

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC5038

Project Name	Forestry Development Project (P147760)
Region	EUROPE AND CENTRAL ASIA
Country	Belarus
Sector(s)	Forestry (100%)
Theme(s)	Other environment and natural resources management (65%), Climate change (15%), Water resource management (5%), Biodiversity (5%), Environmental policies and institutions (10%)
Lending Instrument	Investment Project Financing
Project ID	P147760
Borrower(s)	The Republic of Belarus
Implementing Agency	Ministry of Forestry, Unitary Enterprise BellesExport
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	26-Mar-2014
Date PID Approved/ Disclosed	26-Mar-2014
Estimated Date of Appraisal Completion	10-Aug-2014
Estimated Date of Board Approval	30-Jan-2015
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and 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. Together, these measures stabilized

the economy. Growth declined to 1.5 percent in 2012 (from 5.5 percent the previous year). Inflation was contained but remained high in regional comparison at 21.9 percent during 2012. Strong export growth, especially during the first half of the year, and terms-of-trade gains reduced the current account deficit to 2.8 percent in 2012. But external pressures reemerged during the initial months of 2013, which saw a significant decline in export revenue.

As of early 2014, macroeconomic environment remains fragile. Imbalances could worsen if macroeconomic policies are loosened prematurely in pursuit of high growth and especially if underlying structural problems—such as declining productivity, loss of competitiveness, and excessive reliance on external financing and cheap energy imports—are not addressed. In step with continued stabilization-oriented macroeconomic policies, structural reforms to reduce the role of the state, transform the state-owned enterprise sector, and promote private and financial sector development and integration into the global economy are crucial for Belarus to realize its growth potential.

Sectoral and Institutional Context

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 2011, 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 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).

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 as possible within the resources available.

Belarus historically relied on imported coal, gas and oil from Russia. 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.

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: (i) 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; (ii) increasing the frequency and intensity of selective thinning; (iii) improving the classification of

protective and protection forests; (iv) 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 (v) increasing the investment in protecting the forest from and adapting to the impacts of climate change.

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, and 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; and 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.

Relationship to CAS

The proposed project is consistent with the World Bank Group Country Partnership Strategy for FY14-17 (CPS FY 14-17). Under CPS Pillar 2: Improved Efficiency and Quality of Public Infrastructure Services, Enhanced and Sustainable Use of Agricultural and Forestry Resources and Increased Global Public Good Benefits, the project will improve the efficiency, quality and sustainability of the use of forestry resources whilst continuing and increasing the provision of global public goods such as the sequestration of carbon. The proposed project also fits with the Environment Strategy (2012-2022) of the World Bank Group which in Europe and Central Asia aims at promoting sustainable forest management, with an emphasis on governance, the role of communities and the private sector, and conservation and environmental services, including carbon sequestration.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project objective is to enhance the sustainable use of forestry resources in targeted project areas thereby providing additional employment opportunities, while continuing to provide global public goods.

Key Results (From PCN)

PDO outcome indicators include:

1. Increase in the areas of forest which have received first and second stage silvicultural thinning

2. Increase in the amount of woody biomass (total) and the proportion from felling waste increased in project areas
3. People employed in production and processing of forest products (number), disaggregated by gender (core sector indicator Forestry)
4. Increase in the number and quality of seedlings produced for afforestation and reforestation purposes
5. Amount of carbon sequestered

Intermediate indicators include:

- 1) Forest users trained (number), disaggregated by gender and ethnicity (core sector indicator Forestry)
- 2) Government institutions provided with capacity building support to improve management of forest resources (number) (core sector indicator Forestry)
- 3) Forest management information system improved providing information through a web based interface
- 4) Size of forest fires on detection reduced in project areas
- 5) Response time to forest fires reduced

III. Preliminary Description

Concept Description

The proposed project builds on the experience the Bank has in the Belarusian forest sector since the mid-1990s through the first forestry project completed in 2002, the both phases of the Bank implemented EU funded European Neighborhood and Partnership Instrument (ENPI) East Countries Forest Law Enforcement and Governance (FLEG) Program (2008 – 2012, 2012-2017) and the Forest Sector Policy Note completed in 2013.

The Forest Policy Note identified a number of sectoral issues and also some opportunities for potential collaboration through an investment loan, including the need to: (i) introduce more intensive silviculture to improve stand structure and productivity; (ii) optimize the production of woody biomass utilizing otherwise non marketable production; (iii) improve nurseries to improve reforestation and afforestation capacity and survival rates; and (iv) support the development and roll out of modern forest fire prevention, detection, monitoring and suppression technology. Additionally, the note recommended capacity building and on-going support for the institutional reform process.

Project implementation will be mainstreamed within a Ministry of Forestry subsidiary enterprise UE (Unitary Enterprise) “Bellesexport”.

The proposed forestry development project has two main components:

Component 1: improving silviculture and the sustainability of forest management:

Sub-component: increasing the intensity of silviculture

By 2015, all harvesting operations are to be tendered openly and to include the private sector.

However many younger aged thinning operations will not be attractive to the private sector or cost effective for the State Forest Enterprises to tender out. The yield from the thinning of young stands frequently does not cover the cost of actually undertaking the thinning, with the operations being more of a maintenance operation than production. These operations are necessary, and economically justified by the improvement in the quality of the residual stand (through silvicultural selection), and the increase in the residual stand growth and value of later thinnings. Regular and timely thinning also helps maintain stand stability to wind and snow events, and improves the benefits for wildlife by increasing the light hitting the forest floor thereby encouraging an understory which will provide both habitat and food. The machinery required for thinning young stands with smaller size stems is specialized and not currently commonly used in Belarus. 67% of the forested land in the forest fund is currently young or middle aged and requires thinning.

Changing demographics and lifestyle choices in Belarus means that there is currently and increasingly a lack of people willing to work in the more labor intensive forestry activities. To undertake the early and middle aged thinnings, and to increase the efficiency and productivity, it is proposed to invest in modern thinning machinery. To thin younger aged forests smaller, more maneuverable machines are required than the heavy bigger machines required for final thinnings and selection fellings more traditionally used in Belarus. Use of this machinery will increase the productivity and at the same time improve the health and safety of forest workers. The project will provide training for operators for these tasks, and generate worthwhile skilled and semi-skilled employment thereby helping to increase the prosperity of rural communities. The thinning material generated is likely to be used for either increasing the production of woody biomass, firewood, or pulpwood. Much of this production is currently lost as deadwood within the stands. There are therefore carbon benefits from both the production and increased productivity of the stands.

By supporting the State Forest Enterprises develop the capacity to undertake thinning of the young and middle aged stands, it will also support them shift away from undertaking the more commercial thinning of older stands and selection and final fellings which will be increasingly tendered to the private sector.

To create the enabling environment for the introduction of this more intensive forest management, standards will be developed and adopted in one of the regions of Belarus. This will include the development of draft legislative acts for implementation of intensive forest management standards.

Sub-component: developing the use of woody biomass from logging residues

Currently most of the logging residues (i.e. the tops and branches) from final and selective fellings are simply left in the forest. This creates both a fire hazard and is also wasteful of the calorific value which could be used for energetic purposes. To meet the increasing demand for woody biomass, Belarus needs to maximize all sources of woody biomass.

It is proposed to introduce advanced logging technologies to increase the use of logging residues and to develop the use of modern measuring devices and equipment to enhance productivity and the sustainability of forest management to strengthen their economic and ecological role, and to develop and replicate technologies new to Belarus. This will optimize and rationalize the use of the forest resources and increase the sector's contribution to the increasing demand for woody biomass. By utilizing production that is currently wasted, and by investing in new machinery and processes, there are both carbon benefits and an increase in rural economic activity. To create the enabling

environment, regulatory, legal and technical standards will be developed based on the best international practices.

Sub-component: development of improved forest nurseries

In Belarus wherever possible, restocking of selectively felled areas is done through the use of natural regeneration. However in some cases this is not the most appropriate approach as sometimes the areas need to be restocked with different species, there is a need to restock damaged areas (wind falls, snow, fire, drying spruce and ash stands etc.), and in some areas natural regeneration may not be successful. There is therefore continuing need for production of good quality seedlings from selected plus trees of known origin.

To improve the survival rates and increase the efficiency of seedling production it is proposed to modernize four forest nurseries, to produce container grown seedlings of improved quality. It is proposed to increase the proportion of container grown seedlings from currently less than less than 1% of seedling production to 11% by 2017. Increasing the nursery production will also increase skilled and semi-skilled employment opportunities, for both men and women again in rural poor areas. At the same time the legal and regulatory framework will be updated and an equal opportunities training program will be implemented to ensure technical and nursery staff can operate the new equipment.

Component 2: improving forest fire prevention, monitoring, detection and suppression, improving forest management information systems

Sub-component: improving forest fire prevention and management

To reduce the incidence, extent and severity of forest fires three main interventions are proposed:

- Prevention through increasing public awareness and education, improving fire danger and hazard ratings and informing the public through work with mass media, and prevention activities through creation of mineralized strips and clearing logging residue and other fire hazards within compartments and cleaning compartment boundaries and road edges
- Improving fire detection and monitoring through establishment of video surveillance with specialized software, improving communications
- Improving suppression activities through provision of forest fire-fighting equipment and training, and improving the network of water points.

The local authorities and CSOs will be involved in the information dissemination and awareness activities as well as in the monitoring of the fire protection measures at the local level. The awareness and information campaigns will also have a specific gender focus.

Sub-component: improvement of the forest management information system

Under this sub-component software tools, application of modern metering devices and equipment in the process of forest surveying and inventory operations will be developed. This will contribute to improving the accuracy of the data collected and will hence improve information on the availability of timber resources in the country. This component will include the development of a web-based interface to allow for sharing of information at different levels.

Sub-component: development of and training in the use of advanced technologies

This component will include development of the training and production facilities at the State Institution for Further Adult Education “Republican Center of Competence for Forestry Managers and Specialists”. All training undertaken will be equally available to both men and women.

Sub-component: developing the rational use of radioactively contaminated forest

This component will include the development and maintenance of a decision support system “Radioactive Contamination of Forests. RadFor”, to be performed by the State Institution “Bellesozaschita” in partnership with forestry enterprises, as well as improvement of the system of protective measures and optimization of radiological monitoring activities in the forest fund.

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		x	

V. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			50.00
Total			50.00

VI. Contact point

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