

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC30748

Project Name	Forestry Development Project (P153673)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	Forestry (90%), General agriculture, fishing and forestry sector (10%)
Theme(s)	Other environment and natural resources management (80%), Climate change (20%)
Lending Instrument	Investment Project Financing
Project ID	P153673
Borrower(s)	REPUBLIC OF KAZAKHSTAN
Implementing Agency	Ministry of Agriculture
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	05-Oct-2015
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Estimated Date of Appraisal Completion	16-Dec-2016
Estimated Date of Board Approval	24-Mar-2017
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Kazakhstan is located in the heart of Central Asia. It is the world's largest landlocked country and the ninth largest country overall, with a territory of 2,727,300 square kilometers. With a population of about 17.2 million (2014), it has a low density of less than six people per square kilometer. It is an upper-middle-income country with a per capita GNI (Gross National Income – Atlas method) of nearly US\$12,000 in 2014 and a poverty level of 2.9 percent (2013).

While rich in mineral resources, Kazakhstan is a forest-scarce country with forests covering only 4.6 percent of the total country area. It has designated 26 million hectares as forest estate, but less than half of this is actually covered with forest (12.5 million hectares). Nearly 90 percent of country's terrain is steppe, desert and semi-desert (Baizakov, 2014). In 2011, Kazakhstan's CO₂ emissions were 15.8 tons per capita; this is nearly three times the level from other middle income countries and three times the average level of emissions in Europe and Central Asia overall.

Over the past decade, Kazakhstan has introduced strong policy reforms, and absorbed large natural resource-based earnings responsibly. To sustain growth, improve social services, and support critical infrastructure, it is improving public management and reforming its business environment. Diversification remains a challenge, with minerals, oil, and natural gas accounting for 80 percent of exports and 37 percent of GDP.

A currency devaluation in February 2014 and the current oil price shock is affecting economic growth and the labor market. GDP grew at 4.2 percent in Q3-2014 and the unemployment rate rose slightly from 5 percent to 5.1 percent. To mitigate negative implications of the 2014 devaluation, the Government of Kazakhstan (GOK) announced a US\$5.5 billion economic support program in February 2014 and in the wake of the fall in oil prices, announced a second support package of about US\$18 billion in November 2014. Both packages aim to support domestic demand and employment through reform of the banking sector, and a large, medium-term investment program.

Despite short-term vulnerabilities, the medium-term prospects for Kazakhstan remain positive with strong growth potential from the oil sector and structural reforms. The GOK has prepared the Kazakhstan 2050 Strategy, which seeks to guide the country's transition to a knowledge economy within 10 to 15 years, and to join the top 30 most developed countries by 2050. The structural reforms described in the 2050 Strategy indicate a strong commitment to building a knowledge economy and enhancing growth, diversification, and global competitiveness, through improvements in human capital, institutions, and infrastructure.

Sectoral and Institutional Context

Forests in Kazakhstan are not managed as productive resources, but are rather recognized for their important environmental protection role. They are key in strengthening resilience to climate change, in retaining water, and in arresting desertification, erosion and soil degradation. The forest ecosystem's fragility and limited forest area dictate a cautious policy in the management of these resources. Felling of timber in especially valuable saxaul and coniferous forests has been prohibited since 2004.

Forests in Kazakhstan are owned by the state and according to the Constitution cannot be privatized. Due to their small size and vulnerability combined with their environmental importance, forest management in Kazakhstan is focused on preservation with limited production functions. The generally dry climate of Kazakhstan makes the existing forest and rangeland ecosystems particularly susceptible to various threats, including:

- fires (natural and anthropogenic, including agricultural fires);
- pest infestations that often follow fires;
- overgrazing associated with changes in livestock production systems; and
- over-harvesting through illegal and "sanitary" cutting.

All state forests are managed by the Government. The authorized national level state agency is the Forestry and Wildlife Committee (FWC) under the Ministry of Agriculture, which manages 5.78 million hectares or 20.1 percent of the State Forestry Fund. Regional governments manage 79.2 percent of the State Forestry Fund. Small forest areas are managed by the President's Administration and Ministry of Transport and Communications. The private forest is insignificant at less than 400 hectares.

Vegetation, particularly forest plantations play an important role in preventing erosion and land degradation in the Dry Aral Seabed (DAS). However, only 39 percent of the territory of DAS is covered by vegetation, of which 20 percent is only sparsely stocked. The natural colonization of bushes and grass is slow especially in the totally bare, soft sandy and often salty areas. Therefore, afforestation of the DAS is a high priority for government forest management and protection measures.

Protective forest belts (shelterbelts) – both artificially created and natural – provide shelter from the climate, i.e., sun, snow, rain, wind, while helping to prevent erosion from wind and water. They can protect many facilities, including agricultural lands, soil, reservoirs, roads, and settlements. Protective shelterbelts have been planted around Astana city (Astana Green Belt). Many road building and rehabilitation projects urgently require the establishment of shelterbelts.

The current Forest Code adopted in 2003 allows for the private ownership of forest plantations. It is, however, specified that existing state-owned plantations cannot be privatized. The FWC recognizes that creation of forest plantations is a long term investment with a long payback period and may, thus not be financially attractive to private investors.

Relationship to CAS

The Government has recognized the need to further strengthen forest management in areas such as fire prevention and response, enforcement against illegal and poorly executed clearing, and the further establishment of protected areas. In July 2011 a Presidential Decree set out the Country's Forest Program until 2020, which aims to establish specially protected areas (covering up to 27 million hectares or 10 percent of the country), prevent the risks of both man-made and natural disasters, as well as prevent land degradation.

The strategic objective of the 2012-2017 Country Partnership Strategy (CPS – approved March 30, 2012) is to design a high impact program to help the government implement development priorities. Ensuring that development is environmentally sustainable is an important area of engagement, with safeguarding the environment an explicit outcome of the CPS. The proposed Forestry Development Project is included in the 2014-2016 Partnership Framework Arrangement (PFA) investment program between the Government of Kazakhstan and the Bank. The PFA, which was launched in May 2014, aims at supporting the Government's efforts to ensure a more sustainable development and inclusive growth that is shared widely and benefits the lower income groups. Implementation of the PFA is being conducted through technical assistance and investments, and the project is consistent with the following thematic areas of cooperation listed in the PFA: (i) attracting investments into the economy and developing public-private partnerships; (ii) facilitating sustainable environmental (greener) development; (iii) increasing the role of the private sector in the economy by fostering the development of small and medium-sized enterprises and improving the business climate; and (iv) providing implementation support to institutional reforms.

The proposed Forestry Development Project (FDP) is a follow-on project to the IBRD-GEF Forest Protection and Reforestation Project (FPRP) that recently closed in June 2015. The FDP aims to continue the FPRP's achievements in protected areas management, forest fire protection, and participatory forest management. The FDP will generate significant rural employment in the project areas. The development of plantations through PPP will, in addition to creating rural jobs, will also create opportunities for further economic growth through downstream processing and value adding. The project will therefore enhance the livelihoods of the rural poor, promoting shared prosperity

through environmentally sustainable green growth, while increasing carbon sequestration and reducing greenhouse gas emissions.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to enhance forest management and environmental rehabilitation in targeted areas, while contributing to the sequestration and reduced emissions of carbon, and increasing local livelihood opportunities

Key Results (From PCN)

Key results are expected to include:

- Establishment of new, fast-growing forest plantations (500 ha)
- Shelterbelt forest plantations along rehabilitated roads (410 km x 50m)
- Rehabilitation of fire-affected forest areas (15,000 ha)
- Revegetation in the Dry Aral Seabed (40,000 ha)
- Increase in area with improved forest fire management (800,000 ha)
- Number of people participating in Participatory Forest Management, reporting at least 20% increase in wellbeing (100 people)
- Carbon sequestered (CO₂)

III. Preliminary Description

Concept Description

A. Concept

The Forestry Development Project will build on the results achieved under the recently completed Forest Protection and Rehabilitation Project (FPRP). The FPRP supported the environmental rehabilitation of more than 46,000 ha of Irtysh Pine forest, out of an estimated total of 180,000 ha, which had been badly degraded as a result of extensive forest fires in the late 1990s and early 2000s. The project developed a state of the art nursery, and spearheaded the development of new approaches to afforestation (i.e., establishment of selected seed orchards, enrichment planting with transplanted wildlings and semi-mature trees, direct seeding) of these degraded lands. Some of these more successful techniques now need to be rolled out on a larger scale.

The FPRP also addressed the causes of degradation (i.e., the forest fires) and enhanced the fire detection and fighting capacity in Semey Ormany (an Ormany is a State Nature Forest Reserve, managed by the FWC). This included a forest fire control information system (FFCIS), which enabled forest fire detection 5 to 25 minutes faster than human detection alone. This in turn led to quicker response times (short detection/response times are critical in being able to control forest fires before they become well established – once a fire reaches a certain size, around 10 ha – there is very little that can be done to control it, other than wait for the weather to change). The FFCIS supported by the project is the first advanced fire control system to be implemented in CIS countries. This system however, was piloted in just one part of Semey Ormany, with more traditional investments in fire detection and response in the other areas of Semey and Irtysh Ormanies.

Based on the positive results of the FPRP, the Forestry and Wildlife Committee (FWC) requested World Bank assistance to prepare a project that could continue/scale up key aspects of the FPRP and support both the establishment of shelterbelts and forest plantations (in collaboration with the

private sector). Due to the expansion of the area covered by forests on the DAS, the FWC plans to create a protected area (reserve) “Aral”. This would strengthen the institutional management of the area and would allow for allocation of additional state financial resources. The aim is to establish habitats attractive to wildlife and to eventually create a well-managed environmental sanctuary.

The FWC is planning the scaling up of the Forest Fire Control Information System (FFCIS) to cover a total area of 800,000 ha. The FFCIS is a quick and efficient method of forest fire detection allowing the timely suppression and prevention of fire spread; for example, on the territory covered by FFCIS, the fire damaged areas were reduced 16 times, and the cost of the damage caused by fires reduced 8 times.

The project, through re/afforestation and reducing the incidence and severity of forest fires the project will contribute significantly to the increase in sequestration and reduction in emissions of carbon. Under the FPRP, a greenhouse gas analysis appraisal showed that over a 20 year period the project investments would generate benefits of 34.8 million tonnes of CO₂ equivalents. For this new project, as the re/afforestation targets are similar to those areas achieved under the FPRP, and the extent of the forest fire protection system will be larger, it is reasonable to assume that the carbon benefits would be in the same order of magnitude.

The FWC is also looking for ways to increase timber production. For this purpose they plan to introduce new mechanisms of reforestation to encourage private plantations through public private partnerships (PPP). The target is to plant 500,000 trees following this new approach.

Project Components

The project has four main components:

Component 1: Improving sustainable forest management (SFM). This component has four sub-components:

- i) Improved Fire Management: This sub-component will further develop and scale up support for the Forest Fire Control Information System (FFCIS), developed under the FPRP. This state-of-the-art fire control system, has enhanced the fire-fighting capacity in Semey Ormany improving detection and reducing response times. Under the Forestry Development Project, this system would be scaled up in East Kazakhstan and Pavlodar regions, as well as the Akmola Region, supporting forest fire prevention and suppression on 800,000 hectares of forest. The component would provide (i) improved facilities for fire prevention and detection, including lookout towers and communications equipment, and (ii) improved facilities for fire suppression including road rehabilitation (allowing better access enabling both preventative actions, i.e. cleaning of fire breaks, and suppression once the fires have started), fire stations equipment, and firefighting vehicles.
- ii) Support for afforestation: This sub-component will mainly scale-up seedling plantings and expand vegetative cover in the Kyzylorda region, including the amelioration of 40,000 ha in the Dry Aral Seabed. The component will support the establishment of new forest plantations and will provide benefits for prevention of erosion and the creation of new habitats for biodiversity.
- iii) Additional SFM interventions: This sub-component will also provide other sustainable forest management support including a program of thinning and cleaning, as well as the rehabilitation of gallery forests along the Irtysh River.

iv) Institutional development: The project will support the evolving institutional needs of the sector through the provision of specific technical studies and proposals to help create the enabling environment to support the establishment of a new protected area (State Forest Nature Reserve, “Aral”) covering 472,000 ha in the Dry Aral Seabed, the new PFM approach and also the creation of the public private partnerships for the fast growing plantations.

Component 2: Developing Participatory Forest Management. This component will scale up support for Participatory Forest Management (PFM), In particular, it will engage communities in forestry management (e.g., through tenders and forestry social contracts); and begin the process of creating the enabling political and legal environment for further PFM development. Through PFM, local people can obtain rights to a share of forest products in exchange for undertaking specific protection and/or management responsibilities. Forest resources are especially important for vulnerable households (women-led, poor households), because these households tend to engage more in subsistence agriculture, including gathering of forest products for domestic consumption. PFM activities will ensure adequate participation of women and vulnerable groups, and if inequitable arrangements are found, opportunities will be sought to address the inequities, e.g., targeting a proportion of PFM contracts to vulnerable groups and ensuring women’s participation in PFM councils.

Component 3: Supporting the establishment of fast growing plantations and shelterbelts. This component will support:

- i) the establishment of fast growing plantations that would be the basis for developing public-private partnerships, with an emphasis on increasing job and the potential for further economic growth. These plantations of poplar and other hardwoods would be established on State Forest Fund lands, administered by the Forest and Wildlife Committee. It is expected that these established plantations could be an eventual source of raw material to support SMEs in timber processing and/or wood energy (e.g., fuelwood and chips and pellets for heating in municipal buildings); and
- ii) the creation of shelterbelts along selected roads in Kyzylorda region, to help protect the roads from the harsh climate, whilst reducing road maintenance costs, reducing the effects of erosion from wind, rain and snow. The shelterbelts will additionally create green corridors and havens for wildlife, and at the same time sequestering carbon and providing shelter, wood and non-wood products for local communities.

Component 4: Project Management and Coordination

This component will finance the operating costs of a Project Implementation Unit (PIU) within the FWC to carry out project management functions for Component 1, 2, and 3. Support will be provided for procurement, financial management, coordination, reporting, and monitoring and evaluation.

Throughout the project planning and implementation, there is commitment to social inclusion, citizen engagement and gender equity. Mechanisms will be used to ensure women's participation in the PFM sub-component.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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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:	30.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		20.00	
International Bank for Reconstruction and Development		30.00	
Total		50.00	

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