



EUROPEAN NEIGHBORHOOD  
AND PARTNERSHIP INSTRUMENT  
EAST COUNTRIES FOREST LAW  
ENFORCEMENT AND GOVERNANCE  
II PROGRAM



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# FINAL REPORT

## *REVIEW AND ANALYSIS OF CURRENT FORESTRY- RELATED LEGISLATION, INSTITUTIONAL AND ADMINISTRATIVE STRUCTURE*

Selection# 1205875

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## ABBREVIATIONS AND ACRONYMS

ADA	Austrian Development Agency
ENPI	European Neighborhood and Partnership Instrument
EU	European Union
FLEG	Forest Law Enforcement and Governance Program
FMP	Forest Management Plan
GDP	Gross Domestic Product
IUCN	International Union for Conservational Nature
MNP	Ministry of Nature Protection
MOA	Ministry of Agriculture
NGO	Non-Governmental Organization
RA	Republic of Armenia
SNCO	State Non-Commercial Organization
WB	World Bank
WWF	World Wild Found for Nature

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## 1. INTRODUCTION

1. The European Neighborhood and Partnership Instrument (ENPI) Forest Law Enforcement and Governance (FLEG) II Program is funded through a free-standing, single-donor, hybrid Trust Fund financed by a grant of €9 million (\$11.21million) from the European Union (EU). The four-year Program builds upon the successes from Phase I, by deepening reforms in sector policy, legal and administrative matters.
2. In the beginning of 2016, the World Bank launched an assignment to provide technical support to the Government of the Republic of Armenia, thus to “Hayantar” State Non-Commercial Organization (hereinafter Hayantar SNCO), as well as other stakeholders, related to the forestry law reform in the Republic of Armenia (hereinafter RA). The Program focus is targeted to two major objectives: 1) to develop a package proposal clarifying sector policies and targeted to implementation of legal reform, to strengthen the capacity to fight against illegal logging and associated trade, taking into account the full social, environmental and economic value of forests, state-of-the-art forest sector laws, and 2) review of forest sector institutions’ structure in Armenia based on their functions.
3. In August 2016, due to the reforms in public sector of the RA a new Prime Minister and Cabinet of Ministers had been appointed, which lead to structural and policy reforms in the Government of RA. As a result, the focus of the new Government cabinet has predominantly concentrated in public sector reforms, particularly in institutional changes targeted to maximizing effective use of state and community funds in parallel with significant reduction of employees in all state institutions including those that are involved forest economy management in the RA. This factor of adopted state policy approach was also considered by the Consultant Team in this report as part of the recommendations related to structural reforms in the forest resources management field.
4. In October - November 2016, public meetings and stakeholder consultations had been conducted to complement and support activities as planned under ENPI FLEG II funded by ADA under a separate assignment with other consultant company. During those meetings the Consultant Team collected comments and recommendations from the participants, which have been both: discussed in those meetings and have been considered in this Final Report.

## 2. OBJECTIVE

5. The overall objective of the current assignment is to conduct a review of the forestry sector legislative, institutional and administrative frameworks, in order to identify existing gaps and contradictions within different legislative acts related to the sector.
6. Specific activities undertaken within the scope of the assignment have been focused on the following:
  - Review the existing forestry and main related legislation and regulations in order to identify existing gaps, conflicts and discrepancies;
  - Identify options for changes and amendments based on findings;
  - Prepare a set of recommendations to serve as a base to further draft the amendments for various related legislation by the Ministry of Agriculture (MOA), which will be in charge of presenting the amendments for the National Assembly's approval;
  - Review the existing institutional arrangements of the responsible forest authority ("Hayantar" SNCO), identify strengths and weaknesses, as well as possible duplications with various state forest authorities; and
  - Prepare a set of recommendations on how to improve the existing institutional arrangements for Hayantar SNCO.
7. The Report presents a legal and institutional review of forest resources management regulations and practice existing in Armenia, and provides a specific set of recommendations in a format of draft amendments to the laws and regulations, as well as propose a structural changes in forest resources management field based on the best practice principles. The Project Team also participated in public meetings and discussions held in the regions of Armenia with stakeholders on proposed draft amendments to the laws and regulations, as well as suggested functional structure proposed by the Team experts in the field of forest resources management in Armenia. Moreover, the Team held discussions of forest resources management and law supervision institutional structure consistent with international best practice principles with the main stakeholders.

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### 3. METHODOLOGY

8. The implementation process of the assignment has been conducted through regular meetings and discussion at Consultant's head office and meetings at the corresponding institutions and organizations, including the offices of the stakeholders. Furthermore, during the whole Program, in addition to local experts, an international forestry law and management expert has been involved to bring best international practice to the reviews and proposals provided to the stakeholders.
9. During the Program the Team had conducted an inventory of the forestry related primary and secondary legislation of the Republic of Armenia. Those include, but are not limited to, the Forestry Code, the Land Code, Law on Environmental Supervision, respective provisions of the Administrative and the Civil Codes of the Republic of Armenia. The Team also took into consideration of RA's recent international and regional obligations concerning harmonization of the national legislation, including requirements of Eurasian Economic Union (EAEU) agreement that Armenia has been part of since 2015. The list of legal acts had been initially agreed with the main stakeholders before conducting the reviews.
10. Along with the review of the legislation, the Team had mapped the functional, administrative and operational areas of jurisdiction of all relevant state institutions involved in forest management. The Team studied the institutional arrangements of forest management of international practice and came to the conclusion that the any new structure should consider relevant lessons learned under comparable conditions but be tailor-made especially for Armenia, and the best way to do this would be considering local peculiarities and state management regulations rather than taking and replicating other counties' solutions based on their traditions and specifics.  
The Team conducted group discussions with the key national and international, state and non-state stakeholders (Appendix #4), as well as held individual consultations with some of them upon their request. This was conducted particularly during the visit of international forestry law and management expert. However, the consultation process on some specific questions continued even afterwards per Hayantar SNCO's request.
11. The Final Report reflects findings of the project, and is focused on the review and analysis of the existing forestry legislation and regulation and identification of existing gaps, conflicts and discrepancies, as well as developing proposals for legal and structural changes in the forest management field. Based on the analysis a package of recommendations had been developed as a basis for further amendments to the current forest related legislation in Armenia.

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## 4. LEGAL REVIEW

12. The Teams of Reference of this project inquire two main components for review and analysis: existing forestry law and main related legislation review, and review the existing institutional arrangements of the responsible forest authority. Based on the reviews a set of proposed law amendments and recommendations were proposed on both components.
13. The review of forestry law and main related legislation was conducted by the Team's national and international legal experts. The scope of legal acts had been discussed also with stakeholders, particularly with MOA and Hayantar SNCO. List legal acts reviewed is presented in Table 1. The detailed legal review report had been already submitted to the Client in Progress Report. Furthermore, some of the key aspects of the review such as RA Forest Code and RA Forest National Program, as well as analysis of proposed draft amendments to the RA Forest Code are summarized below.

### 4.1 RA Forest Code

14. Current RA Forest Code was adopted on October 24, 2005 and has not been amended to this date. Nevertheless, lately there were few attempts to propose amendments to the current RA Forest Code. One of them was a forestry law reviews that has been initiated by GIZ, which was completed and submitted to the RA MOA for further official approval by the RA Government. However the draft was returned back to the RA MOA by the Government of RA due to imperfections like: the structure of Articles were inconsistent with Armenian legal traditions and the rules were in conflict with the RA Forest Code, RA Law on Legal Acts and other sub-laws.
15. Other proposed amendments were initiated by the State Agency "National Center for Legislative Regulation" Project Implementation Unit under the Government Staff of the RA. The proposed draft law amendment had been approved by the government (approved on April 11, 2016) and sent to the National Assemble for adoption, which had a very negative resonance among national environmental NGO sector representatives. The last draft proposes three main concepts: i) to eliminate "forest coupon" that is widely practiced in many countries, ii) to allow construction in forested areas, and iii) to rent out the non-forested forest land areas on condition of acquiring title to forest land later on. Ecologists are most of all displeased by incorporation of the right of construction into the RA Forest Code. It actually nullifies the possibility of forest regeneration in those areas. The draft has been put on hold for one year for deeper analysis of environmental impact it could cause to the forests.
16. In earlier reviews, the RA Forest Code was positively assessed by various international and national experts and that it complies with the key international laws regulating the forestry sector (Table 2). The law classifies forests as per their significance, defines private, community and state forests regulation procedure and the special procedures of conservation and utilization of forests and forest lands.

17. For instance, Nils Junge and Emily Fripp<sup>1</sup> mention that the Code is up to date and lacks any material drawbacks. In the opinion of Stephen Mann (Dr. Stefan Mann, Regional Program “Sustainable Management of Biodiversity, South Caucasus” (GTZ-SMB), 2010), invited expert, GIZ, the Code is good enough, though several principles have to be clarified and more thoroughly regulated.

#### 4.2 GIZ draft law amendments proposal

18. The proposed GIZ draft law amendment provides also new regulations such as new types of forest significance and zoning of forest lands. Moreover, the proposed draft law also suggested clarification of definition of forest monitoring functions and detailed description of private forests regulation procedure. After discussion at the RA MOA the proposed package of amendments including a broad volume of normative regulations has been submitted to the RA Government of official approval. As a result the proposed draft law amendment has been once rejected by the Government of Armenia and sent back for further review.

**Table 1: The list of legal acts analyzed during the project in the light of forestry law review**

THE LIST OF LEGAL ACTS
1. RA Forest Code
2. Two Draft Amendments to the RA Forest Code: Draft Law “On Amending and Supplementing the RA Forest Code” (2016, National Center of Law Regulation) and Draft Law “On Amending and Supplementing the RA Forest Code” (2010, GIZ)
3. RA National Forest Program
4. International Agreements adopted by RA in relation to forestry
5. RA Civil Code
6. RA Code Of Administrative Offences
7. RA Land Code
8. RA Law On Specially Protected Natural Areas
9. RA Law On Compensation Tariffs for Damage Caused to Fauna and Flora
10. RA Law On Nature Protection and Nature Utilization Payments
11. RA Law On Environmental Impact Assessment and Expert Review
12. RA Law On Environmental Inspection
13. RA Government decree No 891-N as of June 10, 2004 on incorporation of RA Forest Rehabilitation and Development Fund
14. RA Ministry of Agriculture, RA Government Decree No 1516-N dated September 05, 2002
15. “Hayantar” SNCO: RA Government Decree No 1054-N dated July 25, 2002 and RA Government Decree No 388-N dated January 16, 2003
16. “State Forest Monitoring Center” SNCO: RA Government Decree No 1152-N dated July 28, 2005 and Decree No 261-A dated December 20, 2005 of the RA Minister of Agriculture

<sup>1</sup> Junge, N.; Fripp, E. (2011): “Understanding the Forestry Sector of Armenia”; ENPI-FLEG

- 17. RA Ministry of Nature Protection: RA Government Decree No 1237-N dated August 08, 2002
- 18. Nature Protection State Inspectorate under Staff of RA Ministry of Nature Protection: RA Government Decree No 1149-N dated July 25, 2002
- 19. Bioresources Management Agency under the Staff of the RA Ministry of Nature Protection: RA Government Decree No 1236-N dated August 08, 2002

19. The RA has approved a number of international treaties relating to RA Forest Legislation. Principles of the international treaties specified below comply with those stipulated by the RA Forest Code. They highlight the importance of sustainable management and utilization of natural resources, environmental principles, active involvement of the public and namely the stakeholder community representatives in relevant works.
20. The review of the RA adopted international treaties’ principles (Table 2) shows that the RA Forest Code reflects the international principles of regulation of the main forest resources (there was no claim to RA Constitutional Court filed since adoption of RA Forest Code on conflicts of legal norms between international and national legislation on forest. See also for references: <http://concourt.am/english/>).

**Table 2: The list of international treaties analyzed during the project in the light of forestry law review.**

NN	Name, place and date of ratification	Ratification date	Effective since
1.	UN Convention on Biological Diversity (Rio de Janeiro,1992)	March 31, 1993	April 14,1993
	Cartagena Protocol (Montreal, 2001)	March 16, 2004	July 29, 2004
2.	UN Framework Convention on Climate Change (New York,1992)	March 29,1993	March 21, 1994
	Kyoto Protocol (Kyoto, 1997)	December 26, 2002	February 16, 2005
3.	UNECE Convention on Long-Range Transboundary Air Pollution (Geneva, 1979)	May 14, 1996	February 21, 1997
	- Protocol on Long-Term Financing of the Cooperative Program for Monitoring and Evaluation of the Long-Range Transmission of Air Pollutants in Europe (EMEP)	In ratification process	
4.	UN Convention to Combat Desertification (Paris, 1994)	June 23, 1997	September 30, 1997
5.	UNECE Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus 1998)	May 14, 2001	August 01, 2001
6.	Convention on Conservation of European Wildlife and Natural Habitats (Bern 1979)	February 26, 2008	August 01, 2008

#### **4.3 RA National Forest Program**

21. Another major legal act - the RA National Forest Program was approved on July 21, 2005 by the RA Government. It lists steps and terms for performance of works and activities. Long-term programs end by 2015, but some works such as public notification or professional education are continuous and cannot be performed within certain time boundaries. The National Forest Program includes also other planned activities that were never carried out (for example development of regulation on Licensing for Forest Use, which is not envisaged neither in the RA Forest Code, nor in the RA Law on Licensing, therefore should be deleted from the program as was proposed by the Team). Corresponding amendments were proposed by the Consultant Team mainly proposing to extend the deadline or the planned activities that were not implemented so far and eliminate requirement for development of regulation on Licensing for Forest Use.

#### **4.4 RA Law on Specially Protected Natural Areas**

22. Pursuant to the definitions stipulated by the RA Law “On Specially Protected Natural Areas” (2006), it regulates the legal principles of state policy for sustainable development, restoration, conservation, regeneration and use of ecosystems, nature complexes and separate objects of specially protected natural areas of the Republic of Armenia, which have environmental, economic, social, scientific, historical-cultural, aesthetic, health and recreational spiritual significance. This law, together with the RA Constitution, RA Forest Code and other legal acts comprises the legislation about the specially protected natural areas.. Thus the law particularly regulates legal regime for specially protected natural areas in addition to the norms regulated by the RA Forest Code. However, the law has in itself vague definitions and ambiguity on the grounds for speciation of areas as a “specially protected” one. To address the issues the MNP has initiated a revision of the RA Law “On Specially Protected Natural Areas” and proposed draft has been approved by the RA Government and sent to the legislature for adoption.

#### **4.5 Integration of high conservation value forests concepts**

23. Furthermore, the concept of “high conservation value forests” (HCVF) was developed by the Forest Stewardship Council (FSC) in 1993, to promote responsible forest management. It was introduced to Armenia and subsequently has become part of the legal system there in December 10, 2015, under the RA Biodiversity Strategic Program and National Action Plan 2016-2020. Due to that development, some experts now opt for inclusion of that concept into the Forest Code.
24. Pursuant to the definition of the RA Law “On Legal Acts”, the RA Forest Code is a legal act of higher legal status and therefore it outlines the basic conceptual principles of forest sector regulation. Hence regulations relating to the principles of rational and sustainable management of forests in terms of effectiveness of more specific and professional solutions can be subject to bylaws. For instance it would be more rationale to define the specifics of regulation and management of high

conservation value forests in forest management plans, in particular by supplementing the Instruction No 130-N, dated August 10, 2005, “On Forest Economy Management Plans” approved by the RA Minister of Agriculture.

#### **4.6 RA Law on Environmental Impact Assessment and Expert Review**

25. The RA Law “On Environmental Impact Assessment and Expert Review” (2014) regulates environmental impact assessment in the RA, including public relations regarding state expert review of environmental impact. The “Definitions” section of the Law includes forest as an object of expert review (Article 7.7). Pursuant to Article 14 of the Law forest economy projects shall undergo assessment and expert review in terms of nature protection strategy. In this regard there are no controversies with the RA Forest Code. Yet, in the same Article 14 of the Law afforestation and forest rehabilitation works are subject to assessment and expert review in terms of nature protection strategy as well, which is not reasonable enough. Similarly, Article 14.8 also refers to impact assessment need for the activities already covered by Article 14.1 and therefore creates duplications. As to controversies between this Law and the RA Forest Code, there are none.

#### **4.7 Summary**

26. The Consultant Team conducted legal review of the existing and proposed legal acts and prepared a set of recommendations to serve as a base to further draft amendments to the laws and regulations (Appendix #5). The draft amendments had been also discussed in the public meetings and discussions with stakeholders, after which they had been finalized and provided to the main state stakeholder of this project for further official approval proceedings.

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## 5. INSTITUTIONAL ARRANGEMENTS COMPONENT: REVIEW AND ANALYSIS

27. During the project Consultant conducted a review of the existing institutional structure of forest management system in Armenia, functions of the responsible forest authority (“Hayantar” SNCO), identified current strengths and weaknesses, as well as discussed possible functional duplications between various state forest management related authorities. Particularly, the Consultant conducted comparative review of:
- forest resources management state institutions’ functions based on the current Hayantar SNCO’s approved Charter,
  - structure and the functions of other state institutions involved in forest management and protection (e.g. RA MNP, RA MOA, Armenia’s Reforestation and Woodland Development Foundation and others) based on their respective Charters,
  - their specific departments and separate relevant institutions under their jurisdictions, based on the official documents, describing functional responsibilities (RA Governmental Decrees, Charters approved by the Government, etc. listed in Table 1.),
  - FLEG II report on Forest Sector Public Expenditure and Institutional Review final report (December, 2015), as well as
  - information about the actual implementation of vested functions shared by the stakeholders directly during the meetings.
28. Additionally, the best international practice by involvement of international expert’s consultations during review process were considered for the development of a set of recommendations on possible improvements of existing institutional structure, including functional distribution.
29. The conducted review showed that within the RA state management system there is a functional overlap between the RA MNP (main function: protection of natural resources including **forest protection**) and the RA MOA (main function: effective management of agricultural product cultivation, food security, etc. including again **forest use** and **protection**). Additionally, the conflicting functions were identified within different divisions of the main sector responsible institution - Hayantar SNCO, related to the effective and sustainable management of available forest resources. Review of the financial statements of Hayantar for the last years also revealed growing financial sustainability issues of the existing institutional structure<sup>2</sup>. Hence, in order to ensure "effective and sustainable forest resources management" approach and eliminate possible duplication and conflict between functions of multiple state institutions, the Consultant has developed and discussed with all involved stakeholders a new structure of forest resources management. The proposed structure is based on reorganization of functions of those organizations and, in addition, suggests strengthening the state management role (regulatory and policy functions) and law enforcement components functions (oversight).

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<sup>2</sup> Detailed analysis is provided in the FLEG II report on Forest Sector Public Expenditure and Institutional Review, December 2015

### **Main Findings from the Forest Sector Public Expenditure and Institutional Review final report**

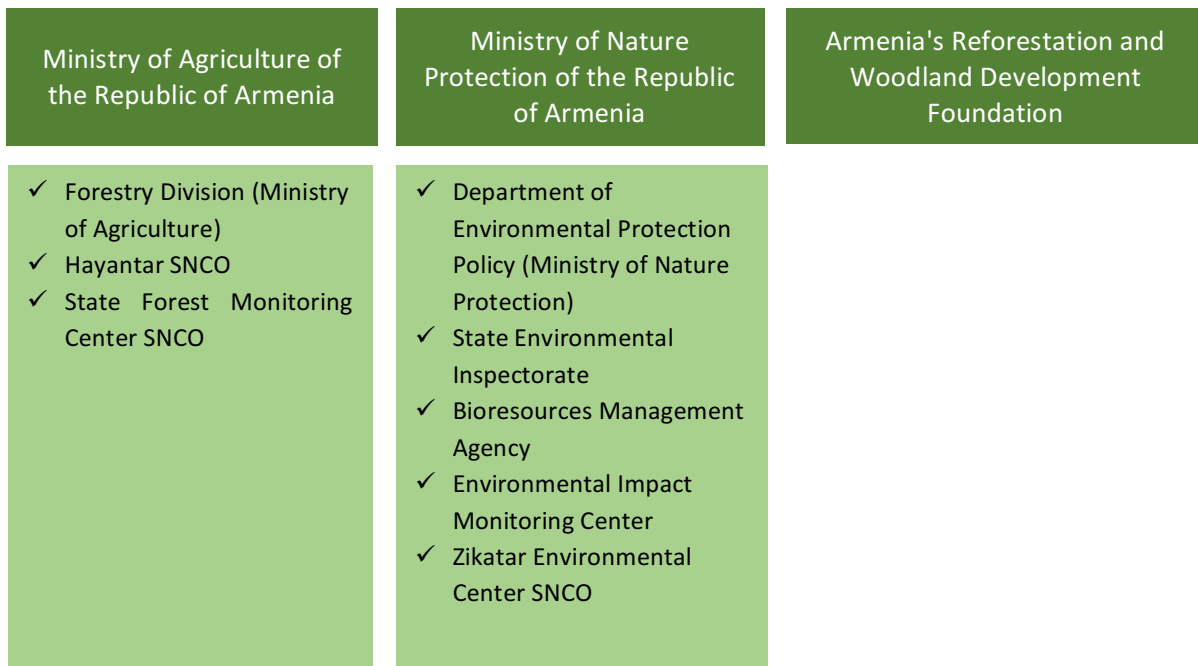
- ✓ Forest sector in Armenia is not currently being managed in an environmentally and economically sustainable manner due to:
  - insufficient financial resources committed to the sector;
  - overall lack of institutional capacity, best practices and skill sets; and
  - high demand for a limited amount of wood resources.
- ✓ Current expenditure structure of the forest sector raises concern since no funds are sent for long-term investment priorities, which brings to deterioration of road infrastructure, equipment and technologies;
- ✓ Current capacity of Armenian institutions, at all levels, is not sufficient to manage forest sector effectively;
- ✓ Institutional structure of the complicates proper forest management;
- ✓ Hayantar is responsible for conducting two conflicting functions, which are managing the forests and also using the forests to generate sector revenues, which limit its ability to excel in either function
- ✓ Hayantar’s existing institutional capacity cannot ensure sustainable management of the sector due to:
  - Available human resources and skills level limit the organization’s ability to implement the changes needed in the sector;
  - Internal processes and procedures, e.g. budgetary planning and monitoring, financial and management information system, HR development and training, does not allow efficient management of the forests;
- ✓ Forest resource base in Armenia is limited and large share of it is used unofficially, bypassing existing official institutions, hence decreasing the level of self-generated revenues

30. Below, the current system of the forest resource management in Armenia, identified issues and proposed new structure of forest resources governance system are presented. The following institutions are currently engaged in forest resources management in the Armenia<sup>3</sup>:

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<sup>3</sup> Apart from the functions of Hayantar SNCO, detailed description of the main functions of other state institutions, involved in forestry management in Armenia are presented in the Appendix 1 of the current report

## NATIONAL FOREST MANAGEMENT IN ARMENIA



31. As the above chart shows, at present the forest policy development is delegated to the *Forestry Division* of the Ministry of Agriculture. This division has only three full time civil servant positions, which is apparently not sufficient for the development and implementation of all forest resources management related policies foreseen by the Forest Code. Hence, the division has **shortage of resources for elaborating and implementing of sustainable forest management policy**. The department is responsible for the development of the national policy in the sphere of forest preservation, protection, reforestation and use. At the same time the *Department of Environmental Protection Policy* within the MNP is also responsible for the implementation of state policy in the field of forest protection, reforestation and use of protected areas, which **clearly, to some extent, overlaps the functions of the Forestry Division of MOA**.

32. According to Hayantar charter as approved by the RA Government decree as of January 16, 2003, the "subject matter and purpose of Hayantar SNCO activities are conservation, protection, reproduction, use, registration, stock taking and inventory, cadastre maintenance of state forests of the ROA, improvement of forest productivity and forest soil fertility, as well as sustainable use of forest resources". Furthermore, Hayantar SNCO has the right to perform commercial activities in connection with the national forest resources limited to the following:

- timber harvesting, processing and marketing,
- growing and marketing of planting stocks (seedlings),
- storing, processing and marketing of secondary forest products (stumps),

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- non-timber forest use (hay harvesting, animal grazing, installation of bee-hives, collection of wild fruits, nuts, mushrooms, berries, medicinal herbs and technical raw materials), as well as processing and marketing of stored bio-resources,
  - food production, processing and marketing on agricultural lands,
  - provision of recreation and tourism-related services,
  - provision of consultancy services and information.
33. Hayantar SNCO should carry out above-mentioned functions based on sustainable management principles of forest lands and forests in accordance with the approved forest management plans. A forest management plan is a technical document as delineated in the “Instruction on Forest Management Planning and the Development of Forest Management Plans”, developed as a result of silvicultural activities and approved for the implementation of forest management (i.e., “running the forest economy”). This document gives the comprehensive evaluation of forest management and forest utilization for the past period and sets out the activities for the coming 10 years. The purpose of the forest management plan is the sustainable and uninterrupted maintenance and use of forest resources in compliance with the national forest policy and provisions of the national forest programs.
34. The activities of Hayantar SNCO are supervised by the RA MOA acting as the authorized state body (RA Forest Code, Article 7). while day-to-day management is implemented by organization's central administration, located in Yerevan. The management of forest lands under supervision of Hayantar (344,2000 ha, of which 277,1000 ha is covered with forest) is performed by the Head Office and 19 forest enterprises (branches). The latter are comprised of sub-branches. Each of these institutions have its own management structure including administration. However, all simple administrative decisions have to be approved by Hayantar headquarters. Since the branches and sub-branches do not have statues of separate legal entity, therefore all paper work has to be proceeded through Hayantar headquarters. The lack of electronic tracking system for internal administrative management processes creates additional work load into this structure. **This complicated system of current management structure creates long and unnecessary approval process in daily operations decision-making, as well as requires expenses for operational costs (administration salary, etc.) which could have been used more effectively in forest rehabilitation programs.**
35. Hayantar SNCO head office comprises of the following nine operational departments aimed to perform the objectives set out in the charter of the organization<sup>4</sup>:
- Forest Rehabilitation and Reforestation Department
  - Forest Conservation and Protection Department
  - Forest Accounting and Cadastre Maintenance Department
  - Department of Forests and Forest Lands Use
  - Protected Areas Management Department

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<sup>4</sup> Full structure of the organization and functions of each department of Hayantar SNCO is presented in Appendix 2.

- Yerevan Forest Land Management Department
- Department of Marketing and Commerce
- Inspection Department
- Department of Economics, Finance and Analysis

36. While analyzing the current functions of Hayantar SNCO against the functions of other forest sector institutions, as well as functions of Hayantar SNCO separate divisions, it should be noted that:

- State Environmental Inspectorate of MNP is responsible for exercising control over compliance with the requirements to the preservation of trees, shrubs, parks and other green areas at the common areas. At the same time Hayantar SNCO is responsible for ensuring protection of Armenian national forests from illegal logging and illegal grazing, function, which to some extent overlaps with that of State Environmental Inspectorate;
- Hayantar SNCO carries out forest rehabilitation and afforestation activities, which in parallel with Hayantar SNCO are performed by the Armenia's Reforestation and Woodland Development Foundation. The main part of Armenia's Reforestation and Woodland Development Foundation receipts (nearly 85%) over the recent 12 months has come from state funding. Thus, the main source of finance of both institutions is government funding, which may affect the spending efficiency of provided funds;
- Hayantar carries out activities concerning both the use (e.g. Department of Forests and Forest Lands Use is responsible for supervising annual logging) and management (e.g. Forest Rehabilitation and Reforestation Department, Forest Conservation and Protection Department are implementing forest management functions) of forests. Assuming two mutually exclusive roles by the same institutions may result in some limitations of both functions.

37. According to the Forestry Sector Public Expenditure and Institutional Review, financial analysis of the sector shows that currently financing of the sector **fails to meet funding requirements** even to maintain the current situation, which may eventually result in the forest deterioration. At present, the main source of Hayantar SNCO financing is state funding<sup>5</sup>, since the revenue generated by sales of forest products is not enough to cover the all required expenses of the organization. Moreover, the revenue from sales is continuously decreasing, hence increasing the demand for external financing. However, the current level of state funding, which almost kept at the same level during last years, is not sufficient to cover the activities required for the sustainable forest management, including required capital and other long-term investments. As of today, it is hardly enough to cover part of operating expenses.

38. Given relative stability of forest logging during the recent years, i.e. 30-36,000 cubic meters annually, Hayantar SNCO cannot ensure significant growth of proceeds from this kind of operations. Apart from the logging, implemented by Hayantar, the residents of communities in the vicinity of forests are allowed to collect twigs and branches at no charge. The volume of such

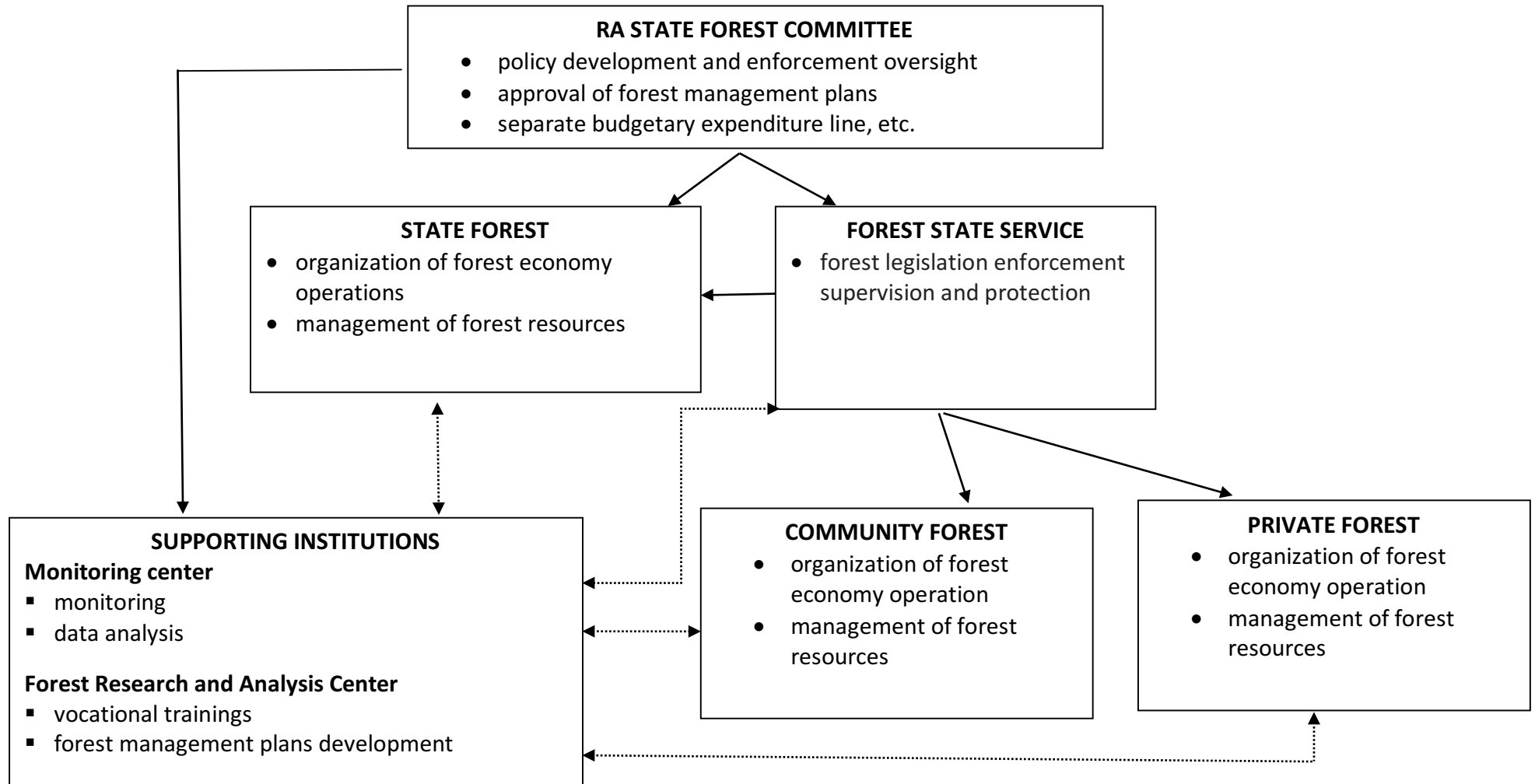
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<sup>5</sup> In 2004-2015, total cash inflows of the Foundation amounted to nearly AMD 938.6 mln., AMD 132.9 mln. out of which has come from donors.

<sup>6</sup> Detailed analysis of current financial position of Hayantar SNCO is presented in Appendix #3

deadwood during the recent years amounted to nearly 40 thousand cubic meters. Hence, the capacity of Hayantar SNCO to improve its financial standing by its current resources is significantly limited.

39. According to the Hayantar SNCO charter "financial funds of the organizations come from the Republic of Armenia state budget, funds designated for implementation of the Government orders, payments for the various activities and services provided by the organization, donor injections, charity and the rent received from lease of some sections of the ROA national forest". However, as of today the main source of the organization's revenues is timber harvesting and sale. Thus at present, the organization fails to fully exercise its authority to run commercial activity as prescribed by its charter.
40. **The recommended structure** ensures most efficient management of the sector in view of the above specified analysis of the current situation in the forest economy management sector of Armenia and the necessity for its sustainable development. This structure is based on the clear division of functions and responsibilities between different institutions involved in the forest management, which will improve proper management of available resources and insure protection of forests funds. The proposed structure of the sector is presented on the graph below:



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41. According to the proposed new structure there will be one state governance authority (State Forest Committee, which will incorporate functions related to forest state management run by partially RA MOA and RA MNP) charged with sustainable management function envisaged under the Armenian Forest Code (Article 7), which will have the following main duties:
- develop and implement national policy in the sector of forest conservation, protection, reforestation and use of forests regardless of its ownership;
  - insure forest law enforcement mechanisms in the whole territory of Armenia;
  - approve forest management plans;
  - represent the Government of the RA in international arena and ensure effective international cooperation in sustainable forest management; and other functions stated in the RA Forest Code.
42. The role of the supervising body envisaged under the recommended institutional structure should include law enforcement and fair equal protection over all types of forests (state, private and community), policy development, as well as other functions envisaged by the Code. It would be preferable that the specified authority will independent institution, which will report directly to the Prime minister or government, by which the importance of forest economy management sector position will increase and will allow for timely and effective management operations.
43. Thus, it worth of mentioning that during the public discussion sessions an introduction of a *State Forest Committee* as an authorized state supervising body in forest resources management was extensively discussed. The public vision of newly proposed institution's functions includes also forests, which considered as specially protected areas that should be moved from the MNP to the State Forest Committee. Apparently, raising the status of State Regulatory Body will allow it to have more independent decision-making power balanced with high accountability obligations.
44. The logic behaving this proposal is to concentrate all regulatory functions related to all types of forests in one state institution to avoid duplication of functions. It will also allow fast and effective management decision-making in comparing with existing structure where a simple decision shall undertake several layers of approvals including two only steps of approvals at the MOA (by the Head of Forest Economy Department with total of three civil servant in the department and the Minister of Agriculture). In existing structure the overall forest resources management issues seems undermined and the importance of the sector is degraded.
45. A state institution, responsible for enforcing the Forest Code compliance oversight has already been established under a general environmental inspection at the MNP. This institution is fully operable at the moment and has a separate division of inspectors specializing in forest law enforcement. Furthermore, in view of the provisions of the Forest Code, a revision of responsibilities is necessary, as well as incorporation of Forest State Service institution. Moreover, the Government has included in their action plan for 2017 creation of a separate state institution of inspections and apparently, forest inspections will be part of its functions.

46. The role of supporting institutions, such as Monitoring Center, Forest Analysis and Research Center, Seeds Production Center, should include monitoring of forest resources on a state level and its analysis. State Forest Monitoring Center under the Ministry of Agriculture is already implementing forest-monitoring functions. The information, statistics and analysis provided by the State Forest Monitoring Center is further used by the state governing authority and supervising authority, as well as published for the public use.

47. The recommended structural change will allow:

- to segregate forest supervision, management and economic roles,
- to optimize the structure of managing and economic units
- to increase the efficiency of public funds spending
- to increase the level of independence of economic entities and motivation for efficient performance
- to increase efficiency of fight against illegal use of forests
- to improve administrative and managerial structure of managing and economic organizations

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## 6. CONCLUSIONS AND RECOMMENDATIONS

The importance of effective forest resources management cannot be over-estimated. It has strong connection to poverty reduction and public health for present and future generations. During both legal and institutional reviews and further on public discussions, the Consultant team came to the following main conclusions and recommendations:

1. The Forest Code of the Republic of Armenia, in general, meets all the necessary requirements for effective forest management legal framework at this point. However, minor changes are required in supplementary laws and regulations. Proposed drafts amendments to the laws have been developed and discussed in public meetings.

*Recommendation:* Follow up with proposed drafts' (Appendix #5) formal approvals (for example: it is necessary to separate a concept of "environmental oversight" from the concept of "forest legislation enforcement oversight", thus make corresponding changes in the RA Forest Code and the RA Law "On Environmental Oversight"). Initiate development of new National Forest Policy considering new tendencies in international and regional law developments that is under formulation at moment (Climate Change issues, EAEU, etc.).

2. Serious institutional changes need to be taken. The Government of RA has adopted a reforms policy to establish effective management of state resources. This approach should be also applied to forest resource and forest economy management institutions. Moreover, there is a need for a strong leading state institution or structure, which will lead the reforms in forest economy management sector and focus of proper execution of provisions incorporated in the law.

*Recommendation:* Clear functional division of powers in the forest management structure should be adopted as soon as possible and practiced to avoid any conflict of interest. Thus, create an independent forest sector state governance body. Particularly: establish State Forest Committee, after which create Forest State Service under the forest sector state governance authorized body that would be responsible for forest legislation enforcement supervision and protection based on the structure proposed in this report.

## APPENDICES

### **Appendix # 1. Current functions of institutions involved in forest resource management**

Pursuant to the charter of the Ministry of Agriculture, it develops and implements the national policy in the sphere of forest preservation, protection, reforestation and use. This function is carried out by the **Forestry Division** of the Ministry comprised of 3 employees.

**State Forest Monitoring Center SNCO** under the Ministry of Agriculture of Armenia was established under the Republic of Armenia Government Decree #1152-N as of July 28, 2005, for the following purposes:

- ✓ conduct studies to prevent illegal logging, timber transportation, associated trade and other adverse activities,
- ✓ conduct monitoring of forests on a state level.

The charter of State Forest Monitoring Center SNCO was approved by the order of the Republic of Armenia Minister of Agriculture #261-A as of December 20, 2005. According to the charter, to achieve its objectives, the Center:

- ✓ participates in organization of the monitoring of the condition of forests, forest lands, adverse impacts on the forests and ensuing consequences, in developing of national policy and strategy, developing and implementing of state programs aimed at their execution,
- ✓ conducts monitoring, assessments and forecasts aimed to prevent various adverse impacts on forests and forest lands and ensuing consequences, as well as illegal logging, timber transportation, associated trade and other adverse activities,
- ✓ ensures data collection, storage, processing, analysis and dissemination, reliability of collected data, prevention of illegal logging, timber transportation, associated trade and other adverse activities, as well as transparency of measures aimed at increasing the efficiency of fight against the specified occurrences,
- ✓ develops, prepares and distributes short- and long-term forecasts of various impacts on forests via newsletters, booklets and other information materials,
- ✓ takes part in implementation of international and regional joint projects aimed at monitoring of impacts on forests and forest lands, formation and development of global and regional unified systems for information exchange.

According to its charter, the **Department of Environmental Protection Policy** of the Ministry of Nature Protection is responsible for developing the state policy in relation to the protection, reforestation, biodiversity and use of protected areas.

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According to its charter, the main functions of the Forest and Biodiversity Management Division acting within the **State Environmental Inspectorate** under the Republic of Armenia Ministry of Nature Protection are as follows:

- ✓ exercise control over proper compliance with the requirements to the preservation, protection, use and reproduction of fauna and flora,
- ✓ exercise control over compliance with the requirements to the export and import of wildlife,
- ✓ exercise control over compliance with the requirements to the preservation of animals, plants and plant communities recorded in the Red Data Book (list of endangered species),
- ✓ exercise control over compliance with the requirements to migration and acclimatization of animals, their use for selective purposes,
- ✓ exercise control over compliance with the requirements to acclimatization of vegetation and its use for selective purposes,
- ✓ exercise control over compliance with the requirements to the use of living modified organisms received by modern biotechnologies,
- ✓ exercise control over compliance with the requirements to the preservation of migration corridors between the wildlife habitats,
- ✓ exercise control over compliance with the requirements to the use of objects of flora and fauna for agricultural, industrial and social purposes,
- ✓ exercise control over compliance with the wildlife hunting and fishing rules, requirements to the abundance with the order at the specially protected natural areas,
- ✓ *exercise control over compliance with the requirements to the preservation of trees, shrubs, parks and other green areas at the common areas,*
- ✓ exercise control over compliance with the rules of preservation of the seedlings of trees, shrubs and crops in the forests, as well as logging of trees and shrubs,
- ✓ exercise control over compliance with the limitations preventing pollution of forests with industrial and residential wastewaters, chemicals and refuse,
- ✓ exercise control over compliance with the rules of mowing, animal breeding, use of hayfields and pastures,
- ✓ exercise control over conformity of the reforestation and other works to the forest management planning documents.

According to its charter, the main functions of the **Bioresources Management Agency** under the ROA MNPA are as follows:

- ✓ develop bylaws and guidelines regulating preservation, reproduction and sustainable use of biodiversity and bioresources,
- ✓ organize and conduct research of various objects of fauna and flora,
- ✓ implements measures aimed at sustainable use, reproduction and regeneration of various objects of fauna and flora,
- ✓ conduct state-level accounting, stock-taking and monitoring of the wildlife resources, maintain informational database and register,

- 
- ✓ participate in the assessment of ecosystems, development of scientific evidence and forecasts and program implementation,
  - ✓ make recommendations on the use and reproduction of ecosystems and their bioresources according to territorial and operational specifics,
  - ✓ implement scientific and experimental measures related to use and reproduction of ecosystems and their bioresources,
  - ✓ compile licenses and permits for the use of objects of fauna and flora and execute agreements.

The following organizations are operating under the Republic of Armenia Ministry of Nature Protection:

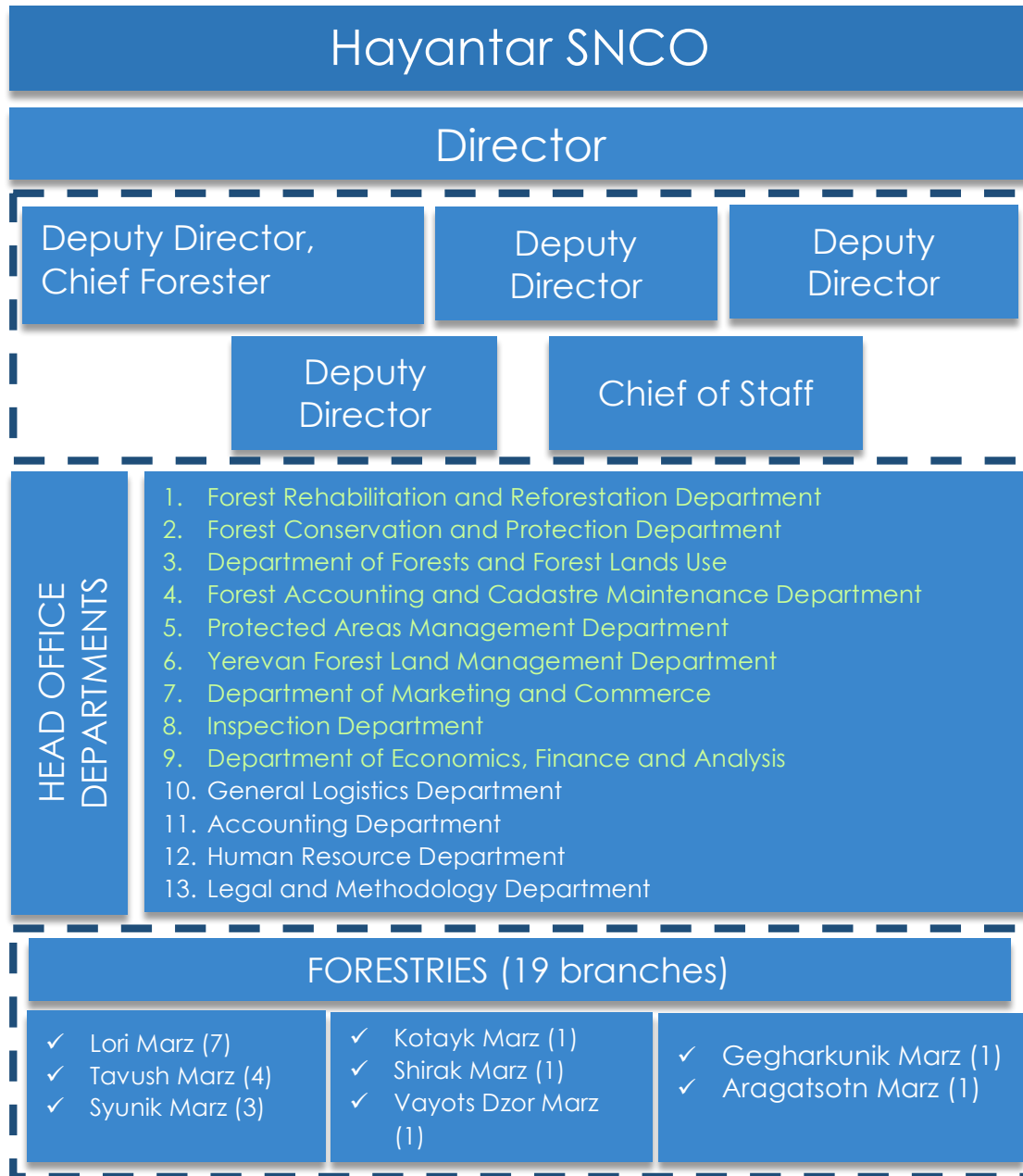
- ✓ **Environmental Impact Monitoring Center** SNCO is also responsible for monitoring, assessment and forecasting of physical, chemical and biological impacts on forests and specially protected natural areas, spreading of pollutants and ensuing aftereffects.
- ✓ **Zikatar Environmental Center** SNCO is responsible for:
  - ❖ Ensuring scientific research, preservation, protection, record-keeping, inventory and monitoring of natural ecosystems, landscape- and biodiversity, natural heritage, maintenance of nature chronicles, as well as sustainable use of natural resources at the site of Zikatar state reserve,
  - ❖ implementing forest management works,
  - ❖ organizing and implementing scientific and experimental research of forests and ecology, scientific testing for preservation and reproduction of genetic resources of forests,
  - ❖ creating informational database of forest resources and developing efficient methods for their use,
  - ❖ compiling collections of valuable and rare species for preservation of biodiversity,
  - ❖ extension works, organizing trainings and internship for the staff involved in forestry.
- ✓ Three national parks (Sevan, Dilijan and Arpi Lake) and one state reserve (Khosrov Forest)

**Armenia's Reforestation and Woodland Development Foundation** was established under the Republic of Armenia Government Decree N 891-N as of June 10, 2004, to support forest rehabilitation processes and creates favorable conditions for forest development. The main functions of the Foundation, according to its charter, include:

- ✓ afforestation and forest rehabilitation
- ✓ maintenance of the gene stock of forest flora
- ✓ protection of plants in forest areas
- ✓ forest reclamation works
- ✓ establishing of forest vegetation plantations
- ✓ scientific and research works for the forest protection, conservation and reforestation

The main governing bodies of the Foundation are the Board of Trustees and the executive director who manages the Foundation activities. The Board of Trustees is chaired by the Armenian prime-minister.

**Appendix # 2. Structure and functions of Hayantar SNCO**



The main functions of the specified operational departments are listed below.

- ✓ The **Forest Rehabilitation and Reforestation Department** is responsible for development, planning, coordination, management of and supervision over the following works, programs and activities:
  - forest rehabilitation and afforestation,
  - remodeling of areas under low value species of trees and bushes,
  - rehabilitation of low density forest stands,
  - establishing of forest plantations of fast growing tree species with high economic and technical value,
  - management and development of forest nursery,

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- seed breeding,
  - creating of forest seed stock,
  - expanding of selective seed farming,
  - import of seeds, planting stock and other materials required for forestry development,
  - procurement, testing and grading of forest seeds,
  - export of seeds, planting stock and other materials required for forestry development,
  - selection of forest tree and bush species,
  - forest reclamation works and activities,
  - works facilitating natural and coppice-shoot regeneration ,
  - participation in conservation and protection of existing forests,
  - short-term and long-terms projects of forestry branches of Hayantar SNCO jointly with environmental, agricultural and other organizations,
  - production and finance related proposals,
  - organizing stock-taking every autumn to verify accuracy of volume and quality of forest rehabilitation and afforestation works, works facilitating natural and coppice regeneration, plantation establishment works after technical acceptance of the aforementioned works, checking, summarizing, analyzing and discussing the information provided by branches,
  - receiving, summarizing, analyzing and discussing reports on forest rehabilitation and afforestation works, checking their accuracy.
- ✓ **The Forest Conservation and Protection Department** carries out the following activities:
- Forest Conservation Activities
    - ❖ ensure protection of Armenian national forests from unauthorized occupation, illegal logging, illegal grazing, pollution and other activities prohibited under the law and affecting forest biodiversity, as well as breach of forestry laws
    - ❖ implement activities aimed at forest fire detection, extinguishing and prevention, take disciplinary actions against violators of fire safety rules in accordance with the law
    - ❖ ensure implementation of complex preventive measures aimed at fire safety at the forests, engagement of technical facilities, vehicles and local communities together with local-governance authorities of the regions for fire extinguishing purposes if there are fires in the system
    - ❖ exercise control over preservation of lands within the state forest resources, their targeted and effective use
    - ❖ organize routine spring and autumn, as well as unscheduled supervisory inspections of forest sections for the oversight of the forest conservation and protection status, summing up and discussing the results of inspections in accordance with the established procedure
    - ❖ control and prevent illegal grazing and hay-harvesting in the forest lands
    - ❖ register the timber confiscated from forest law violators and control the timber movement
    - ❖ organize, coordinate and supervise activities of forest guards and rangers, and provide trainings for them
  - Forest Protection/Control Activities

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- ❖ organize and implement preventive measures against hazardous organisms in the forest lands, plantations and nurseries; take measures to improve the phyto-sanitary condition of forests
  - ❖ implement pest and disease control measures; plan and organize over-ground and aerial chemical methods of control against pest hotbeds based on findings of forest pathology regular researches
  - **Fauna Conservation Activities**
    - ❖ ensure enforcement of the Republic of Armenia laws on the territory of national forest lands and adjoining areas in connection with the conservation, protection, reproduction and use of wild animal species
    - ❖ implement activities for the maintenance of integrity of fauna, habitat, migration corridors, populations and coexistences
    - ❖ organize and coordinate integrated biotechnical measures to promote reproduction of the unique, endangered, valuable species of fauna
    - ❖ ensure stocktaking, analysis and condition evaluation of wild animals and birds, involving forestry branch employees, state forest guard crew, hunting experts, hunting inspectors and public inspectors in the specified activities
    - ❖ organize effective fight against the violators of hunting regulations and allowed hunting periods, as well as illegal fishing. Relevant reports are prepared; violators are accordingly reported and prosecuted to cover the damage caused to the state hunting and fish resources
    - ❖ take measures to regulate the number of predators in case it grows dramatically, bringing it to the acceptable density level, as well as implement control measures against flocks of dogs wandering in the hunting grounds
    - ❖ conduct the accounting and maintenance of military, working weapon of the state forest guard crew, as well as accounting of the weapon and other hunting and fishing equipment confiscated from poachers, in the manner prescribed by the law
    - ❖ oversee and coordinate activities of the rangers and public hunting inspectorate
  - ✓ **The Forest Accounting and Cadastre Maintenance Department** carries out the following activities:
    - organizing routine state stock-taking of the forest resources and exercising relevant control
    - receiving and summing up reports on the accounting of forest resources
  - ✓ **The Department of Forests and Forest Lands Use** is responsible for the control over planning and implementation of reforestation, forest maintenance, sanitary and other types of logging, as well as accounting of annual logging area stock based on the forestry plans:
    - procuring of the materials required for forest management activities
    - organizing of forestry activities
    - planning, assigning of and control over reforestation, maintenance, sanitary and other types of logging activities

- 
- organizing meetings on forest management, ordering projects and accepting progress reports and other related documents, monitoring the implementation of the aforementioned projects by the departments and branches of Forestry Head Office
  - organizing supervision of the forest management projects
  - accounting of the annual logging area stock on the basis of the forestry plans and submitting for approval
  - distributing responsibilities for the forest maintenance, rehabilitation and sanitary works, construction and renovation of the roads of forestry importance among the Forestry branches; accepting and summarizing the reports
  - organizing examination of the logging area and logging control
  - exercising control over the selection, allotment and operation of wood cutting areas, accounting of fallen deadwood, logging, timber delivery, sanitary logging, as well as performance of other forest management regulations in compliance with forestry plans
  - supervising assessment of the general timber volume and output of merchantable timber, in particular, during the logging area allocation process
  - organizing efficient use of forests, improvement of sanitary maintenance operations, timely detection of logging infringements and violations of timber release regulations, development of activities to eliminate the aforementioned violations; ensuring maximum output of merchantable timber, preventing the cases of converting merchantable timber into fuel-wood, as well as ensuring efficient timber processing
  - controlling the legality of the timber delivered from the logging areas
  - controlling the maximum level of preservation of the young trees in logging areas
  - synchronizing the projects concerning allocation of facilities affecting the condition and regeneration of forests
  - issuing permissions for the performance of activities not related to forest management and forest use within the forestland area
  - controlling conservation and targeted use of the national forest lands, providing lands for temporary use and registering land allotment and acceptance documentation
  - terminating and limiting forest use licenses, submitting forest management projects for approval in compliance with the sanitary logging volume calculations and distribution plan
  - controlling non-timber forest use procedure
  - providing forestry branches with logging tickets, orders, timber release permits, documents for the use of byproducts, other documents and report templates, legislative and standard regulations
  - overseeing construction and repair of forest roads, as well as efficient use of the roads and of funds
- ✓ The **Protected Areas Management Department** is responsible for preservation and regeneration of the biodiversity of ecosystems on the protected areas serviced by Hayantar.
- ✓ The **Yerevan Forest Land Management Department** is responsible for the management of forests within the borders of Yerevan administrative district.
- ✓ The main duties of the **Department of Marketing and Commerce** are as follows:

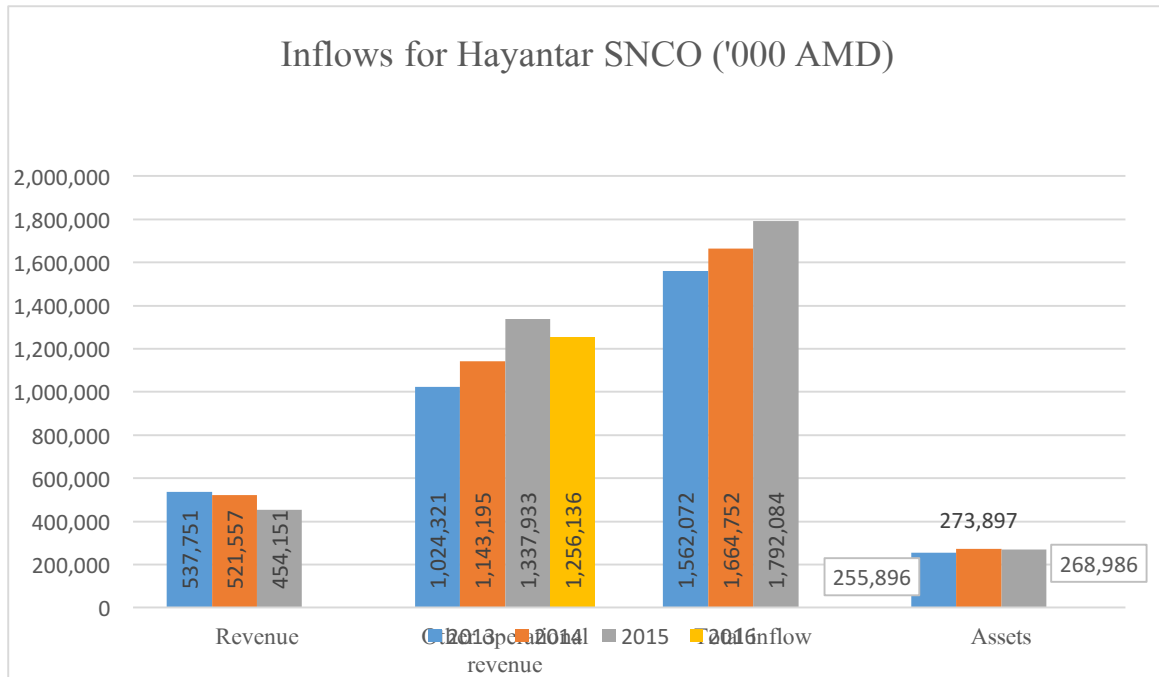
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- use of the forests and forest lands by other individuals and organizations
  - timber sales and export
  - documented accounting of timber flow and residues
  - marketing of by-products
  - distributing of fuel wood and calculating related costs
- ✓ The **Inspection Department** performs the following duties:
- exercise control over the activities of Hayantar SNCO head office and forestry branches, including:
    - ❖ forest conservation and protection works
    - ❖ forest management works
    - ❖ afforestation works
    - ❖ use of forests
    - ❖ production and auxiliary branches
    - ❖ complying with logging regulations
    - ❖ timber harvesting and marketing
    - ❖ release of standing timber
    - ❖ forest seed harvesting, processing and conservation
    - ❖ growing of a planting stock
    - ❖ other forest management activities
    - ❖ marketing and commerce, financial management, logistics and accounting
    - ❖ checking the validity of the reports submitted by Hayantar branches
    - ❖ checking the validity of the reports submitted by other departments
  - prevent illegal timber haulage on highways and forest-adjacent roads
  - keep accounting of timber movement
  - control quality of forest management activities
  - control implementation progress of the director's orders
- ✓ The main duties of the **Department of Economics, Finance and Analysis** are as follows:
- design current, annual and future forestry management development plans
  - draft estimates of forest management plans
  - procure funding for forest management activities
  - set standards for forest management and other production activities, compensation rates and employees' salary payment conditions; organize and oversee the activities concerning developing of their official (tariff) rate scales and their application
  - prepare economic development and funding plans
  - develop work plans for forestry branches as well as production and service companies
  - develop facility plans
  - control the volume of forestry activities expressed in AMD
  - develop financial plans and balance sheets and control their further implementation
  - develop and introduce new management methods,
  - increase centralized funds, draw cost estimates and control use of funds

- conduct financial activity analyses and assessment of the system jointly with the Accounting Department
- develop and perform activities aimed at labor productivity improvement, cost reduction, profitability increase, elimination of irrelevant costs and losses to improve the efficiency of forest management activities
- prepare state statistical and operational reports on project implementation, activities, costs, revenues and other indicators of financial operations in a timely and proper manner
- handle issues relating to the remuneration of the staff of the head office, the branches and other concerned organizations
- handle issues relating to the financing of the head office costs

### Appendix # 3. Hayantar SNCO Financials

The chart below shows the main financials of Hayantar SNCO based on the latter's official statement of financial position.

**Table 3: Inflows for Hayantar SNCO**



The revenue of Hayantar SNCO is mainly comprised of the proceeds of the allowed commercial activities, with the predominating part generated by timber processing and marketing. This credit item has demonstrated a downward trend during the last 3 years due to the decrease in sales volumes. According to the information provided by Hayantar SNCO, the table below shows the sales volumes of timber in 2004-2014, both harvested and deadwood.

**Table 4: Revenue of Hayantar SNCO**

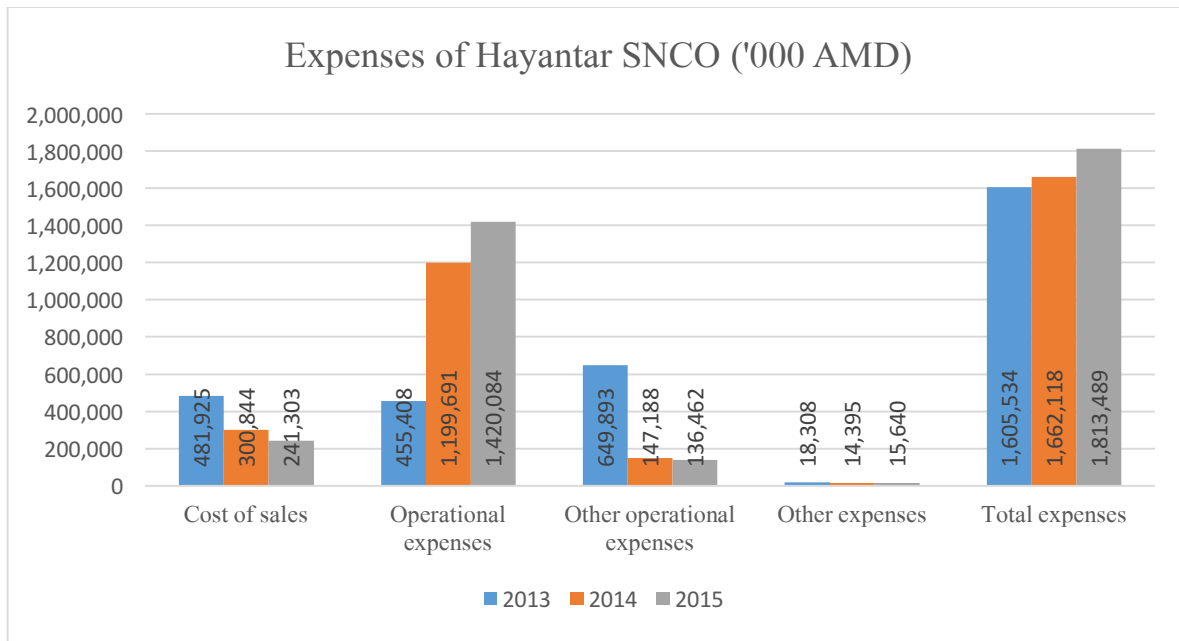
	Construction timber	Fuel wood	Board	Machine-cut wood	Brushwood	Total
2004	5834	79233,7	1967	278	7996	95308,7
2005	3681,5	60641,4	2423	172,8	2207	69125,7
2006	3388	64760	1852	146		70146
2007	4956,7	41100,4	631,6	136,2		46824,9
2008	3418	51879,2	145,2	18,2		55460,6
2009	2195,7	54786,2	319,3	7,5		58308,7
2010	1651	50503	1860	9,9		54023,9
2011	1620	40805	342	11		42778
2012	2600	37371	237			40208
2013	2799	30373	80			33252
2014	1726,5	28037	341	0,5		30105

Source: Financial statements of Hayantar SNCO

Other operating income received by Hayantar SNCO is mainly generated by the government subsidies provided by the Republic of Armenia Ministry of Agriculture in accordance with the Republic of Armenia Law "On State Budget" in consideration for forest conservation and state monitoring services.

The chart below shows the breakdown of main costs of Hayantar SNCO over the recent years.

**Table 5: Expenses of Hayantar SNCO**

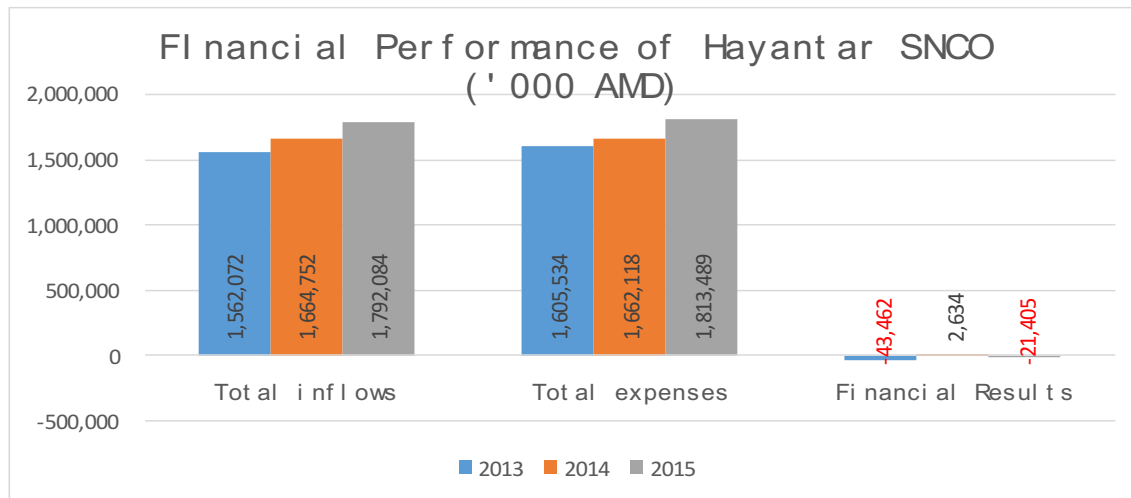


Source: Financial statements of Hayantar SNCO

The cost of sales includes the costs relating to running allowed commercial activities, while other operating expenses cover the costs of forest conservation and state monitoring services. For reference, on the average, the proceeds of allowed commercial activities are sufficient to cover only one third part of Hayantar SNCO annual costs, which is a very low ratio.

The chart below illustrates annual financial results of Hayantar SNCO.

**Table 6: Financial performance of Hayantar SNCO**



Source: Financial statements of Hayantar SNCO

The data on the sales revenues of Hayantar SNCO branches for the recent 3 years is presented in the table below.

**Table 7: Sales revenue of Hayantar SNCO branches for last 3 years (AMD '000)**

	2013	2014	2015	
Lalvar	72,137.7	71,228.6	66,257.2	
Noyemberyan	52,755.1	48,878.3	41,056.6	
Sevqar	47,094.0	48,417.0	32,680.1	
Kapan	30,500.0	33,744.0	31,359.6	
Syunik	26,547.1	29,811.3	26,855.6	
Artsvaberd	26,347.9	25,470.4	25,133.2	
Dsegh	20,784.4	24,655.1	24,874.9	
Eghegnut	18,538.7	14,660.7	14,633.5	
Jiliza	17,392.5	18,527.7	17,118.9	
Ijevan	14,504.9	29,801.4	10,527.7	
Chambarak	13,956.1	23,792.8	17,738.5	
Tashir	6,091.8	4,948.9	4,845.8	
Gugark	5,777.3	2,982.5	925.0	
Stepanavan	5,115.0	5,758.0	7,675.0	
Aragatsotn	1,314.9	0.0	50.0	
Vayots Dzor	986.9	1,662.3	963.3	
Hrazdan	175.4	770.0	18.0	
Sisian	124.8	0.0	0.0	
Gyumri	0.0	0.0	0.0	

Source: Financial statements of Hayantar SNCO

It is apparent from the data above that five (with a share of 60% of total revenue) of eleven forestry branches generating 90% of Hayantar's own revenues saw an up to 30% decrease in their revenues during the specified period. Improvement of revenues has been achieved by only two of the forestry branches, Dsegh and Tchambarak, generating about 10% of total revenues. The sales revenues of other branches have mainly remained flat.

According to Hayantar's most recent data, the annual logging rate was comparatively even during last years, making 30-36 thousand cubic meters. Apart from the specified output, the residents of communities in the vicinity of forests are allowed to collect twigs and branches at no charge. The volume of such deadwood during the recent years amounted to nearly 40 thousand cubic meters.

The table below shows the costs of the specified forestry branches, including their administrative, forest rehabilitation and management expenses. Such costs do not include any investments required for the development of the company.

**Table 8: Costs of Hayantar SNCO branches (AMD '000)**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	
Aragatsotn	48,464.1	52,676.5	57,789.9	
Artsvaberd	84,057.9	97,638.2	117,571.6	
Gyumri	35,922.0	42,159.9	45,358.5	
Syunik	51,734.7	56,323.0	61,686.5	
Eghegnut	30,736.8	37,915.9	46,418.8	
Gugark	76,372.1	67,497.1	84,121.1	
Dsegh	35,917.9	39,076.5	44,757.6	
Vayots Dzor	43,129.8	51,636.9	68,601.4	
Ijevan	53,344.5	61,415.7	71,871.1	
Lalvar	55,126.5	62,905.8	72,016.4	
Jiliza	42,998.0	50,530.9	56,085.5	
Kapan	60,999.0	70,200.1	78,210.8	
Hrazdan	107,352.7	79,743.1	88,597.9	
Chambarak	44,290.3	61,116.4	62,844.1	
Noyemberyan	80,851.0	97,364.6	106,193.8	
Sisian	22,658.9	26,680.8	31,528.6	
Stepanavan	42,051.0	49,538.0	54,358.9	
Sevqar	64,712.8	71,267.5	72,887.8	
Tashir	28,329.4	30,134.0	36,569.2	

Source: Financial statements of Hayantar SNCO

The table shows that all the forestry branches reported 30% increase of expenses on the average driven mainly by growth of administrative expenses. At the moment Hayantar SNCO has reduce the number of its employees from over 1000 to 887 as part of state institutions' optimization process and the average calculated gross salary in Hayantar is 112,400 AMD gross (which is about 23% below from

general average salary in Armenia according to the State Statistic Service). In addition, Hayantar SNCO also hires seasonal employees and contractors, who are again paid for the same budget.

Apparently, as a result of a drop in self-generated revenues and increase of costs, Hayantar is in need of additional financing. This situation, apparently, has an increasing tendency by nearly 20% p.a. in the recent period. As already mentioned, these costs do not include capital investments the lack of which is likely to be a bottleneck in improvement of Hayantar's financial condition and further sustaining of the current state.

***Appendix #4: List of the Key National and International, State and Non-State Stakeholders Representatives' Met During the Project***

Sirarpi Haykazyan - FLEG II Program Coordinator, World Bank

Martun Matevosyan - Director, Hayantar SNCO, RA Ministry of Agriculture

Ruben Petrosyan - Deputy Director/Senior Forester, Hayantar SNCO, RA Ministry of Agriculture

Karine Grigoryan – Head of Legal Division, Hayantar SNCO, RA Ministry of Agriculture

Artur Petrosyan – Head of Forest Economy Division, RA Ministry of Agriculture

Aram Gyulkhasyan – Director of the State Forest Monitoring Center, RA Ministry of Agriculture

Siranush Galstyan - Project Coordinator, WWF Armenia

Arthur Alaverdyan - Forest Specials, WWF Armenia

Sevak Nazarpur – Head of Administration and Expertise Division, State Environmental Inspectorate of the RA MNP

Hrayr Esayan - Deputy Head, Department of Financial Planning of Budget Expenditures, RA Ministry of Finance

Armen Martirosyan – UNDP

Aram Ter-Zakaryan - UNDP

Ayser Ghazaryan – Senior Expert, GIZ

Nazeli Vardanyan – Director, “Forests of Armenia” NGO

Levon Galstyan - Coordinator of Pan-Armenian Environmental Front

**Appendix #5**

**LIST OF PROPOSED DRAFTS**

1. Draft Law “On Amendments to the RA Law on Environmental Impact Assessment and Expertise” – omitting “...afforestation and forest rehabilitation works.” wording from Article 14. 6 (5) of the Law and omitting “...in the forestry areas...” wording from Article 14.8 of the Law.
2. Draft Governmental Decree “On Amendments to the RA National Forest Program” – specifying the importance of effective forest management and the State support in forestry law enforcement, as well as proposing steps to be taken in the next 10 years.
3. Draft Decree “On Amendments to the Forest Economy Management Plans Instruction No 130-N” – adding “high conservation value forests” concept in the forest management plans.
4. Draft Governmental Decree “On Amendments to the Governmental Decree on Nature Protection State Inspectorate under Staff of RA Ministry of Nature Protection No 1149-N” – adding/linking functions envisaged in the RA Forest Code Article 26 with this decree.