



Completion Report

Project Number: 34543
Loan Number: 1867
June 2007

LAO PDR: Environment and Social Program

CURRENCY EQUIVALENTS

Currency Unit – kip (KN)

	At Appraisal	At Program Completion
	7 November 2001	9 January 2007
KN1.00	= \$0.000105	\$0.000134
\$1.00	= KN9,550	KN9,672

ABBREVIATIONS

ADB	–	Asian Development Bank
DOE	–	Department of Environment
DOR	–	Department of Roads
EIA	–	environmental impact assessment
EPF	–	environmental protection fund
EPL	–	Environmental Protection Law
ESP	–	Environment and Social Program
LAO PDR	–	Lao's People's Democratic Republic
LENS	–	Lao Environment and Social
MAF	–	Ministry of Agriculture and Forestry
MCTPC	–	Ministry of Communication, Transport, Post and Construction
MIH	–	Ministry of Industry and Handicrafts
MOF	–	Ministry of Finance
NEC	–	National Environment Committee
PIP	–	public investment program
SDR	–	special drawing rights
STEA	–	Science, Technology and Environment Agency
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2001 ends on September 2001.
- (ii) In this report, "\$" refers to US dollars.

Vice President	C. Lawrence Greenwood, Jr., Operations 2
Director General	A. Thapan, Southeast Asia Department
Director	J. Cooney, Infrastructure Division, Southeast Asia Department (SERD)
Team leader	M. Huddleston, Senior Social Development/Resettlement Specialist, SERD
Team member	R. O'Sullivan, Senior Counsel, Office of General Counsel M. C. Abao, Senior Project Assistant, SERD

CONTENTS

	Page
BASIC DATA	i
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	1
A. Relevance of Design and Formulation	1
B. Program Outputs	2
C. Program Costs	6
D. Disbursements	7
E. Program Schedule	7
F. Implementation Arrangements	7
G. Conditions and Covenants	8
H. Related Technical Assistance	8
I. Consultant Recruitment and Procurement	8
J. Performance of Consultants	8
K. Performance of the Borrower and the Executing Agency	8
L. Performance of the Asian Development Bank	9
III. EVALUATION OF PERFORMANCE	10
A. Relevance	10
B. Effectiveness in Achieving Outcome	10
C. Efficiency in Achieving Outcome and Outputs	11
D. Preliminary Assessment of Sustainability	12
E. Impact	12
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	13
A. Overall Assessment	13
B. Lessons	13
C. Recommendations	14
APPENDIXES	
1. Program Framework	16
2. Status of Compliance with Policy Matrix	21
3. Status of Compliance with Loan Covenants	26
4. Technical Assistance Completion Report	31

BASIC DATA

A. Loan Identification

1.	Country	Lao People's Democratic Republic
2.	Loan Number	1867
3.	Program Title	Environment and Social Program
4.	Borrower	Lao People's Democratic Republic
5.	Executing Agency	Science, Technology and Environment Agency
6.	Amount of Loan	SDR15,648,000 (\$20 million equivalent)
7.	Program Completion Report Number	PCR:LAO 34543 PCR:LAO 967

B. Loan Data

1.	Appraisal	
	– Date Started	3 Sep 2001
	– Date Completed	13 Sep 2001
2.	Loan Negotiations	
	– Date Started	5 Nov 2001
	– Date Completed	6 Nov 2001
3.	Date of Board Approval	6 Dec 2001
4.	Date of Loan Agreement	24 Dec 2001
5.	Date of Loan Effectiveness	
	– In Loan Agreement	30 days from 24 Dec 2001
	– Actual	19 Feb 2002
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	30 Jun 2005
	– Actual	1 Aug 2006
	– Number of Extensions	2
7.	Terms of Loan	
	– Interest Rate	1% during grace period; 1.5% per annum thereafter
	– Maturity	24 years
	– Grace Period	8 years
9.	Disbursements	
a.	Dates	

Initial Disbursement	Final Disbursement	Time Interval
11 March 2002 (first tranche)	1 Aug 2006 (third tranche)	53 months
Effective Date	Original Closing Date	Time Interval
19 February 2002	30 June 2005	40 months

b. Amount (special drawing rights)

Category or Subloan	Original Allocation	Date Disbursed	Amount Disbursed	Undisbursed Balance
First Tranche	3,912,000	11 Mar 2002	3,912,000	0
Second Tranche	7,824,000	28 Oct 2005	7,824,000	0
Third Tranche	3,912,000	1 Aug 2006	3,912,000	0
Total	15,648,000		15,648,000	

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	20.00	21.94

2. Program Schedule

Item	Appraisal Estimate	Actual
First Tranche Release	19 Feb 2002	11 March 2002
Second Tranche Release	30 Apr 2003	28 Oct 2005
Third Tranche Release	Within 36 months of loan utilization	1 Aug 2006

3. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 19 Feb 2002 to 31 Dec 2002	Satisfactory	Satisfactory
From 1 Jan 2003 to 31 Dec 2003	Satisfactory	Satisfactory
From 1 Jan 2004 to 31 Dec 2004	Satisfactory	Partly satisfactory
From 1 Jan 2005 to 31 Dec 2005	Satisfactory	Satisfactory
From 1 Jan 2006 to 31 Dec 2006	Satisfactory	Partly satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Fact-Finding	13–28 Jun 2001	5	75	a, c, d, j
Appraisal	3–13 Sep 2001	5	50	a, b, c, d, e
Review 1 (Inception)	18–22 Mar 2002	3	12	a, f, g
Review 2	28 Nov–5 Dec 2002	2	14	c, h
Review 3	22–24 Jan 2003	2	4	c, h
Review 4 (Midterm)	24 Feb–14 Mar 2003	2	20	c, h
Review Mission 5	28 Apr–2 May 2003	2	8	c, l
Review Mission 6	2–11 Sep 2003	1	9	c
Review Mission 7	May 2004	1	2	c
Review Mission 8	14–18 Jun 2004	3	12	c, i, k

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members^b
Review Mission 9	13 May 2005	1	1	c
Review Mission 10	18–22 Jul 2005	1	4	c
Review Mission 11	19–20 Sep 2005	2	4	c, b
Review Mission 12	30 Sep 2005	2	2	c, b
Review Mission 13	6–7 Oct 2005	2	4	c, b
Review Mission 14	31 Jan 2006	1	1	c
Review Mission 15	8 Feb 2006	2	2	c, k
Review Mission 16	24 Feb 2006	1	1	c

^a a - policy coordinator, b - counsel, c - resettlement / social development specialist, d - programs officer, e - project economist, f - transport specialist, g - project analyst, h - project implementation officer, i - country director, j - nongovernment organization coordinator, k - infrastructure specialist, l - environment specialist.

I. PROGRAM DESCRIPTION

1. The Asian Development Bank (ADB) approved the Environment and Social Program (ESP) loan to the Lao People's Democratic Republic (Lao PDR) on 6 December 2001.¹ The ESP was to support the policy reform agenda of the Government to improve environmental management and social safeguards in the energy and transport sectors. The ESP covered five closely linked priority areas for policy action: (i) strengthening national policy and the regulatory framework for environmental management and social safeguards; (ii) enhancing policy implementation measures and capacity in the provinces and in each sector; (iii) improving compliance and enforcement, (iv) promoting river basin management as a multisector and integrated planning framework for energy and transport development; and (v) establishing sustainable financing mechanisms, including an environment fund.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

2. The ESP was timely and highly relevant. Sustainable environmental management was a thematic priority of ADB's 2002–2004 country strategy and program for the country,² which identified a number of areas for potential priority support: (i) institutional capacity building for policy implementation and regulatory enforcement, including social and environmental impact assessments; (ii) systematic consultations with all stakeholders on social and environmental issues, and increased capacity and transparency in environmental monitoring and assessment; (iii) investment support for river basin development and stabilization of shifting cultivation; (iv) community-based natural resource management; and (v) continued involvement in regional environmental initiatives.

3. The Government wanted to make a transition from essentially reactive and case-by-case remedial action on environmental and social impacts to a proactive approach that supported national, sector, and area-based integration of these concerns. The Government sought ADB assistance to undertake a program of policy implementation measures that would shift the country to a more sustainable development trajectory, beginning with actions to address identified constraints facing the energy and transport sectors. ADB has had a long and extensive association with these sectors as well as environmental management in the Lao PDR, and has been able to gain relevant sector knowledge to pursue substantive policy dialogue with the Government. The ESP assisted the Government in implementing the necessary preconditions for improving environmental management and social safeguard performance. While the ESP was intended to focus primarily on energy and transport, the policy shifts will have beneficial effects beyond these sectors. A limitation of the ESP design was that it focused on only one of ADB's social safeguards, involuntary resettlement, with no mention of ADB's other social safeguard, indigenous peoples. This was rectified to some extent by including indigenous peoples in the policy reforms for involuntary resettlement.

4. A small-scale technical assistance (TA)³ was formulated to develop a program loan to strengthen the Government's capacity for socioenvironmental management of energy and

¹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Lao People's Democratic Republic for the Environment and Social Program*. Manila.

² ADB. 2001. *Country Strategy and Program (2002-2004), Lao People's Democratic Republic*. Manila.

³ ADB. 2000. *Technical Assistance to the Lao People's Democratic Republic for the Energy and Transport Socio-Environmental Management*. Manila. (TA 3535, for \$150,000, approved on 10 November 2000).

transport development and thereby improve the sustainability of these projects. The work under the TA to prepare the program was largely based on the products and findings of an advisory TA⁴ that helped the Government finalize umbrella environmental assessment regulations; prepare sector environmental guidelines for roads and hydropower; and revise the national environmental action plan, which contains a number of recommendations for strengthening the social and environmental aspects of infrastructure. A draft policy matrix was the major output of the advisory TA, which the Government found acceptable. Under the preparatory TA, the policy framework and specific actions included in the ESP were designed through a participatory process that involved field surveys, workshops, and extensive consultations with national, regional, and local stakeholders, including the major funding agencies involved in supporting environment, transport, and energy activities. As a result, the reforms and specific policy actions detailed in the draft policy matrix were directly supportive of the Government's environment and development objectives, and were intended to complement and actively promote relevant programs of the international aid community in the Lao PDR.

5. In view of the linkages across sectors and their bearing on environmental management and social safeguards in energy and transport development, a multisector approach was used to identify and develop the intended policy measures. In developing the policy matrix, the process of strengthening policy implementation was expected to extend beyond the time horizon of the ESP. The ESP was designed to take into account that the current capacity to implement the policy agenda was limited and could only improve progressively in the short to medium term. As such, the policy matrix reflects an incremental approach that was consistent with the realities of the country's implementation capacity. The program framework summarizing the goals, objectives, outputs, and performance targets is attached as Appendix 1.

B. Program Outputs

6. The ESP covered policy reforms for five key areas (para. 1). Intended outputs from the policy framework were achieved: (i) national policy and the regulatory framework for environmental management and social safeguards were strengthened through issuance of various decrees, implementing regulations, and technical guidelines; (ii) policy implementation measures and capacity in the provinces and in each sector were enhanced; (iii) compliance and enforcement were improved; (iv) river basin management was promoted as a multisector and integrated planning framework for energy and transport development; and (v) a sustainable financing mechanism in the form of an environment fund was established. The details of policy reforms, including their implementation status, are in Appendix 2. A description of the major reform efforts implemented follows.

1. Strengthening National Policy and the Regulatory Framework for Environmental Management and Social Safeguards

7. The Environmental Protection Law (EPL) and relevant provisions of the laws on electricity, roads, forestry, and water resources provide an overall legal framework to protect environmental resources in the Lao PDR and safeguard the rights of affected people. The effective implementation and enforcement of these laws are predicated on the development of appropriate regulatory frameworks. The EPL could not fully operate without the implementation of decrees and regulations to clarify roles, mandates, responsibilities, and operating procedures.

⁴ ADB. 1998. *Technical Assistance to the Lao People's Democratic Republic for Strengthening Social and Environmental Management*. Manila. (TA 3133, for \$950,000, approved on 22 December 1998).

As a first-tranche condition, regulations on environmental assessment were issued in 2002 as a prime ministerial decree. Similarly, to meet program objectives, the Government took steps to ensure that the overall public investment program adequately addresses environmental management and social safeguards, and issued a prime ministerial decree on the public investment program with this in mind. The Government has issued three other prime ministerial decrees in support of the EPL and the Land Law: the first was a decree on compensation, resettlement, and rehabilitation for all people affected by involuntary resettlement on all development projects; the second established an environmental protection fund (EPF); and the third issued environmental impact assessment (EIA) regulations.

8. The decree on compensation and resettlement assigned the regulatory mandate for involuntary resettlement to the Science, Technology and Environment Agency (STEA). The agency then expanded its Environmental Impact Assessment Division into the Environmental and Social Impact Assessment Division within its Department of Environment (DOE) and has issued implementing regulations and technical guidelines to accompany the decree. Together, these documents provide a framework consistent with international standards for effectively addressing the resettlement impact of all projects, regardless of the source of funding. They also include requirements for assessing social impact and addressing ethnic minority issues within development projects.

9. In keeping with the Government's commitment to participatory planning to take the people's needs, priorities, and aspirations into account, STEA issued national public involvement guidelines for facilitating and monitoring the involvement of affected communities in project preparation and implementation. STEA plans to formalize the guidelines by issuing them as regulations to be published by October 2007. STEA also initiated state-of-the-environment reporting in 2002 through a Norwegian Aid Agency (NORAD) publication, and intends to publish it every 4 years to support the 5-year National Environment Plan; the World Bank-financed Lao Environment Monitor, published jointly by the World Bank and STEA, fulfills this requirement for 2006.

10. The Government formally established the National Environment Committee (NEC) as a permanent senior body to address policy issues and reconcile competing agendas in the use of environmental and natural resources. Among its first tasks NEC reviewed institutional arrangements to determine whether adjustments are warranted in institutional mandates, structures, and relationships, and to assess long-term institutional development needs. The review led to reflection on STEA's ultimate role and position and how to give STEA the necessary authority for compliance and enforcement. The Government undertook a parallel review of relevant laws and decrees to clarify ambiguities and inconsistencies with the EPL and its implementing regulations. The recommendations from the NEC review are being implemented. In this regard, the process is under way to combine water resources management and environment into one agency, giving a clear mandate for the use of the resource separately from management and control, with STEA taking the latter role. STEA revised the EIA regulation to be issued as a decree within 2007. The draft decree, which is ready for line ministry consultation, proposes changes that will focus on larger projects, including setting a 2-year limit for EIA certification (which currently has no time limit), and requirements for use of performance bonds and for polluters to pay for environmental damage. The EPL is being revised and is included in the plan expected to be passed by the National Assembly in 2009.

2. Enhancing Policy Implementation Measures and Capacity in the Provinces and in Each Sector

11. Under the ESP, the Government took several steps to strengthen policy reforms and sector performance. The former Ministry of Industry and Handicrafts (MIH), now Ministry of Energy and Mines, and the Ministry of Communication, Transport, Post and Construction (MCTPC) issued ministerial notifications adopting STEA's national implementing regulations and technical guidelines on resettlement and compensation. Each ministry issued ministerial regulations and technical guidelines and standards for EIA of projects in its sector. The EIA regulations require the relevant ministry and STEA to approve an environmental management plan before issuing an environmental certificate. As a condition for the release of the first tranche, MIH's Department of Electricity and MCTPC's Department of Roads (DOR) were restructured and their environmental management units upgraded into social and environmental management divisions reporting directly to the department directors. Electricité du Lao has undertaken a similar process of institutional strengthening.

12. All provincial science, technology, and environment offices are functioning in line with the Government's decentralization strategy and were given significant responsibility under the EPL for ensuring that their development plans reflect environment objectives. They have all received some training under the first phase of a TA grant from the Swedish International Development Cooperation Agency.⁵ Three have undergone extensive capacity building, six more are doing so under the second phase of the Swedish International Development Cooperation Agency TA, and three others are being strengthened under the World Bank's Lao Environment and Social (LENS) Project. STEA has worked with all provinces to have their provincial environment committees report progress with EPL implementation in relation to the state of the environment in the Lao PDR.

3. Improving Compliance and Enforcement

13. The ESP as a whole aimed to improve implementation and enforcement of the EPL and related regulations to ensure compliance. To support transparency and accountability in social and environmental decision making, STEA is developing, with Swedish International Development Cooperation Agency TA, an electronic EIA and social impact assessment register to catalog all EIAs and resettlement and environment management plans submitted and approved, and make copies available to the public.⁶ The register is expected to be fully operational by October 2007. The STEA home page will have links to environmental management in country, development projects, DOE, and NEC and NEC's annual reports with compliance reporting from various sectors.

14. The strengthening of STEA's EIA, social impact assessment, and compliance monitoring abilities is being supported by various externally financed initiatives. Although the EPL does not give any agency the mandate to enforce compliance with the law, the EIA regulations do give such a mandate. Although violations of the regulations can be sanctioned with warnings, reeducation, fines, or criminal punishment, no agency is responsible for imposing such sanctions. STEA, with the agencies concerned, may stop work on a development project, or mitigate or compensate for damage caused by the project. Consideration is being given to assigning enforcement authority in the revised EPL decree to STEA together with the

⁵ For the Social and Environment Management Project.

⁶ The original public information center that was established under the ESP is temporarily not functioning, while the web site and full database are being prepared.

Department of Justice. STEA will issue the third party monitoring guidelines developed under the ESP as regulations.

15. MIH and MCTPC prepared their first two annual sector reports on social and environmental performance and compliance during the ESP, and continue to submit annual reports for inclusion in NEC's annual reports. Meeting this condition was a learning process, as the agencies had to learn to report not only on their achievements but also on deficiencies in compliance with project-specific environmental management plans and resettlement plans—and to rectify any deficiencies. DOE continues to provide guidance and training to these agencies, as do various development agencies. STEA's Environmental and Social Impact Assessment Division is also conducting site visits to all projects before giving EIA and resettlement compliance certification, and is monitoring implementation of the safeguard documents.

16. The Government has tested—on one road project, one gold mining project, and the Nam Theun 2 Hydroelectric Project—arrangements to strengthen performance bond systems to enforce developer and contractor commitments and obligations related to environmental and social mitigation through financial guarantees that meet the costs of such mitigation. Performance bond systems have been found successful and a requirement to use them will be included in the revised EIA regulations.

4. Promoting River Basin Management as a Multisector and Integrated Planning Framework for Energy and Transport

17. The ESP included a number of policy actions to ensure that energy and road programs are planned within an integrated resource management framework. The Strategic Vision on Integrated Watershed Management is complete and tested, and is now being implemented in two watersheds. The watershed approach is being used for area planning other than in individual watersheds, such as in the Nam Et–Phou Leu National Biodiversity Conservation Area, which encompasses the upper reaches of several basins. The Ministry of Agriculture and Forestry (MAF), World Conservation Union, and district authorities are using a holistic approach to jointly plan the use of this “roof of Southeast Asia.” To support the use of an integrated resource management approach for project planning and implementation, the Government has developed an improved system for interministerial data collection and use.

5. Establishing Sustainable Financing Mechanisms

18. Responding to the need for a sustainable financing mechanism, as foreseen under the EPL, the Government adopted a decree establishing an EPF⁷ to provide long-term targeted support for (i) capacity building and human resource development for environmental management and social safeguards; (ii) third-party monitoring of environmental and social implications of complex and sensitive infrastructure projects; (iii) planning frameworks for integrated resource management; (iv) conservation and sustainable use of biodiversity; (v) participatory natural resource management initiatives; and (vi) enabling measures to ensure that environmental and social mitigation in energy, transport, and other large-scale infrastructure projects is in place and implemented. Conceptually, the EPF is an umbrella fund that allows for the establishment of specialized financing windows to support specific objectives related to environmental protection and natural resource conservation.

⁷ <http://www.laoepf.org.la>

19. The ESP capitalized the EPF with \$5 million. Because it was designed in consultation with other development partners to meet their needs and address their concerns, the EPF has already attracted another \$4.75 million investment in two specialized windows under the EPF umbrella.⁸ The EPF has also established a special window to finance activities aimed at controlling pollution, including the management of waste, hazardous chemicals and pesticide use; proposals are expected from various stakeholders. The approved proposals are consistent with the agreed purpose of the EPF. The Government also wishes to implement the recovery of costs for enforcing environmental and social mitigation regulations. In support of the National Policy, Environmental and Social Sustainability of the Hydropower Sector (2005), the EPF executive office is in close discussion with the Ministry of Energy and Mines to develop a mechanism for a percentage of revenue from large (50 megawatts or more) hydropower projects to be channeled into the EPF or a specialized window for watershed protection, conservation, and monitoring. Consideration is being given to placing revenue from smaller projects into a local environment fund to be managed by the provincial science, technology, and environment offices.

20. The Government has taken a positive step in deciding not to allow the creation of separate environment, natural resource, and biodiversity conservation funds that may duplicate EPF functions, activities, and responsibilities. Such funds will be allowed only as specialized financing windows under the EPF umbrella.

C. Program Costs

21. ADB supported the ESP with a loan as described in the development policy letter and policy matrix and an attached TA grant for \$600,000.⁹ The loan was for \$20 million from the Asian Development Fund. The loan amount took into account the depth and scope of the proposed policy reforms, and the estimated short- and medium-term adjustment costs associated with adopting the policy matrix. The program adjustment costs were estimated at about \$37 million over 5 years. The major adjustment costs of the program resulted from the additional public investment costs needed to ensure that environmental and social safeguards would be built into infrastructure projects. This indicative estimate was based on assumptions about (i) the incremental investment costs of improved compliance with stricter environmental and social safeguards in the energy and transport sectors, (ii) the costs of undertaking watershed planning and pilot projects to improve watershed management, (iii) indicative estimates of direct institutional strengthening costs, and (iv) initial capitalization of the EPF.

⁸ The first two specialized EPF windows were established under the LENS project with a grant of \$4.75 million. The first of the two windows is for implementing policy and enhancing national, provincial, and district capacities to strengthen (i) policy formulation and implementation of environmental and social safeguards; (ii) environmental assessment and monitoring, as well as compliance, by institutions engaged in environmental management; (iii) integrated river basin management of the Nam Theun-Nam Kading River Basin; (iv) hydropower sector sustainability; (v) resettlement management; and (vi) environmental education and awareness. The second EPF window is for community and biodiversity investments to support initiatives to (i) strengthen conservation practices and livelihood improvement activities in and around protected areas; and (ii) improve local environmental conditions in central Lao PDR through partnerships involving communities, local governments, and civil society organizations. Subgrant funding is being provided through the latter window for rehabilitating the herbarium of the National University of Lao Faculty of Science, building capacity to integrate environmental education into the formal school curriculum, and promoting the use of recycled waste for making teaching materials in primary schools through the National Research Institute for Educational Sciences.

⁹ ADB. 2001. *Technical Assistance to the Lao People's Democratic Republic for Capacity Building for Environment and Social Management in the Transport and Energy Sectors*. Manila (TA 3746, approved October 2001 for \$600,000).

D. Disbursements

22. The ESP was approved on 6 December 2001. Twenty conditions were set for loan effectiveness and the release of the first tranche. The loan was declared effective on 19 February 2002, after the Government was deemed to have complied with those conditions. The first tranche proceeds of SDR3,912,000 equivalent were disbursed on 11 March 2002. The second tranche, amounting to SDR7,824,000 equivalent (\$11,287,293.60), was to be disbursed within 14 months of the first tranche, subject to the Government's compliance with 27 specified conditions. Twenty-four of these conditions were complied with by November 2003, and one of the three remaining conditions was complied with by July 2005. The second tranche was disbursed on 28 October 2005 on the basis of the Government's full compliance with 25 conditions and partial compliance with one of the two remaining conditions. The remaining conditions were deferred to the third tranche but were fully complied with by November 2005. The release of the third tranche of the proceeds, amounting to not more than SDR3,912,000 equivalent, was contingent on the establishment of an environment fund by the Government during the 36 months of loan utilization. The third tranche and all nontranche conditions were met on 9 June 2006 and disbursement followed on 1 August 2006.

E. Program Schedule

23. The ESP was approved on 6 December 2001 and became effective on 19 February 2002. The TA consultants were mobilized in August 2002. The loan period was 3 years, and the loan closing date, as per the Loan Agreement, was 30 June 2005; but the loan period was extended twice at the request of the Government. The loan closed and final disbursement took place on 1 August 2006. The ESP was implemented over 4 years (FY2002–FY2006). The delay of 1 year was due to (i) staff shortages in STEA and other demands by steering committee members on the few strong staff in concerned Government ministries and offices; (ii) the Government, and specifically STEA, really only took ownership of specific outputs, namely, the last two decrees, after the TA consultants had demobilized; and (iii) the original project schedule did not take into account the amount of time required for the Government to review and issue the prime ministerial decrees.

F. Implementation Arrangements

24. STEA was the Executing Agency for the ESP; the national project director was the director general of DOE. An interministerial steering committee was formed with representatives from other Government ministries and offices with a stake in the policy matrix. The steering committee was chaired by the STEA vice president, and included representatives from the Ministry of Finance (MOF), MIH, MAF, and MCTPC's DOR. However, apart from STEA and MOF, other steering committee members did not always send decision makers to meetings and did not have strong participation until program documentation was to be signed. However all stakeholders did participate in the workshops on various program outputs. Overall, because of staff shortages in all program agencies, less commitment from steering committee agencies other than STEA, and undue reliance on consultants to prepare documentation without full participation in the process, implementation arrangements were not fully adequate for delivering program outputs and achieving the purpose of the ESP. Outputs were eventually achieved but sometimes after long delays and frequent reminders from ADB.

G. Conditions and Covenants

25. The ESP provided 48 policy conditions. Of these, 20 were complied with as a condition of effectiveness and release of the first tranche. Of the 27 policy conditions to be complied with for release of the second tranche, 24 were complied with by November 2003, and one of the three remaining was complied with by July 2005. The second tranche was disbursed on 28 Oct 2005 on the basis of the Government's full compliance with 25 conditions and partial compliance with one of the two remaining conditions. The remaining conditions were deferred to the third tranche, but were fully complied with by November 2005. The delay in reaching full compliance was due mainly to the time required for Government review and issuance of the prime ministerial decrees for resettlement and the EPF. The status of compliance with policy conditions is in Appendix 2. In addition to the program-related conditions, the loan agreement specified several covenants with implementation and coordination arrangements, reporting requirements, policy dialogue, review, and monitoring and evaluation. These covenants were generally complied with. No covenant was modified, suspended, or waived. The status of compliance with loan covenants is in Appendix 3.

H. Related Technical Assistance

26. TA was attached to the loan (footnote 4) with the goal of improving environmental management and social safeguards in the transport and energy sectors. The TA project was intended to help the Government (i) strengthen EPL compliance and enforcement, (ii) establish sustainable financing for environmental management, and (iii) create a policy framework for carrying out and compensating for involuntary resettlement, and for institutionalizing public involvement. The TA was initially expected to be implemented over 16 months, until March 2003; however, the consultants mobilized only in August 2002 and provided intermittent input until November 2005. The TA completion report is in Appendix 4.

I. Consultant Recruitment and Procurement

27. The TA consultants were recruited as one consulting company and eight individual consultants. No problems were encountered in consultant recruitment.

J. Performance of Consultants, Contractors, and Suppliers

28. The TA consultants generally performed satisfactorily and did not cause any negative effects on the quality of the outputs, schedule, and/or costs. The outputs could possibly have been achieved faster if the consultants had had longer input, or if steering committee members had been able to spend more time with the consultants. STEA had strong leadership, but insufficient staff to work with the TA consultants on the preparatory work. The other steering committee members also had insufficient numbers of strong staff to work on the policy reforms. The shortage of counterpart staff with whom to work reduced the transfer of knowledge benefits that could have resulted from the TA. Nevertheless, the TA did succeed in increasing awareness of environment and social policy issues among steering committee members and especially within STEA's DOE.

K. Performance of the Borrower and the Executing Agency

29. The performance of the Borrower and STEA is satisfactory. The success of the ESP was due in large part to STEA's strong ownership of the overall program. The Prime Minister's Office, to which STEA belongs, demonstrated a high commitment throughout the program. STEA led

the reform program from the outset and provided stewardship during the entire implementation, and as a result, coordination with the steering committee members on policy reforms was effective, although delayed at times. The reform program was complex; much of the preparatory work was done by the TA consultants, but revisions, final drafting, and approvals of the last two decrees required much work by STEA and, to a lesser extent, the steering committee members. The policy actions were generally implemented as planned.

30. After long delays in the issuance of the decrees on compensation, resettlement, and the EPF, ADB realized that some leverage might be necessary to facilitate Government action, whether delays reflected initial lack of commitment or just inadequate personnel and other demands on time. Leveraging was discussed in relation to two projects: Nam Theun 2 Hydropower Project and the LENS Project; the LENS Project was determined to be the most appropriate to be linked to the ESP. The LENS Project included in its policy letter the requirement for both decrees to be issued before LENS effectiveness. This was the real impetus for issuance of the two decrees. The potential for grant funds seemed to provide greater incentive than ESP loan funds.

L. Performance of the Asian Development Bank

31. ADB staff members closely monitored program implementation. Monitoring of the ESP was done on a regular basis through frequent visits to STEA and close supervision. ADB fielded around 24 missions during implementation to evaluate progress with policy reforms and ESP implementation and to provide technical guidance on specific issues. The missions worked with STEA and the steering committee, coordinated with other international development agencies; provided technical guidance especially with the conditions related to involuntary resettlement and the EPF; and discussed policy actions necessary for achieving the second and third tranche policy conditions. A midterm review was held during February–March 2003. ADB demonstrated a positive approach to working with the Government. Project officers handling the ESP changed twice during implementation, but the last project officer managed the release of the second and third tranche. Because of limited staff resources, some review missions were conducted informally in conjunction with other projects and missions in the Lao PDR to enable close monitoring of program implementation. Such informal missions did not always include back-to-office reports, hence coupled with delays in the release of the second and third tranche, the program loan is rated partly satisfactory in terms of implementation. Overall performance of the loan is rated satisfactory.

32. The nature of the policy reforms was in many ways beyond the current abilities, understanding, or willingness of the Government, and thus, as was to be expected, such policy messages required repetition and frequent reinforcement. The mission recognized the need and value in demonstrating the practical side of the policies in the field and to senior government. The ESP became the vehicle for demonstrating the practicalities of the policy reforms, and the linkages between policies and implementation, compliance, and enforcement. The synergy with related safeguard activities in the Lao PDR enabled effective achievement of significant progress in making institutional and legal changes in the environmental and social safeguard framework. The same result would probably not have been achieved in the absence of integration with other programs and activities.

III. EVALUATION OF PERFORMANCE

A. Relevance

33. The ESP is assessed as highly relevant. The Lao PDR is a small landlocked country with a wealth of natural resources and environmental assets. As natural resources underpin economic development and poverty reduction prospects, the Government attaches priority to conserving the environment and ensuring the environmental and social sustainability of all development activities. Enactment of the EPL was a breakthrough. Together with environmental provisions in laws on electricity, roads, land, water resources, and forests, the EPL provides a framework for implementing safeguards. However, effective enforcement requires the adoption of enabling regulations, compliance mechanisms, and measures to enhance Government capacity and financial sustainability. Without these, the integration of environmental management and social safeguard issues across sectors will remain elusive. It was within this context that the Government sought ADB assistance to design and implement the ESP. The ESP's goal, purpose, and outputs were consistent with the Government's development strategy and ADB's country strategy and program (footnote 2). The design of the policy matrix was appropriate to achieve the intended objective, although the scope of social safeguard coverage was limited only to involuntary resettlement and did not include indigenous peoples' issues, which are also relevant in the Lao PDR. The ESP remained relevant, appropriate, and timely through implementation. Its scope was broad-based and ambitious with five prime ministerial decrees to be issued; however, it was not too ambitious.

B. Effectiveness in Achieving Outcome

34. The ESP loan is rated effective. The intended outcome of improving environmental and social management in the energy and transport sectors has been effectively achieved (paras 35–39).

1. Strengthening National Policy and the Regulatory Framework for Environmental Management and Social Safeguards

35. The ESP was effective in strengthening national policy and the regulatory framework for environmental management and social safeguards, effective at identifying gaps in the legal and institutional framework that impede effective environmental and social management, and effective in identifying solutions to fill the gaps. Although the ESP outputs were to include strengthened national policy and regulatory framework for environmental management and social safeguards, the performance indicators (Appendix 1) and tranche release conditions (Appendix 3) did not include any specific outputs related to indigenous peoples or ethnic minorities. Unfortunately, this deficiency was not picked up during program implementation. Nevertheless, the ESP was effective in addressing ethnic minorities in the legislation on involuntary resettlement. Now all development projects that affect ethnic minorities are legally required to screen, identify, assess, and mitigate social impacts; and prepare and implement plans for development of ethnic minorities. The various policy reforms are being applied to projects, and the Government continues to respond to changing conditions and awareness by strengthening the regulatory and institutional frameworks even after program completion. The ESP has succeeded in building a momentum of awareness and action at the highest level of Government, which will now continue because it is being reinforced through various other efforts.

2. Enhancing Policy Implementation Measures and Capacity in the Provinces and in Each Sector

36. The ESP was effective at strengthening sector performance, building on analysis and products prepared under previous ADB TA. Both Electricité du Lao and DOR continue to strengthen their environment and social divisions with more qualified staff and through on-the-job training provided by various development partners, and have requested more safeguard training workshops from ADB. With DOE now strictly applying the legal regulations for environmental and resettlement safeguard compliance, and STEA and development partners strengthening sector capacity for environment and social management and safeguard, and with the full support of the highest levels of Government, the prognosis for the future is very positive. The ESP has also laid the foundation for the longer term and more comprehensive strengthening of provincial science, technology, and environment offices.

3. Improving Compliance and Enforcement

37. The ESP was effective at improving compliance and enforcement. The first step was to raise awareness within ministries about national requirements for environment and social safeguards; second, to require conscious attention to safeguard planning and implementation, monitoring, and reporting; and third, to require transparency and accountability in social and environmental decision making. The output and outcome of this activity have been effective and continue to evolve as STEA, with full support from the Government, works with line agencies to improve compliance and enforcement.

4. Promoting River Basin Management as a Multisector and Integrated Planning Framework for Energy and Transport

38. The ESP was highly effective at implementing a number of policy actions to ensure that planning of energy and transport programs can take place within an integrated resource management framework. The Government established river basin planning as the overall framework for natural resource management, initiated area-based planning in selected provinces, and placed energy and transport sector projects within an area-based framework

5. Establishing Sustainable Financing Mechanisms

39. The ESP was highly effective in strengthening the legal framework for environmental and social management, effective at identifying gaps in the legal and institutional framework that impede effective environmental and social management, and effective in identifying solutions and taking action to fill the gaps. The ESP has succeeded in building a momentum of awareness and action at the highest level, which will now continue because it is being reinforced through various other efforts.

C. Efficiency in Achieving Outcome and Outputs

40. The ESP was efficient in terms of facilitating policy reforms. The ESP was implemented by STEA, in close coordination with the Committee for Planning and Cooperation, MOF, MIH, MCTPC, and MAF. An interministerial steering committee, chaired by the STEA president, was established to oversee ESP implementation. The steering committee comprised representatives of the Committee for Planning Cooperation, MOF, MAF, MIH, MCTPC, and STEA. TA was important for achieving the outputs, and in the process the TA consultants were effective at increasing awareness of steering committee members and technical staff with whom they

worked. Because of STEA's commitment to achieving the program objectives and its support from the highest level of Government, progress will continue to be made in the momentum started by the ESP.

D. Preliminary Assessment of Sustainability

41. The ESP's sustainability is assessed as likely. Two of the risks identified at the outset of the ESP that would handicap efforts to properly address environmental and social impacts were (i) weak institutional capacity, and (ii) limited human resources in the Lao PDR. These risks persist despite successive efforts at capacity building, particularly within the energy and transport sectors and institutions. However, institutional capacity and numbers are increasing, although the process is slow. Strong political will and commitment are also essential for effective program implementation. The Government continues to demonstrate strong commitment to legal and institutional reform, through intention to revise and strengthen the EPL and EIA regulations, and through supporting STEA's enforcement of certification for EIA, social impact assessment, involuntary resettlement, and environmental management plans for all projects.

42. Sustained and regular dialogue, solid analysis of the longer term benefits of social safeguards and environmental management, consultative mechanisms with funding agencies and civil society, and increasing public awareness were built into the program design to help maintain political commitment and reduce the risk of ineffective implementation. ADB and Government monitoring of the ESP outcomes must extend beyond the life of the program to ensure continued relevance and effectiveness of program actions.

E. Impact

43. The ESP has been a catalyst for social and environmental safeguard and management change within the Lao PDR. It has succeeded in strengthening the policy and regulatory framework for environmental management and social safeguards; enhancing sector and provincial institutional capacity to identify, analyze, and address social and environmental issues; bolstering compliance with and enforcement of laws and regulations; fostering improved sector planning within an integrated natural resource management framework; and promoting sustained financing for priority environmental management activities.

44. The ESP accomplishments will reduce or avoid the high social and environmental costs of inappropriately designed infrastructure development in the energy and transport sectors. This will result from the strategic environment assessment required for the project implementation plan, improved upstream planning of sector development and reconciliation of competing uses of natural resources within a river basin context, better policy integration across the sectors, and more systematic attention to environmental and social safeguards in project preparation and implementation. Stricter enforcement, combined with incentives for compliance such as performance bonds, will facilitate internalization of externalities. Where social and environmental costs cannot be avoided, more equitable distribution of these costs will result from inclusion of appropriate mitigation measures in project design. This will help ensure that social and environmental costs will be borne, not by the local communities but by the project developers.

45. Introducing a coherent and more transparent regulatory framework for addressing social and environmental concerns will reduce uncertainty and delays associated with investment in large infrastructure projects in the Lao PDR. This in turn will help make projects

more attractive to potential investors. It will also provide an enabling environment for international investors with global reputations to protect. Implementing public participation guidelines will substantially improve the identification of potential environmental and social issues associated with infrastructure developments, and the design of appropriate measures to address these concerns. Improved public participation will generate additional economic benefits by (i) creating a better understanding of local conditions, which will facilitate improved project design, reduce risks, and increase efficiency; (ii) identifying opportunities to maximize economic benefits from infrastructure developments; (iii) enhancing a sense of ownership and sustainability of new infrastructure; and (iv) increasing the accountability of developers and contractors.

46. The ESP has enhanced prospects for adequate and sustained allocation of resources for environmental management and social safeguards by establishing the EPF. It will also increase the efficiency of resource use through prioritization and improved budgetary processes that properly reflect the requirements of sectoral and provincial agencies concerned with environmental management and the implementation of social safeguards.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

47. The ESP is rated successful (Table 1). The Government has succeeded in making essential policy reforms, and is now working with development partners in the areas of protection and conservation of the environment and social safeguards, building on the solid base developed by the Program, and is expected to maintain the momentum of the ESP. The ESP was generally implemented as planned.

Table 1: Assessment of Project Performance

Criterion	Weight (%)	Assessment	Rating Value	Weighted Rating
Relevance	20	Highly relevant	3	0.6
Effectiveness	30	Effective	2	0.6
Efficiency	30	Efficient	2	0.6
Sustainability	20	Likely	2	0.4
Overall Assessment		Successful		2.2

Source: ADB. 2006. *Guidelines for Preparing Public Sector Reports for Public Sector Operations*. Manila, para 35.

B. Lessons

48. The following lessons emerge from analysis of project design and program implementation:

- (i) Success of the ESP is due in part to strong ownership of the reform program by the Government, particularly by STEA. Despite delays in meeting some agreed-upon conditions, the loan contributed to pushing forward key policy and institutional reforms in the environment and social sectors, support for the reform program from major funding agencies, and implementation of practical and achievable reforms.

- (ii) ADB and its development partners must consistently reinforce the message and requirements for social and environmental safeguards. They are already demonstrating strong, long-term commitment to assist the Government in strengthening its understanding of, and capacity for, social and environmental assessment, mitigation, protection and conservation, and monitoring and evaluation.
- (iii) A sustainable means of financing is needed. When safeguards become a question of prioritizing the use of scarce funds, safeguards often suffer. The EPF and its specialized windows should facilitate the Government's prioritization of environmental and social safeguards.
- (iv) Much more effort is needed for dissemination and capacity building. The TA could have included funds for disseminating information about the decrees and other documentation issued under the ESP. TA should also have been provided to develop social impact assessment capacity within STEA to take on the regulatory mandate of addressing resettlement and other social impacts. Fortunately such needs are being addressed to some extent through the EPF and its specialized windows and with the assistance of other development partners.
- (v) Policy reforms alone are not sufficient to change attitudes, understanding, and government will and commitment. Such reforms must be supported by (a) frequent dissemination of information about the reforms to all levels of Government and the population, (b) increased number of qualified staff in relevant departments at all levels, (c) long-term capacity building, and (d) continued policy dialogue with Government about consistent application of the reforms and monitoring and enforcement of their application. If the messages are not reinforced frequently, they are forgotten. Furthermore, if only STEA takes them seriously and not the line agencies, then while this is an important first step, it is not sufficient basis for improvement. Fortunately, STEA is now getting full support from the Government and line ministries.

C. Recommendations

1. Program Related

49. **Future Monitoring.** The Government has to monitor the status of actions taken as described in the policy letter and policy matrix, and provide ADB with regular progress reports on the ESP until 2 years after program completion, namely, 31 July 2008. The Government will ensure that the EPF annual reports, including its audited financial statements, are made available to ADB on an annual basis promptly after their preparation, but in any event, not later than 9 months after the close of the year to which they relate.

50. **Covenants.** Follow-up action is needed to ensure the following covenants are complied with:

- (i) Article IV, Section 4.05 (b): "Promptly after the closing date for withdrawals from the Loan Account, the Borrower shall prepare or cause to be prepared, a comprehensive report on the overall impact of the implementation of the policy reforms described in the Policy Letter and Policy Matrix but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and the Bank. The report, in such form and in such detail as the Bank shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations

under this Loan Agreement and the accomplishment of the purposes of the Loan.”

- (ii) (Schedule 5, Clause 5) “The Borrower shall ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of the Loan Agreement continue in effect for at least two (2) years beyond the duration of the Program period.”
- (iii) Schedule 5, (Clause 6) The Borrower shall promptly adopt and implement the policies and program actions indicated in the Program as specified in the Policy Letter, including the Policy Matrix, in a timely manner and shall ensure that such policies and actions are sustained for at least two (2) years beyond the duration of the Program period.”
- (iv) (Schedule 5, Clause 18) “From establishment of the Environment Fund until two years after the completion of the Program Period, and without limiting the generality of Section 4.05 of this Loan Agreement, the Borrower shall ensure that the annual reports of the Environment Fund, including its audited financial statements are made available to the Bank on an annual basis promptly after their preparation, but in any event, not later than nine (9) months after the close of the year to which they relate.”

51. **Further Action or Follow-Up.** The Government’s comprehensive report on the overall impact of the implementation of the policy reforms described in the policy letter and policy matrix, (due within 3 months of the closing date of the loan) has not yet been submitted. The Government should submit the report as soon as it is ready.

52. **Additional Assistance.** The Government has requested additional assistance to establish an ecotourism fee and to develop product and wastewater surcharges. These are recommendations of the study to identify appropriate services for which user charges could be levied, and to assess the feasibility of a user charge system. Terms of reference have been prepared and a budget of \$400,000, consisting of \$200,000 for each of (i) establishment of the ecotourism fee, and (ii) study and establishment of product and wastewater surcharges. Assistance is also needed to finance dissemination throughout the central, provincial, and district offices on selected applicable policy reforms. Additional assistance could be provided for capacity building of the Environmental and Social Impact Assessment Division of DOE, the social and environmental management divisions of DOR and Electricité du Lao, and the Department of Electricity of the Ministry of Mines and Energy.

53. **Timing of Program Performance Audit.** To assess the impact of the environment and social program reform, a program performance audit is recommended in 2 years.

PROGRAM FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal To promote sustainable and equitable development in the Lao PDR</p> <p>Purpose To improve environmental and social management in the energy and transport sectors</p>	<p>Sustainable economic and social development while maintaining environment quality and natural resource endowment</p> <p>National policy and regulatory framework strengthened</p> <p>Sectoral and provincial policy implementation measures and capacity</p> <p>Compliance and enforcement strengthened</p> <p>Energy and transport sector planning uses an area-based framework</p> <p>Sustainable financing mechanisms established</p>	<p>State of the environment reports</p> <p>Regular sector reviews</p> <p>Stakeholder workshops</p> <p>Official notification, catalogue of regulations, government reports</p> <p>Stakeholders' workshops, sector analysis, monitoring and evaluation reports</p> <p>Annual compliance reports</p> <p>Planning documents</p> <p>Government reports and budget</p>	<p>Political will to address environment and social development continues to deepen</p> <p>Appropriate policy recommendations and legislation adopted</p> <p>Sufficient resources available and allocated</p> <p>Measures are effectively enforced; local participation increased</p> <p>Sectors willing to coordinate and adopt area-based planning</p> <p>Government continues to be committed, and mobilizes additional resources</p>
<p>Outputs 1. National policy and regulatory framework for environmental management and social safeguards strengthened</p>	<p>Implementation decree issued for the Environmental Protection Law (EPL)</p> <p>Public investment plan (PIP) decree issued and PIP for FY2003 prepared in compliance with the EPL</p> <p>Involuntary resettlement and compensation policy and regulations issued, and national public involvement guidelines issued</p> <p>Environmental impact assessment (EIA) regulations issued as prime ministerial decree</p> <p>Senior environment coordination committee established</p>	<p>Decree issued by the Prime Minister</p> <p>Copy of decree incorporating Asian Development Bank (ADB) comments, review of the PIP</p> <p>Decree on policy and implementing regulations issued by the Prime Minister</p> <p>Decree issued by the Prime Minister, number of environmental assessments submitted to Science, Technology and Environment Agency (STEA) for clearance/certification</p> <p>Copy of the Prime Minister's decisions to establish environment coordination</p>	<p>Sector and provincial agencies accept roles and responsibilities</p> <p>Government commitment; extensive consultation</p> <p>Political will to issue policy as decree, technical assistance (TA) effective</p> <p>Regulations are strictly enforced, monitoring capacity is available</p> <p>Senior membership appointed. Sectoral ministries participate effectively.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>Institutional arrangements for environmental management reviewed and recommendations adopted</p> <p>Aid coordination mechanism established by STEA</p> <p>Inconsistencies in the EPL and other laws reviewed</p> <p>STEA has institutionalized state-of-the-environment reporting</p> <p>Civil society consultation forum established by STEA</p>	<p>committee and STEA reports</p> <p>Report of review and recommendations adopted</p> <p>Reports of funding agencies and Government meetings</p> <p>Report on review</p> <p>Report published annually and available to public</p> <p>Minutes of meetings, list of participants</p>	<p>Willingness to address overlapping mandates and streamline responsibility</p> <p>Willingness to coordinate and share information among Government and funding agencies</p> <p>Willingness to confront inconsistencies in regulatory framework</p> <p>Data available to STEA</p> <p>Willingness to engage civil society in dialogue</p>
<p>2. Measures adopted for improved sector and provincial policy implementation</p>	<p>Ministerial regulations for EIA in energy sector issued by Ministry of Industry and Handicraft (MIH) along with relevant guidelines</p> <p>Ministerial regulations for EIA for roads issued by Ministry of Communications, Transport, Post and Construction (MCTPC), along with relevant guidelines</p> <p>Involuntary resettlement and compensation regulations issued by MIH and MCTPC</p> <p>Restructure MIH/Department of Electricity and MCTPC/ Department of Roads (DOR) to include Social and Environmental Management Division and upgrade of the Environment Office in Electricité du Lao</p> <p>Resource requirements to</p>	<p>Regulations issued, number of EIAs responsive to guidelines</p> <p>Regulation issued, number of EIAs responsive to guidelines</p> <p>Issued, number of resettlement action plans responsive to guidelines</p> <p>MIH, MCTPC, and Electricité du Lao reports, terms of references, staff qualification responsive to terms of reference</p> <p>Report of review and</p>	<p>Sufficient commitment of MIH</p> <p>Sufficient commitment of MCTPC</p> <p>Effective supervision and compliance</p> <p>Commitment of Government to implement restructuring, sufficient human resource development</p> <p>Sector ministries and</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>implement the EPL reviewed</p> <p>Provincial science, technology, and environment offices strengthened in accordance with decree on EPL in at least 7 provinces</p> <p>Provincial environmental action plans prepared and reflected in provincial development plans</p> <p>Functional linkages for STEA and provincial science, technology, and environment offices improved</p>	<p>recommendations</p> <p>Staff recruited, office established, quarterly reports to STEA</p> <p>Inspection of action plans</p> <p>Copy of review and report on identified problems and agreed-upon response</p>	<p>provincial governments participate effectively.</p> <p>Provincial government commitment, sufficient qualified human resources available</p> <p>Adequate technical support, assistance from bilateral sources is effective.</p> <p>Adequate resources provided</p>
3. Compliance and enforcement strengthened	<p>Third-party monitoring system established for sensitive and complex projects</p> <p>Register of laws/regulations pertaining to environment/social safeguards and EIAs, environment management plans, and resettlement action plans established by STEA</p> <p>Public information center operationalized by STEA</p> <p>Environmental gazette published twice yearly</p> <p>National public awareness campaign on environment and social safeguards coordinated by STEA</p> <p>Performance bond system enhanced</p> <p>Annual sector reports on social and environmental compliance issued</p> <p>Implement capacity building program for EPL compliance and</p>	<p>Assessment of plan, stakeholder workshops, Government and third party reports</p> <p>Review of register and records of usage</p> <p>Inspection of center, report of usage and access</p> <p>Copies of gazette, number of issues responsive to agreed-upon format</p> <p>Public awareness materials, STEA reports</p> <p>Report on system</p> <p>MIH/MCTPC reports</p> <p>Program materials, training reports</p>	<p>Appropriate framework in place, and resources made available</p> <p>Commitment of Government to public disclosure</p> <p>Commitment of Government to public disclosure</p> <p>Reliable data, commitment of line ministries</p> <p>Commitment of Government to greater transparency and public participation</p> <p>Regulations are strictly enforced</p> <p>Ministerial commitment</p> <p>Bilateral support effective</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>enforcement in place</p> <p>Water quality criteria, standards for discharge and environmental standards issued</p> <p>Codes of environmental practice for developers and contractors issued</p>	<p>Copy of criteria and standards as agreed-upon with ADB</p> <p>Copy of codes, verification of contracts</p>	<p>Appropriate regulatory framework in place, TA products acceptable</p> <p>Commitment of sector agencies</p>
<p>4. Energy and transport sector planning to be done within an area-based framework</p>	<p>Implementing regulations for Water Resources and Water Law issued as a prime ministerial decree</p> <p>Interministerial coordination on data access and use in place</p> <p>Ministry of Agriculture and Forestry (MAF) issues policy statement on watershed management</p> <p>MAF issues concepts and guidelines for integrated watershed management</p> <p>(i) MCTPC road subsector plan, and (ii) MIH energy sector plan reflect strategic environmental management and social safeguards issues.</p> <p>MAF plan for 2020 Watershed Management Program formulated and approved</p> <p>Watershed monitoring and information system, first stage completed</p> <p>Energy and transport sector projects placed within area-based planning framework</p> <p>National biodiversity conservation strategy and action plan approved</p> <p>Nam Ngum River Basin Management Plan under implementation</p>	<p>Decree issued by Prime Minister</p> <p>Report on system</p> <p>Policy statement issued</p> <p>Concepts and guidelines issued</p> <p>Sector plans</p> <p>Assessment of plan</p> <p>MAF reports</p> <p>Review of project frameworks</p> <p>Review of action plan, plan approved</p> <p>Progress reports on implementation status</p>	<p>Regulations are implemented; resources are allocated</p> <p>Commitment of line ministries to sharing data</p> <p>Government agreement to integrated watershed management and planning</p> <p>Government commitment to enforce guidelines</p> <p>Involvement of concerned agencies in the planning process</p> <p>Involvement of concerned agencies in the planning process</p> <p>Sufficient resources available, bilateral support effective</p> <p>Area-based planning frameworks prepared</p> <p>Consensus achieved on conservation priorities</p> <p>Sufficient interministerial coordination</p>
<p>5. Sustainable financing</p>	<p>Public expenditure review</p>	<p>Report on recommendations,</p>	<p>Government commitment</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
mechanisms established	<p>implemented and agreed upon review recommendations implemented</p> <p>Ministry of Finance includes estimates of public spending on the environment by central Government agencies in annual budgets</p> <p>Study completed on (i) user chargers, and (ii) market mechanisms, for environment management and social mitigation and activities</p> <p>Environment fund established with adequate resources</p>	<p>review of implementation</p> <p>Review of published Government data</p> <p>Report of study</p> <p>Copy of relevant decree and regulations, charter of fund, and report on fund</p>	<p>Government will and commitment</p> <p>TA products acceptable, Government approves recommendations</p> <p>Stakeholders agree on governance structure and operating modalities</p>
<p>Activities/Inputs</p> <p>1. Strengthen national capacity in implementing environmental management and social safeguards</p> <p>2. Adopt and enact measures to improve sector and provincial policy and regulatory implementation</p> <p>3. Strengthen capacity of agencies responsible for ensuring compliance and enforcement of environment and social safeguards</p> <p>4. Develop information systems and studies to facilitate transport and energy sector planning within an area-based framework</p> <p>5. Establish sustainable financing mechanisms</p>	<p>Loan, TA, and bilateral support</p> <p>Loan, TA, and bilateral support</p> <p>Loan, TA, and bilateral support</p> <p>Loan, TA, and bilateral support</p> <p>Loan, TA, and external support</p>	<p>ADB review missions Government reports Stakeholder workshops</p> <p>ADB review missions Government reports Stakeholder workshops</p> <p>ADB review missions Government reports Stakeholder workshops</p> <p>ADB review missions Government reports Stakeholder workshops</p> <p>ADB review missions Government reports Stakeholder workshops</p>	<p>Government is committed and has adequate fiscal resources; bilateral support is utilized</p> <p>Government policy commitment, fiscal resources, and continuing support from major funding agencies to environment sector</p> <p>Government commitment and fiscal resources</p> <p>Government commitment, available fiscal resources</p> <p>Government commitment, and support from major funding agencies to this approach</p>

STATUS OF COMPLIANCE WITH POLICY CONDITIONS

Policy Priorities	Actions for First Tranche Release (11 Mar 2002)	Actions for Second Tranche Release (28 Oct 2005)	Actions for Third Tranche Release (1 Aug 2006)	Other Actions	Status
					First, second, and third tranche conditions fully complied with. A description of the status of other actions follows.
1. National policy and regulatory framework for environmental management and social safeguards strengthened	<p>1.1.1 Implementation decree to be issued for the Environmental Protection Law (EPL)</p> <p>1.1.2 Consultative draft decree on public investment program (PIP) processes and monitoring, including provisions on environmental management and social safeguards to be prepared and circulated for comments by the Committee for Planning and Cooperation</p> <p>1.1.3 The Government to appoint an agency to prepare, conduct public consultations, and finalize the policy on involuntary resettlement and compensation for major projects, consistent with international standards</p> <p>1.1.4 Environmental impact assessment (EIA) regulations to be issued as a prime ministerial decree</p> <p>1.1.5 High-level environment coordination committee to be established</p> <p>1.1.6 Terms of reference to be agreed upon for the review of institutional arrangements for</p>	<p>1.2.1 National public involvement guidelines that codify measures to adopt public involvement and participation, to be issued by president of Science, Technology, and Environment Agency (STEA)</p> <p>1.2.2 Government to issue prime ministerial decree on PIP and the PIP for FY2003 to be prepared, based on the PIP decree and in compliance with the EPL</p> <p>1.2.3 National policy on involuntary resettlement and compensation for major projects together with implementing regulations, conforming to the Lao PDR context and consistent with international best practices, to be issued as a prime ministerial decree</p> <p>1.2.4 A civil society consultation forum to be established by STEA, by 30 June 2002</p> <p>1.2.5 Review of institutional arrangements for</p>		<p>Draft PIP decree to be submitted by the Committee for Planning Cooperation to the Government by January 2002</p> <p>STEA to establish aid coordination mechanism for environmental and social management by March 2002</p> <p>Review ambiguities and inconsistencies in laws relating to land, water, forest, roads, and electricity, related implementing decrees, and the EPL by March 2003</p> <p>STEA to initiate state of the environment reporting by January 2003</p> <p>Recommendations of review of institutional arrangements for environmental management to be adopted by the Government by February 2004</p>	<p>Fully complied with.</p> <p>Fully complied with.</p> <p>Fully complied with.</p> <p>Fully complied with.</p> <p>Fully complied with.</p>

Policy Priorities	Actions for First Tranche Release (11 Mar 2002)	Actions for Second Tranche Release (28 Oct 2005)	Actions for Third Tranche Release (1 Aug 2006)	Other Actions	Status
	environmental management	environmental management to be completed and submitted by the environment coordination committee for approval by the Government			
2. Measures adopted for improved sector and provincial policy implementation	<p>2.1.1 Ministerial regulations and relevant guidelines on EIA for the energy sector to be issued by the minister, Ministry of Industry and Handicraft (MIH)</p> <p>2.1.2 Draft EIA regulations and relevant guidelines for the roads subsector to be submitted by MCTPC to STEA for review and comment</p> <p>2.1.3 Preliminary drafts of guidelines on involuntary resettlement and compensation for MIH and MCTPC to be undergoing public consultation</p> <p>2.1.4 Ministerial instruction to be issued to restructure MIH's Department of Electricity to include a social and environment management division, with a monitoring and evaluation unit; and management instruction to be issued for Electricité du Lao to upgrade the Environment Office; together with the relevant mandates, and budgetary and human resource development plans</p> <p>2.1.5 Ministerial instruction to be issued for restructuring DOR (MCTPC) to include a social and environment division, with a monitoring and evaluation unit, the</p>	<p>2.2.1 Ministerial regulations and relevant technical guidelines on EIA for the roads subsector to be issued by the minister, Ministry of Communication, Transport, Post and Construction (MCTPC)</p> <p>2.2.2 Ministerial regulations and guidelines on involuntary resettlement and compensation for major energy and roads projects to be issued by the ministers of MIH and MCTPC</p> <p>2.2.3 The Social and Environment Management Division of the Department of Electricity (MIH) and the upgraded Environment Office of Electricité du Lao to be fully functioning</p> <p>2.2.4 The Social and Environment Management Division of the Department of Roads (DOR) (MCTPC) to be fully functioning</p> <p>2.2.5 Consolidated review of priority medium-term resource (human and financial) requirements to effectively implement the EPL in the provinces and districts to be submitted by STEA to the</p>		<p>STEA to review and implement improvements in functional linkages with provincial and district provincial science, technology, and environment offices, and distribution of tasks, by July 2002</p> <p>Provincial environment action plans prepared in all provinces and reflected in provincial development plans by FY2004</p>	<p>Fully complied with.</p> <p>Partially complied with. Fully complied with for 16 provinces and special regions; action plans still being finalized for Vientiane and Luangnamtha.</p>

Policy Priorities	Actions for First Tranche Release (11 Mar 2002)	Actions for Second Tranche Release (28 Oct 2005)	Actions for Third Tranche Release (1 Aug 2006)	Other Actions	Status
	relevant mandate, and budgetary and human resource development plan	<p>Government</p> <p>2.2.6 Provincial science, technology, and environment offices to be strengthened in accordance with implementation decree (4 June 2001) for the EPL in at least 7 provinces and resourced with relevant staff, operating budgets, and equipment</p> <p>2.2.7 Provincial environmental action plans to be prepared and reflected in provincial development plans in at least seven provinces</p>			
3. Compliance and enforcement strengthened	<p>3.1.1 The principle of third-party monitoring for all complex and sensitive energy and roads projects to be endorsed by the Government, and the president of STEA to issue instruction for the preparation of a third-party monitoring system</p> <p>3.1.2 Register of (i) laws and regulations pertaining to environmental and social safeguards, (ii) EIAs, (iii) environment management plans, and (iv) resettlement action plans to be established under instruction to be issued by the STEA president</p> <p>3.1.3 President of STEA to issue an instruction for the assignment of responsibilities, procedures, including provisions for web-site publication, and format for the publication, at least twice yearly, of</p>	<p>3.2.1 Third-party monitoring system to be adopted and applied for all complex and sensitive energy and roads projects approved after January 2003</p> <p>3.2.2 Fully functioning public information center to be established at STEA with a comprehensive repository of laws, EIAs, environment management plans, and resettlement action plans</p> <p>3.2.3 Environment gazette to be institutionalized and published at least twice by STEA</p> <p>3.2.4 National public awareness campaign on the environment including social safeguards being coordinated by STEA, to be ongoing</p>		<p>Initiate capacity-building program on compliance and enforcement of EPL for judicial and legal personnel by March 2002</p> <p>Water quality criteria and standards for hydropower discharge to be issued by STEA by July 2002</p> <p>Environmental standards (air quality, emissions, soil pollution) to be issued by STEA by March 2003</p> <p>Design of enhanced performance bond system to be presented by September 2002</p>	<p>Fully complied with.</p> <p>Not complied with under the Program; being done under Loan 1933: Nam Ngum River Basin Development Sector Project.</p> <p>Partially complied with. Revised EPL and EIA regulations will include requirements for use of performance bonds.</p> <p>Partially complied with. MIH and MCTPC issued regulations and guidelines. MIH also issued code of practice.</p>

Policy Priorities	Actions for First Tranche Release (11 Mar 2002)	Actions for Second Tranche Release (28 Oct 2005)	Actions for Third Tranche Release (1 Aug 2006)	Other Actions	Status
	<p>an environmental gazette</p> <p>3.1.4 National public awareness campaign on the environment to be pursued by STEA</p>	<p>3.2.5 Performance bond system and modalities to be strengthened to address social and environmental impacts</p> <p>3.2.6 MIH/MCTPC to issue annual sector reports on social and environmental compliance of EIAs, environment management plans, and resettlement action plans, including action plans covering necessary corrective measures for outstanding environment and social mitigation measures</p>		<p>MIH and MCTPC to issue legally binding codes of environmental and social safeguard practice for developers and contractors by January 2003</p>	
<p>4. Transport and energy sector planning to be done within an area based framework</p>	<p>4.1.1 Prime ministerial decree to be issued to implement the Water Resources and Water Law 1996</p>	<p>4.2.1 Mechanism established for interministerial coordination of data collection, access, and its use for watershed and river basin management</p> <p>4.2.2 Interim policy statement on watershed management to be issued by the Ministry of Agriculture and Forestry (MAF)</p> <p>4.2.3 Concepts and guidelines for integrated watershed management to be issued by MAF</p> <p>4.2.4 MCTPC Roads Sector Plan to be reviewed to ensure strategic environmental management and social safeguard issues addressed</p> <p>4.2.5 MIH's Energy Sector Plan to be reviewed to ensure</p>		<p>Policy on water resources under consultation by April 2002</p> <p>MAF Plan for 2020 Watershed Management Program available by January 2002</p> <p>Watershed monitoring and information system, first stage completed by April 2002</p> <p>Area-based planning initiated in selected provinces, energy and transport sector projects are placed within area-based framework</p> <p>Biodiversity Conservation Strategy and Action Plan</p>	<p>Fully complied with.</p> <p>Partially complied with. MAF preparing last regional basin plan; then whole country will be covered.</p> <p>Fully complied with.</p> <p>Fully complied with.</p> <p>Fully complied with.</p>

Policy Priorities	Actions for First Tranche Release (11 Mar 2002)	Actions for Second Tranche Release (28 Oct 2005)	Actions for Third Tranche Release (1 Aug 2006)	Other Actions	Status
		strategic environmental management and social safeguard issues addressed		approved, March 2003 Nam Ngum River Basin Management Plan under implementation by December 2003	Not complied with yet, but is under preparation by Loan 1933: Nam Ngum River Basin Development Sector Project.
5. Sustainable financing mechanisms established	<p>5.1.1 Implement public expenditure review</p> <p>5.1.2 Actions for future publication of data on public spending on the environment by central and provincial government agencies to be initiated by Ministry of Finance (MOF). As a first step, STEA to provide details of central and provincial spending</p> <p>5.1.3 Report on implementation arrangements for Nam Leuk Hydropower Project 1% Fund for the Phou Khao Khouay (PKK) National Biodiversity Conservation Area (NBCA) to be submitted by MOF</p> <p>5.1.4 The principles for establishing the environment fund to be agreed to by the Asian Development Bank (ADB) and the Government</p>	<p>5.2.1 Agreement on action plan to implement recommendations under the public expenditure review relating to the environmental management and social safeguards.</p> <p>5.2.2 MOF medium-term action plan to publish estimates of public spending on the environment by central and provincial government agencies to be adopted by Government</p> <p>5.2.3 Study on user charges for environment management and social mitigation to be prepared, and agreed-upon recommendations to be adopted by the Government</p> <p>5.2.4 Study and consultations on governance structure, operating modalities, and the establishment of the environment fund to be undertaken by July 2002 and plans for establishment of the fund to be agreed to by ADB and approved by the Government</p>	Environmental Protection Fund established	<p>MOF to publish data on public spending for environment purposes for FY2004</p> <p>Study to be undertaken of market mechanisms for environmental management and social safeguard activities, including private sector contracting by 2003</p>	<p>Partially complied with under the Program. This action is being implemented now.</p> <p>Not complied with, as insufficient consultant time; the Environmental Protection Fund required more time than planned.</p>

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
Particular Covenants:		
(i) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, social, financial, corporate governance, environmental management, and social safeguard practices.	Section 4.01 (a)	Fully complied with.
(ii) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in the Schedule 5 of the Loan Agreement.	Section 4.01 (b)	Fully complied with.
(iii) The Borrower shall make available, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Section 4.02	Fully complied with.
(iv) The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Fully complied with.
(v) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.	Section 4.04 (a)	Fully complied with.
(vi) The Borrower shall enable the Bank's representatives to inspect any relevant records and documents referred to in paragraph (v).	Section 4.04 (b)	Fully complied with.
(vii) The Borrower shall furnish, or cause to be furnished, to the Bank all such reports and information as the Bank shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods financed out of the proceeds of the Loan; (iii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter; (iv) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (v) any other matters relating to the purposes of the Loan.	Section 4.05 (a)	Fully complied with.
(viii) Without limiting the generality of the foregoing, the Borrower shall furnish, or cause to be furnished, to the Bank quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter. Such reports shall be submitted in such form and in such detail and within such a period as the Bank shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the three months under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and	Section 4.05 (b)	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>expected progress during the following three months.</p>		
<p>(ix) Promptly after the closing date for withdrawals from the Loan Account, the Borrower shall prepare or cause to be prepared, a comprehensive report on the overall impact of the implementation of the policy reforms described in the Policy Letter and Policy Matrix but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and the Bank. The report, in such form and in such detail as the Bank shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.</p>	Section 4.05 (c)	Complied with.
<p>(x) It is the mutual intention of the Borrower and the Bank that no other external debt owed a creditor other than the Bank shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as the Bank may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest charge and any other charge on, the Loan; and (ii) the Borrower, in creating or permitting the creation of any such lien will make express provision to that effect.</p>	Section 4.06 (a)	Fully complied with.
<p>(xi) The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.</p>	Section 4.06 (b)	Fully complied with.
<p>(xii) The term "assets of the Borrower" as used in paragraph (a) of this Section includes assets of any political subdivision or any agency of the Borrower and assets of any agency of any such political subdivision, including BOL and any other institution performing the functions of a central bank for the Borrower.</p>	Section 4.06 (c)	Fully complied with.
<p>Implementation and Coordination:</p>		
<p>(i) Except as the Borrower and the Bank may otherwise agree, the Program Executing Agency shall bear overall responsibility for (a) Program implementation, (b) ensuring the reforms under the Program are undertaken in line with the agreed timetable, (c) initiating withdrawals under the Loan, and (d) allocating and monitoring the use of Counterpart Funds.</p>	Schedule 5, Para. 1	Fully complied with.
<p>(ii) To ensure interministerial coordination and to oversee Program implementation, an interministerial steering committee, chaired by the President of Science, Technology, and Environment Agency (STEA) shall be</p>	Schedule 5, Para. 2	Fully complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>established. Its members shall include representatives of Committee for Planning and Cooperation, MAF, MCTPC, MIH, Ministry of Finance, and STEA. The steering committee shall meet at least once each quarter and in conjunction with Bank review missions, and shall also serve as a monitoring mechanism and provide policy oversight in Program implementation.</p>		
<p>Use of Counterpart Funds:</p>		
<p>(i) The Borrower shall ensure that the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of the Program including: (a) financing additional public Investment costs in transport and power projects to ensure strengthened social and environment safeguards; (b) building institutional capacity to plan, design, and enforce environment and social safeguards; (c) providing local counterpart resources for development projects aimed at watershed planning and management; and (d) addressing mitigation costs of existing infrastructure where social and environment costs were not adequately addressed.</p>	Schedule 5, Para. 3	Complied with.
<p>(ii) The Borrower shall ensure that adequate and timely funds are made available to relevant central agencies and provincial administrations to facilitate implementation of the Program.</p>	Schedule 5, Para. 4	Fully complied with.
<p>Implementation of Policy Letter:</p>		
<p>(i) The Borrower shall ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of this Loan Agreement continue in effect for at least two (2) years beyond the duration of the Program period.</p>	Schedule 5, Para. 5	To be monitored for compliance
<p>(ii) The Borrower shall promptly adopt and implement the policies and program actions indicated in the Program as specified in the Policy Letter, including the Policy Matrix, in a timely manner and shall ensure that such policies and actions are sustained for at least two (2) years beyond the duration of the Program period.</p>	Schedule 5, Para. 6	To be monitored for compliance
<p>Policy Dialogue:</p>		
<p>(i) The Borrower shall keep the Bank informed of, and the Borrower and the Bank shall from time to time exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.</p>	Schedule 5, Para. 7	Fully complied with.
<p>(ii) The Borrower shall continue dialogue with the Bank on barriers to environmental management and social safeguards and shall promptly discuss with the Bank problems and constraints encountered during implementation of the Program and appropriate</p>	Schedule 5, Para. 8	Fully complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>considered necessary or desirable to promote the continued development of environment management and social safeguards.</p> <p>(v) Without limiting the generality of Section 4.05 of the Loan Agreement, the Borrower shall evaluate the benefits of the Program during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and the Bank.</p>	Schedule 5, Para. 15	Postevaluation is outstanding.
<p>The Environment Fund:</p>		
(i) The Borrower shall keep the Bank informed on any matters related to the establishment of the Environment Fund.	Schedule 5, Para. 16	Fully complied with.
(ii) The Borrower shall ensure that the Environment Fund is established in accordance with (a) the agreed principles and (b) the governance structure and operating modalities to be agreed with the Bank for the design and establishment of the Environmental Fund to achieve the Fund's objectives in an efficient and transparent manner.	Schedule 5, Para. 17	Fully complied with.
(iii) From establishment of the Environment Fund until two years after the completion of the Program Period, and without limiting the generality of Section 4.05 of the Loan Agreement, the Borrower shall ensure that the annual reports of the Environment Fund, including its audited financial statements are made available to the Bank on an annual basis promptly after their preparation, but in any event, not later than nine (9) months after the close of the year to which they relate.	Schedule 5, Para. 18	Not yet due.

TECHNICAL ASSISTANCE COMPLETION REPORT

TA No., Country and Name TA 3746-LAO: Capacity Building for Environment and Social Management in Energy and Transport			Amount Approved: \$600,000	
			Revised Amount:	
Executing Agency Science, Technology and Environmental Agency		Source of Funding TASF	Amount Undisbursed: \$4,142	Amount Utilized: \$595,858
TA Approval 22 Oct 2001	TA Signing 27 Dec 2001	Fielding of First Consultants: 15 Aug 2002	TA Completion Date Original: 31 Mar 2003	Actual: 1 August 2006
			Account Closing Date Original: 31 Dec 2005	Actual: 26 Sep 2006
<p>Description: Building on the results of the Asian Development Bank (ADB) advisory technical assistance (TA) 3133 LAO (December 2000–March 2001), which demonstrated an inadequate environmental and social framework for policy implementation, the goal of the TA, Capacity Building for Environment and Social Management in Energy and Transport (3746 LAO), was to improve environmental management and social safeguard performance in the energy and transport sectors. The Government's programs in both sectors were developing rapidly in the Lao PDR, including significant infrastructure loans from ADB. Moreover, the TA was designed to support the Government's compliance with covenants of the anticipated Environment and Social Program loan (1867 LAO), included in the ADB country strategy and program for 2002–2004. The key implementing agencies were Science, Technology and Environment Agency (STEA) (the Executing Agency); Ministry of Construction, Transport, Post, and Communication (MCTPC); former Ministry of Industry and Handicrafts (MIH), now Ministry of Ministry of Energy and Mines; and Ministry of Agriculture and Forestry (MAF).</p> <p>Expected Impact, Outcome and Outputs The TA was expected to have the following outcome and outputs: (i) improved environmental compliance and enforcement: (a) improved performance bond arrangement, (b) introduction of procedures for full inclusion of mitigation requirements in contractual financial arrangements for the implementation of compliance reporting mechanisms for energy and transport sectors, (c) establishment of a third party monitoring system for sensitive projects, (d) introduction of user charges for selected environmental services, and (e) introduction of selected market mechanisms; (ii) an established sustainable financial mechanism for environmental management: a charter of the environment fund drawn up in accordance with Government procedures for establishment; (iii) adoption of national policy, implementing regulations, and technical guidelines for involuntary resettlement and compensation: finalization of a national resettlement and compensation policy and implementing regulations for major projects; (iv) institutionalization of involuntary resettlement and compensation guidelines for the energy and transport sectors: finalization of procedures for ministerial issuance of sector guidelines for energy and transport; and (v) the institutionalization of the national public involvement guidelines issued by STEA.</p>				
<p>Delivery of Inputs and Conduct of Activities The TA was implemented through one large contract with a consulting company (contract date 17 June 2002), and 8 smaller contracts with individual consultants. One of the international technical experts acted as TA team leader. ADB rated the timing of the recruitment, fielding, and submission and quality of reports as satisfactory. Due to the linkage with Loan 1867 and the delay in meeting certain tranche release conditions, the original closing date for the TA (31 March 2003) was revised to 26 September 2006. All the activities were completed within the allocated budget, with the exception of introduction of selected market mechanisms. One outcome of this type of TA implementing arrangements seems to be that the consultants consult stakeholders and draft documents and leave them with the steering committee to review and provide comments by the time of the consultants' next input. However often no comments were forthcoming by the time of the consultants' return, or only comments by STEA. MAF was the steering committee member most efficient at carrying out the activities for fulfilling its tranche conditions under its own initiative, independent of the TA. However, this was mainly because MAF activities had a momentum of their own that were being implemented regardless of the TA. The consultants essentially drafted most documentation required for the second and third tranche disbursement and nontranche actions in consultation with steering committee counterparts, facilitated consultation workshops, left draft documents for steering committee review and action, and returned later to make revisions. The steering committee generally reviewed and commented on documentation only when the consultants were in the country, largely because STEA and other steering committee members were extremely short of staff to follow up on necessary review and actions. However, eventually after the consultants had demobilized, and with ADB's tranche release conditions and Lao Environment and Social Project effectiveness conditions, STEA took on the ownership and responsibility for the resettlement and Environmental Protection Fund (EPF) decrees and related actions, and closely reviewed them and provided comments to ADB. This became a close collaborative experience until the final drafts were acceptable to STEA and other Government stakeholders, ADB, and the World Bank.</p>				
The international environmental resource economist acted as TA team leader and together with the domestic				

resource economist worked effectively throughout 3 years of the program period to maintain consistency. One shortcoming of the team leader also being one of the technical experts was that he had to spend considerable time on TA administration, which detracted from the time needed for technical inputs. Both the international and domestic legal specialists were very effective also, with more time being required of the domestic than the international specialist. The international resettlement specialist was very effective in drafting his outputs; the domestic resettlement specialist was less effective.

The international environment fund specialist drafted the fund decree and charter, and another international environment specialist was contracted to draft the implementing manual. The draft EPF decree and charter prepared by the consultant required an extensive amount of revision through negotiation by ADB, World Bank, STEA, and Ministry of Finance before they could be finalized and issued. ADB was fortunate in that the project counsel was experienced in similar funds and could effectively participate in the final negotiations and revisions. Similarly, the resettlement decree, implementing regulations, and technical guidelines involved intensive review and revision by STEA and ADB after the international specialist had been demobilized. This indicated two possibilities, both of which are valid: STEA did not take ownership of the decree and implementing regulations until after demobilization of the consultant, and insufficient time was allocated for this specialist. In this case the mission leader was a resettlement specialist and thus able to do the final negotiations and revisions.

Due to inadequacy of time and budget, the public involvement and participation specialist did not have time to provide formal training in public consultation, although STEA's Department of Environment did work closely with the consultant in preparing the output and gained strong understanding of the output.

Evaluation of Outputs and Achievement of Outcome The TA has produced a wide range of documents, regulations, and capacity building activities in key sectors. These have enabled the Government to (i) formally issue Decree 192/PM on Compensation and Resettlement of People Affected by Development Projects and Implementing Regulations and Technical Guidelines on Compensation and Resettlement in Development Projects; (ii) establish the EPF, operational since 2006 and destined to become the sustainable financial mechanism for environmental management; (iii) implement compliance reporting mechanisms for energy and transport sectors; (iv) initiate third party monitoring systems for sensitive projects (e.g., Nam Theun 2 Hydropower Project); and (v) introduce procedures for full inclusion of mitigation requirements in contractual financial arrangements. Selected outputs of the TA have been initiated successfully and are currently still being developed as part of a larger framework for sustainable environmental management, notably to (i) improve performance bond arrangements; (ii) introduce user charges for selected environmental services; (iii) introduce selected market mechanisms; (iv) and institutionalize national public involvement guidelines. The overall outcome of the TA, improved environmental management and social safeguard performance in the energy and transport sectors, is being applied to major infrastructure projects in the country. Moreover, the World Bank has provided a \$4.75 million grant to the EPF to support some important TA-initiated activities (e.g., dissemination and implementation of the resettlement decree and guidelines, implementation of safeguard regulations for hydropower projects, third party monitoring of the transport and energy sectors, national public involvement guidelines, and further operationalization of the EPF).

Overall Assessment and Rating The TA is rated as highly successful. It has made a significant contribution to the improvement of environmental and social safeguard framework in the energy and transport sectors. The TA resources were used efficiently and the TA was completed within the available budget (despite the revised closing date). Moreover, (i) the contributions of the TA to various ADB loans in the transport and energy sectors, (ii) the timely implementation during the preparation of the Nam Theun 2 Project, (iii) the effective cooperation with the World Bank, (iv) the opportunity to secure financial support for the necessary continuation of the achievements of the TA and the loan, and (v) demonstrated ownership by STEA of the responsibility for social and environmental safeguard guidance, capacity building, compliance, monitoring, and enforcement provide guarantees for the sustainability of the TA and loan outputs.

Major Lessons The synergy with related safeguard activities in the country enabled effective achievement of significant progress in making institutional and legal changes in the environmental and social safeguard framework. The same result would not likely have been achieved if integration with other programs and activities was absent.

Recommendations and Follow-Up Actions Implementation of the achieved results of the TA and the Environment and Social Program should be monitored through the ongoing and planned ADB country program. While sustainability of most of the outputs has been secured through continued financial support for strengthening their further implementation (i.e., resettlement, hydropower policy, EPF), the capacity of the Government to actually ensure compliance for both aid and government projects is still limited. Moreover, new sectors are developing (e.g., mining), which will put additional pressure on Government resources.