

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC405

<b>Project Name</b>	ENPI East Countries FLEG II Program (P131138)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Europe and Central Asia
<b>Sector(s)</b>	Forestry (90%), Public administration- Agriculture, fishing and forestry (10%)
<b>Lending Instrument</b>	Technical Assistance Loan
<b>Project ID</b>	P131138
<b>Borrower(s)</b>	WWF International, IUCN
<b>Implementing Agency</b>	The World Bank
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared</b>	28-Jun-2012
<b>Estimated Date of Appraisal Completion</b>	26-Jul-2012
<b>Estimated Date of Board Approval</b>	22-Oct-2012
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

The Europe and Central Asia region accounts for around 22 percent of the world's forests and stores more than 39 billion tons of carbon. The forestry sector contributes on average between 1.1 to 1.5 percent of GDP and if sustainably managed, the sector could potentially employ an additional 3 million workers and double its contribution to GDP. Unlike other parts of the world, forests in region have been expanding steadily (1.6 percent over the last twenty years), and the potential for additional growth (both in terms of forest area and volume per hectare) is substantial. However, there are still problems associated with: (i) poor governance; (ii) the need to create the right enabling environment through sound policy and legislation and which is supervised and delivered through appropriate forest institutions; and (iii) the continued requirement for support from transition to market economies in the forest sector. This project focuses on improving forest governance in seven countries that are included in the EU's European Neighborhood and Partnership Instrument (ENPI) East region: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine, and the Russian Federation.

Economic and political diversity among the countries is wide, yet there are common elements that justify a joint regional program to address forest governance. In all countries most of the modernization has taken place in urban areas and rural areas have often been left behind. One area

where reforms have been slow to materialize is the forest sector where, in several countries, the state is still the dominant actor and many structures have not significantly changed since independence in the early 1990's. In countries that have gone through reforms, these reforms have often been implemented haphazardly and without adequate assessment of their feasibility or stakeholder consultations. Where the institutional set-up within forest sectors has changed, newly evolving market forces have only partially been controlled by new forest codes. Understaffing and underpayment of forest officials and workers are almost universal issues. However, despite incomplete reform processes there are good foundations for good forest management; the scientific knowledge on biophysical characteristics of forests and silvicultural practices is in several countries of high quality. At the same time, there are more limitations in the knowledge of forest economics and stakeholder engagement, and forests are often seen as a safety-net and – due to unclear and poorly enforced property rights – an open access resource.

The ENPI countries received some international support to address the challenges in the sector. Particularly the EU and its member states are involved in environment co-operation with the region. There are also commercial interests in the sector; in 2009 Russia was the largest exporter of wood to the EU, and an important source of pulp, paper and wood manufactured products, with the exception of furniture. Ukraine was also an exporter to the EU of wood manufactured products (exc. furniture). Even if the timber exports of most ENPI-countries are not large in terms of share of economy, a considerable part of their forest product exports (67%, 62% and 49% for Belarus, Ukraine and Moldova, respectively) go to the EU. Therefore the introduction of the EU Timber Regulation (to be applied from March 03, 2013) will have a major impact on their forest product exports.

According to the FAO State of the World's Forests Report 2011, 49% of Russia's territory is covered by forests, making it a decisive country on world forest issues. From 2002 to 2009, the World Bank provided financing (USD 60 million) for the Sustainable Forestry Pilot Project in Russia to support among other areas, the country's sector reforms. Since 2004, the Bank has been engaged in the Europe and North Asia Forest Law Enforcement and Governance Process, which contributed to the 2005 St. Petersburg Ministerial Conference and its action program. The latest revision in the Russia forest code took place in 2007. A revision of the national forest policy is underway. Currently a Russia Forest Fire Response Project (USD 121.26 million) is under preparation, which includes governance, policy and sustainable forest management activities.

In Ukraine, the State Forestry Agency (responsible for some 70% of the country's forest coverage) reports that the country is committed to the pan-European negotiations for a legally binding agreement on forests in the framework of the Forest Europe process, as well as to the European 2020 targets for forests. On the national level, a Forest Code from 2006 foresees the reform and development of forestry in Ukraine, however the introduction of legislative changes have not led to quick results.

Moldova, Armenia and Azerbaijan have forest coverage of between 9 and 12% of their territory, whereas Georgia has 39% forest cover. In absolute terms, the forest area ranges from 2.620 Km<sup>2</sup> in Armenia to 27.420 km<sup>2</sup> in Georgia. The Georgian forest sector has been affected by government reorganizations. The on-going ENPI-FLEG proposed principles for inclusion in the new draft forest law, as well as recommendations on the zoning of forest functions and forest harvesting guidelines. The EU Environment and Natural Resources thematic program and the Regional Environment Centre Caucasus are financing and implementing forest projects, e.g. 'Fostering Community Forest

Policy and Practice in Mountain Regions', in all three southern Caucasus countries. In Moldova, the State Forest Agency is an active partner in the ENPI-FLEG 1 Program. There have also been investments in reforestation by World Bank -managed Biocarbon fund.

### **Sectoral and Institutional Context**

The forests of the Program countries have a vital function for the global, regional and local environment. As a carbon sink, they absorb more emissions than they release. According to the Intergovernmental Panel on Climate Change, the relative importance of temperate and boreal forests for maintaining the world climate balance is growing, while that of tropical forests is shrinking. Approximately a quarter of the world's forest biomass is situated in Europe and Russia. Russia alone is home to around 20% of the world's forests. Changes in forest cover are not uniform; in some countries (Armenia and Georgia), there has been a slight decrease while Belarus, Moldova and Ukraine have been able to increase their forest cover. In other countries, the cover has remained the same as a percentage of total land area.

The carbon balance of temperate and especially boreal forests is hard to estimate. However it is clear that well-managed and protected forests contribute to limiting the global temperature rise. Furthermore, well-managed forest ecosystems provide local livelihoods and income for populations and the economy, stabilize water cycles, prevent fires, assure biodiversity, and protect biotopes. They can also be the resource base for modern wood processing industries and renewable energy production.

To support countries in the region in forest law enforcement and governance (FLEG), in 2007 the World Bank teamed up with the European Union, the International Union for the Conservation of Nature (IUCN) and the Worldwide Fund for Nature (WWF) to address forest governance issues in the region. The EU financed the first FLEG project in the ENPI East + Russia region from 2008 to 2012. The project (€6 million/\$ 8.63 million) had many interventions including stimulating co-operation between forest agencies, analyzing and informing stakeholders of the reasons for forest loss/degradation and poor governance, and supported amongst others the development of tracking systems to reduce illegal logging and loss of government revenue. It helped implement the 2005 St. Petersburg Ministerial Declaration on Forest Law Enforcement and Governance. The Government of Austria provided additional financing (€300,000/\$ 393,000) to the Program in 2011. The Program funded numerous activities in the seven participating countries as well as facilitating regional cross border collaboration. More detailed description of regional and national project activities so far is given on the project's internet site [www.enpi-fleg.org](http://www.enpi-fleg.org) as well as in the bi-annual project progress reports.

The new ENPI-FLEG Phase 2 project will be funded through a Trust Fund financed by a grant from of €11.78 million (\$ 11.78 million) from the European Union. The Program will build upon the successes from Phase 1, by deepening reforms in sector policy, legal and administrative matters. It will also establish pilot projects and pay increasing attention to forest fire and climate issues. The vision for the end of the project in 2016 is that the participating countries have clear sector policies and implementation capacity to fight against illegal logging and associated trade, take into account the full social, environmental and economic value of forests, state-of-the-art forest sector laws, and modern forest sector institutions. In addition, the Program partners (World Bank, EU, WWF, IUCN) will support these reforms through institutionalized dialogue, expert cooperation, and well-targeted financial support where needed. ENPI-FLEG Phase 2 is in line with EU's ENPI Regional East

Programme 2010-2013, which mentions FLEG and strives as one of its specific objectives 'to facilitate policy development and implementation of strategies in various environment sub-sectors'.  
**Relationship to CAS**

The ENPI FLEG 2 is well aligned with the strategic priorities of the Country Assistance Strategies (CAS) or Country Partnership Strategies (CPS) in all seven participating countries, specifically:

- Armenia (CAS FY09-FY13): Deepening of relations with the European Union and its member states, while continuing to maintain strong links with other traditional bilateral partners; improved emphasis on preparedness for natural disasters and climate change adaptation; fighting corruption; and reducing rural and environmental risks.
- Azerbaijan (CAS FY11-FY14): Strengthening governance and institutions (cross-cutting filter) to improve institutional capacity and introduce policy reforms to reduce corruption; promoting transparency and public debate.
- Belarus (CAS FY08-FY11): Delivering global goods including safe water services; advocacy for reforms on governance and measures to address corruption; improving inclusion, welfare and opportunities for people.
- Georgia (CPS FY10-FY13): Rural development for employment generation and poverty reduction; strengthened partnership with the EU in the environmental field; continued involvement in administering the FLEG Program to provide advice and assistance in forest management.
- Moldova (CPS 2009-2012): Minimizing social and environmental risks; building human capital, and promoting social welfare, which includes improved access to and quality of health, water, and sanitation services and reduced environmental degradation; improving public sector governance including increased transparency and accountability and increased capacity of the public sector to develop and implement public policies.
- Russia (CPS 2012-2016): Deepen Russia's global and regional role related to the provision of global public goods; improving transparency and governance through more accountability; IBRD financing for projects including in the area of forestry protection.
- Ukraine (CPS FY12-FY15): Supporting progress in the EU integration agenda; improved governance for sustained socio-economic progress including deepened relations between government and citizens; more transparent and accountable use of public resources; and more productive cooperation between government and businesses.

The Program is also well aligned with the World Bank sector strategies. The 2002 Forest strategy emphasizes three types of services forests provide: environmental, economic and social. Improving governance and law enforcement is a precondition for achieving the expected benefits. The revised World Bank Governance and Anti-Corruption strategy (GAC2) has a strong emphasis on State capacity and ability to deliver good service (supply of good governance). The FLEG 2 will work extensively with forest authorities in the participating countries to enable them to design and implement good quality and equitable forest policies.

## II. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

The overall objective of the project is to promote sustainable forest governance, management, and protection of forests in the participating Program countries, ensuring the contribution of the region's forests to climate change adaptation and mitigation, to ecosystems and biodiversity protection, and to sustainable livelihoods and income sources for local populations and national economies.

The three specific Program objectives are:

- i) the implementation of the 2005 St. Petersburg FLEG Ministerial Declaration and ensuring continuation of the process launched in 2005 (regional level),
- ii) the formulation and implementation of sustainable forest sector policies, including legal and administrative reforms for sustainable forest management and protection (national level), and
- iii) the demonstration of best sustainable forest management practices in targeted areas for further replication (sub-national level).

#### **Key Results (From PCN)**

Key results for Program objective 1 (regional level):

- the formal official FLEG process – as agreed in the 2005 St. Petersburg Declaration – continues in the ENPI East region,
- the Action Plan accompanying the Declaration shall have been up-dated by 2016,
- the progress in the implementation is regularly monitored.

Key results for Program objective 2 (national level):

- effective FLEG actions and processes are continued and intensified, including active cooperation, knowledge sharing and best practice benchmarking between stakeholders,
- involvement of the private sector (forest industry, timber trade, wood processing, tourism) and national awareness, ownership and capacity of all key stakeholders (administration, private sector and civil society) is enhanced and broadened to address forest governance issues and to deal with forest sector policies and related themes such as forest fires and climate change,
- sustainable forest management policies and law enforcement are strengthened,
- EU member states' forest sector knowledge is made available to partner country stakeholders. The applies particularly to experience from former transition countries in Central and Eastern Europe (“new member states”), and
- civil sector capacities are strategically strengthened.

Key results for Program objective 3 (sub-national level):

- better understanding and implementation of FLEG principles by forest practitioners and other stakeholders,
- better access to state of the art techniques and information to improve forest law enforcement and forest governance, and
- a number of activities (incl. pilot projects and outreach activities such as seminars, publications) have been implemented to demonstrate best practice to enforce law and improve forest governance.

#### **Cross-cutting Issues**

The project will directly contribute to improving environment sustainability through the formulation implementation of sustainable forest sector policies. Positive climate change effects of good forest practices are huge, especially in Russia, but currently still poorly understood. The calculation of positive greenhouse gas effects of good forest practices in pilot forests is a possible project activity (depending on partner country interest). Good governance and transparency in the forest sector is a major underlying principle of the project. Rights of local forest communities will be an issue for a number of field activities in the project. Particular attention will be paid to gender effects in this context. Ideally this will not be limited to the local level, but would contribute systemically e.g. by improving legal rights of ethnic minorities. Anti-poverty measures will be addressed through local forest community pilot projects and proposed draft regulations on the issue on a national and sub-national level.

### III. Preliminary Description

#### Concept Description

As the first FLEG Program has not yet been fully completed, final conclusions cannot yet be drawn. However, the project has been monitored by various missions by EU, the Donor, with very good scores. There is a general recognition that the ENPI-FLEG Phase I project has played a useful and concrete role until now. Its importance has been further raised by the catastrophic forest fires in the region in the summer of 2010. All relevant concrete recommendations from the EU monitoring report will be incorporated in the FLEG II. The main recommendations were: inclusion of regional and country logical frameworks in the project reporting; harmonization of country logframes, using quantifiable objectively verifiable indicators; taking into account of increased need for translation, printing, dissemination and training activities; establishing cooperation with relevant other EU-funded projects, including those under the EU thematic program for Environment and Natural Resources including Energy.

As a general lesson from Phase I, the largest limitations to project success are:

- i) the modest budget size, and
- ii) the fact that poor forest governance has many complex drivers, which are related to the behavior of diverse and competing stakeholder groups. Changing their behavior permanently takes a concerted effort over a longer period than the lifetime of a project.

The participating countries have shown strong ownership of the Program and see the structure and approach from FLEG 1 relevant also for the follow-up phase. The main changes proposed for the FLEG Phase 2 should include: strengthening impact assessment of the Program; collaboration with the EU Member States and EU Delegations in the participating countries; implementation of the EU Timber Regulation; collaboration with international organizations (e.g. European Forest Institute and FAO). The Phase II also needs to present a roadmap for the follow-up of the St. Petersburg ministerial conference held in 2005.

Design of country and regional activities will be based on country demand and capacity. The countries and their FLEG focal points (usually a high-ranking official) have – after country consultations – presented preliminary priorities for action. The country-specific activities will be designed in more detail during the inception phase (which will be completed during the first six months of the program implementation). The detailed activities will be presented in a work program and approved by the Steering committee of the program. These activities will be largely based on the results of the Phase I, analysis of stakeholders and main challenges as well as the ambition of the countries to tackle these challenges. The program will not approve or implement activities in any disputed territories as defined by WB OP/BP 7.60.

Phase I has implemented a large number of activities in the countries. When planning for Phase II, success from these activities will be assessed and selectively continued. The approach is to build on successful initiatives and scale these up.

The main indicative activities, linked to objectives (1), (2) and (3) are:

1. Regional level activities
  - 1.1. Strengthening policy dialogue between participating countries and institutions regarding the 2005 St. Petersburg Declaration by organizing of thematic meetings on FLEG issues of shared interest, and FLEG II steering committee meetings at least annually.

- 1.2. Monitoring the implementation of the St. Petersburg Declaration in the participating countries through stakeholder reporting and preparation and regular up-dating of tracking tables on implementation of the declaration; identifying areas of the St Petersburg declaration where implementation needs more focus and support.
- 1.3. Conducting regional studies and publications to be developed in the framework of the 2005 St. Petersburg Declaration.
- 1.4. Contributing to communication activities to promote regional and national activities developed within the framework of 2005 St. Petersburg Declaration; maintaining a high-quality Internet site in English and Russian on state of the art of forest sector governance and reform.
- 1.5. Contributing to the implementation of FLEG country work plans based on partner government requests.
2. National level activities
  - 2.1. Supporting the formulation and implementation of forest policy legal and administrative reforms on the national and sub-national levels.
  - 2.2. Supporting the use of modern technology (timber tracking, GPS, and other ICT) through pilot activities addressing FLEG issues.
  - 2.3. Promoting good investment climate for credible private sector operators
  - 2.4. Providing capacity building, training and advice on administrative reforms.
  - 2.5. Liaising and co-operating with forest sector experts from EU member states.
3. Sub-national and local level
  - 3.1. Providing support on forest governance techniques, remote sensing to forest staff to ensure law enforcement.
  - 3.2. Documenting and communicating concrete local results on forest governance and forest law enforcement.
  - 3.3. Involving local communities in policy development and in sustainable forest management. Quantify information that is easy to use and relevant for local decision makers.
  - 3.4. Increasing public awareness and participation.

Allocation of program budget will be decided during the inception and adjusted based on country progress, demand and capacity. It is assumed that the allocation will initially be equal distribution between countries and regional envelope. However, it can be assumed that larger countries and countries showing notable progress will be allocated more resources. Countries with slow progress would see their allocation decline.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	

Projects in Disputed Areas OP/BP 7.60		<b>x</b>	
---------------------------------------	--	----------	--

Public Disclosure Copy

**V. Tentative financing**

<b>Financing Source</b>	<b>Amount</b>
Borrower	0.00
Free-standing TF for ECA	11.78
Total	11.78

**VI. Contact point**

**World Bank**

Contact: Andrew Michael Mitchell  
 Title: Sr Forestry Spec.  
 Tel: 473-3060  
 Email: amitchell3@worldbank.org

**Borrower/Client/Recipient**

Name: WWF International  
 Contact:  
 Title:  
 Tel:  
 Email:

Name: IUCN  
 Contact:  
 Title:  
 Tel:  
 Email:

**Implementing Agencies**

Name: The World Bank  
 Contact:  
 Title:  
 Tel:  
 Email:

**VII. For more information contact:**

The InfoShop  
 The World Bank  
 1818 H Street, NW  
 Washington, D.C. 20433  
 Telephone: (202) 458-4500

Public Disclosure Copy

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>

Public Disclosure Copy

Public Disclosure Copy