Annex 2

1. **IDENTIFICATION**

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Forest Law Enforcement and Governance project II for the ENP east region and Russia (FLEG East II) CRIS: ENPI/2012/23792</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>EUR 9 million</td>
</tr>
<tr>
<td>Aid method / Method of implementation</td>
<td>Joint Management with the World Bank</td>
</tr>
<tr>
<td>DAC-code</td>
<td>31210</td>
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</tbody>
</table>

2. **RATIONALE**

2.1. **Sector context**

The forests of the ENPI East region (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, Ukraine) have a vital function for the global, regional and local environment. As a carbon sink, they absorb more emissions than they release. According to the Intergovernmental Panel on Climate Change\(^1\), the importance of temperate and boreal forests for maintaining the world climate is growing, while tropical forests are shrinking. Approximately a quarter of the world's forest biomass is situated in Europe and Russia.\(^2\) Russia alone is home to around 20% of the world's forests.\(^3\)

The carbon balance of temperate and especially boreal forests is hard to estimate, however it is clear that well-managed and protected pristine and non-pristine forests contribute to limiting the global temperature rise. Furthermore, intact forest ecosystems provide local livelihoods and income for populations and the economy, stabilise water-cycles, prevent fires, assure biodiversity, and protect biotopes.

Twenty years of political and economic transition have had profound effects on forests in eastern Europe and Russia. During the early 1990's, wood removals in Europe declined because of the collapse of the eastern European economies. Removals rebounded slightly in later years but once again dropped sharply during the 2008-2009 recession.\(^4\) The institutional set-up within forest sectors has changed and newly evolving market forces have only partially been tamed by new forest codes. Understaffing and under-payment of forest sector guards and workers are almost universal issues in the region. The EU and its member states are involved through environment co-operation with the region, and as importers: In 2009 Russia was the most important exporter to the EU of wood and cork, and a relevant source of pulp, paper and manufactured wood products, with the exception of furniture. Ukraine was a minor exporter to the EU of manufactured wood products (excluding


\(^2\) [Ibid, table 9.1. Growing stock (volume of living trees) in Europe and Russia in 2005 given as 107.264 million m\(^3\), out of a world total of 434.219 million m\(^3\)](ftp://ftp.fao.org/docrep/fao/009/ah231e/ah231e00.pdf)


furniture). Even if the timber exports of most ENPI-countries are not large in terms of volumes, a considerable part of their forest product exports (67%, 62% and 49% in the case of Belarus, Ukraine and Moldova) go to the EU, so that they might be seriously affected by the new EU Timber Regulation.

To support countries in the region in forest law enforcement and governance (FLEG), the EU has teamed up with the World Bank, the International Union for the Conservation of Nature (IUCN) and the World-wide Fund for Nature (WWF) and has financed a first FLEG project in the ENPI East region which runs from 2008 to 2012. The project (ENPI/2007/147-187, EUR 6 million) has stimulated co-operation between forest agencies, analysed and informed about the reasons of forest loss, and supported tracking systems to reduce illegal logging and loss of government revenue. It helped implementing the 2005 St. Petersburg Ministerial Declaration on Forest Law Enforcement and Governance. A detailed description of regional and national project activities so far is given on the project's internet site www.enpi-fleg.org as well as in the bi-annual project progress reports.

The new FLEG project will build upon these successes by deepening reforms in sector policy, legal and administrative matters, as well as through pilot projects, and by inclusion of forest fire and climate issues. The vision for the end of the project in 2016 is the ENP East-region and Russia to have sector policies that fight against illegal logging and associated trade, take into account the full social, environmental and economic value of forests, state-of-the-art forest sector laws, and modern forest sector institutions. In addition, the EU and its international partners (World Bank, WWF, IUCN and others) support these reforms through institutionalised dialogue, expert cooperation, and well-targeted financial support where needed. FLEG East II is in line with the ENPI Regional East Programme 2010-2013, which mentions FLEG and strives as one of its specific objectives 'to facilitate policy development and implementation of strategies in various environment sub-sectors'.

2.2. Lessons learnt

As the first FLEG East project has not yet ended, final conclusions cannot yet be drawn. However, the project has been monitored, with very good scores in the last report of October 2010. The last monitoring report concluded that 'the responsible national authorities are committed to the project… The level of ownership of project results is adequate in Armenia, Belarus, Moldova, Ukraine and Russia. It has improved in Azerbaijan and Georgia. To date, National Action Plans for FLEG are available in Armenia, Moldova and Russia, and are being developed in other countries, with the exception of Georgia, which has equivalent documents.' The division of labour between the delegated entity World Bank (government contacts, sector analysis) and its partners IUCN (local forestry projects) and WWF (civil society, communication, activities against illegal logging) has worked well.

All relevant concrete recommendations from the last regional monitoring report (October 2010) will be incorporated in the FLEG East II project, namely: Inclusion of regional and country logical frameworks in the project reporting; Harmonisation of country logframes, using quantifiable objectively verifiable indicators; Taking into
account of increased need for translation, printing, dissemination and training activities; Establishing cooperation with relevant EU-funded projects under the EU thematic programme for Environment and Natural Resources including Energy, ENRTP.

As a general lesson from phase I, the largest limitations to project success are (i) the moderate budget size and (ii) the fact that poor forest governance has many complex drivers, which are related to the behaviour of diverse and frequently competing stakeholder groups, and that to permanently change behaviour takes a concerted effort over a longer period than the lifetime of a project. On point (i), FLEG plays a catalyzing role by identifying and raising new forest issues⁹, bringing different stakeholders to the table¹⁰, and mobilising financing from other sources¹¹. Point (ii) is a structural issue that must be resolved mainly by the countries concerned, through their ownership. There is a general recognition that the FLEG East I project has played a useful, concrete role until now, and that its importance has been further raised by the catastrophic forest fires in the region in the summers of 2010 and 2011.

As a final lesson, an appropriate balance has to be found between forest use and forest protection, and between taking into account the overwhelming ecologic importance of the Russian forests (Russian forest surface is 8 million km², forests of all other six countries combined are ca. 140.000 km²¹²) and not endangering the good participation by the other six countries.

2.3. Complementary actions

According to the FAO State of the World's Forests Report 2011, 49% of Russia's territory is covered by forests, making it a decisive country on world forest issues.¹³ From 2002 to 2009 the World Bank implemented a USD 60 million Sustainable Forestry Pilot Project in Russia to support the country's sector reforms. Since 2004 the Bank has been engaged in the Europe and North Asia Forest Law Enforcement and Governance Process, which contributed to the 2005 St. Petersburg Ministerial Conference and its action programme. In 2007 Russia introduced a new Forest Code. Currently a Russia Forest Fire Response Project (USD 120 million) is under preparation. The EU is supporting Russian forests through the on-going EU-Russia Environment Dialogue and its FLEG and biodiversity sub-groups, the on-going regional FLEG project, a regional nature protection project through the Council of Europe (establishment of a pan-European Emerald Network of nature protection sites under the Berne Convention), as well as through cross-border and scientific projects. The EU is also supporting countries in Central Asia on forest law enforcement and reform in a parallel regional project (EUR ECA) that also supports implementation of the decisions of the 2005 St. Petersburg ministerial FLEG conference (see below, chapter 2.4.).

In Ukraine, the State Forestry Agency (responsible for ca. 70% of the country's 17% forest coverage) reports that the country is committed to the pan-European negotiations for a legally binding agreement on forests in the framework of the

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⁹ Such as the likely effects of the new EU Timber Trade Regulation on the ENP-East countries and Russia
¹⁰ E.g. workshops on gap analysis in the Ukrainian forest legislation in 2010 and 2011
¹¹ E.g. the forth-coming WB Russia Forest Fire Response Project.
¹² http://www.fao.org/docrep/013/i20000e/i20000e00.htm
¹³ See also remarks of the Russian delegation in the EU-Russia biodiversity sub-group, 25-26.7.2011.
Forest Europe process, as well as to the European 2020 targets for forests. On a regional level, in May 2011 the country has signed the sustainable forestry Protocol to the Carpathian Convention. A transnational biosphere reserve exists in the Danube Delta with Romania. On the national level, a Forest Code from 2006 foresees the reform and development of forestry in Ukraine, 'however the legislative innovations did not provide a quick result'.

Moldova, Armenia and Azerbaijan have forest coverage of 9-12% of their territory, whereas in Georgia it is 39%. In absolute terms the coverage ranges from 2.620 km² in Armenia to 27.420 km² in Georgia. The Georgian forest sector has been affected by government reorganizations. FLEG has proposed principles for the new forest law, as well as recommendations on the zoning of forest functions and forest harvesting guidelines. The EU Environment and Natural Resources thematic programme and the Regional Environment Centre Caucasus are also financing and implementing forest projects, e.g. 'Fostering Community Forest Policy and Practice in Mountain Regions', in all three southern Caucasus countries. In Moldova, the State Forest Agency is an active partner in FLEG.

2.4. Donor coordination

World-wide, the EU Forest Law Enforcement, Governance and Trade (EU FLEGT) Action Plan provides a platform for coordination with other actors, and an opportunity for FLEG East to learn from experience in other regions. The EU has signed Voluntary Partnership Agreements on FLEGT with six timber exporting countries, and should such agreements be negotiated and signed also with ENPI East countries, FLEG East II could play a supportive role. A major factor is the EU Timber Regulation that will enter into application in 2013. There is vast support from EU member states for the FLEGT process (particularly Germany, France, Netherlands, UK).

Regionally, progress in implementing the 2005 St. Petersburg ministerial conference results has been achieved, and a new regional conference might be an option during project implementation of FLEG East II. Currently no other regional set-up exists that could take over these functions. The steering committee of the FLEG II project shall ensure a strong content-based coordination on forest law and governance issues on a regional, and if adequate, national level. The FLEG East II project will also coordinate with other relevant regional EU funded environment projects, such as Clima East, PPRD and SEIS, as well as the FLEG Central Asia regional project.

In Russia, as the country has transitioned from an aid recipient to a new aid donor, a formal donor coordination mechanism in the forest sector is not appropriate. However, on a content-basis, international organisations such as the EU and World Bank try to support a sector reform-agenda. In 2011, with financing from the FLEG project, the World Bank organised several forest seminars in Russian regions, and in April facilitated a roundtable on new forest management approaches and forest fire management in Moscow which adopted an ambitious plan for sector reforms.

14 Forest Europe (formerly known as Ministerial Conference on the Protection of Forests in Europe) is an inter-governmental process launched in 1990. The last ministerial conference in Oslo in 2011 decided to start negotiations on a pan-European legally binding agreement on forests until June 2013.
16 http://www.enpi-fleg.org/index.php?id=18
17 Prevention, Preparedness & Response to natural and man-made Disasters Programme
18 Shared Environmental Information System
and the World Bank are preparing a substantial USD 120 million Russia Forest Fire Response Project. The EU has a bilateral FLEG-working group with Russia.\textsuperscript{19} EU member states such as Finland have been cooperating with Russia on forest issues for several years. The European Forest Institute, which supports actively the EU FLEGT negotiations, might also have an important role to play.

In Ukraine, forestry and biodiversity issues are included as part of an EUR 45 million EU environment budget support since 2009 that it is co-financed by Sweden. The State Forest Agency was supported by two projects by UNDP (Biodiversity in the Carpathian region; Strengthening the Nature Protection System). Switzerland financed two projects for forest development in the Zakarpataya region. Informal sector coordination already happens in the framework of the FLEG National Programme Advisory Committee Ukraine.

For Armenia, Azerbaijan, Georgia and Moldova, the current set-up of FLEG East is probably the most efficient way to ensure coordination between national authorities and interested donors. Efforts by the EU and World Bank will continue to reach out and invite all relevant actors, even if they do not co-finance the project. A partial cooperation with the Environment and Security Initiative ENVSEC is also an option.

In 2011 the Austrian government has entered into an agreement with the World Bank supporting FLEG activities in the ENPI-East countries. It is expected that Austria will again be supportive during FLEG East II.

3. DESCRIPTION

3.1. Objectives

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

The three specific objectives of the EU support are (1) the implementation of the 2005 St. Petersburg FLEG Ministerial Declaration (2) the formulation and implementation of sustainable forest sector policies, including legal and administrative reforms for sustainable forest management and protection on a national level and sub-national level where appropriate, and (3) the demonstration of best sustainable forest management practices in targeted areas for further replication.

3.2. Expected results and main activities

To achieve these objectives, the following results and main activities are planned:

Expected results: On specific objective 1 (regional level), the 2005 St. Petersburg Declaration, the main results are that the formal official FLEG process continues in the ENPI East region, that the Action Plan accompanying the Declaration shall have been up-dated by 2016 and to a large extent (at least 50%) implemented, and that progress is regularly monitored.

\textsuperscript{19} Sub-group to the EU-Russia Environment Dialogue.
On specific objective 2 (national level), effective FLEG actions and processes are continued and intensified, in particular cooperation, knowledge sharing and best practice benchmarking between stakeholders is built up, and involvement of the private sector (forest industry, timber trade, wood processing, tourism) is enhanced; National awareness, ownership and capacity of stakeholders (administration, private sector and civil society) is broadened to address forest governance issues and to deal with forest sector policies and related themes such as forest fires and climate change; Sustainable forest management policies and law enforcement are further strengthened. EU forest sector know-how, especially from new member-states, is made available to partner country stakeholders. Civil sector capacities are strategically strengthened.

The main expected result on objective 3 (sub-national level), is better understanding and implementation of FLEG principles by forest practitioners and other stakeholders. Better access to state of the art techniques and information to improve forest law enforcement and forest governance. A number of activities (incl. pilot projects and outreach activities such as seminars, publications) will have been implemented to demonstrate best practice to enforce law and improve forest governance.

Main activities:

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

(1.1) Strengthen policy dialogue between participating countries and institutions regarding the 2005 St. Petersburg Declaration by organizing of thematic meetings on FLEG issues of shared interest, and annual FLEG East II steering committees.

(1.2) Monitor the implementation of the St. Petersburg Declaration in the participating countries of this FLEG East II project through stakeholder reporting and regular up-dating of tracking tables concerning implementation of decisions of the 2005 St. Petersburg conference; Identify areas of the St Petersburge declaration where implementation needs more focus and support.

(1.3) Conduct regional studies and publication to be developed in the framework of the 2005 St. Petersburg Declaration.

(1.4) Contribute to communication activities to promote regional and national activities developed within the framework of 2005 St. Petersburg Declaration Create a high-quality Internet site in English and Russian on state of the art of forest sector governance and reform.

(2.1) Contribute to the implementation of FLEG country work plans on the basis of partner government requests.

(2.2) Support to formulation and implementation of key forest policy legal and administrative reforms on the national and sub-national levels.

(2.3) Support the use of modern technology (timber tracking, GPS,…) through pilot activities to help to address FLEG issues.

(2.4) Provide capacity building, training and advice on administrative reform issues.

(2.5) Liaise and co-operate with forest sector experts from EU member states.

(3.1) Provide support on forest governance techniques, remote sensing, forest staff to ensure law enforcement.
(3.2) Document and internationally communicate concrete local results on forest governance and forest law enforcement.

(3.3) Involve local communities in policy development and in sustainable forest management. Quantify information that is easy to use and relevant for local decision makers.

(3.4) Increase public awareness and participation.

Country-specific activities will be further detailed during the inception phase, based on the results of the FLEGT ENPI Phase I, the analysis of stakeholders of the main challenges and the ambition of the programme to tackle the identified challenges. The detailed activities will be presented in a work programme and approved by the Steering committee of the programme.

3.3. Risks and assumptions

Firstly, a risk in regional projects is lack of ownership by the partner countries. This is mitigated by a growing recognition in all partner countries that a modern forest sector policy is a win-win option environmentally, socially and economically. The partner countries have actively participated in the first FLEG project and the ambition which was witnessed on their side during is generally not expected to diminish. Institutionally, the permanent EU-Russia FLEG-working group, in which the Russian state forest agency is represented at a high level, gives an incentive for the country to report on sector progress. The same is valid for the ENP-East countries, which participate in regular working groups with the EU on environment issues. 20 Secondly, FLEG East II will be thematically broadened, from an emphasis on illegal timber to the provision of state of the art EU- and international knowledge on forest sector reform and governance. Broadening implies a danger of losing focus. This will be mitigated by a demand-driven approach: In the inception phase, country work programmes will be formulated based on written demands by the partners (mainly forest agencies and environment or agriculture ministries). A good balance between activities on protected and non-protected forests will also be sought.

Thirdly, illegal logging and other illegal forest uses are linked to corruption and crime, and can pose dangers to project stakeholders. The 2007 World Bank Governance and Anti-Corruption Strategy will be adhered to by the foreseen delegated entity World Bank, in cooperation with its partners IUCN and WWF.

3.4. Cross-cutting Issues

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

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20 Generally energy, infrastructure and environment related sub-groups of bilateral political groups between the EU and the respective ENP-state under a Partnership and Cooperation Agreement.
3.5. **Stakeholders**

Stakeholders are, in this approximate order of importance: State forest agencies; environment ministries or other ministries responsible for forest issues (e.g. agriculture ministries); sub-federal entities, state and private forest-related industry (mainly timber, pulp and paper, but also extractive industries, finance sector, trading houses, construction sector) directly and through their trade associations; local forest communities in pilot areas, including indigenous communities; media; regional, national and sub-national civil society.

4. **IMPLEMENTATION ISSUES**

4.1. **Method of implementation**

Joint management through the signature of a contribution agreement (administration agreement\(^{21}\)) with an international organisation, the World Bank. This organisation is considered to be well placed for different reasons: (i) it managed the first FLEG East project; (ii) its broad relevant portfolio in the partner countries; and (iii) its sector expertise. This is done in accordance with Article 53d of the Financial Regulation. This organisation complies with the criteria provided for in the Financial Regulation and is covered by the Trust Funds and Cofinancing Framework Agreement entered into on 20 March 2009 between the European Commission and the World Bank Group (IBRD, IDA, IFC).

The World Bank will cooperate with IUCN and WWF in the implementation of the action, as current experience with the on-going project is positive. A co-operation will be sought with the European Forest Institute in Finland, in view of a greater European forest knowledge transfer, possibly by the invitation of EFI to the steering committee of FLEG East II.

In the light of the Aid Effectiveness agenda (in particular ownership and alignment), no major activities will be done without the explicit consent, or if they are not in line with country work-programmes that will be elaborated in the inception phase. Each partner country will delegate one representative, usually a high-ranking official of the national forest service, to the annual steering committee meetings which approve progress reports and forward planning (on the basis of consent by the European Commission's project manager). The foreseen implementer (World Bank), together with its partners IUCN and WWF, will report to the steering committee, as well as directly to the European Commission.

4.2. **Procurement procedures**

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation. The budget will include 5% for administrative fee of the World Bank. The budget is expected to be split more or less evenly between the participating countries. Final allocations however will be fixed on the basis of the

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\(^{21}\) the model of contribution agreement that is used with the World Bank is an administration agreement as provided for in the “Trust Funds and Cofinancing Framework Agreement” signed between the European Commission and the World Bank and dated 20 March 2009 (replacing the initial Framework Agreement dated 8 November 2001).
ambition of the activities that will be proposed by the partner countries in the inception phase of FLEG East II.

4.3. **Budget and calendar**

The indicative budget allocation is EUR 9 million. The duration as from signature of the administration agreement is foreseen as 48 months, excluding the closure phase on the side of the foreseen implementing entity. The expected start is in the second half of 2012, the project will last until second half of 2016. This includes an inception period of six months.

4.4. **Performance monitoring**

In addition to the standard provisions of the Trust Fund and Co-financing Framework Agreement between the European Commission and the World Bank, the project will be monitored annually through external Results-oriented Monitoring (ROM) reports. A final monitoring report of phase I, planned for 2012, will also be taken into account in the new project.

4.5. **Evaluation and audit**

Procedures of the Trust Fund and Co-financing Framework Agreement with the World Bank will be followed. Where applicable, the provisions included in the framework agreements signed with the World Bank will apply. A mid-term evaluation of FLEG East II is planned that shall comment on options to support forest sector reforms in the ENP-countries and Russia in the longer term.

4.6. **Communication and visibility**

A communication and visibility plan will be drafted by the World Bank during the inception period and will be approved by the European Commission. All contracts or grant agreements entered into by the World Bank in relation to activities financed under the trust fund, all publications, training programmes, seminars or symposia, and all press releases or other information material issued by the World Bank or its partners shall clearly indicate that the activities in question have been financed by the EU. Where applicable the provisions included in the framework agreement signed with the World Bank will apply.