

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA16605

Project Name	Forestry Development Project (P147760)
Region	EUROPE AND CENTRAL ASIA
Country	Belarus
GEF Focal Area	Multi-focal area
Sector(s)	Forestry (100%)
Theme(s)	Other environment and natural resources management (65%), Climate change (15%), Water resource management (5%), Biodiversity (5%), E nvironmental policies and institutions (10%)
Lending Instrument	Investment Project Financing
Project ID	P147760
Borrower(s)	THE REPUBLIC OF BELARUS
Implementing Agency	Ministry of Forestry, BellesExport
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	21-Nov-2014
Date PID Approved/Disclosed	24-Nov-2014
Estimated Date of Appraisal Completion	01-Dec-2014
Estimated Date of Board Approval	27-Mar-2015
Decision	

I. Project Context

Country Context

After a decade of strong economic growth, Belarus has faced recurring macroeconomic turmoil in recent years. Loose fiscal and monetary policies in 2010 generated a short-term economic recovery but resulted in a widening current account deficit (15 percent of GDP in 2010) and heightened pressure on foreign exchange reserves. This put the economy into a tailspin during much of 2011, leading to loss of control of the exchange rate and sharply accelerating inflation. After a period of multiple exchange rates and severe foreign exchange liquidity constraints, the Belarusian ruble lost close to 70 percent of its value relative to the U.S. dollar and inflation soared to 109 percent in December 2011.

Authorities addressed the crisis through a combination of tightened macroeconomic policies and a new, more favorable energy deal with the Russian Federation. While the economy has returned to tentative stability during 2012 and 2013, growth remains far below the levels experienced prior to the crisis and is accompanied by structural external imbalances.

Looking ahead, growth prospects are dampened by a weak external environment and domestic reform inertia. After slowing for three consecutive years, economic growth is expected to recover modestly to 1.5% during 2014, driven by domestic demand and some improvement in net exports (mainly due to sharply declining imports). Geopolitical tensions in Russia and Ukraine, which have resulted in slower growth and accelerated currency depreciation in both countries, are weakening external demand in key export markets. Emerging opportunities for Belarusian agricultural and food exporters on the Russian market (related to sanctions), a rebound of potash trade and prospects of larger oil exports (related to a new favorable energy agreement with Russia) only partially offset this generally negative outlook, especially since global commodity prices, including for oil and potash fertilizer, are expected to decline. Nevertheless, growth is expected to accelerate slightly to 1.8% in 2015 mostly due to domestic demand growth fuelled by a return of looser wage and credit policies. Over the medium term, growth is likely to continue to fluctuate at around 2%, reliant mostly on domestic consumption and investment growth alongside a modest external pickup. Inflationary pressures are expected to remain strong, given nominal BYR depreciation and announced decisions to increase utilities tariffs by 2017.

Relief of immediate external pressures has opened a window of opportunity to address structural constraints in the economy to reduce dependence on external support and escape the current low growth trap. Challenges are serious, but appropriate policy decisions taken now could reshape the long-term trajectory of the economy.

Belarus is one of the most forested countries in the Europe and Central Asia region (sixth out of 30 countries) with forest cover of 8.1 million ha, accounting for nearly 39% of the territory (in comparison to 18% in 1944). They provide multiple environmental services (e.g. 30 million tonnes of carbon were sequestered last year), raw material to forest industry, employment in the forest and forest products industries, woody biomass for generation of heat and power and non-timber forest products for both commercial production and subsistence consumption by local communities. In 2013, the forestry sector contributed to 2.1% of GDP (1.6% forest industry) and exports amounted to US\$ 1.2 billion. Whilst this is good in comparison to most Commonwealth of Independent States (CIS) countries, the contribution to GDP is higher in more developed forest based economies e.g. most of Scandinavia and Canada, indicating further potential for growth. All forest is state owned and managed by state institutions (apart from two long term leases).

Sectoral and institutional Context

Generally the forests of Belarus are well stocked and growing (in both standing volume and area), they are professionally and well managed, and unofficial removals are practically non-existent (estimated at 0.07 to 0.1% of the total harvest). The responsibilities of the state, in terms of forest inventory, forest management planning and monitoring, forest pathology, forest fire prevention management and control etc. are undertaken to as high a standard possible within the resources available.

Belarus historically relied on imported coal, gas and oil from Russia to meet its energy demand. Post-independence, a large energy efficiency program was and continues to be implemented and has achieved substantial reductions in energy intensity. There is an active program to supply heat and power needs from local fuel resources, principally through expanding the use of wood fuel and peat in boilers and power plants. This is the main driver behind the development of the wood energy sector in Belarus, as biomass will play a crucial role in meeting national targets set at 32%

of boiler and furnace fuels (BFF) to be supplied domestically by 2020. An interim target of 30% of BFF supplied locally by 2015 is set in a program for development of local energy resources running from 2011 – 2015 (The National Programme for the Development of Local and Renewable Energy Sources in 2011 – 2015; approved by The Resolution No. 586 dated May 10, 2011 of the Council of Ministers of the Republic of Belarus).

Due to planned investments in the processing sector and the increasing demand for wood energy, the level of production from Belarusian forest in the immediate future needs to be maximized. This can be achieved by: evening out the forest's age class distribution to ensure a more consistent supply, through a mixture of undertaking regeneration fellings both earlier and later than normal; increasing the frequency and intensity of selective thinning; improving the classification of protective and protection forests; increasing the investment in the rehabilitation of existing and in the construction of new forest roads to improve access to the currently inaccessible growing stock; and increasing the investment in protecting the forest from and adapting to the impacts of climate change, (i.e. improving forest fire prevention, detection, monitoring and management, and improving the level of knowledge about and possible responses to pest outbreaks, species dieback and ecological change).

Belarus has a centralized forest administration with the normal functions of state forest sector management (i.e.: formulation of forest policy and drafting legislation; monitoring and enforcing the forest legislation; support e.g. research, extension services; and the management of state owned forest resources. concentrated into a single ministry (the Ministry of Forestry). Some of these functions (economic management and control) are mirrored by its territorial bodies, as well as some other ministries and agencies (economic management and state control).

The government budget supports maintenance of the state forest/forestry administration body and its territorial bodies, forest regeneration and cultivation, forest conservation and forest fire control, forest protection, seed breeding, forest monitoring, maintenance of the state forest cadaster and forest reserves accounting, and forest management, research works, personnel training, retraining and advanced training, social functions.

Commercial activities are self-financed. The key sources of revenues include: revenues from sales of timber, normally at auctions, revenues from sales of products (works, services); non-tax payments for short-term exploitation of the forest reserves when selling standing timber, budget allocations for production of products (works, services) under state orders. Belarus has been making progress in reducing the contribution to the sector from the state budget (in 2001 approximately 70% of forest management costs were paid for from the budget, by 2011 this had reduced to just over 30%).

By 2012, 94 of the 95 State Forest Enterprises (SFEs) were certified to PEFC (Program for the Endorsement of Forest Certification) standards representing 99% of the forest managed by the Ministry of Forestry (MoF). A further five forest entities not subordinated to the MoF had also been certified to PEFC standards. A total of 8.1 million ha are PEFC certified representing more than 86% of the total forest area. Additionally, 47 SFEs have FSC (Forest Stewardship Council) forest management and chain of custody certificates.

II. Project Development Objective(s) / Global Environmental Objective(s)

A. Project Development Objective(s)

The Project Development Objective is to enhance silvicultural management and re/afforestation, increase the use of felling residues and improve the public good contribution from forests in targeted forest areas.

B. Global Environmental Objective(s)

The Project Development Objective is to enhance silvicultural management and re/afforestation, increase the use of felling residues and improve the public good contribution from forests in targeted forest areas.

III. Project Description**Component Name**

Improving silviculture and the sustainability of forest management

Comments (optional)

This will be achieved through increasing the intensity of silvicultural thinning of young and middle-aged stands; piloting the enhancement of biodiversity values of forest and also in developing resistance of forest to climate change through silvicultural interventions; increasing the use of logging residues for production of woody biomass and improving the quality of seedling production. The increase in thinning intensity and the utilization of woody biomass will create additional skilled employment opportunities in rural areas. Creation of rural jobs will contribute to rural economic development. Rural areas are currently becoming depopulated as people move to the cities.

Component Name

Improving forest fire prevention, monitoring, detection and suppression

Comments (optional)

This will include increasing prevention activities (raising public awareness, use of mineralized strips on the forest boundaries with agriculture and communities), use of new technologies (video and communications) to improve monitoring, surveillance and detection rates and provision of fire-fighting equipment to help extinguish the fires once started.

Component Name

Building the capacity for sustainable forest management (including GEF Project management)

Comments (optional)

This will be achieved through enhancing the forest management information system (including forest carbon monitoring); updating the 'Strategy of Adaptation of Forestry to Climate Change until 2050; development of and training in the use of advanced technologies; and developing appropriate management approach for the rational use of radioactively contaminated forest.

IV. Financing (in USD Million)

Total Project Cost:	43.44	Total Bank Financing:	40.71
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			40.71
Global Environment Facility (GEF)			2.73
Total			43.44

V. Implementation

The Ministry of Forestry (MoF) will be the lead implementing agency for the project, supported by the six Oblast State-Owned Forestry Associations and the participating State Forest Enterprises (SFEs). A number of specialized agencies of the MoF will also be involved for certain components e.g. the training center (RUTSLEs) for implementing some of the training, Bellesozahita for the implementation of the monitoring of the radioactively contaminated forests, Belgosles for support for the forest management information systems. The Ministry of Environment and Natural Resources will also support the Project through the GEF funded activities.

All the participating State Forest Enterprise (SFEs) are subordinate firstly to one of the six Oblast Forestry Associations and ultimately to the MoF. Each SFE will assign a project manager responsible for project implementation at their particular SFE. The SFE will be responsible for the onsite supervision of specific activities such as the installation of new nursery and fire monitoring equipment.

The MoF will be responsible for the overall management, coordination and results monitoring of the project. To this end the MoF has established a Project Implementation Unit (PIU) within one of its specialized agencies (Bellesexport). The PIU will have a Manager, and Procurement and Financial Management staff. The PIU will be responsible for preparing terms of reference, design documents and technical specifications. The PIU will operate according to the Project Operations Manual (POM). The manual will outline the implementation arrangements, including procurement, contract management, payment authorization, environmental management, social safeguards, periodic reporting, and relationships between the different implementing and beneficiary agencies.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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		x

Comments (optional)

VII. Contact point

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