



Report on the EPF operation for 2006-2010

**EPF Executive Office
October 2010**

Foreword by the EPF Chair

In last five years, the Environment Protection Fund has provided funding to the environmental activities which include policy implementation and capacity enhancement, solid waste management, sustainable natural resources management, biodiversity conservation and other environmental related priorities in Lao PDR. In total 202 applications submitted by provinces, sectors and other organizations were funded with an amount of about Kip 44 billions, this has significantly contributed to the socio-economic development of the country.

Regarding this result, the EPF would like to express sincere thanks to all implementing agencies for their efforts in implementing their environmental responsibility and to the World Bank (International Development Association) and project proponent that have contributed fund to the EPF. Thanks are also for those who have cooperated successfully with the EPF.

The EPF hopes that the cooperation and support will be further developed to achieve EPF objectives and the national environmental strategy for the next five year and to contribute to the socio-economic development of the country in the future.

Deputy Prime Minister
EPF Board of Directors Chairperson

Duly signed

Asang Laoly

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List of Abbreviations

ADB	Asian Development Bank
BoD	Board of Directors
CBI	Community and Biodiversity Investments
DESIA	Department of Environmental and Social Impact Assessment
ED	Executive Director
EO	Executive Office
EPF	Environment Protection Fund
HMTA	Hydropower and Mining Technical Assistance
IRBM	Integrated River Basin Management
LAF	LEnS additional funding
LENS	Lao Environment and Social Project
NPHS	National Policy on Environmental and Social Sustainability of the Hydropower sector in Lao PDR
MEM	Ministry of Energy and Mining
PC	Pollution control
PESAP	Provincial Environmental Strategy and Action Plan
PICE	Policy Implementation and Capacity Enhancement
PSC	LEnS Project Steering Committee
PWREO	Provincial Water Resource Office
SFW	Specialized Financing Window
WB	World Bank
WMU	Window Management Unit
WREA	Water Resources and Environment Authority
WRCCS	Water Resource Coordinating Committee
UNESCO	United Nation for Education, Science and Culture Organization

Report on the EPF operation for 2006-2010

1. Introduction

The Environment Protection Fund (EPF) was established to be a financially and administratively autonomous organization¹ under the Lao laws aiming at strengthening environmental protection, sustainable natural resources management, biodiversity conservation and community development in Lao PDR.

2. Organization

The EPF consists of (i) the Board of Directors (BOD), and (ii) the Executive Office (EO). In addition, the EPF Board of Directors may appoint committees for the purpose of undertaking specific activities.

2.1. Board of Directors

The EPF BOD was established² to have the overall responsibility of effectively promoting and achieving the purpose of the EPF, including: (i) establishing EPF's policies, strategies and priorities; and (ii) provide guidance to and monitor the Executive Office regarding the effective implementation of its duties and functions. The EPF BOD is comprised of 9 members, chaired by the Deputy Prime Minister, Vice chaired by the Minister of Ministry of Finance;; members are representatives of Water Resources and Environment Authority (WREA), Ministry of Energy and Mining (MEM), National Council for Science and Technology, Lao Women Union, Bolikhamxay Provincial Administration, Chamber of Commerce and Industry, and private sector.

2.2. Executive Office

The **Executive Office** was established by the Decree of EPF to support the EPF BOD in the administration of the EPF and is headed by an Executive Director appointed by the EPF Board. In the beginning of the operation, it was comprised of four units (financial and administrative unit, sub-projects operations unit, public information unit, and monitoring and evaluation unit) and recently restructured in two units (finance and administrative Unit, and technical Unit).

¹ Decree on the Environment Protection Fund, NO 144/PM dated 6 June 2005

² Appointment of the EPF BOD members No 72/PM dated 1 November 2005, supersided by the appointment of the EPF BOD members No 048/PM dated 15 May 2009.

2.3. Lao Environment and Social Project

2.3.1. LEnS Project Steering Committee

The Lao Environment and Social (LEnS) Project Steering Committee (PSC) was established³ to provide technical guidance to the EPF Executive Office for the implementation of the LEnS Project that is supported by WB. At present, it is comprised of 14 members chaired by the Vice-President of WREA, and Vice chaired by the Deputy Secretary of Ministry of Agriculture and Forestry (MAF) and Ministry of Energy and Mines (MEM). The members are representatives of Bolikhamxay Province, Khammouane province and Savannakhet Province, Lao National Front for Construction, Lao Youth Union, Prime Minister's Office, Ministry of Finance, Ministry of Planning and Investment, Ministry of Education and Ministry of Information and Culture.

2.3.2. Window Management Unit

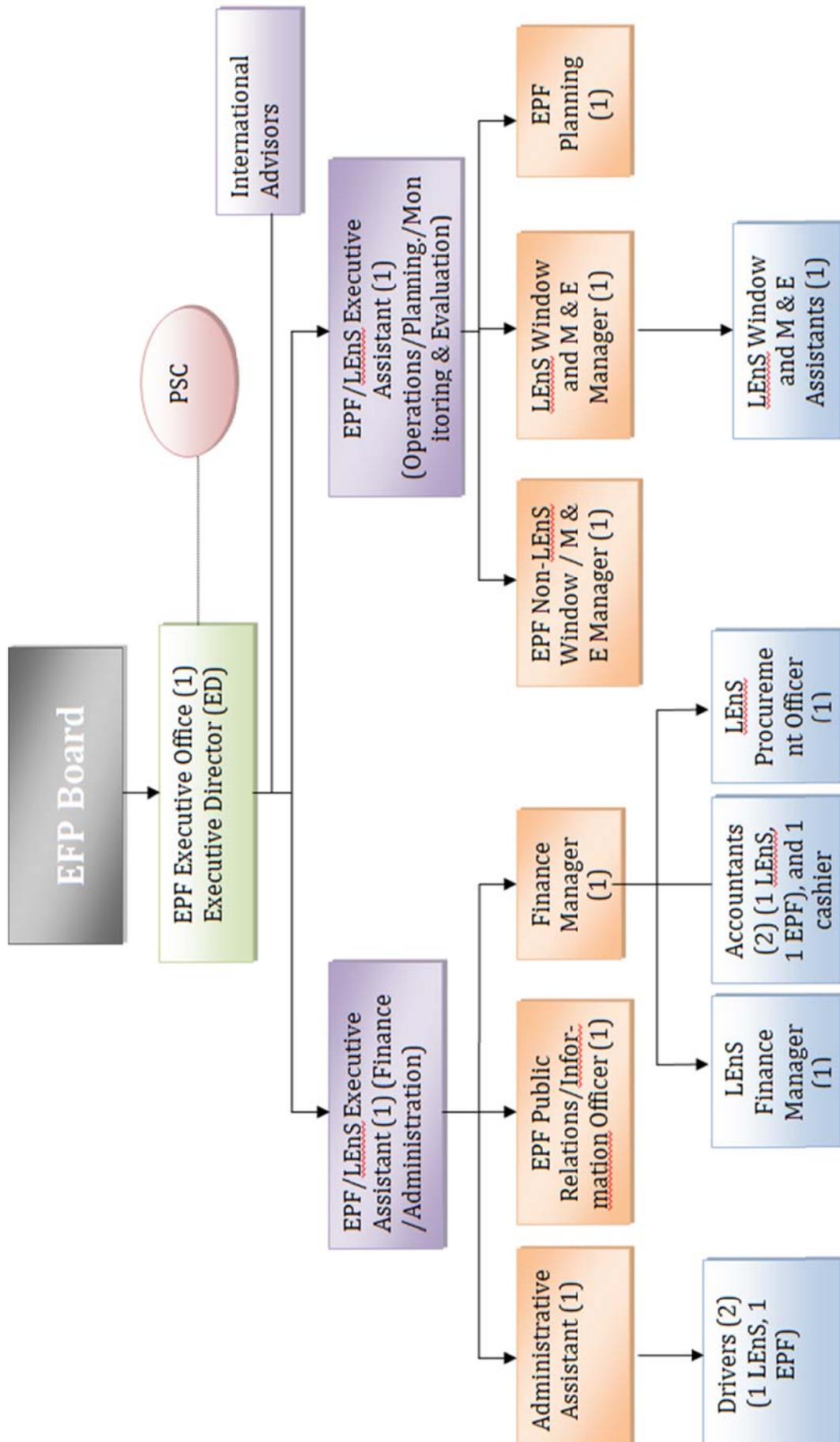
The Window Management Unit (WMU) was established⁴ within the EPF Executive Office (EO) to undertake day-to-day management of all LEnS activities as defined in the plan and target agreed by the Government of Lao PDR and the WB. The WMU assists the EPF EO and the LEnS Project Steering Committee (PSC) in the implementation of LEnS Project. At present the WMU is integrated in the EPF structure, headed by the ED and supported by the technical Executive Assistant, the administrative and technical staff.

The EPF organizational structure is shown as in figure 1.

³ *Appointment No 04/PMO-EPF dated 13 January 2006, Amended by Appointment No 01/PMO-EPF dated 18 July 2007*

⁴ *Appointment No 02/ PMO-EPF dated 18 July 2007*

Figure 1: EPF Organizational Structure



3. EPF Operation

3.1. Financial Mechanism

According to its mandate, the EPF has to mobilize the fund from different sources and collected the benefits accrued from investing its endowment. During the last five year the 3 of 5 main sources of EPF revenue, according to the EPF decree article 12, were:

1. **Grant and Loan:** From WB, ADB and UNESCO;
2. **Contribution from investment project:** According to the National Policy on Environmental and Social Sustainability of the Hydropower sector in Lao PDR (NPHS), the EPF has to receive a certain proportion of the revnues from each hydropower plant; however, the implementation of the said policy was facing with a number of difficulties and not implemented; the contribution received by the EPF was from the mining projects;
3. **Interest or benefits accrued from investing the EPF endowment:** Interest.

Two types of fund are received. First, the fund to support the special financing window (EPF decree Article 30) and an agreed plan between donors such as: (i) the grant provided by the WB to support the implementation of the LEnS; (ii) the Loan from ADB as endowment fund, and (iii) the financial support by UNESCO to the training provided to the staff of Hin Nam No Protected Area (PA). Secondly, it is the general contribution to the EPF such as mining developers and the EPF BOD has allocated to the EPF SFWs.

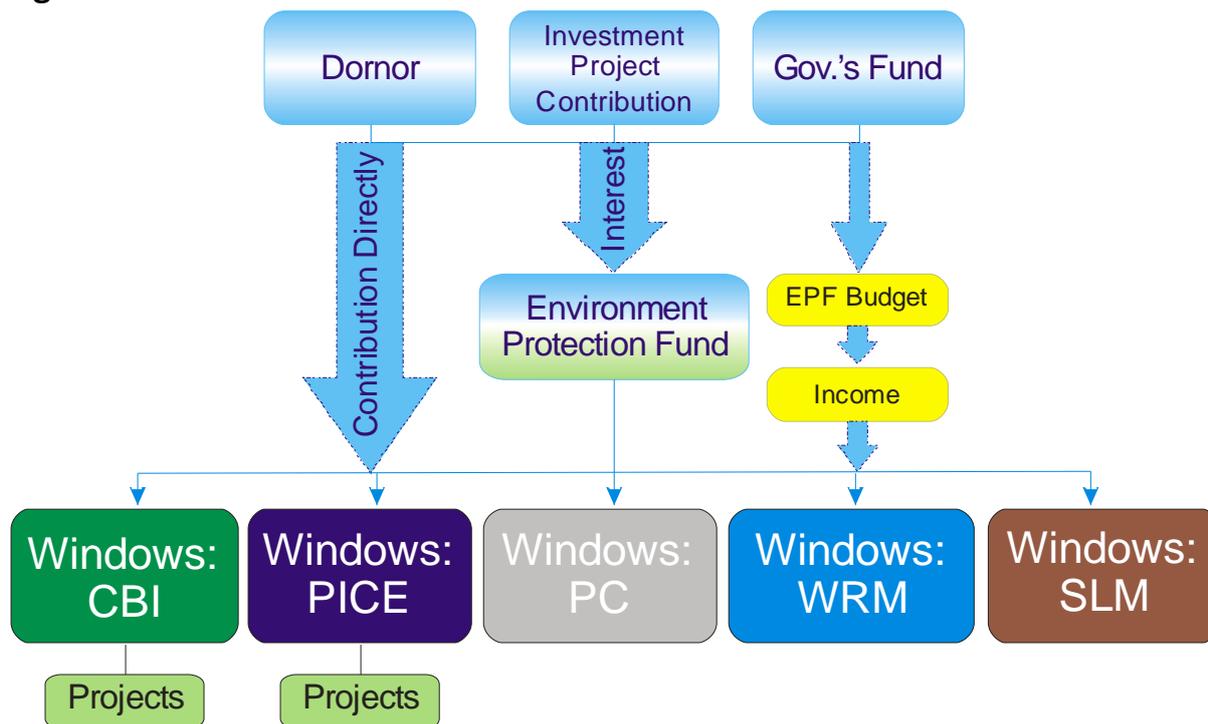
With its fund, the EPF provided the financial support to activities to strengthen the the environmental policy implelmentation and management, the sustainable natural resources management especially the biodiversity and community development in Lao PDR.

The fund was provided to environmental activities through the SFWs which had specific objectives, targets and amount. The SFWs established during 2006-2010 were:

- Policy Implementation and Capacity Enhancement (PICE);
- Community and Biodiversity Investment (CBI)
- Pollution Control
- Water Resources Management
- Sustainable Land Management

The Financial Mechanism is shown as in Figure 2.

Figure 2: Financial Mechanism



2 types of fund allocation were:

1. The allocation according to the plan agreed between the donors and the EPF and the plan agreed between the EPF and the recipients such as the additional funding for the period of 2010-2012 support 19 sub-grants; and
2. The allocation to the sub-proposals submitted by various entities namely the sub-proposals on pollution, water and land from the last three SFWs.

The fund could be allocated by means of non-refundable grants, preferential loans, and interest rate subsidies or a combination of these, however in the last five year only the means of non-refundable grants wa applied.

The EPF fund is not authorized to support the mitigation of environmental impacts of the development project. Infrastructure development and vehicle procurement were financially supported by the EPF upon the approval by the EPF BOD.

3.2. Achievement

3.2.1. Revenue

In last five year, the EPF received about Kip 111 billions. Of which Kip 103 billions or 92% were from international institutions (ADB loan of Kip 46 billions and WB grant of Kip 56 billions or USD 7 millions), Kip 2 billions or 2% from the contribution by the investment projects and Kip 7 billions or or 6% the benefits

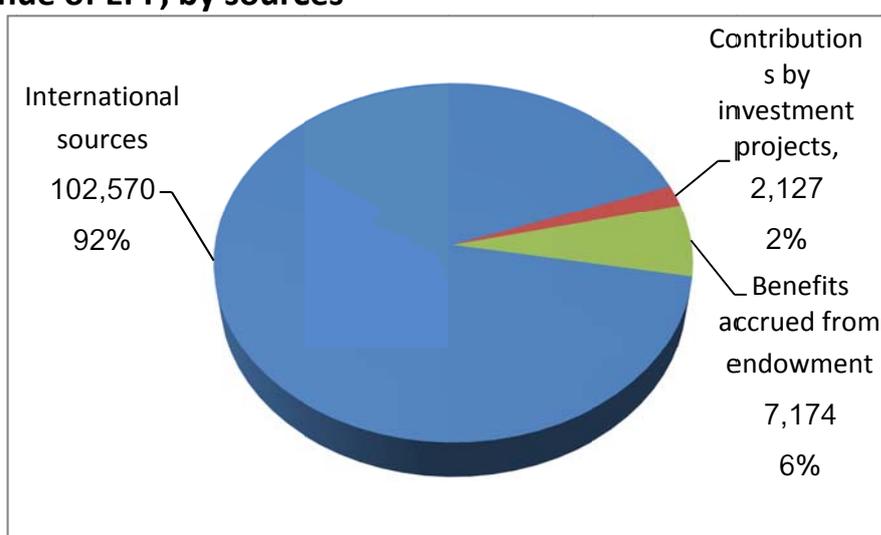
accrued from the endowment. Details of the revenue is provided as in table 1 and figure 3.

Table 1: Revenue of EPF for 2006-2010

Sources	Amount (USD)	%
Grants	7,023,000	56,184
WB	7,000,000	56,000
UNESCO	23,000	184
Loan from ADB	5,798,194	46,386
Contributions from investment projects	265,878	2,127
Revenue from endowment	896,756	7,174
Total	13,974,828	111,799

Note: Exchange rate USD 1: Kip 8,000

Figure 3: Revenue of EPF, by sources



3.2.2. Funding

The EPF developed and implemented transparent operating procedures to provide the funds for the sub-projects as included in the EPF operational manual. The procedure started with the provision of information on EPF through the EPF and LEnS brochure, the stakeholder meeting and the discussion with target groups including 3 core departments (Department of Electricity, MEM, Department of Environment and WRCCS of WREA), 3 target provinces (Savannakhet, Khammouane and Bolikhamxay), Provincial Water Resources and Environment Office (PWREOs) and other concerned agencies. At that moment the EPF invited potential applicants to prepare proposals by using the standard application forms. The sub-proposals were then reviewed by the EPF staffs and

the reviewing Committee. If the sub-proposals were judged good accordingly to the eligible criteria and approved, the agreement between the EPF and applicant was prepared and signed. The implementation has followed immediately. The monitoring and evaluation have been carried out as deemed necessary.

Under this process, the EPF funding focused on the following components:

1. **Policy Implementation and Capacity Enhancement** (PICE) Window funded 5 main activities as follows:

- i. ***Environmental and social monitoring and policy implementation support.*** During the period 2006-2010, the Water Resources and Environment Office of three target provinces (Savannakhet, Khammouane and Bolikhamxay) were the key recipients. This sub-component supported the dissemination of Provincial Environmental Strategy and Action Plan (PESAP), the preparation of sub-proposals and related budget, the monitoring and evaluation of the implementation of the 2006-2010 Provincial Environmental Action Plan and prepared the Action Plan for 2011-2015. The achievement made by the target provinces contributed to the management of the country's environment management. This is basis for further action and the EPF will further support the development of environmental monitoring database.
- ii. ***Integrated River Basin Management.*** The department of water resources, WREA, successor of the Water Coordinating Committee, was the core recipient. This sub-component supported the implementation of Integrated River Basin Management (IRBM) of Nam Theun-Nam Kading. An important activity was the development of River Basin Committee which was officially established on 15 June 2010. The operation of the Committee and its secretariat is planned to be supported by the LEnS Additional Funding (LAF).
- iii. ***Hydropower Sector Policy Support:*** The MEM department of Electricity was the core recipient. This sub-component supported the implementation of NPHS which is applied to all large hydropower dams having installed capacity of higher than 50 Megawatts or inundating more than 10,000 hectares of land at their fully supply level and constructed after 1990. A legal covenant of the sub-component was "By June 30, 2008, action plans to bring each hydropower facility constructed since 1990 into full compliance are prepared and disclosed by each owning company". Because of the restructuration of the MEM and some difficulties in the implementation of the NHPS, the activity was delayed. However it was considered as partially achieved. In lieu of individual action plans,

a hydropower Sector Action Plan will be developed and the implementation of said sector plan will be supported by the Hydropower and Mining Technical Assistance (HMTA) directly awarded by the WB to the MEM.

- iv. ***Social Safeguards Management (resettlement policy support)***: The Department of Environmental and Social Impact Assessment (DESIA), WREA was the core recipient. This sub-component supported the strengthening on the Environmental and Social Impact Assessment including the compensation and resettlement for development projects. In addition, after 10 years of implementation, the Regulation on Environmental Impact Assessment was reviewed and upgraded to the decree, approved on 16 February 2010. As the recently established DESIA, which is core agency to enforce the environmental and social management of development projects, could also be potentially supported by additional financing.

Under this sub-component, the study visit to China on resettlement from investment projects was carried out and as result the social management units were developed at the province level. The EPF will further support the activity.

In addition a grant was provided to the Secretariat of the National Committee on Climate Change aiming to develop the Adaptation Strategy that was adopted on 23 March 2010. The Climate change issue is an emergent issue, it was not included in the National Environment Strategy and Action Plan for 2006-2010 and therefore there is a need to consider the inclusion of the Climate change issue in the National Environmental Action Plan for 2011-2015 and the EPF will continue to support the preparation of the National Environmental Action Plan for 2011-2015.

- v. ***Environmental Education and Awareness***: More than 10 agencies from Mass organizations, National University, government had received 17 sub-grants. This sub-component supported the awareness on waste management, the bio-diversity conservation, and management of non timber forest products. As a result, awareness of target groups were raised. The EPF will support the activities that involve broader groups.

2. **Community and Biodiversity Investments** (CBI) Window

Two main activities were supported by this window as follow:

- i. ***Strengthen management of protected areas (PA)***: Three target Provinces (Bolikhamxay, Khammouane, Savannakhet) were recipients.

This sub-component supported the preparation and implementation of 6 provincial PAs management Plan in consultation with local and ethnic people. Each target province has selected 2; Dong Natad (in the proximity of Savannakhet urban center) and Laving Laveun (at Say Phouluang – Annamite Range) for Savannakhet; Pha Tham Bing and Khoun Se Nong Ma (at Say Phouluang) for Khammouane; and Phouchomvoy and Houay Ngoua (in the proximity of Bolikhan town) for Bolikhamxay. In addition, the EPF fund was awarded to the Department of Forestry for the co-management of the National PA, Hin Nam No and the training and public awareness. The main activities under this sub-component included: training and awareness building, boundary demarcation, patrolling and checkpoint, scientific study and management plan. The legal covenant was the preparation of 6 provincial PAs management plans that will be completed by December 2010. The EPF intends to further provide financing support to priority activities of these PAs.

- ii. ***Invest in on-the-ground environmental improvement activities for poor community:*** Three target Provinces were recipients. The related covenant was to involve at least 60 communities benefiting from the resource management. This sub-component supported sub-grants more than 200 communities in three target provinces in the resource management. The main activities under this sub-component included: the management of natural resource in the proximity of involved villages and conservation of fauna and flora species namely Eld's deer, monkey, tortoise and NongLuang (Natural largest lake) in Savannakhet; Rockrat, elephant, bat caves, fish conservation areas at Nam Kadan and lowland pine forest for Khammouane; and eaglewood forest, Nong Nha lake at Bolikhamxay.
3. **Pollution Control** Window supported three sub-components as follows:
- i. ***Waste management:*** The main recipients were 20 districts that were rapidly developed, populous, high potential for tourism. This sub-component supported the solid waste management. The main activities included the involvement of the community, establishment of the service unit and dumping site construction. Regarding the wastewater treatment, the EPF supported the maintenance of Saysetha hospital wastewater treatment as result the plant could be reused after years of no operation.
 - ii. ***Pesticide management:*** Xayabouly Province was recipient to provide technical support to local people in the use of pesticide. The misuse posed risks to the health of farmers using the pesticide and

consumer of contaminated products. It was the provincial environmental priority due to the increased production of crop namely maize for export without appropriate consideration on the environmental aspect. The main activities included the training on the collection of information on pesticide, information on technical aspect of pesticide and risks and impact of misuse.

iii. **Hazardous chemical management:** No smaller proposal was submitted except one larger sub proposal for the capacity building of the department of Industry that the EPF could not fund.

4. **Water Resources Management** Window supported the following sub-components:

i. **IRBM:** Xayabouly Province was recipient. The sub-grant aims at managing the watershed of Nam Tien that could contribute to Nam Hung that flows through Xayabouly municipal. The main activities included allocation of land to the local community living in the watershed of Nam Tien to shift from the slash and burn agriculture, the reforestation and the boundary demarcation. The sub-grant is expected to be completed by mid-2011.

ii. **Management of river environment:** The Ministry of Public Works and transport was recipient. The sub-component supported the collection of information on the bank erosion and the bank erosion project at Ban Doy Deng of Bokeo Province. As the river bank erosion project is mostly larger infrastructure and not eligible under the EPF regulation, the EPF will not finance this kind of project.

iii. **Management of wetlands:** Saravan Province is recipient of a sub-grant to manage a natural lake named Koutchakeung in which the biological resources seemed to be diverse and intact and may be degraded rapidly if conservation measures were not put in place. The main activities included boundary demarcation, collection of information on fauna and flora species, development of regulation on the management of Wetland in consultation with the villagers living in the proximity.

5. **Sustainable Land Management** Window supported the following sub-components:

i. **Barren land:** No application.

ii. **Degraded land:** The sub-component supported the land management and use in the area where the conflicts were important as follows:

- In the buffer zone of Phou Chomvoy PPA, Khamkeut District of Bolikhamxay Province aiming at reducing the overexploitation and stopping the encroachment of the PPAs;
- In the buffer zone of Houay Ngoua PPA, Bolikhan District of Bolikhamxay Province aiming at stopping the encroachment of the PPAs;
- In the watershed of Sedone River, Thateng District of Saravan Province aiming at stopping the encroachment of the watershed; and
- In the watershed of Sedone River, Khong District of Champassak Province aiming at conserving the area and the improvement of the local people livelihood.

The main activities included boundary demarcation, development of village fund, development of agreement in natural resource use and awareness building.

- iii. **Dry land:** The sub-component supported the planning for the management and land use in the dry area Lakhonpheng district of Saravan and the preparation of proposal for small scheme of irrigation in the area.

The SFWs 1 and 2 is financially supported by the World Bank LEnS project and a small portion by UNESCO. The SFWs 3, 4 and 5 by other EPF revenue from the benefits of the endowment and the contribution by the mining projects.

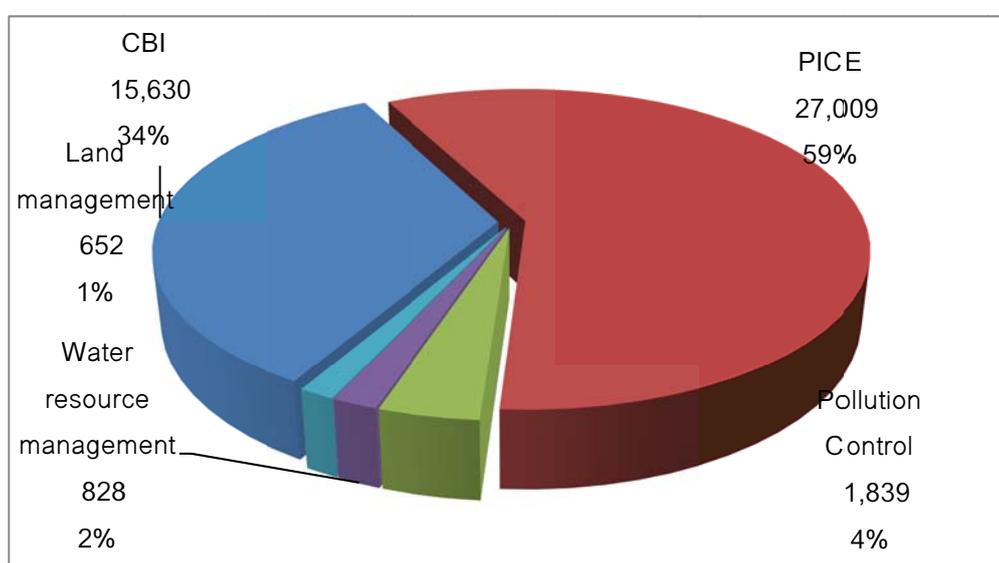
In the last five year, the EPF received more than 400 sub-proposals and provided financial support to 202 sub-proposals submitted by the central and local agencies, the mass organizations and civil society, community based organization and other through the five SFWs amounting to about Kip 46 billion (about USD 5.7 millions) with the average of about Kip 220 million (about USD 28,000). The allocation of the fund to the SFWs depended largely on the fund sources; therefore the fund for SFW is not the same, particularly the SFWs supported by the WB namely PICE and CBI represented 92% of the total EPF funding; and the others 3 SFWs supported by other revenue of the EPF represented only 8% of the total EPF funding. Details are presented in table 2 and figure 4.

Table 2: Financial support during 2006-2010, by window

Windows	No of Projects	Amount (USD)	%
CBI	105	1,484,872	43.05
PICE	47	1,576,371	45.70
PC	28	203,042	5.89
Water	4	103,545	3.00
Land	5	81,334	2.36
Total	189	3,449,164	100

Note: Exchange rate USD 1: Kip 8,000

Figure 4: Financial support



3.2.3. Monitoring and Evaluation of Sub-grants

The Monitoring and Evaluation of Sub-grants were regularly undertaken and as results, of the 202 sub-grants, 174 or 86% were completed. Of the 21 remaining sub-grants, 8 were recently approved LAF sub-grants and planned to be complete by December 2012, while 13 others included 6 LENS PA sub-grants that will be completed by December 2010. The sub-grants of other SFWs followed the plan established and will be completed by 2011. The implementation status is provided as in table 3.

Table 3 : Sub-grant implementation status for 2006-2010, by window

Windows	No of Projects	No of Completed Projects	No of ongoing Projects
CBI	109	101	8

Windows	No of Projects	No of Completed Projects	No of ongoing Projects
PICE	54	41	13
PC	30	27	3
Water	4	3	1
Land	5	2	3
Total	202	174	28

Note: Exchange rate USD 1: Kip 8,000

4. Income and Expenditure

4.1. Income

The budget for the period of 2006-2010 came from the benefits of the EPF endowment, the contribution by the development projects since 2009 and the WB grants that the EPF could withdraw since 2005. The EPF total budget for last year amounted to about Kip 44 billions or about USD 5.5 millions, this is not included the endowment of USD 5,798,194.04. Details are presented in table 4.

Table 4: Revenue used as budget for the period 2006-2010

Source	Amount (USD)	Amount (USD)
Contributions from investment projects	265,878	2,127
Revenue from endowment	896,756	7,174
UNESCO	23,000	184
WB	4,306,294	34,450
Total	5,491,928	43,935

Note: Exchange rate USD 1: Kip 8,000

4.2. Expenditure

The expenditure for the EPF operation for the period of 2006-2010 were categorized into 2 parts: (i) Funding the sub-grants and (ii) Operation cost. Details are presented in table 5.

Table 5: Expenditure for the period 2006-2010

	EO (K millions)	LEnS (K millions)	Total (K millions)
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	EO (K millions)	LEnS (K millions)	Total (K millions)
Sub-grants			
CBI	184.0	9,788.7	9,972.7
PICE		10,655.0	10,655.0
PC	1,523.6		1,523.6
Water	720.9		720.9
Land	361.6		361.6
Sub-Total	2,790.1	20,443.7	23,233.7
Operation Cost			
Consultant	2,622.4	5,624.9	8,247.3
Training/Workshop	355.5	951.6	1,307.1
Goods	858.9	557.9	1,416.8
Incremental cost	436.2	603.9	1,040.1
Sub-Total	4,273.0	7,738.4	12,011.4
Total	7,063.0	28,182.0	35,245.1

Note: Exchange rate USD 1: Kip 8,000

5. Consultation and Monitoring Procedures

The EPF has established and institutionalized consultation and monitoring mechanisms for its operations as follows:

5.2. Annual Stakeholder Workshops:

The Executive Office held annually stakeholders meeting to inform all stakeholders about the activities of the EPF. Representatives of central as local government agencies, international development assistance agencies, mass organizations, civil society and investment projects were invited to attend the annual stakeholders meeting. As result the EPF received: (i) Broader views on the EPF operations; (ii) Information from stakeholders operating in the same concern and areas; and (iii) Exchange of experience that were useful to the EPF.

5.2. Public Information Center

The Executive Office has set-up a Public Information Center with the objective to provide access for all stakeholders to information on the activities of the EPF and other relevant information on environmental protection. With this the EPF could: (i) Provide information on the possible financial support instruments available from the EPF; (ii) Have document and reports available for the EPF Sub-Projects; (iii) Serve as a network for identification of potential sub-

grants, for the awareness building on the environmental protection and for the exchange of experience knowledge and information.

5.3. EPF Website

The EPF has also develop and maintained an official website in the Lao and English languages, <http://www.laoepf.org.la>., Where the activities of the EPF, including the information and details of all sub-projects and activities that have received funding from the EPF were publicly disclosed.

The web site has also provided information on the available financial support, the accompanying conditions and criteria, and downloadable applications forms.

Details information on the website visitors are presented in table 6

Table 6 - Visitors to the EPF Website

Vistors	Number	Monthly average
For the first time	2,107	49
More than one time	876	20
Total	2,107	69

5.4. Independent External Audit

The Executive Office had hired the Pricehousecooper, an independent external auditing firm to prepare the Annual audit for LEnS, and the state audit organization for the EO Office.

The audit included the review of all EPF bank accounts, the review of the internal accounting and operations of the EPF SFWs, the review of the financial and administration practices.

The annual audit report is available at the information center and sent to all concerned agencies and donors.

Regarding the result of the audit, the EO has to (i) report to the EPF BOD to seek guidance on the solution of issues raised by the auditors, as deemed necessary; (ii) discuss and provide technical support to sub-grants and EPF Units to solve concerned problems; and (iii) undertake necessary measures if violation occurs.

6. Conclusion

The key achievements of the implementation of the EPF 5 are as follows:

- Development of partnerships with different Government agencies and province authority in the operation of the EPF such as stakeholder meeting, report, discussion with local agencies and field visit;

- Demonstration of sound financial management of the EPF to create confidence in the EPF by all Government and Donor Agencies through the application of the computerized system for the monitoring of financial and technical management;
- Development of instruments to provide financial support namely the operational manual, manual for the implementation of sub-grants, and applications forms;
- Support to the priority concerns for the environmental protection in Lao PDR through the establishment of 5 SFWs; in addition the LEnS target provinces focused to Savannakhet, Khammouane and Bolikhamxay provinces and the three core sectors selected were electricity, safeguard and water resources;
- Establishment of adequate monitoring and supervision system to ensure compliance with the EPF Operating Principles that includes:
 - Ownership and Accountability; (ii) Transparency and Efficiency;
 - Effective Implementation of Government Policies;
 - Achieving measurable outcomes;
 - Sustainability.

These forms are a good basis for further development of acceptable financial mechanism. However, in line with the rapid socio-economic development and change in environment in the country, the future operation of the EPF has to reconsider the following issues:

- The EPF operation was limited to certain areas and therefore it has to extended its operation to the whole provinces and all sectors and has to support the implementation of the environmental priority of the country;
- The EPF operation has limited fund and in line with the increase need, the EPF has to source more fund;
- The means of funding was limited and has therefore to be diverse than the granting alone.