (i) Community Development Grants, (ii) Local & Community Development Capacity-Building Support, and (iii) Project Management Support.

Component 1 – Community Development Grants (approximately US\$40.9 million, 72 percent of PRF II project costs, excluding contingency):

2. **Planning for community and local development.** The kum ban planning process would be undertaken on a three year rolling basis, with a financial cycle of four years, and with opportunity for substantive annual reviews. Villagers would prepare development plans that would be integrated at the kum ban level through a participatory planning process led by elected village representatives. The planning process would be elaborate and include a series of close interactions/consultations with the beneficiary communities, including through an introductory meeting and training on PRF II concepts. The planning process would also include a detailed assessment of communities' needs using social mapping and other relevant tools to identify priorities and ensure the voices of vulnerable groups are heard and included in the selection of the priorities. Kum ban plans would be revalidated on an annual basis through a participatory process at the village, kum ban and district levels.

- **Facilitators.** Emphasis will be placed on the provision of more and better community-level facilitation and the regular and rigorous monitoring and evaluation of community planning processes, especially in kum bans and communities in which the PRF has not operated before. Keeping in mind the objective of the PRF is to empower communities, due attention will be paid to further strengthening villagers' participation in sub-project, implementation and monitoring. PRF facilitators would play a critical role in this process and ensure that planning supports selection of PRF investments, which are adequate to specific community needs and maintenance capacities.
- **Up-front budget allocation.** Each target kum ban will receive a four-year budget allocation upfront to inform its planning and prioritization. An average annual budget allocation of US\$35,000 would be made to PRF II target kum bans, for a total average investment amount per kum ban of US\$140,000 over four years.¹⁰ This would enable the PRF to (i) deepen its investments and thus its poverty reduction effect in target kum bans; (ii) improve predictability of financing for communities; (ii) reduce the risk of “unfunded planning” and competition among communities for annual funding cycles leading to frustration; (iv) help communities to develop budgeting skills; (v) focus more PRF staff and community time and effort towards sub-project implementation, supervision and monitoring rather than planning; and (vi) facilitate alignment of PRF plans with sector ministries' planning processes.

3. **Community sub-projects.** Sub-projects would be financed and implemented on an annual basis. Sub-projects will be selected for financing at the kum ban level by the PRF kum

¹⁰ The specific annual budget allocation per kum ban would be in the range of US\$30,000 – US\$40,000. The specific amount could be established on the basis of the following criteria: (i) population, (ii) remoteness / cost of access, and (iii) implementation performance.

ban committee (consisting of elected villagers including women and ethnic groups). PRF district staff, district local government and sector officials would provide technical validation of proposals. The final decision for sub-project financing would be made in a transparent manner at the kum ban level by the PRF kum ban committee based on criteria to be specified in the Project Operations Manual.

- In accordance with the PRF principle of empathy for the poor, and based on the lessons learned from PRF I, there would be a requirement that 75% of the sub-projects would directly benefit the poorest communities within the kum ban.
- PRF II sub-projects would be required to meet appropriate technical standards for infrastructure agreed upon with relevant sector ministries. In this regard, the PRF II would seek to deepen cooperation with key sector ministries to facilitate both greater participation of local sector personnel in the appraisal, supervision and maintenance of PRF investments, and greater utilization by sector ministries of PRF community planning to inform their own investment strategies. Further modifications to technical standards will be considered on the basis of the technical assessment of PRF I investments to be completed by June 2011.
- Activities to be financed under the grants would be open except for items specifically excluded through the project's negative list. Strong facilitation and supervision by PRF staff will be crucial to ensure that technical standards are adhered to and adequate budget allocated to selected sub-projects.

4. **Mainstreaming of Disaster Risk Management (DRM).** Building on PRF's experience following the Ketsana Cyclone in 2009, and given its strong presence in remote areas, DRM concerns would be mainstreamed into the Project. PRF II would especially play a stronger role in DRM at the kum ban and village levels. In areas that are prone to natural disasters, existing PRF-financed infrastructure would be strengthened, and resilience would be factored into the design of new PRF sub-projects in high risk areas. PRF would also play a role in assisting communities identify disaster risks, including mitigating measures in their village and kum ban planning processes. Finally, the Project would allow for the flexible utilization of PRF II grants to assist community recovery efforts in case of natural disasters in PRF II target kum bans.

5. **Gender issues.** Women and men's different needs, constraints and opportunities would be mainstreamed into PRF II and also addressed through specific gender focused activities. The project would develop a Gender Action Plan that will be integrated in the POM in the first six months of Project implementation. The Action Plan would cover areas such as gender balance in human resources, and gender informed and sensitive outreach, gender informed DRM, facilitation and monitoring.

Component 2: Local & Community Development Capacity-Building and Learning
(approximately US\$6.6 million, 12 percent of PRF II project costs, excluding contingency):

6. **Village & kum ban level.** This component will support the PRF objective of empowering communities by training them in assessing their own needs, discussing these with local authorities, implementing and supervising the construction of small public infrastructure investments, procurement, financial management, operations and maintenance, and lastly monitoring outputs and outcomes at the community and kum ban levels. All village training

activities will have to be directly related to sub-projects financed under component 1 (such as establishment of Parent Teacher Associations for schools, water user groups, etc.). The costs of PRF II kum ban facilitators will be financed under this component.

7. **District & provincial level.** The component would finance investments to strengthen the capacity of district and provincial officials to support pro-poor local and community development processes, including financing of training on community and local development planning, financial and contract management, and supervision and procurement. Resources to facilitate the participation of district and provincial officials in relevant PRF II activities (e.g., ensuring coherence of kum ban plans with district and sector plans, technical appraisal of sub-projects, technical supervision of sub-projects, supporting maintenance) would be provided. To establish a baseline and identify needs, the project would finance capacity needs assessments for district authorities in areas where PRF II is operating in the first two years of PRF II implementation.

8. **Central level.** The component would also finance strengthening of the NLCRDPE to support national poverty targeting efforts, oversight and to strengthen coordination of PRF II investments with those of various sector ministries and other entities supporting rural development in PRF II target kum bans.

9. **Accountability and transparency measures.** This component will also include activities that support strengthening of the existing accountability and transparency mechanisms, thereby supporting inclusive community and local development processes. Transparency and accountability measures will be included at all stages of the sub-project selection and implementation process. In the districts, the final sub-project selection will take place in front of community representatives, district authorities, and PRF staff. In addition to donor implementation support missions, physical verification will be conducted by PRF staff, who supervise the implementation of the process, and by communities, which are in charge of the implementation. The Project will reinforce participatory and transparent monitoring systems to develop early warning indicators for elite capture in communities. It is envisaged that young university graduates may perform an additional monitoring function.

10. **Feedback and resolution mechanism.** PRF II will also strengthen the existing Feedback and Resolution Mechanism (FRM) to handle grievances and complaints. Twenty-three instances of feedback had been recorded in PRF I. These are mostly related to: (i) complaints about insufficient funding for completion of sub-projects; (ii) unmet expectations about the project benefits; (iii) requests for PRF support; and (iv) requests for clarification. Only one feedback case related to compensation. The enhancements in the FRM for PRF II will, inter alia, include: (i) introducing multiple formal uptake channels (e.g. setting up of Village FR Committees, hotline, email); (ii) linking up the traditional intermediaries, such as village elders, with the FRM; (iii) adopting a more proactive approach to soliciting feedback from communities; (iv) providing training to FR Committees, traditional intermediaries, and MBO representatives; and (v) enhancing the procedures for the feedback recording, processing, and analysis.

11. **Transparency.** Transparency will be fostered through public display of information at the village, kum ban and district level and the PRF web site. The project will conduct regular technical and beneficiary assessments, and establish an internal control unit. Procurement is conducted by communities, but is supervised by PRF staff, which compares unit costs of all

proposals with a Unit Cost Database that it has developed. At the national level, an independent financial audit is conducted each year. An external technical auditor will be hired to perform bi-annual technical audits. Quarterly and annual reports, which contain, among others, financial information, a complete list of sub-projects approved and implemented, and procurement plans. Progress reports are published in English and will be available on the PRF website.

12. **Communication.** PRF already has a wide-range of communication activities in place and is engaged in information, education, and communication activities on the national, provincial, district, and kum ban and village levels. Different approaches are used to reach its audiences and stakeholders including public media such as the internet, TV, radio, and newspapers; dedicated print material such as brochures, calendars, text and graphic manuals; face-to-face trainings; and direct communication loudspeaker systems. The Participatory Assessment of PRF 2010, however, found that some beneficiaries still have a lack of understanding of PRF processes, insufficient access to PRF communication and training material, and report varying quality of PRF information. Given the importance of effective communication, in particular in remote rural areas and with ethnically diverse communities, PRF II will further strengthen its communication activities and customize its communications more strategically for different purposes, audiences and stakeholders. To this end, PRF is preparing an Information, Education, and Communications strategy and an accompanying short Action Plan, to guide and focus its communications work. One focus area for the strategy will be to ensure learning from implementation and sharing of lessons learned with planners and decision-makers at all levels of government.

13. **Reporting and monitoring.** PRF currently has a fairly extensive reporting and management information system (MIS). PRF staff regularly produces monthly, quarterly, and annual progress reports. The Project would seek to further strengthen the capacity of the PRF's M&E team, to allow them to undertake several improvements that are envisaged for PRF II. Various actors, including beneficiaries, PRF central, provincial and district staff, kum ban facilitators, and young graduates will undertake monitoring. Improvements of reporting and monitoring systems include:

- Review all reporting forms so that they are: (i) consistent with the new PRF II design (e.g. kum ban level forms, access to services rather than location of services); and (ii) streamlined data. Data that has been collected but not used during phase I should be re-evaluated to see if it is actually needed.
- Make the quarterly and annual reports more analytical, focusing upon issues and trends.
- Review how to use MIS information more effectively for external communications (brochures to national, provincial and district staff on accomplishments)
- MIS staffing improved at the national and district levels to accommodate scale-up.

14. **Impact evaluation.** In the next phase, an impact evaluation using both quantitative survey methods as well as qualitative techniques will be undertaken.¹¹ Specifically, the project would aim to have a baseline (2011), midterm (2012-13) and final impact evaluation (2015). The evaluation will measure impacts on the following issues: consumption/expenditure; access to

¹¹ This activity and a number of the more complex evaluation studies may be executed by the World Bank under an anticipated Bank-executed window of the Multi-Donor Trust Fund (MDTF). All such efforts would also seek to build the evaluation capacity of PRF and the NLCDPE.

services; local governance issues such as government and community satisfaction with PRF, participation, confidence-building, and decision-making. The qualitative component will include a focus specifically upon the involvement and participation of the most vulnerable, ethnic minorities and women.

15. **Special studies.** Several other studies will be undertaken to enhance understanding of key aspects of the PRF. These studies would mostly be implemented by external experts, but also be used to build the capacity of PRF and relevant counterparts. Special studies would include:

- Beneficiary assessments (social studies focusing primarily upon ethnic groups, women, and the most vulnerable);
- Technical quality studies to examine the technical quality of PRF main infrastructure types; operations and maintenance, sustainability; and safeguard compliance;
- Cost effectiveness studies to analyze PRF costs for small-scale infrastructure compared to other similar government investments. (this study may be combined with the technical quality one above); and
- Capacity studies to gauge the effectiveness of PRF capacity-building activities at the village, kum ban, district and provincial levels.

Table 1: PRF II Planned Evaluations and Studies¹²

	What do we want to know by the end of PRF II?	Source of Information
1	What is the impact of PRF on poverty reduction (consumption/expenditure)?	Impact evaluation – (quantitative & qualitative)
2	Does PRF improve utilization/access to basic services (education, health, water, roads)?	Impact evaluation
3	Does PRF increase villagers' awareness and participation in development?	Impact evaluation
4	Does PRF increase social capital (trust, associations)?	Impact evaluation
5	Who benefits from PRF? • Poorest? Women? Ethnic groups? Who does not benefit?	Impact evaluation Beneficiary assessment
6	Are government officials and villagers satisfied with PRF?	Impact evaluation Beneficiary assessment
7	Is PRF cost-effective?	Cost effectiveness study
8	Are PRF investments of high technical quality?	Technical quality study
9	Are PRF investments sustainable? Are they being maintained?	Technical quality study
10	Does PRF have low level of funds misuse?	Audit
11	Does PRF improve capacity at the village, district and provincial levels?	Capacity study

¹² Activities which are the responsibility of the Bank will be carried out under the Bank-executed portion of the MDTF.

16. **Data collection.** Data collected through the reporting, MIS, impact evaluation and special studies will feed into management decision-making and also allow the Project to report upon the performance indicators as listed in the Results Framework.

Component 3: Project Management (approximately US\$9.0 million, 16 percent of PRF II project costs, excluding contingency)

17. **This component would finance the central, provincial and district costs of implementing PRF II.** This would include remuneration of national, provincial and district PRF staff; associated equipment and operating costs; accounting, procurement assessments, auditing, and other specialized areas. Technical assistance would also be financed under this component.

18. **Project Costing.** Additional project costing details are presented below.

**Table 2: PRF II Project Costs by Component and by Source
(US\$ Million)**

Project Components	Project cost	National / GoL Financing	External Financing			Percent Financing
			IDA Financing	MDTF Financing	SDC Financing	
1.Community Development Grants	40.9	10.0	16.3	8.0	6.6	72
2.Local and Community Development Capacity-Building and Learning	6.6	0	3.5	1.7	1.4	12
3.Project Management	9.0	0	4.7	2.3	2.0	16
Total Baseline Costs	56.5	10.0	24.5	12.0	10.0	1
Physical contingencies	0.5		0.5			
Total Project Costs	57.0	10.0	25.0	12.0	10.0	
Total Financing Required	57.0	10.0	25.0	12.0	10.0	

Table 3: Estimated PRF II Financing by Source (US\$ million)

Project Financing	Total	Percentage
Government of Lao PDR*	10	18
International Development Association	25	43
Swiss Agency for Development and Cooperation	10	18
Multi-Donor Trust Fund	12	21
Total Project Financing	57	100

**Note: Excludes community contributions. **Note: SDC contribution will be provided in Swiss francs. AusAID contribution to the MDTF will be provided in Australian Dollars.*

Table 4: Estimated PRF II Disbursements by Calendar Year and By Source (US\$ Million)

	2011	2012	2013	2014	2015	2016	Total
GoL	0	2	2	2	2	2	10
SDC	0	2.5	2.5	2.5	2.5	0	10
MDTF	1	2	3	3	2	1	12
IDA	1	1.5	6	6	7	3.5	25
Total	2	8	13.5	13.5	13.5	6.5	57

Table 5: IDA & MDTF Financing by Disbursement Category (US\$)

Disbursement Category	IDA	MDTF	Percent Financed
Sub-project grants, Consultant Services, Goods, Civil Works, Training and Workshops, Incremental Operating Costs	25,000,000	12,000,000	100
Total	25,000,000	12,000,000	100

Annex 3: Implementation Arrangements

Project Administration Mechanisms

1. PRF II will continue to be implemented through the same modality, updated for PRF II, given the successful track record of the current PRF implementation arrangements and the significant experience resident in this structure. The Poverty Reduction Fund (PRF) is a legally established autonomous entity, formed and run in accordance with the Decree of the Prime Minister (222/PM) of September 29, 2006. Institutionally, PRF is part of the NLCRDPE. An Executive Director and his office, staffed by consultants, will manage the PRF and the Project. The Executive Director answers to the Board of the PRF (consisting of representatives from line-ministries and Provincial Governors), and the day-to-day management of consultant services and responsibility for the Project's implementation and quality rests with the facilitators and consultants hired by the PRF. The PRF organizational structure is highly decentralized, with most tasks being carried out locally, but with supervision and oversight from the central team and from provincial offices, who report to the office of the Executive Director.

2. In the longer-term, it is envisaged that responsibility for implementation of PRF activities would be integrated further into regular Government service delivery institutions. In this spirit, the NLCRDPE will play a stronger role in the coordination of PRF II activities, especially at national level. This would include the provision of periodic reports to relevant sector ministries, regular meetings at the director-general level to discuss areas of mutual interest, sharing information on planning, and joint field visits. To formalize the coordination between the PRF and key sector ministries (in particular Education, Health, Public Works & Transport, Ministry of Agriculture and Forestry) written agreements would be established in the first year of PRF II.

Financial Management

3. Financial management assessment. The Financial Management (FM) assessment was carried out during the pre-appraisal and updated again during the appraisal mission based on the assessment carried out for PRF I in 2002, findings of internal/external reviews and discussion during the identification, pre-appraisal and appraisal missions. The overall FM risk is assessed to be 'Moderate'. The current FM arrangements in PRF have been determined to meet the minimum requirement of OP/BP 10.02. There are two main risks that could impact the achievement of project's objectives: (i) misallocation of resources due to inadequate enforcement of internal controls and procedures at all levels; and (ii) the 'overstretch' of staff capacity to continue to provide timely and quality FM support due to the scale up of PRF II. These risks will be mitigated by: (i) enhancement of the internal control system, including the establishment of internal controls unit; (ii) retention of experienced staff from phase I and recruitment of additional FM staff required for additional provinces; (iii) additional training in FM at all levels; (iv) revision of the Finance and Administration Manual, which is part of the POM, as a condition for effectiveness; (v) additional guidance in the form of simple FM guideline for Kum ban teams; (vi) increase community awareness and Feed Back Resolution mechanism; and (vii) an annual external audit and bi annual technical assessments.

4. **Budgeting and planning.** The process for budgeting and planning is to follow that stated in the Finance and Administration Manual (F&A). Each functional unit in PRF will be responsible for preparing work plans including a budget for consolidation into the overall annual budget. The budgeting and planning process for funding from GoL shall follow the process stated in the Ministerial Instruction on Guideline on Financial Management of ODA No. 2695 dated November 1, 2010 or its subsequent revision. Detailed budgeting and planning procedures at different levels shall be included in the F&A Manual.

5. **Internal controls.** Accounting policies, the financial management system including internal controls, payment authorization, cash and bank management, procedures for disbursement and payments are detailed in the F&A Manual developed at the start of PRF I and this was revised in January 2009. The F&A Manual and guideline for the kum ban shall be revised before effectiveness. Transactions will be recorded in computerized accounting software ACCPAC. ACCPAC will be updated to a newer version to enable the recording and classification of expenditure by district and kum ban. The upgrade or purchase of a newer version of the accounting software should be completed before the implementation of PRF II.

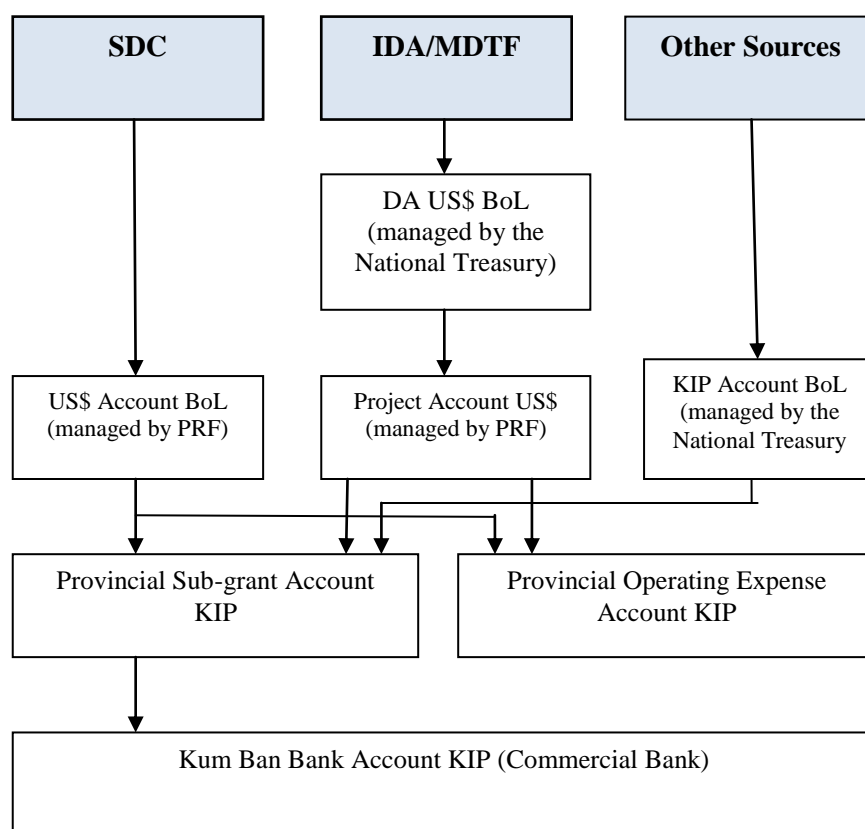
6. **Fund flows.** It was agreed that funds flow arrangements will as depicted in the below flow chart (see figure 1 below). SDC will maintain a separate account managed by PRF. The SDC, IDA and MDTF funds will finance all types of expenditure eligible for financing under the project. GoL funds will only be used to finance sub-projects and to be maintained in a separate account. Detailed funds flow arrangements and controls on withdrawals are to follow the procedures in PRF I, which have been included in the (F&A) Manual under PRF I.

7. **Financial reporting.** Financial Reporting requirements for internal reporting and reporting to development partners will be included in the F&A Manual. The Project will be required to prepare and submit to the World Bank quarterly Interim Unaudited Financial Statements (IFRs) no later than 45 days after each quarter end. The format and contents of the IFR were agreed at project negotiations by the PRF and the World Bank. Reporting to the Ministry of Finance for the use of GoL funds shall follow the provisions of the Ministerial Instruction on Guideline on Financial Management of ODA 2695 dated November 1, 2010. The above financial reporting requirements shall be reflected in the F&A Manual.

8. **Internal audit.** An internal controls function will be established and become fully functional during the implementation of PRF II. The purpose of this function is not only to ensure compliance but also to assist PRF in the improvement of its operational processes. A qualified short-term international consultant be recruited to assist PRF to design a reporting structure appropriate to PRF circumstances, develop the internal audit mandate, prepare an internal audit manual, develop a risk based internal audit plan, and assist with the recruitment and training of national internal audit staff.

9. **Retroactive financing.** Withdrawals up to an aggregate amount not to exceed six hundred thousand Special Drawing Rights (SDR600,000) equivalent may be made for payments made prior to the date of the Financing Agreement but on or after June 1, 2011 for Eligible Expenditures.

Figure 1: PRF II Funds Flow



10. External audit. PRF is responsible for preparing the project financial statements. External auditors will carry out the audits of these statements annually. The audit report together with management letter shall be submitted to the World Bank no later than six months after the end of each fiscal year end. PRF II shall use the auditor appointed by the Ministry of Finance under the audit bundling process. PRF will also develop a monitoring system to ensure that adequate follow up action takes place in respect of audit findings. The audit report shall also be disclosed to the public via PRF's website before or within 30 days upon their submission to the Bank. The audit reports are to be maintained on the website for as long as PRF II is in operation. The Bank will also make available to the public the audit report on its external website upon formal receipt of thereof in accordance with the World Bank's Access to Information Policy. Non-compliance with the disclosure requirement will constitute failure to maintain acceptable financial management arrangements.

Table 1: Financial Management Action Plan

	Actions	Responsible party	Status/Target for completion
1	Review and revise the Finance and Administrative Manual, and insert in POM	PRF	Effectiveness
2	Revise the simple Financial Management guidelines for Kum ban accountants	PRF	Effectiveness
3	Financial Management training for provincial, district staff and kum ban representatives.	PRF	Before implementation of PRF II activities
4	Recruit International Consultant for internal audit	PRF	One month after project effectiveness

Disbursements

11. Disbursement arrangements. The existing designated account shall be retained for pooling of funds from IDA and trust funds administered by IDA. The DA is held at the Bank of Lao and managed by the National Treasury. Withdrawal applications from the grant account will be authorized by the External Finance Department of the Ministry of Finance (MoF). The PRF will maintain a Project Account in US\$. Withdrawals from the DA shall be authorized by the National Treasury. The PRF will submit a request for withdrawal to the National Treasury for approval. Details of the requirements and procedures will be agreed between PRF and the Ministry of Finance in a Memorandum of Understanding and will also be included in the POM. Each source of funds will have its own ceiling, which will be equivalent to approximately three months of the annual projected expenditure. The ceilings will be stipulated in the Disbursement Letters for the IDA Grant and the MDTF Grant respectively. The Designated Account ceiling for the IDA Grant will be a US\$2,500,000.

12. Disbursements shall be based on traditional method i.e. made against Statements of Expenditure (SOE). Applicable disbursement methods shall include (i) advance, (ii) reimbursement and (iii) direct payment. Documentation requirements shall be detailed in the Disbursement Letter. Disbursement shall be made against the following expenditure category:

Table 2: PRF II Disbursement Category (US\$)

Expenditure Category	Amount		Total	Financing percentage
	IDA	MDTF		
Sub-Project Grants, Consulting Services, Goods, Civil Works, Training, Cont Incremental Operating Costs	25,000,000	10,000,000	35,000,000	100
Total	25,000,000	10,000,000	35,000,000	

13. **All documentation for expenditure submitted for disbursement shall be retained by PRF** and be made available to the auditors for their annual audit, and to the Bank and its representatives if requested. Should the auditors or IDA supervision missions find that disbursements made were not justified by supporting documentation, or are ineligible, IDA will have the right to withhold further deposits to the DA until satisfactory resolution of the matter.

14. **For GoL funds**, the withdrawal requirements and supporting documentation are to follow the procedures as set out in the Ministerial Instruction on Guideline on Financial Management of ODA 2695 dated November 1, 2010.

Procurement

General

15. **Procurement for the proposed Project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits"**, dated May 2004, revised October 2006 & May 2010; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006 & May 2010, and the provisions stipulated in the Legal Agreements.

16. **Procurement of works.** Works procured under this project would include: office renovation at national, provincial and district offices, small scale infrastructure for sub-project grants (such as access and transportation infrastructure; schools and nurseries; clinics; community halls and other public building; communal water supply systems or structures; community electrical supply and local markets). Contracts for these works costing US\$300,000 or more each would be procured through International Competitive Bidding (ICB). For ICB, IDA's Standard Bidding Documents shall be used. Works estimated to cost less than US\$300,000 per contract may be procured through National Competitive Bidding (NCB) method and the procedures, including standard bidding documents, set forth in the Decree 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations dated March 12, 2004, including national standard bidding document with IDA's prior concurrence, will be followed subject to the improvements listed in the NCB-Annex to the Legal Agreement. Works estimated to cost less than US\$40,000 per contract may be procured through Shopping method and the procedures, including standard bidding documents, set forth in the aforesaid Decree and IRR. Small scale infrastructure for sub-project grants under Component A of the Project, estimated to cost less than US\$40,000, meeting the criteria in the Project Operation Manual may be procured through Community Participation in Procurement method as stipulated in the Bank's Procurement Guidelines and described in the Project Procurement Manual. Works that meet the circumstances specified in paragraph 3.6 of the Procurement Guidelines may be procured through Direct Contracting.

17. **Procurement of goods.** Goods procured under this project would include: office equipment, vehicles, computer, and furniture for national, provincial and district offices and goods for sub-project grants. Contract for goods costing US\$100,000 or more each would be procured through International Competitive Bidding (ICB). For International Competitive Bidding (ICB), IDA's Standard Bidding Documents shall be used. Goods estimated to cost less than US\$100,000 per contract may be procured through NCB method and the procedures, including standard bidding documents, set forth in the Decree 03/PM dated January 9, 2004, and in the Implementing Rules

and Regulations dated March 12, 2004, including national standard bidding document with IDA's prior concurrence, will be followed subject to the improvements listed in the NCB-Annex to the Financing Agreement. Goods estimated to cost less than US\$30,000 per contract may be procured through the Shopping method and the procedures, including standard bidding documents, set forth in the aforesaid Decree and IRR. Procurement of goods for sub-project grants under Component A of the Project, estimated to cost less than US\$40,000, meeting the criteria in the Project Operation Manual may be procured through Community Participation in Procurement method as stipulated in the Bank's Procurement Guidelines and described in the Project Procurement Manual. Goods that meet the circumstances specified in paragraph 3.6 of the Procurement Guidelines may be procured through Direct Contracting.

18. Selection of consultants. Consultant services are expected in the following areas: financial audits, technical assistance and project staff support. These services would be procured through various selection methods including Quality and Cost Based Selection, Least Cost Selection, Selection Based on Consultant Qualifications, Single Source Selection and Individual Consultant depending on the value, nature and complexity of the consultant assignments. The use of the method i.e. Single Source Selection for specific assignments would be subject to prior review and clearance with the Bank in the Procurement Plan. However, Quality and Cost Based Selection would generally be the applicable method for each contract estimated to cost more than US\$100,000 equivalent. Individual Consultants may be selected in accordance with the provisions of paragraphs 5.1 to 5.4 of the Consultants Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to the prior approval of the Bank.

B. Assessment of the Agency's Capacity to Implement Procurement

19. A Bank procurement accredited staff has carried out a procurement capacity assessment during the project pre-appraisal on January 31 to February 3, 2011. In PRF I, the PRF central office in Vientiane has been fully responsible for procurement for national, provincial and district offices and has had overall responsibility for the implementation of village sub-project grant. Procurement of vehicles, offices equipment, furniture and renovation of office were done by the PRF central office in Vientiane for the use in national, provincial and district level. Two procurement officers and a procurement assistant will handle procurement, which were ICB, NCB and Shopping. Post reviews of procurement at national level did not reveal any substantial deviation from the Bank's required procedures. The capacity of PRF central office to handle procurement at national level was sufficient, as there were not many procurement packages at this level.

20. There are areas for improvement related to procurement under sub-projects grants managed by communities and PRF district offices, as mentioned in the procurement ex-post procurement reviews carried out by the Bank. Such areas include: (i) shortage and limited capacity of local contractors and suppliers, particularly in remote areas; (ii) price negotiations with the lowest bidder when the proposed price significantly exceeded estimated costs; and (iii) automatic rejection of bids significantly over or below the estimated costs without adequate justification. These issues have been discussed with the Project management in the course of PRF I. It was agreed that PRF would analyze the reasons and would propose the mitigation

measures for the above issues. Follow-up measures would include (i) regular reviews of market-based cost estimates; (ii) capacity assessments of local contractors in provincial and district levels and associated mitigation actions plans, to be shared with the World Bank; and (iii) rejection of substantially highly priced bids without adequate justification, as well as re-invitation for bidding after appropriately revising the terms and conditions of the bidding documents to reduce bidders' risks.

21. In addition, mitigation measures to strengthening the community/beneficiary oversight of procurement and contract implementation would be reinforced. These would require: (i) participation of community representatives in bid opening meetings; (ii) public disclosure of procurement plans and contract award information to communities; (iii) strengthened complaints handling and feedback procedures involving communities; and (iv) quality and completion checks of implementation involving communities. The details of these mitigation measures will be adopted in the Project Operation Manual.

22. The PRF project design was focused largely on implementation of sub-project grants through community-driven process at village level. The implementation of the sub-projects, including procurement, was decentralized to the village level and the procurement, mostly of very small value civil works and some goods, was also carried out at the village level through village implementation teams using either NCB, Shopping (with advertisement) or Community Force Account procedures.

23. In the implementation of sub-project grants, project staff at the national, provincial and district levels provided technical guidance and capacity-building to the village implementation teams, including in procurement. Under the original project, there were two procurement officers in the PRF central office; one responsible for assisting and monitoring the national level procurement at the centralized level, and the other responsible for assisting and monitoring the procurement under the sub-grants at the decentralized level. There were also District Technicians, District Facilitators and Technical Facilitators at the district level and Provincial Coordinators, Technical Advisors (civil engineer), Community Development Specialists, Monitoring & Evaluation personnel and Financial Management personnel in each province. Under the Additional Financing of the PRF I, one procurement officer was added in each of the Project provinces. These six procurement officers provided regular procurement training to the project's technical staff at the national, provincial and district levels, and this was also supplemented by periodic procurement training provided by Bank staff.

24. The planned geographic expansion of the PRF requires a commensurate increase in procurement capacity. Therefore, in addition to the existing staff, PRF will recruit an additional procurement staff for each new province that will be added to the Project. The procurement staff will help beneficiary communities to conduct and to monitor the procurement and contract management process, and also provide regular procurement training to the project's technical staff at the district, kum ban and villages levels. Through this "training of trainers" arrangement, the training staff in turn will provide the required procurement support and capacity-building to the village implementation teams responsible for carrying out the procurement under the sub-project grants.

25. The Project Procurement Manual would be revised, to further improve understanding of the agreed procedures and to facilitate project implementation. In addition, the lessons learned from community contracting under other CDD projects in other countries such as the Philippines, Indonesia and Vietnam will be integrated. The revised manual will be cleared with the Bank and adopted, annexed to the POM, translated into Lao language and distributed to all staff working at the national, provincial, district, kum ban and village levels.

26. To further strengthen transparency and accountability in procurement processes, an action plan for strengthening transparency for the project should be agreed and will be adopted within three months of the signing of the grant agreement. This action plan will include the following elements:

- i) The PRF central office in Vientiane will maintain two procurement staff for procurement at national level and for the sub-projects grant at village level, to coordinate and provide training and to oversee the procurement officers at provincial level. A procurement assistant will be hired to strengthen this team;
- ii) There will be one provincial procurement officer in each province with PRF activities. These procurement officers will directly oversee and follow-up procurement of the villages and supplement the existing provincial technical advisors. The Bank procurement staff in Bangkok and Vientiane Offices will provide training to PRF procurement officers to ensure that they understand the procurement process for the sub-projects and they would be able to oversee the procurement process by the village teams.
- iii) Using the standard format of bidding documents, request for quotations and evaluation report issued by the Procurement Management Office of the Ministry of Finance (PrMO-MOF) for NCB and Shopping procedures, with appropriate modifications satisfactory to the Bank so as to comply with the Bank's Procurement Guidelines;
- iv) Enhanced disclosure of procurement information, including publication of the annual procurement plan, and a quarterly summary of the contract award information for all procurement packages; and
- v) Establishing a procurement complaint handling mechanism, requiring integrity pacts, and sanctions procedures, consistent with the Government Procurement Rules & Regulations of PrMO-MOF, and the Bank's requirements.

27. The PRF central office will organize a procurement training workshop for the project implementing staff with assistance from the PrMO-MOF within three months of the signing of the grant agreement, and periodically during the life of the project; and PRF will adopt a project procurement record and filing system acceptable to the Bank within three months of the signing of the grant agreement.

28. Ex-post reviews. The scope of ex-post reviews by the Bank will be expanded to include checks for collusion and verification of end-use delivery. The Bank will periodically undertake integrated fiduciary supervision jointly by the Procurement and FM specialists. With incorporation of the above measures, the residual procurement risk for the overall Project is rated as "Moderate."

29. Procurement plan. For project implementation, a detailed Procurement Plan for the first 18 months of project implementation, including prior reviews thresholds, has been prepared. The

Procurement Plan will be updated in agreement with the Task Team at least annually or as required to reflect the actual project implementation needs and improvement.

Environmental and Social Safeguards

30. The overall impacts of the project are expected to be socially positive and beneficial to local communities, especially various ethnic population groups, in both the medium and long term. Improved access as well as empowerment of local communities to participate in the planning process, sub-project implementation, operation and maintenance would help accelerate poverty reduction and enhance sustainability of community investments. The PRF II participatory planning process has been updated to enhance community participation and empowerment. Knowledge on social and environmental safeguards, including potential positive and negative impacts on the local communities, as well as their environment and mitigation measures, will be incorporated throughout the project cycle.

(a) Key measures take to address safeguard issues

31. World Bank safeguards requirements. The PRF II triggers four WB safeguard policies, including: environmental assessment (OP 4.01), indigenous peoples (OP4.12), involuntary resettlement (OP 4.10), and pest management (OP 4.09) (the latter was not triggered for PRF I). To comply with these policies, a Compensation and Resettlement Policy Framework (CRPF), an Ethnic Groups Policy Framework (EGPF), and an Environmental and Social Management Framework (ESMF), including a simplified pest management plan (PMP), were prepared. These policies are in line with the Government's EIA regulation as well as the World Bank safeguard policies guidelines. PRF staff at the central and local levels will be responsible for implementation of these frameworks.

32. Government's EIA requirements. The government environmental impacts assessment (EIA) decree requires submission of an EIA report for projects that are likely to create significant and/or adverse impacts and an Initial Environmental Examination (IEE) for projects anticipated to create smaller impacts. PRF staff at central office will ensure that PRF sub-project will comply with the IEE requirement. Large sub-project that required an EIA will not be financed by PRF II and this has been included in the "negative list".

33. Safeguard manual and training. To facilitate effective implementation of the CRPF, EGPF, PMP and ESMF, the PRF central office (technical and community development) will translate the safeguard policies into specific procedures and measures and incorporate them into the POM. The project will also prepare simple booklets on social and environmental safeguards issues for use by communities and district based staff of PRF. The PRF central office will also provide safeguard training to the local PRF staff and community facilitators, and engineers as appropriate. Knowledge related to social and environmental aspects related to community activities and infrastructure to be provided with PRF support will be integrated into the PRF planning process.

(b) Supervision and monitoring

34. Safeguard measures will be implemented by PRF local staff, kum ban facilitators, and engineers under close supervision of the PRF provincial and central offices. Progress on safeguard implementation will be included in the project progress reports. The PRF central office has been trained on the basic principles and the safeguard screening and assessment process, and they will provide safeguard training to those at provincial and district level. The Bank safeguard team will provide training and periodic supervision and/or implementation support as needed.

Project Monitoring & Evaluation

35. Monitoring and Reporting. The Project will give special attention to transparency, information dissemination and monitoring and evaluation, which will be both quantitative and qualitative and take different forms. Various actors, including beneficiaries, PRF central, provincial and district staff, kum ban facilitators, and young graduates will undertake monitoring. Reporting and monitoring will be further sensitized to detect issues related to ethnic groups. The PRF currently has a fairly extensive reporting and management information system. Reports from the field are generated regularly to produce monthly, quarterly, and annual progress reports.

36. There are several M&E improvements envisaged for PRF II. These include making the semi-annual progress reports more analytical; using MIS information more effectively for external communications and management decision-making; and improving the FRM database and reporting procedures. In addition, a rigorous impact evaluation with quantitative and qualitative components will be conducted. As part of the monitoring and evaluation framework, the project will also undertake several special studies. See Annex 2: Detailed Project Description for further details.

Role of Partners

37. The main donor partners include SDC and AusAID. The SDC initiated support to the PRF in 2008 and is expected to continue to contribute towards PRF with approximately US\$10 million equivalent CHF over the next four years. AusAID is joining as a new financing partner, and has committed to contribute at least AUD12 million through a Multi-Donor Trust Fund administered by the World Bank over the next five years. The SDC and AusAID have actively participated in project preparation. Project appraisal has been conducted jointly. The Bank and the Government are exploring the possibility of securing additional donor support for the PRF with a number of donors active in the Lao PDR.

Annex 4: Operational Risk Assessment Framework (ORAF)

Appraisal Version

Project Development Objective(s)	
To improve the access to and the utilization of basic infrastructure and services for the Project's targeted poor communities in a sustainable manner through inclusive community and local development processes.	
PDO Level Results Indicators:	1. Improved access to and utilization of basic economic and social services in kum bans supported by PRF: <ul style="list-style-type: none"> ○ % increase in school enrollment ○ % increase in access and utilization of health services ○ % HHs with improved access to safe water resources ○ % increase in access to road ○ Lowest two quintiles benefit from above services
	2. Decision-making on allocation of PRF resources involve at least 40% women and 60% poorest community members
	3. Greater than 75% satisfaction levels reported by beneficiaries in targeted villages regarding improved services and local development planning
	4. Total number of beneficiaries of which x% are female

Risk Category	Risk Rating	Risk Description	Proposed Mitigation Measure
Project Stakeholder Risks	Low	Interference by central and provincial government in selection of target districts and kum bans, and by local authorities in terms of village and sub-project selection.	Autonomy of PRF; monitoring by various groups at all levels; and transparency requirements, fiduciary reviews, and other tools, are expected to reduce the political interference risks.
		Government and donor co-financing may not meet the expectations.	PRF expansion will be gradual and conditional on actual funds transferred from the Government and donors.
Implementing Agency Risks	Medium I	Overall PRF capacity may be overstretched due to the expansion to new kum ban and modified	Scaling up would be gradual, and the opportunities for expansion will be assessed carefully in the course of Project preparation. PRF II would continue to be

		<p>approach.</p> <p>Risk of elite capture at the village and kum ban level.</p> <p>Risk of fund misallocation, and collusion.</p>	<p>implemented by the existing PRF structure, whose performance to date has been satisfactory.</p> <p>The PRF's focus on poor villages and public goods, participatory and transparent monitoring, and enhanced grievance redress system are envisaged as mitigation against the elite capture.</p> <p>Various actors will undertake monitoring.</p>
Project Risks			
<ul style="list-style-type: none"> Design 	Low	<p>Poor understanding of participatory approaches.</p> <p>Expanded scope (DRM and livelihood activities).</p>	<p>Government Participatory Planning Manual integrated into the POM for PRF II. Employment of more field-based staff to ensure participation at different levels. Structured training on social mapping and participatory approaches to PRF staff and local authorities.</p> <p>The pilots will initially be small in scale. The livelihood pilot will focus on districts where PRF has been operating with good performance.</p>
<ul style="list-style-type: none"> Social & Environmental 	Medium I	<p>Coverage excludes ethnic groups.</p> <p>Risk associated with the GoL policy of resettling groups of villagers.</p> <p>Natural disasters may affect PRF infrastructure.</p>	<p>Since majority of project beneficiaries will be different ethnic groups, the project as a whole will be considered as an Ethnic Groups Development Plan, with appropriate measures for inclusion of ethnic groups.</p> <p>The Project will not support programs involving village consolidation and/or resettlement that are not consistent with World Bank policies. PRF investment or sub-project cannot be used as an incentive and/or a tool to support and/or implement involuntary resettlement of local people.</p> <p>DRM Strategy and Plan for PRF will be developed and integrated in the PRF Manual of Operations.</p>
<ul style="list-style-type: none"> Program & Donor 	Low	<p>Overlap and duplication of other donor initiatives.</p>	<p>Coordination and exchange of lessons learned with relevant projects.</p>
<ul style="list-style-type: none"> Delivery Quality 	Medium I	<p>Capacity of local authorities to</p>	<p>Continuous investment in capacity-building of government</p>

		<p>gradually take over the implementation responsibilities from the PMT/PRF.</p> <p>Weak O&M performance on part of communities and sector ministries.</p> <p>Capacity to undertake rigorous evaluation.</p>	<p>systems and communities, based on needs analysis for local authorities and at the Leading Committee level.</p> <p>Clear definition of O&M responsibilities between communities and sector ministries prior to sub-project implementation. Strengthened technical and fiduciary capacity of communities and local authorities to uphold solid O&M standards.</p> <p>A rigorous impact evaluation will be put in place. Training, equipment and staffing needs of the M&E unit of the PMT/PRF will be reviewed with a view to enhancing the analytical value of PRF progress reports.</p>
Other	Low	External commercial activities may have negative impacts on PRF investments.	Close monitoring and coordination of PRF planning cycle with provincial and local investment promotion departments, as well as industrial and energy sectors.

Overall Risk Rating at Preparation	Overall Risk Rating During Implementation	Comments
Low	Medium I	The rating of Low for preparation is associated with the Government's strong commitment to adopting the participatory approach to rural poverty reduction and scaling up PRF over the next 10-15 years, and the fact that PRF II will build on well established and functioning implementation systems. The rating for implementation reflects the higher risks of the challenges that the PRF will inevitably face in the scaled up project implementation.

Annex 5: Implementation Support Plan

1. The strategy for implementation support (IS) has been developed based on the nature of the project and its risk profile. It will seek to make implementation support to the client timely, flexible and efficient. It will focus on the following areas: (i) technical support for the development of capacity for the implementation of new community facilitation, kum ban planning, procurement, financial management, and monitoring procedures; (ii) enhanced linkages with sector strategies and governance policy dialogue; (iii) poverty targeting; (iv) safeguards and fiduciary aspects; and (v) risk mitigation measures defined in the ORAF.
2. The key risks specified in the ORAF are: (i) the possibility of the existing PRF capacity being overstretched due to the deepening and the geographic expansion of PRF II; (ii) potential interference by different authorities in the selection of beneficiary target districts, kum bans, villages and sub-projects respectively, and possible intra-village elite capture; (iii) government or partner co-financing not meeting the expectations; (iv) political risks associated with the Government's resettlement policy and PRF being used as an incentive for resettlement; (v) challenges related to implementation of participatory approaches and inclusion of diverse ethnic groups; and (vi) limited capacity of the local authorities to assume greater responsibility over time.
3. As part of its regular supervision strategy, the task team will seek to undertake at least one integrated fiduciary and technical supervision mission per year. Most of the Bank team members, including the co-TTL, will be based in Laos and Thailand to ensure timely and, efficient implementation support to the client. Formal supervision and field visits will be carried out three times in the first year of the project, and then semi-annually thereafter. Detailed inputs anticipated from the Bank team and external partners are outlined in the below implementation support plan. A mid-term review will be undertaken before December 2013.
4. The main areas for implementation support will be as follows:
 - a. **Technical:** Technical inputs to the PRF team will be required intensively in the first year of implementation in the context of a scaling up, and then regularly, to ensure (i) respect for technical standards in sub-project design and implementation, (ii) linkages with relevant sector ministries are established and functional, (iii) adoption of key operations & maintenance procedures for sub-projects.
 - b. **Poverty targeting:** This will include the provision of technical inputs to the poverty targeting data collection efforts of the NLCRDPE and the MPI.
 - c. **Institutional/Capacity-building:** Institutional inputs to the PRF team will be required intensively in the first year of implementation, and then regularly to support (i) adoption of kum ban planning methodology with enhanced community outreach and social mapping, (ii) training of kum ban facilitators and PRF district staff, (iii) preparation of training modules for local government staff; and (iv) systematic coordination with sector ministries.

- d. **Safeguards:** Implementation support will include: (i) training of PRF staff to familiarize them with the revised procedures and the new frameworks, (ii) ensuring that safeguards procedures are respected and that any cases identified are followed up in a timely manner.
- e. **Gender:** Specialized expertise will be provided to assist the PRF with the preparation of the Gender Action Plan and to monitor implementation thereof.
- f. **Procurement:** Implementation support to procurement will focus on (i) providing training to PRF staff, in particular with respect to community contracting procedures, (ii) reviewing procurement plans and procurement documents, including through annual post-procurement reviews, (iii) ensuring compliance with the Bank's procurement guidelines, and (iv) monitoring progress in the implementation of annual procurement plans.
- g. **Financial management:** Implementation support to financial management will focus on (i) providing training to PRF staff, in particular with respect to community FM procedures, (ii) reviewing IFRs and external audits, including through annual FM reviews, (iii) monitoring disbursement progress, and (iv) monitoring the effectiveness of the PRF's ICU.
- h. **Monitoring and evaluation:** Implementation support will include: (i) assisting with the design of the impact evaluation, starting with the baseline survey; (ii) contracting an organization to undertake the baseline, mid-term and final impact evaluation; (iii) providing training to the PRF M&E staff, (iv) assisting with the updating of PRF monitoring systems to enhance their analytical value and their relationship to key indicators specified in the Results Framework, (v) reviewing terms of reference and draft outputs of key studies, and (vi) preparing terms of reference, contracting and supervising implementation of selected key studies to be executed by the Bank through the MDTF.
- i. **Feedback and complaints handling:** This will include reviewing implementation progress of the enhanced Feedback and Response Mechanism, and provide guidance in resolving any issues identified.
- j. **Communication:** This will include reviewing implementation progress of the enhanced communication strategy, and provide guidance in resolving any issues identified.
- k. **Other:** Sector level risks, specifically those posed by the lack of clarity regarding the decentralization process and the civil service regulatory environment will be monitored carefully. Additional inputs will be provided with respect to Disaster Risk Management and the Gender Action Plan.

1. **Client and partner management:** This will include regular meetings with the NLCDPDE and external financing partners to identify priority areas for assistance and to resolving any issues identified in the course of project implementation.
- m. **Overall project management:** The two co-TTLs will provide regular oversight of implementation support for all operational aspects, as well as ensure coordination with the client, among Bank team members, and with donor partners and other external stakeholders.

5. The main focus of implementation support is summarized in the below tables:

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Preparation Project Operational Manual	Manual Preparation Skills	4 Staff Weeks	SDC has contracted.
	Training of PRF Staff on new procedures, including kum ban facilitators and district	Training	3 Staff Weeks	SDC has contracted.
	Design and supervision of baseline survey questionnaire, sample, RFP, etc.	Baseline for Impact Evaluation	8 Staff Weeks	SDC will contract.
	Contracting of baseline survey organization	Impact Evaluation, Bank procurement	6 Staff Weeks	MDTF to finance. WB to administer.
	Civil Works Engineer	Small civil works engineering	4 Staff Weeks	MDTF to finance. WB to administer.
	Feedback and Resolution training and supervision	Social Accountability	4 Staff Weeks	MDTF to finance. WB to administer.
	Communication training and supervision	Communication / Knowledge Management	4 Staff Weeks	MDTF to finance. WB to administer.
	Social safeguards training and Supervision	Social safeguards	4 Staff Weeks	
	Environmental safeguards training and Supervision	Environmental safeguards	2 Staff Weeks	
	FM training and supervision	FM	4 Staff Weeks	
	Procurement training and supervision	Procurement	4 Staff Weeks	
	Monitoring training and supervision	MIS and monitoring skills	4 Staff Weeks	SDC will contract. WB will supplement as necessary.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
	Task Team Leadership	Co-TTLs	8 Staff Weeks each	
12-48 months	Training of PRF Staff on new procedures, including kum ban facilitators and district	Training	2 Staff Weeks per year	SDC or MDTF.
	Civil Works Engineer	Small civil works engineering	2 Staff Weeks per year	MDTF to finance. WB to administer.
	Design and supervision of mid-term survey questionnaire, sample, RFP, etc.	Impact Evaluation	6 Staff Weeks	MDTF to finance. WB to administer.
	Contracting of mid-term survey organization	Impact Evaluation, Bank procurement	4 Staff Weeks	MDTF to finance. WB to administer.
	Feedback and Resolution training and supervision	Social Accountability	2 Staff Weeks per year	MDTF to finance. WB to administer.
	Communication training and supervision	Communication / Knowledge Management	2 Staff Weeks per year	MDTF to finance. WB to administer.
	Social safeguards training and Supervision	Social safeguards	4 Staff Weeks per year	
	Environmental safeguards training and Supervision	Environmental safeguards	1 Staff Week per year	
	FM training and supervision	FM	3 Staff Weeks per year	
	Procurement training and supervision	Procurement	3 Staff Weeks per year	
	Monitoring training and supervision	MIS and monitoring skills	2 Staff Weeks per year	SDC or MDTF.
	Task Leadership	Co-TTLs	6 Staff Weeks each per year	

II. Skills Mix Required

Skills Needed	Number of Staff Weeks (SWs)	Number of Trips	Comments
Civil Engineering	2 SWs annually	At least one field trip per year	Country-based
Training	4 SWs in year one, then 2 SWs annually	At least one per year	International
Social Accountability	4 SWs in year one, then 2	One per year	HQ based

	SWs annually		
Communications & Knowledge management	4 SWs in year one, then 2 SWs annually	One per year	HQ based
M&E	4 SWs in year one, then an average of 3 SWs annually	One per year	HQ based
Social Safeguards	6 SWs in year one, then 4 SWs annually	At least two field trips per year	Country-based
Environmental Safeguards	2 SWs in year one, then 1 SWs annually	At least one field trip per year	Country-based
Procurement	4 SWs in year one, then 3 SWs annually	At least one field trip per year	Regionally based
Financial Management	4 SWs in year one, then 3 SWs annually	At least one field trip per year	Country-based
Co-Task Team Leaders	8 SWs each in first year. 6 SWs each annually in subsequent years	Three first year, then two per year	HQ and Country-based

III. Partners

Name	Institution/Country	Role
Swiss Agency for Development and Cooperation	Aid Agency of the Government of Switzerland.	Bilateral donor to PRF II.
AusAID	Aid Agency of the Government of Australia.	Donor to the PRF II through the MDTF.

Annex 6: Team Composition

World Bank staff and consultants who worked on the project:

Name	Title	Unit
Ms. Henrike Brecht	Disaster Risk Management Specialist	EASIN
Mr. Phetdara Chanthala	Operations Officer, Health	EACLF
Mr. Chinnakorn Chantra	Procurement Specialist	EAPPR
Ms. Sladjana Cosic	Social Development Specialist	EASER
Ms. R. Cynthia Dharmajaya	Program Assistant	EASER
MS. Ngozi Blessing Malife	Program Assistant	EASER
Ms. Jacqueline Rodriguez Garcia	Consultant, Project Costing	EASTS
Ms. Boun Oum Inthaxoum	Operations Officer, Education	EACLF
Mr. Satoshi Ishihara	Senior Social Development Specialist	EASTS
Mr. Florian Kitt	Knowledge Management Officer	EASER
Mr. Roch Levesque	Senior Counsel	LEGES
Mr. Markus Kostner	Sector Leader, Social Development	EASER
Ms. Thao Le Nguyen	Senior Finance Officer	CTRFC
Mr. Sybounheung Phandanouvong	Social Development Specialist	EASTS
Mr. Viengkeo Phetnavongxay	Environmental Specialist	EASTS
Ms. Helene Monika Carlsson Rex	Senior Gender Specialist	PRMGE
Ms. Souksavanh Sisoulidavanh	Program Assistant	EACLF
Mr. Sombath Southivong	Senior Infrastructure Specialist	EASTS
Ms. Nipa Siribuddhamas	Financial Management Specialist	EAPFM
Ms. Thao Phuong Tuong	Program Assistant	EASER
Ms. Manida Unkulvasapaul	Consultant, Environmental Safeguards	EASIN
Ms. Siriphone Vanitsaveth	Financial Management Specialist	EAPFM
Mr. Ingo Wiederhofer	Senior Operations Officer	EASER
Ms. Susan Wong	Lead Social Development Specialist	SDV

Country At A Glance

2/25/11

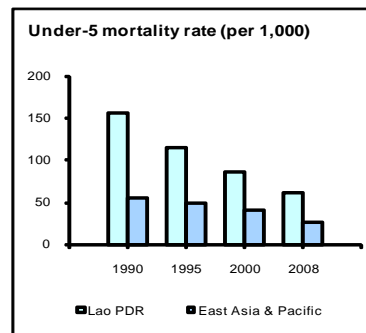
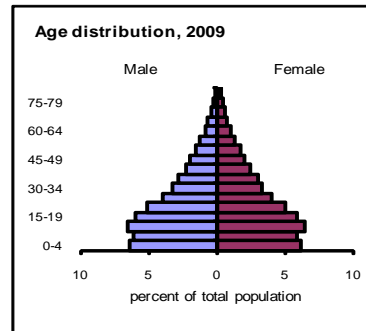
Key Development Indicators

(2009)

	Lao PDR	East Asia & Pacific	Low income
Population, mid-year (millions)	6.3	1,930	828
Surface area (thousand sq. km)	237	16,299	17,838
Population growth (%)	1.9	0.7	2.2
Urban population (% of total population)	32	44	28
GNI (Atlas method, US\$ billions)	5.5	5,257	389
GNI per capita (Atlas method, US\$)	880	2,724	470
GNI per capita (PPP, international \$)	2,200	5,620	1,131
GDP growth (%)	6.4	8.5	6.2
GDP per capita growth (%)	4.5	7.7	3.9

(most recent estimate, 2003–2008)

Poverty headcount ratio at \$125 a day (PPP, %)	44	17	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	77	39	..
Life expectancy at birth (years)	65	72	57
Infant mortality (per 1,000 live births)	46	22	77
Child malnutrition (% of children under 5)	32	12	28
Adult literacy, male (% of ages 15 and older)	82	96	73
Adult literacy, female (% of ages 15 and older)	63	90	59
Gross primary enrollment, male (% of age group)	117	111	107
Gross primary enrollment, female (% of age group)	106	112	100
Access to an improved water source (% of population)	57	88	64
Access to improved sanitation facilities (% of population)	53	59	35

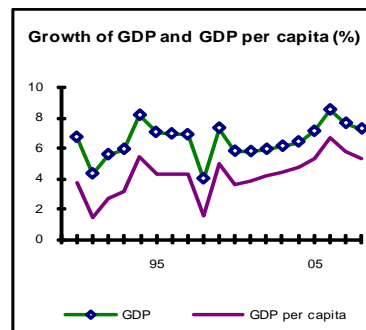


Net Aid Flows

	1980	1990	2000	2009 ^a
(US\$ millions)				
Net ODA and official aid	46	149	281	496
Top 3 donors (in 2007):				
Japan	1	17	115	66
Germany	0	3	13	29
Australia	0	6	12	28
Aid (% of GNI)	..	17.2	16.9	9.4
Aid per capita (US\$)	14	35	52	80

Long-Term Economic Trends

Consumer prices (annual % change)	..	35.9	23.1	7.6
GDP implicit deflator (annual % change)	..	37.9	25.1	-0.7
Exchange rate (annual average, local per US\$)	10.2	707.8	7,878.0	8,516.0
Terms of trade index (2000 = 100)	..	..	..	..



Population, mid-year (millions)	3.2	4.2	5.4	6.3
GDP (US\$ millions)	..	866	1,735	5,939
		(% of GDP)		
Agriculture	..	61.2	52.5	34.7
Industry	..	14.5	22.9	28.2
Manufacturing	..	10.0	17.0	9.3
Services	..	24.3	24.6	37.1
Household final consumption expenditure	..	93.9	79.1	66.2
General gov't final consumption expenditure	..	10.9	6.7	8.3
Gross capital formation	..	13.5	28.3	37.1
Exports of goods and services	..	11.3	30.0	32.7
Imports of goods and services	..	24.5	44.1	44.4
Gross savings	..	-3.7	18.0	24.3

1980–90 1990–2000 2000–09
(average annual growth %)

Population	2.6	2.5	1.7
GDP	3.8	6.4	6.9
Agriculture	3.5	4.8	3.3
Industry	6.1	11.1	11.9
Manufacturing	8.9	11.7	-1.9
Services	3.3	6.6	7.6
Household final consumption expenditure	..	..	-7.8
General gov't final consumption expenditure	..	..	9.7
Gross capital formation	..	..	15.2
Exports of goods and services	..	..	-7.6
Imports of goods and services	..	..	-7.2

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

MAP IBRD 33431

