

Viite

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Venäjän metsähallinnon malleja

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Maailmanpankki on maaliskuussa laatinut muistion "Russia Forest Sector - Policy Note, Draft for Discussion". Siinä hahmotellaan konsessioihin perustuvan metsätalouden toteutusta ja valtion metsähallinnon vaihtoehtoisia malleja.

Perusajatus on, että metsävaranto jaettaisiin liiketoimintana hoidettaviin konsessioalueisiin ja suoraan valtion metsähallinnon hoitamiin metsiin. Kaikkia metsiä valvoisi yleinen metsähallinto.

Yleisvenäläisen metsäammattilaisten kokouksen yhteydessä pidetyssä luonnonvaraministeriön ja Maailmanpankin järjestämässä siirtymätalousmaiden metsätalouden institutionaalista kehittämistä käsittelevässä seminaarissa 25.02 käsiteltiin Venäjän metsätalouden kehittämisen vaihtoehtoja. Seminaarin jälkeen Maailmanpankki on laatinut muistion "*Russia Forest Sector - Policy Note, Draft for Discussion*". Muistio on jaettu laajalle Maailmanpankin organisaatiossa ja se tullut tiedoksi myös joillekin suomalaisille. Se sisältyy liitteenä pääjohtaja **J. Wolfensohnin** presidentti **V. Putinille** lähettämään tai lähetettävään Maailmanpankin ja Venäjän välistä metsäsektorin yhteistyötä koskevaan kirjeeseen. Muistio on pohja pankin ja luonnonvaraministeriön välisille kestävän metsätalouden projektin toteutusta koskeville jatkokeskustelulle. Muistio seuraa sähköisenä liitteenä.

Tässä muistiossa hahmotellaan ensimmäistä kertaa selvästi sitä, miten konsessioihin perustuva metsän käyttö järjestetään ja mitä vaihtoehtoisia malleja on olemassa valtion metsätalouden organisoimiseksi.

Perusajatus on, että metsävaranto jaetaan kahteen pääosaan:

- Konsessioalueet, joita käyttävät ja hoitavat lähinnä metsäteollisuusyritykset (*concession-type management, conceded forests*)
- Valtion metsähallinnon hoitamat metsät (*direct management, non-conceded forests*)

Konsessiometsissä olosuhteet ovat sellaisia, että liikeperiaatteella toteutettava metsätalous on pitkäjänteisesti mahdollista. Valtion metsähallinnon suorassa hallinnossa olevat metsät ovat sellaisia,

joissa puunkorjuuta tapahtuu vähemmän tai ne ovat kokonaan kaupallisen metsätalouden ulkopuolella. Yleinen valtion metsähallinto valvoo toimintaa kaikilla alueilla.

Valtion metsähallinnolle esitetään kaksi vaihtoehtoista mallia; valtion laitos (*non-commercial agency*) tai valtion liikelaitos (*a publicly-owned privately-run commercial enterprise*). Valtion metsien alueyksikön leshoosin vaihtoehdot, joiden toteutusmahdollisuudet tulee selvittää, olisivat:

- Lain ja normien valvonnasta sekä strategista kysymyksistä vastaava aluehallinto
- Suoraan valtion hallinnossa olevien metsien toiminnasta vastaava organisaatio
- Leshoosissa on kaksi osaa; lainvalvontayksikkö ja toimintayksikkö

Jos valitaan jompikumpi kahdesta ensimmäisestä vaihtoehdosta, tulisi silloin perustaa uusi yksikkö toista tehtävää varten.

Kommentti

Minusta tässä on ensimmäistä kertaa esillä konkreettisia malleja, joiden pohjalta Venäjän metsähallinto voidaan uudistaa. Näyttää selvältä, että pääosa teollisuuden puunhankinnasta tulee tapahtumaan konsessioiden tai vuokrauksen pohjalta. Toimijoina tulevat olemaan metsäteollisuusyritykset, jotka ottavat aika pitkälle vastuun myös metsänhoidosta ja -suojelusta. Todennäköisesti suurin osa Venäjän metsistä tulee jäämään suoraan valtion hallintaan ja metsistä vastaa silloin valtion laitos tai liikelaitos. Leshoosin vaihtoehdoista pidän todennäköisimpinä mallia, jossa lainvalvonta ja toiminta eriytetään leshoosin sisällä.

Suurin avoin kysymys on se, tarvitaanko erillinen valtion liikelaitostyyppinen organisaatio hoitamaan puunkorjuuta ja muuta metsätaloutta niissä metsissä, jotka eivät kiinnosta vuokraajia, vai voidaanko sekä lainvalvonta että taloustoiminta hoitaa saman valtion metsähallinto-organisaation puitteissa eriyttämällä toiminnat jo leshoosin sisällä. Näistä aineksista muodostuu asetelma, jossa Venäjän metsätaloutta hoitaisivat tulevaisuudessa:

- konsession haltijayritykset > kanadalaistyyppinen malli
- valtion metsähallinto > yleinen metsähallinto viranomaistehtävineen ja sen osana tai eriytettynä eurooppalaistyyppinen valtion metsätalouden liikelaitos

Korostin em. seminaarissa omassa puheenvuorossani liiketoimintana hoidettavan metsätalouden ja metsähallinnon yhteiskunnallisten tehtävien eriyttämisen tärkeyttä. Venäjällä on ollut viime aikoina kiinnostusta Suomen valtion metsien liikelaitostamisprosessiin ja asiaa koskevaa informaatiota on toimitettu sitä tarvitseville.

LIITTEET

WB:n muistio sähköisenä liitteenä

RUSSIA FOREST SECTOR – POLICY NOTE
DRAFT FOR DISCUSSION

INTRODUCTION - OBJECTIVE

Russia's forests are attracting growing interest from domestic and international stakeholders. Forests have now reached center-stage of Russia's reform agenda, and the Government is remodeling the institutional and economic framework of the sector. The new vision is reflected in the newly approved 2003-2010 Concepts for Forest Industry (December 2002) and for Forest Development (January 2003) as well as in a wave of new legal instruments under preparation (three draft Laws on Forests, Forest Charges, and Concessions). In November 2002 the Government also launched the World Bank-financed Pilot Sustainable Forestry Project, and requested further support through non-lending advisory services.

In response to the Government's request, this Policy Note conveys the World Bank's understanding on the major orientations of the current forest reform agenda, as reflected in the above-mentioned Concepts and draft laws. It expresses Bank's views on opportunities and risks associated with this reform agenda. It emphasizes key safeguards and accompanying measures that are necessary to mitigate these risks and secure successful implementation of the new policies in the field. This Note also identifies key-choices that need to be made, and potential options, to ensure consistency in re-organizing the forest sector.

This Policy Note builds on experiences and lessons learnt from other transition- and forest-rich countries across the world ; in particular those presented during the International Workshop on "Institutional reforms in Transition countries" (Izmaylovo, February 25, 2003, All-Russia Forestry Conference).

This Note is being prepared in collaboration with national agencies in charge of forest management, and in the framework of the World Bank regional study on "Forest Institutions in Transition Countries".

Three cross-cutting ideas underpin the present Policy Note :

- **Inter-connections** between forest management, financing mechanisms, public institutions and industry should be enhanced. For example, to date, inadequate funding of local forest services (leskhoses) leads to deficient law-enforcement (illegal logging) and mismanagement of forest resources (excessive sanitary cuttings) ; but increased budget allocations to public services depend to a large extent on increasing economic benefits from the forest to the nation (revenues, employment) ; which in turn requires efficient mechanisms for pricing forest rights (transparent bidding) and a more incentive framework to attract new investments (secured long-term access to forest).
- **Improved governance** is critical for sustainable management of forests. Mismanagement of public goods, such as forests and forest revenues, keeps their contribution to national economy far below potential and reduces national interest for long-term conservation of such public goods. Clear distribution of responsibilities, rights and obligations, simple procedures and removal of economic distortions must be given priority, as well the search for pragmatism and simplicity rather than technical perfection.
- **Extra-sectoral factors** such as domestic business environment, judicial and banking systems, public sector reforms, social and political priorities, as well as international markets, often overwhelm technical aspects of forest management. Russia's forest reform agenda needs to follow national orientations for public sector reform and management of public goods.

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A. OWNERSHIP AND FOREST USES

The recently-approved Concepts and the current draft laws foresee that the Forest Fund will remain under ownership of the **Federal authority** (92% of Russian forests). Other forests will remain under ownership of the Subjects of the Federation (Regions and Municipalities) or other public authorities.

Those documents also indicate that sustainable management of forests will increasingly rely on **contractual relationships** between Owner and User of the forests. In accordance with civil law principles, these contracts will set the rights and obligations of both parties. The overall orientation is to delegate management operations and market activities to forest-users while focusing the role of public services on strategic and regulatory core-functions. The forest user should then take responsibility for payment of fees and implementation of sustainable forest management plans in exchange of long-term access to the resource ; while the administration will focus on law enforcement. Such orientation relies on a clear demarcation between public and private mandates, and is in line with the disengagement of the State from production and commercial activities, as applied in other sectors. Four categories of such “delegation contracts”¹ are being set up by the current draft laws : concession, lease, non-timber lease, and short-term use. Through those contracts parcels of the Forest Fund will be rented, not sold. It is important that ownership of the forest remains with the public authority.

However, the Bank also understands that the public authority will continue to **directly manage** a significant part of the Forest Fund. Not all forests can fall under concession-type arrangements because they would not (yet) be profitable from a private-sector point of view or because they have a protection status. Consequently, direct management should logically apply to protection forests, young or depleted stands, forest reserves, and too fragmented or inaccessible areas.

In conclusion of the above analysis the Bank understands that forest management in Russia within the next 10-20 years will fall under two main systems corresponding to two subsets of the Forest Fund (See Figures 1, 2 and 3):

- **“Concession-type management”** : forests are managed by forest-users under the supervision of the forest administration. This system would regular practice for production forests (Group III-B of the Law).
- **Direct management** : forests are managed by the forest administration through its execution body. This system would be applied to non-production forests (Groups I, II and III-A of the Law)

¹ Since the term “concession” is often understood *sensu stricto* in the Russian context, by opposition to “lease” and “short-term use”, we will here use the term “concession-type contract” or “delegation contract” to cover all four categories in a broader sense.

and to production forests where concession-type arrangements are not, or not yet, viable. No “final harvesting” would be conducted in these forests.

In each district, a **forest land-use planning** (Figure 1) should map all forest areas of the Forest Fund according to their classification in groups I, II and III of the Law (sustainable production ; environmental protection ; others). Such forest zoning should be conducted by the forest administration through a participatory process including all interested stakeholders. It will determine which areas should be allocated under concession-type contracts or should remain under direct management. The forest zoning will also show the size and boundaries of proposed concessions, and set the timeframe for their gradual allocation over the next 10 years.

Box 1. Forest concessions : practice and experiences from two countries.

Canada. Several types of forest tenures including two longer-term renewable concessions : (a) area based concession of 20-25 years duration, which carry reforestation and forest management responsibilities, and are renewable at 5 to 10 years intervals subject to performance; (b) volume-based concessions of 5 to 20 years duration which do not carry forest management responsibilities, and may or may not carry reforestation responsibilities. These volume-based concessions too are renewable subject to performance. These two concession types have been successful in providing security of timber supply to the industry and in delegating forest management. In most cases however, these concessions have been allocated through negotiations rather than auction and, as a result, have not generated as much revenues as they could have.

Cameroon. Recent reforms with forest concessions in Cameroon are referred to in the 2003 World Development Report. Concessions are allocated through transparent and open bidding process balancing technical and financial criteria. For each individual concession, the winner’s financial offer determines the rate of the annual area fees. These area fees increased by 40 times following improved transparency in the selection process. Forest management plans are drawn up and implemented by concession-holders as a clause of the contract ; and 50% of the area-based fees are transferred to local communities. However, Cameroon’s experience shows that increasing the pricing for access to forest may render illegal logging and fiscal evasion more attractive. Forest services hence need to be strengthened on core-functions such as : (a) forest control in the field ; and (b) collection of revenues.

The Bank recommends that the setting up of concession-type contractual framework follows the key-principles outlined below :

- Concession-type contracts should spell out rights and obligations of both parties (owner and user). In particular the concession holder should receive not only the right to harvest timber but also the obligation of **sustainable management** of the conceded area. This includes silvicultural and regeneration operations as well as and infrastructure investments and maintenance, among others. In this respect “concessions” (comprehensive coverage of management obligations) should become prevail on “leases” (narrow set of obligations).
- Concession should be allocated through a **transparent market-based mechanism** (auctions) following a two-step selection process : pre-selection of acceptable candidates based on technical criteria, and selection of the final winner based on financial offers. The selection should be open to all interested operators (no monopoly or a-priori discrimination).
- The selection process should be conducted by an **inter-ministerial committee** (MNR, MEDT, MIS, MFIN, MAGRI) including representatives of federal and local governments. Specific clauses of the contract should be published in advance and should not be negotiated after the selection so as to secure equality of chances among bidders.

- The winner's financial offer should determine the rate of the **area fee to be paid annually** as a share of the forest rent (non-tax rental fee) for each individual concession (see Pricing and Revenue policies in Section C).
- Concessions should be **long-term** (up to 49 years) in order to secure industrial investment and to provide incentive for sustainable forest management. In that sense, the "short-term use" contract should not be regular practice but be rather exceptional. Concessions should be transferable. They should also be subject to early termination in case of non-compliance with environmental and economic obligations, as well as to automatic renewal upon satisfactory fulfillment of those obligations at the end of the concession period. In any case, concession-type contracts should include a 3-5 years probationary period after which verification of performance will trigger conversion into longer-term contract.
- **Size and location of concessions**, as well as timing of allocation, should be carefully designed through the regional forest zoning (Figure 1) in order to make concessions attractive for investors and to optimize competition among potential bidders. Areas to be offered for concession in a given region can be designed large (up to 1 million hectares) or small (a few thousands of hectares) depending on the size of the likely bidders in this region.
- **Capacity of public institutions** in charge of forest management need to be strengthened in two key-areas : (a) control compliance with environmental obligations in the field ; and (b) collection of forest revenues. In both areas, in order to reduce arbitrary considerations, **enforcement** and capacity building effort should first focus on well-defined easy-to-detect rules and parameters, such as geographical boundaries of the annual harvesting area and payment of area-based fees, rather than complex silvicultural prescriptions or profit-based taxes. Trade-off between complexity of the rules and actual enforcement capacity will be a motto when defining new forest regulations and concession contracts.
- It is worth noting that the civil-law contractual framework is also applicable to **community-based forest management**. Rights and obligations can be delegated by the public authority to local communities through a concession contract (free of charges ?) for a given area and a given period of time.
- Similarly, concession-type contractual agreements can also be applied to non-timber functions through **conservation concessions** or **carbon concessions** for example.

The contractual framework described above, if carefully and gradually applied, has the potential to secure sustainable management of production forests and contribution of forests to the national economy, as well as for securing long-term private sector investment in the timber industry (in addition to the removal of other extra-sectoral economic distortions such as excessive import taxes).

B. ORGANIZATION OF PUBLIC SERVICES

In line with the overall organization of public administration and distribution of power between federal and regional level in the Russian Federation, The Bank understands that : (a) there will be one single **Federal Forest Administration**, with regional and district offices reporting to the federal level ; and (b) the Subjects of the Federation will share some authority with this federal forest administration through regional regulation-making bodies ; but (c) regional regulations would be enforced through the Federal Forest Administration and the Subjects of the Federation would have no forest offices in the field.

Consistent with the forest-use strategies discussed in Section A, the Bank understands that two different sets of public functions will need to be fulfilled at the district level, and they call for two different sub-bodies of the forest administration :

- **First set of public functions : Strategic and regulatory functions** to ensure compliance of forest-users with contracts in “conceded forests”², and to oversight the execution of works in directly-managed forests. Such law enforcement mandate should be the core-function of the forest owner in the field and should be performed by the **district-level office of the federal administration**. This mandate should also encompass strategic activities such as forest zoning and monitoring of forest fires and diseases at the district level.
- **Second set of public functions : Implementation of forest operations** in the “non-conceded forests”. This mandate consists primarily in protection and prevention activities such as fire-fighting and pest-management, as well as silvicultural operations such as thinning and sanitary cuttings. These functions should be performed by the **district-level forest executing agency**. This entity should have the flexibility to carry out the forest works on its own, or to contract them out to private firms against payments. Contracting out should be the preferred option depending on availability of private operators to do these works.

Regarding the statute of the forest executing body, two options need to be assessed. This executing body could be either :

- (a) a public (non-commercial) **agency** ; or
- (b) a publicly-owned privately-run (commercial) **enterprise**.

Both options need to be carefully assessed. However, the Bank’s analysis is that the financial balance from these “non-conceded” areas is likely to be negative on the long-run, because most valuable production forests are likely to progressively come under concession-type contracts. With respect to these “non-conceded” forests, the functions of forest services consists primarily in taking care of the Forest Fund as a public good. In consequence the State should accept that the cost of protection activities exceeds the revenues (those arise mainly from thinnings and sanitary cuttings). . Consequently, , the statute of a non-commercial public **agency** rather than a commercial enterprise appears more appropriate. At the federal level, the forest implementation agency should be subordinated to the federal forest administration.

The evolution of the existing leskhozoes still seems unclear. It seems that the analysis of options is still underway but does not follow a systematic approach. These leskhozoes represent approx. 1800 ; one per district ; approx. 200,000 workers. Our analysis is that three options can be contemplated :

- (a) Leskhozoes could specialize to strategic and regulatory functions described above ; or
- (b) Leskhozoes could specialize in direct management of “non-conceded forests” as described above. But in these two cases a new entity would need to be created to fulfill the alternate function.
- (c) The third option would be for leskhozoes to split into two separate entities with the first being in charge of strategic and regulatory functions and the second being in charge of direct management of non-conceded forests.

Advantages and feasibility of the three options still need to be carefully assessed. Careful and comprehensive restructuring plans will also need to be developed later on in order to take best advantage of the social and technical capital of the leskhozoes. The final restructuring pattern may vary from place to place across the Federation, in order to take into account the initial situation of each leskhozoe and the scope for regulatory and implementing services that are needed in each district (depending on areas to be conceded)..

² The term “**conceded forests**” refers to all parcels of the Forest Fund which are managed through a concession-type contract ; and the term “**non-conceded forests**” for parcels of the Forest Fund which are not under such delegation contract and are managed directly by the forest administration through its executing agency.

In any case, analysis of organizational options should follow a set of **guiding principles and criteria** such as : (a) clear separation of public and private functions and disengagement of the state from production and market activity ; (b) separation of regulatory functions from execution functions within public institutions ; (c) creating incentives for performance and sound management for private and public actors; (d) consistency with overall public reforms ; (e) best possible use of the human capital accumulated in existing institutions, and mitigation of negative social impacts.

In a time perspective, the Bank's understands that the balance between Concession-type and Direct management of the Forest Fund will progressively evolve overtime. In the initial situation, direct management of non-conceded forests will prevail since concessions will be allocated very gradually. Direct management will gradually reduce over a 10-20 years period as fast as new long-term concessions are allocated to forest-users. In the meantime, in forests remaining under direct management, protection works will be more and more frequently contracted out to private work enterprises as fast as such private business capacity emerges. Ultimately, at the end of a 10-15 years evolution period., direct execution of forest operations by public services will become more restricted in terms of geographical coverage, and will focus on a limited range non-contractable works in primarily protection forests.

C. FINANCING MECHANISMS

The Bank understands that the Government intends forests to become a **net contributor to the national economy**. Such positive balance should be reflected in terms of revenues from - and expenditures to - the forests (while preserving long-term and global environmental values). Contrary to present situation, a positive balance from forests would stimulate national interest and political commitment for forest conservation.

The Bank's analysis is as follows :

- On one hand "**conceded forests**" are expected to yield a net positive balance, since concessions contracts will be granted through competitive bidding (increased revenues) and responsibility for forest operations will be transferred to the user (reduced costs). The owner's burden will be limited to control and monitoring functions which are rather un-expensive.
- On the contrary, direct management of "**non-conceded forests**" is likely to result in a negative balance on the State's budget due to the nature of these forests (protection, regeneration, etc). The public functions in non-conceded forests consists in protecting the Forest Fund as a public good. Consequently, the State should accept that the cost of protection activities exceeds the revenues (which arise mainly from thinnings and sanitary cuttings).
- **Overall**, the profits from "conceded forests" are expected to overrun the cost of taking care of non-conceded ones. Some regions will compensate others within the overall federal budget. Ultimately, at the national scale, the budget cycle : (a) will probably not allow allocations to forest services to be higher than net revenues from forests ; but (b) should ensure that funding to forest services in the field is adequate to fulfill their mandate, and proportional to performance so as to provide positive incentive.

On the revenues side (pricing policy), the Bank suggests that the following key-principles should underpin the new forest taxation regime :

- Forest revenues should increasingly arise from fees paid in return to access to forest (sharing the forest rent) rather than from taxes levied on corporate benefits,.

- In order to increase forest revenues, priority should be given to **securing the collection** of forest charges rather than increasing the rates or creating new taxes. The number of forest-related charges and the number of collecting institutions should be reduced (“single window ” system).
- Rates of forest fees should be set by the users themselves through a flexible **market-based mechanism** rather than by the State through administrative calculations. Such auction-based fees will reflect the actual market value of forests better than rates calculated by the administration, while also keeping in line with users’ willingness to pay. Key-tasks for the administration then consist in setting minimum prices (floor prices) and in securing transparency and competition in the bidding process. Securing transparency and competition is among the key-challenges when it comes to implementing the reform.
- **Annual area fees, with rates determined through open auction**, should become a major component of the forest charges.. Auction-based area fees can provide the optimal combination of the specific conditions of each parcel (timber quality, accessibility, cost of management operations) with the specific business constraints and opportunities of each user company (technological efficiency, type of processing, market opportunities). Auction-based area fees also discourage the waste of raw material, and encourage high value-added industry and necessary technological investments. Area-fees are, by nature, constant over time ; and they are easy to recover so reducing the room for fiscal evasion.
- The total forest charge should be a combination of Area fees (A) with Stumpage fees per m³ of wood cut (S). The total Revenue (R) accruing from a concession would then equal: $R = S \cdot V + A$. (with V : volume).
- In **non-conceded forest**, some revenues will be generated by direct sales of products from thinning and sanitary cuttings. Such sales should be conducted through auction.
- Forest charges from conceded forests, as well as proceeds from direct sales in non-conceded forests, will flow according to the **Budget Code** (check new 2002 budget law). To the extent possible, a percentage of revenues should flow directly to the forest administration at central and district levels through a federal or regional forest fund managed by the Forest Administration.

On the expenditure side, the Bank suggests that the financing of forest services should follow the lines :

- **The Federal Forest Administration** and its **executing agency** should be financed through a mix of : (a) federal budget allocation through regular budget cycle; and (b) direct transfer of a share of forest revenues through the Forest Fund. The first part (federal budget allocation) would cover fixed costs of law enforcement in “conceded” forests and the cost of direct management in “non-conceded” forests. The second part (direct access to a share of forest revenues through the Forest Fund) would cover variable costs such as performance-based premiums and additional protection activities in non-conceded forests. Such mixed financing framework would provide an incentive to forest services to increase their performance in forest management and collection of forest fees.
- **It is likely that direct management** of “non-conceded” forests will absorb the largest proportion of the total forest budget, to cover the costs of forest protection works or to contract out these works to private firms (through open procurement procedures).
- The new budget code has removed the incentive for leskhozes to conduct excessive **sanitary cuttings** (since proceeds from sales now accrue to the federal budget) but inversely this new rule leads to artificially low sale prices (since the field units have no interest in the proceeds from the sale). Direct interest of field offices for good management of public goods should be restored, and . the Forest Fund described above is one possible option to restore such incentive. In

addition, transfer of budget allocations to field units should be timely to give forest services the means to act in field. .

- **Performance-based premiums** (on top of regular salaries) should be put in place to improve governance in forest management. Such incentive should be part of the government's forest reform agenda, and should be set up for both regulatory and executing bodies, regardless their status of office, agency or enterprise. Lack of such incentive would undermine success of the government's new forest policy.

D. TECHNICAL TOOLS FOR FOREST MANAGEMENT

The Bank understands that a set of technical tools will be created/updated to improve management of the Forest Fund : Forest inventory / Forest Account / Forest cadastre / Forest monitoring. The following three instruments should also be developed as part of a comprehensive foundation for sustainable forest management. :

- Concessions contracts should be based on comprehensive **forest management plans** which entails not only the right to harvest timber but also the obligation to execute the whole set of pre- and post-operations (renewal, thinning, protection, development and maintenance of infrastructure, detailed mapping and inventory, biodiversity measures). Forest management plans should be drawn up and implemented by concession holders ; subject to approval and control by forest services. The concession would then comprise not only harvesting areas, but also regeneration and protection areas. According to the forest regeneration cycle and the duration of the concession contract, the management plan should determine and map **annual harvesting areas** as only a minor fraction of the total concession area. Approximately 1/50th of the total area would be open to harvesting annually.
- The forest user should provide **contract bonds** (through bank deposit) to be returned upon satisfactory completion of management operations. Inversely, investors should also be able to secure their long-term access against non-commercial political risks (through private **insurances** or state-issued **guarantees**).
- Independent and internationally recognized **third-party certification** should become a standard requirement as part of the concession contract for big areas. Certification standards should be defined at the national level by working groups involving all stakeholders.

E. CHANGE MANAGEMENT

Public debate and participation of stakeholders such as forest staff, industry and civil society, is key to develop a strategic vision and analyze potential options for change. Also crucial is a **strong leadership** in initiating the change process and driving the preferred option into real practice. Consistency with overall public reform and macro-economic agenda is a third factor to ensure success.

While leading the change process, in addition to stakeholders participation, special attention should be given within public authorities to :

- (a) **Horizontal dialogue** : between federal ministries (Natural Resources, Economy, Industry, Finances, Agriculture) to avoid multiple and diverging leadership in the design of new policies.
- (b) **Vertical dialogue** : between Federation and Regions to improve quality and feasibility of new policies as well as acceptability by local stakeholders.

Quick successes achieved in **pilot regions** should demonstrate feasibility of the proposed reforms and create confidence in change.

F. ADDRESSING POSSIBLE RISKS – KEY-POINTS FOR IMMEDIATE ATTENTION

The analysis of Russia's forest reform agenda shows that two critical issues for re-organizing the sector are :

- (a) **Building the contractual framework between the owner and the users** of the State forests. Set forth economic and ecological rights and obligations of both parties; introduce market-based pricing mechanisms and ensure implementation of sustainable forest management plans by the users.
- (b) **Separating administrative and implementation functions** among the public institutions for the management of forests that will not fall under owner-user contracts. Set up adequate financing mechanisms and incentives for forest services at the bottom level.

The draft laws under preparation (Forest Code, law on concession, law on forest charges) should be submitted to open technical debate before their submission to the Government and to the Assembly, so as to reflect the views of all stakeholders of the Russian society and to take into account lessons learnt from other countries. A joint working group (MNR-MEDT) should be set up to ensure consistency with overall reform orientations.

Major implementation decrees should be prepared simultaneously to facilitate and speed up their implementation in the field. Analytical works and public debate are urgently needed in the following areas to prepare the new regulations and action plans for their field implementation :

- (a) **Institutional reforms**, to analyze the options outlined in Section B ; guiding conversion of leskhozoes into new forest administration and making best use of leskhozoes' important social capital ;
- (b) **Economic reforms**, to promote private sector's investments, rationalize the forest taxation regime and pricing mechanisms and secure collection of revenues, and setting up financing framework of forest institutions.

Analytical work under Government leadership should develop and assess **various options**, stimulate **public debate** and stakeholders participation, and help Government make decisions.

New systems should be **tested in pilot regions**. In particular, allocation and supervision of concession-type contracts should be tested according to the following roadmap :

- (a) Forest land-use planning should be conducted in pilot regions in order to demarcate areas devoted to sustainable production, protection and conservation and identify the which forest will be put on for rent and when (see Figure 1);
- (b) Assessment of the demand by forest companies and of the possible economic distortions (verify that conditions for actual competition are met);
- (c) Definition of transparent bidding procedures and publication of standard-contracts announcing in advance rights and obligations of the User for each concession (no one-on-one negotiations);
- (d) Allocation of a very limited number of concessions on a pilot/testing base. These pilot concessions should be designed (location, size, quality of forest) in such a way that they will generate strong demand from a sufficient number of companies.

This piloting course of actions would help the Government and concerned stakeholders detect possible mistakes, and figure out necessary **safeguards and accompanying measures**, when bringing the policy

into practice in the Russian context. It would help optimize the positive outcomes of these new policies when gradually applying them in full national scale.

Capacity of public institutions to supervise forest users in the field should be strengthened in two areas :

- (a) Improve the capacity of forest services to control compliance of forest users with environmental obligations and sustainable forest management in the field;
- (b) Improve the capacity of forest and fiscal administrations to collect revenues from forest owners, to reduce the scope for fiscal evasion

To this end, performance-based remuneration schemes for forest and finance administrations should be put in place in those pilot regions.

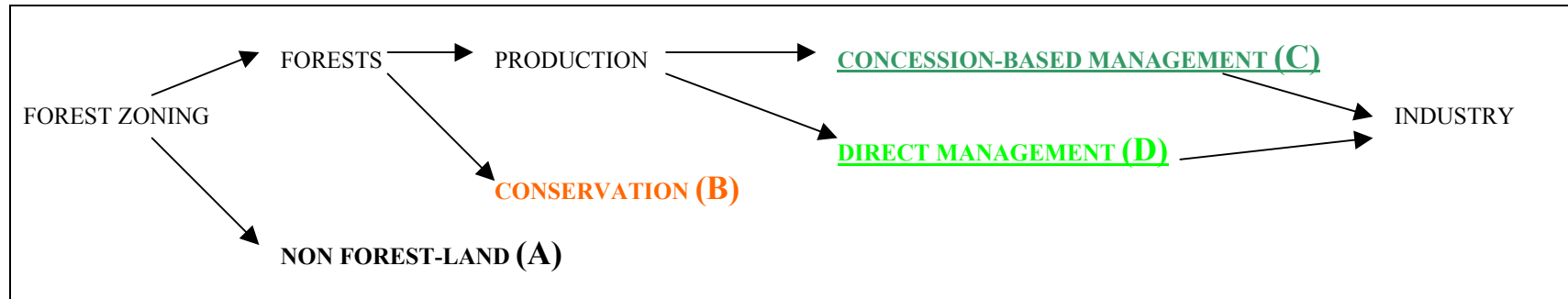
World Bank is ready to assist in addressing the key-points raised above. Such assistance can be optimized by combining the whole range of World Bank Group instruments :

- (a) IBRD Pilot Sustainable Forestry Project : support to reforms through analytical works and participatory process (Component A) ; and testing new policies and strengthening institutional capacity in pilot regions (Component B)
- (b) Regional Study on Forest Institutions, , PROFOR and World Bank Institute : facilitating exchange of knowledge with other transition and forest-rich countries,
- (c) IBRD Coal and Forest Guarantee, MIGA, International Finance Corporation (IFC), Global Environment Facility (GEF) and Global Alliance with the World Wide Fund (WWF) : promoting integration of private industrial investments together with sustainable management and certification in pilot regions;
- (d) Presidential Initiative : integrating World Bank Group, bilateral donors and international NGOs into a consistent framework for mainstreaming biodiversity conservation on production forests in pilot regions.
- (e) Bio-Carbon Fund : rewarding non-timber environmental values, and offering alternative to timber-based development of forest areas.
- (f) Support to, and consistency with, macro-economic and overall public sector reforms through a holistic approach to sector-specific reforms, coordinated with policy advise in other sectors of the economy.

Table 1. Organization and ownership of Forest lands (as proposed in the draft legislation)

Category	FOREST FUND (92% of all forests) All forests, except those that are not part of the Forest Fund, Also includes lands not covered with forest vegetation, but that is intended for forest restoration, for the need of forestry, and other lands unsuitable for use.			FOREST NOT PART OF THE FOREST FUND Forest located within the borders of closed administrative territorial entities, as well as urban forests, defense and security lands.	TREE/SHRUB VEGETATION Trees growing on agricultural lands, transport lands, and lands of the Water Fund
Ownership	Russian Federation			RF : defence and security lands as well as forests within the borders of closed administrative territorial entities Urban Forests: RF or SRF or Municipal entities	Owner of the land on which tree and shrub vegetation is located : RF or SRF or Municipal entities
Sub-level 1	GROUP I – 23% Forests designated mainly to perform water conservation, protective, sanitation, health improvement and protected natural areas	GROUP II – 8% Forests in densely-populated areas with well-developed infrastructure, that perform water-conservation, protective sanitation, health improvement, and which are at the same time of limited timber-production significance, and forest in areas with insufficient forest resources whose preservation makes it necessary to restrict the forest use regime	GROUP III – 69% Forest of forest-rich regions which are important primarily for timber production		
Sub-level 2	Divided into 20 protection categories : forest belts along river banks, anti-erosion forests, scientific importance, nut-harvesting areas, state national parks, etc.		EXPLOITED FORESTS	RESERVED FORESTS (those that are not to be exploited in the next 20 years)	
Objective/ Authorized Forest Uses	Forests intended for the implementation of nature-protective, recreational, sanitary functions	Forest with limited importance for exploitation	Concession / Lease / Short-Term		Lease / Short-Term Use

Figure 1. Forest zoning / land-use planning at district level : demarcation of forest categories



Distribution of lands at a district level

NON-FOREST LANDS ----- A -

PROTECTED AREAS ----- B -

FOREST FUND UNDER DIRECT MANAGEMENT ----- D -
 Group I and II : protection oriented, regeneration
 Group III : reserved forests

FOREST FUND UNDER CONCESSION-BASED MANAGEMENT -- C -
 Group II and III-b : concessions, leases, short-term

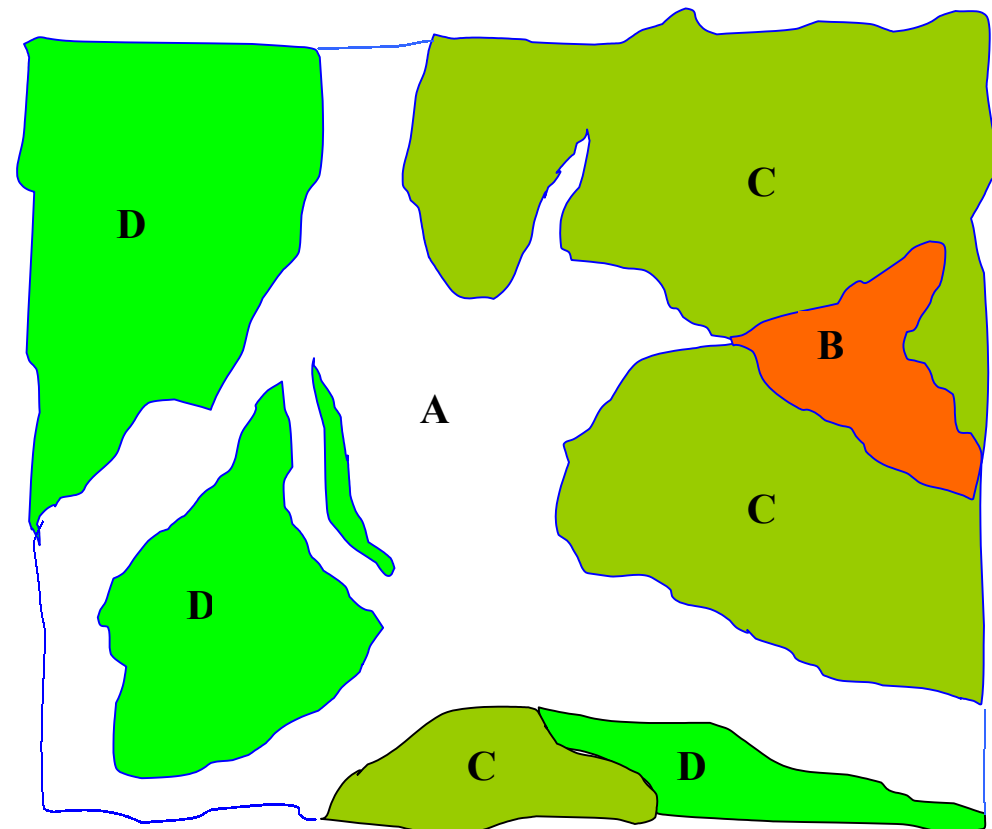


Figure 2. **Regulatory** and **Implementation** functions of the Forest Administration and its implementation body in the Forest Fund

Strategic and regulatory functions (by field offices of the Federal Administration) apply to both conceded and non-conceded forests, with a focus on conceded forests (Groups II and III-b of the Law).

Direct management (by field units of the forest executing agency) is limited to non-conceded forests (Groups I, II and III-a of the Law).

Private companies operate in conceded forest (as “forest-users” through concession-type contracts with obligation of SFM and payment of forest charges to the owner) and in non-conceded forest (as “contractors” through work contracts financed by the owner).

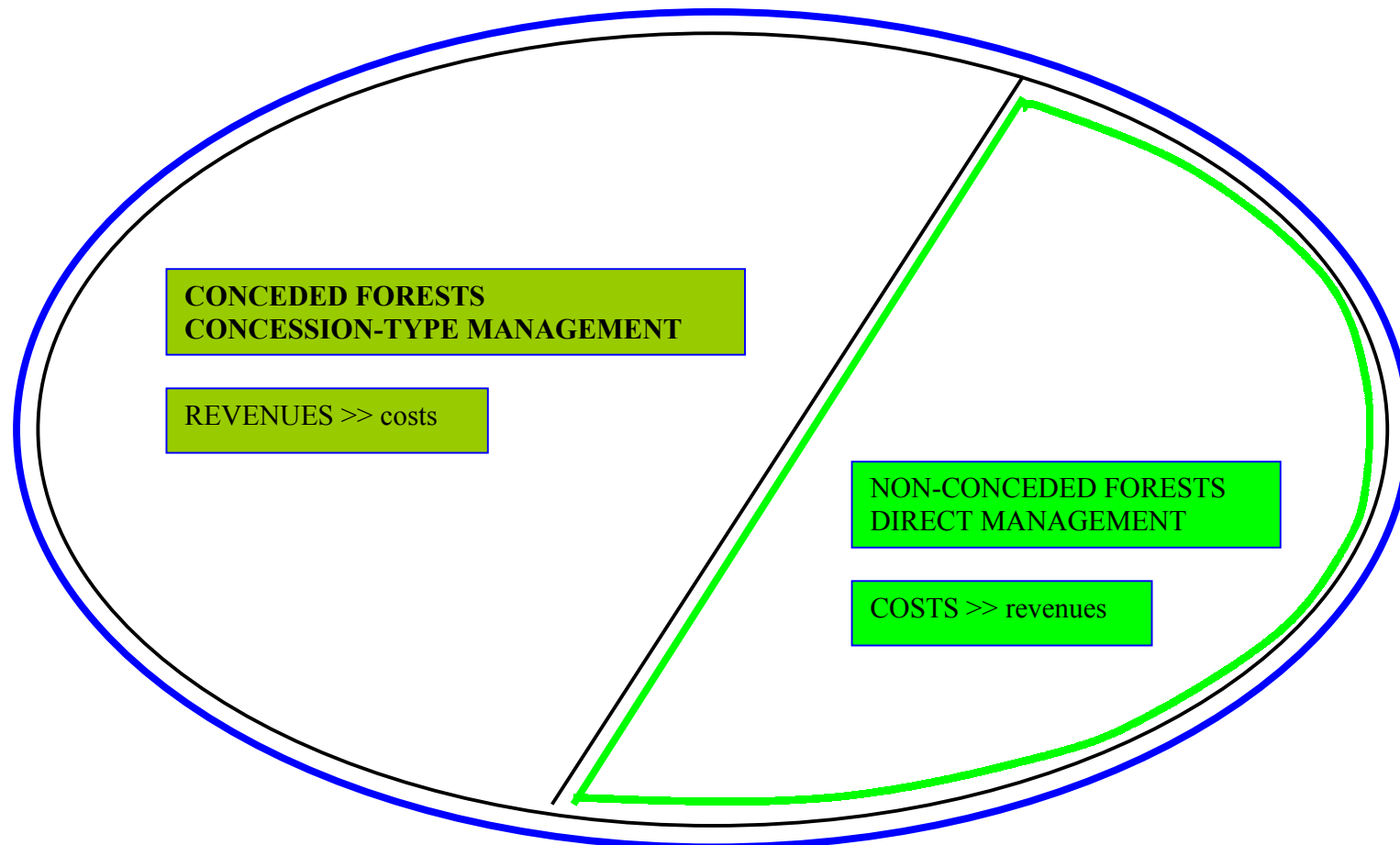


Figure 3. Functions of public and private sectors in the management of CONCEDED and NON-CONCEDED forests

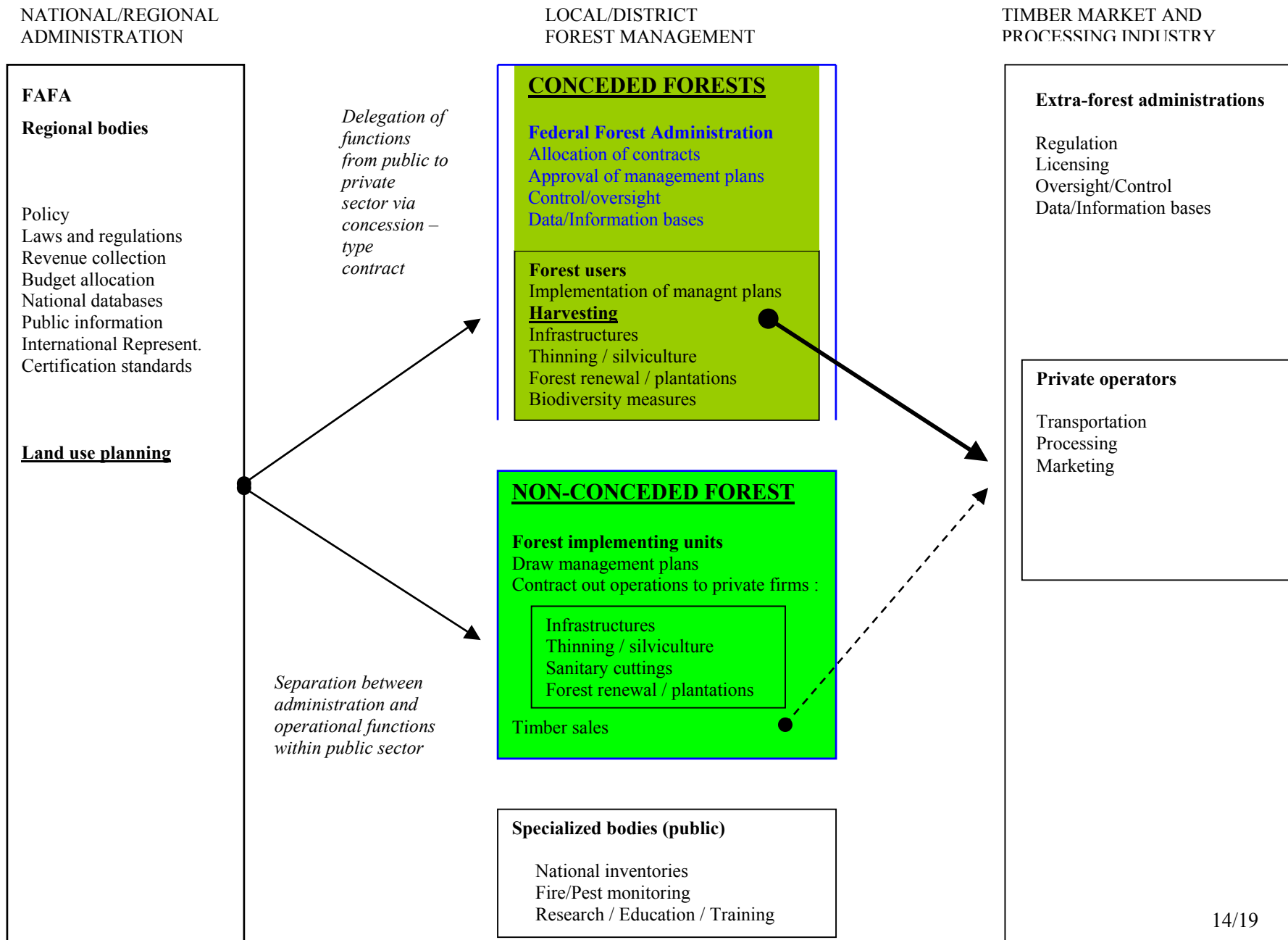
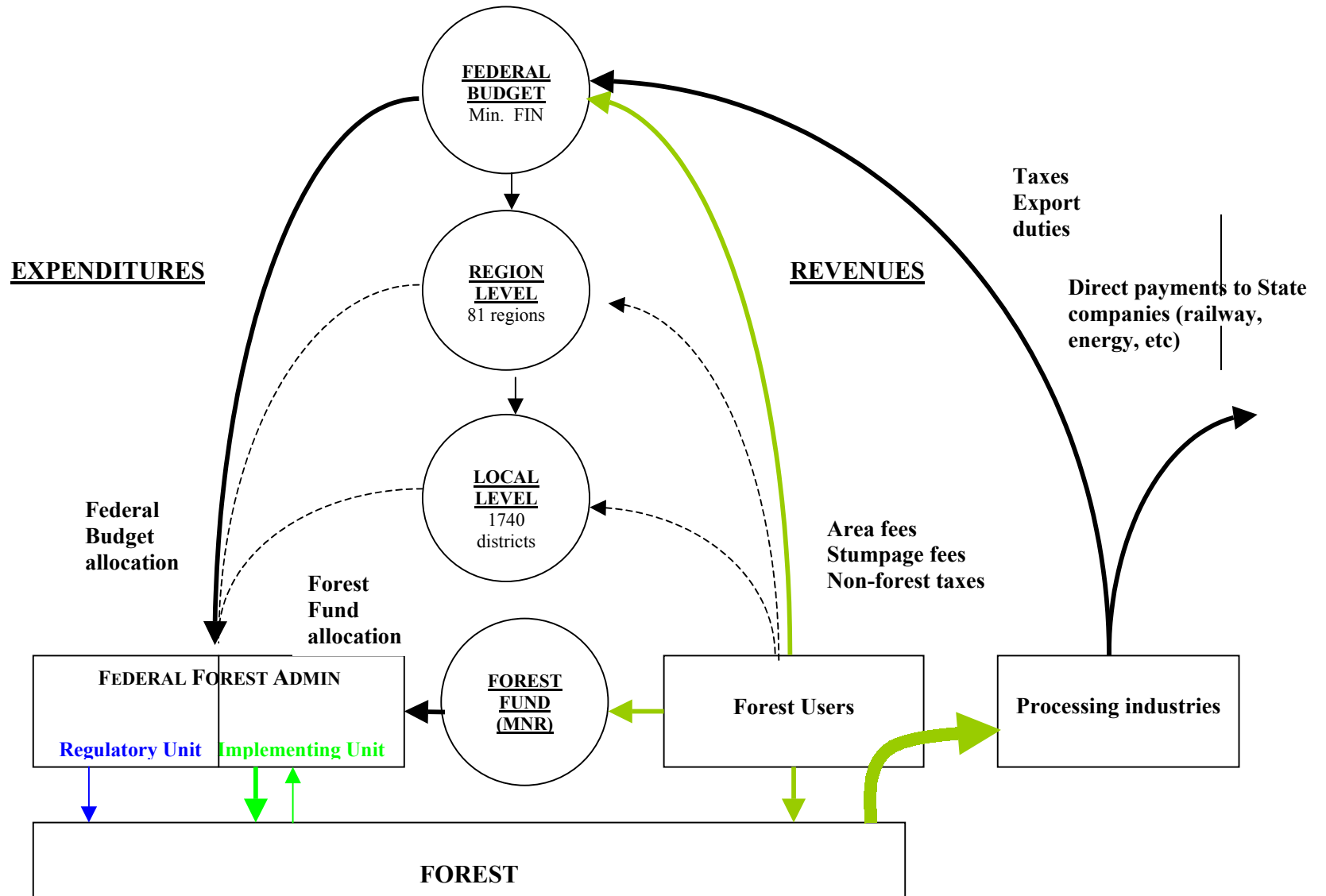


Figure 4. Financial flows from and to the forest - Expenditure and Revenue sides



ANNEX 1. INVESTMENT SAFEGUARDS FOR FOREST MANAGEMENT AND WOOD PROCUREMENT

These investment safeguards apply strictly to forest management and wood procurement, which are but one element of forest industry operations. They are intended to guide companies investing in forest industry development to pursue environmentally sustainable and socially responsible policies in their forest-related operations. The proposed guidelines are based on the following principles.

- (i) Forests managed by the Company are certified
- (ii) In non-certified forests, the Company will secure environmental and social sustainability of forest operations on the wood procurement site and in wood transport; the Company will adhere to legal standards defined in national legislation, and relevant international agreements such as the ratified ILO Conventions; higher standards may be applied on a voluntary basis
- (iii) The Company will assist in efforts to promote sustainable forest management in non-certified forests from which its supplies come from.

Specific criteria

- *Sound forest stewardship:* The Company has made a commitment to sustainable forest management, and formulated a sound forest management policy for its forest-related operations.
- *Management of company forests.* The forests managed by the Company are certified under a credible and internationally recognised certification scheme. Where these forests are not yet part of such schemes, the Company has prepared a stepwise approach with verifiable milestones that leads to certification.
- *Procurement of wood from other forests.* (i) The Company prioritises certified forests as other sources of wood. (ii) For procurement of wood from non-certified forests, the Company establishes an effective monitoring procedure including a feed-back mechanism to ensure that forest management as well as harvesting and transport operations in these forests meet relevant forest management standards. The monitoring system applies to all operations carried out by the Company and includes, as a minimum, checks (including field checks) on the elements listed below. The Company takes appropriate measures to ensure that its subcontractors and service providers comply with the same requirements.

1. Forest management

- Forest manager has property or forest use rights to the site, from which wood is procured, and that his/her use rights do not infringe the legal and customary rights of indigenous/local peoples to own, use and manage their lands and resources
- Forest manager has a forest management plan and a monitoring system appropriate to the size, scale and nature of the operation; monitoring system includes checks on management and utilization of forest resources (wood, non-wood products), environmental values and their protection as well as social issues.

2. Wood harvesting

- The Company refrains from procuring wood from sites which have been identified as possibly holding high conservation values until their status has been confirmed, and they have been administratively designated as areas where wood procurement is allowed;

identification of such sites must be based on a scientifically sound methodology and they should be mapped; in the absence of adequate regulations stakeholder consultations and use of relevant guidelines³ are useful approaches to define areas, which should be left out of wood procurement

- Threatened, endangered and vulnerable species and their habitats and other biologically valuable habitats are protected
- Waste associated with harvesting and on-site processing operations and damage to other forest resources is minimised
- Appropriate measures for erosion control and protection of water resources are taken
- Fuels, lubricants and other chemicals are used and disposed of in a manner that does not harm environment
- Sites of special cultural, ecological, economic or religious significance to indigenous people are protected

3. Wood transport

- The Company puts in place a management system for tracking of all wood (chain of custody)

4. Legal issues

- Harvesting and transport operations are carried out based on necessary licenses and in compliance with other legal requirements
 - Minimum wages paid to workers employed in forest management, harvesting and transport operations meet the legal standards
 - Income tax and social charges on worker's wages are paid according to legal requirements
 - Work environment meets standards defined in national legislation and Core ILO Conventions regarding occupational health and safety
 - Workers' rights to organize are guaranteed as provided for in national legislation and Core ILO Conventions
-
- *Involvement of stakeholders.* The Company has established a method for two-way communication with parties that are potentially affected by its forest-related operations as well as a procedure to consider their views concerning these operations.
 - *Promotion of sustainable forest management.* The Company provides support to promotion of sustainable forest management in wood supply areas not managed by it complementing efforts made by other parties (e.g. by strengthening private forest owners' organisations, promoting certification including group certification, including conditions in wood supply contracts encouraging sustainable forest management etc.).

³ For instance, the HCVF toolkit developed by WWF could be used as a research methodology

ANNEX 2. RUSSIA FORESTRY : SOME FACTS AND NUMBERS

Resources :

Harbors 764 million ha of forest (22% of the world's forest area)
Account for 15 % of the global carbon terrestrial pool
Timber stock : 81 billion m³ (21% of world's timber stock)
Economically accessible forests with existing infrastructure = 142 million ha
Official annual allowable production equals over 513 million m³ of which 300 million m³ coniferous
Actual cutting in 2001 equals 25% of allowable cut (not counting illegal logging).
Objective of the Forest Strategy : 200 million m³/year
Share in world paper and wood trade is only 3%.

Economic importance

In 1990, forest industry generated 2% of GDP and employed 1-2 million (=3-7% of total employment).
Manufacturing of forest products currently occupies the 5th place in the Russian economy in terms of GDP and the 4th place in terms of exports.
In 45 regions forest industry amounts 10-50% of the total value of industrial production.
Estimated 10 million people depend on logging and wood processing ; many forest enterprises located in “one-industry towns “in remote areas; e

In 1995 average stumpage fee is less than US\$ 1 per m³ whereas under auction the stumpage fee in some neighboring countries are over US\$ 10 per m³.

Value of timber and pulp on international market :

Potential tax revenues from the forest sector is estimated US\$2.5 to 5.5 billion per year.

In 2001, Russia's timber and paper exports were worth \$4.1 billion and forest industry accounts for 4% of the total outputs and exports of Russia. Most of Russia wood export is raw material.

Forest industry comprises some 3,000 major and mid-sized companies of which over 95% have been transferred into joint stock companies.

Early 1990's collapse and Ongoing recovery

Until 1990 : second only to USA as an industrial wood producer with 375 million m³ annual production.
Production fell down to 100 million m³ in 1996. Between 1994 and 1998, federal allocations have declined by more than half.

Positive growth in the forest industry became evident only in 1999 when the growth rate was 118% as compared with 1998.

Institutions :

1996 law : Federal forest Service (FFS) with 81 regional forest committees and 1740 district forest committees.
Other organizations reporting to FFS include schools, research institutes, forest inventory and planning enterprises.

Logging and wood processing enterprises have mostly been privatized. State Committee for Forest, Pulp and Paper, and Woodworking Industries was established in 1996 to help enterprises restructure and promote investment.

Forest conservation

Network of protected areas : 51 million ha.

2 million ha of forest damaged annually because of inadequate management of fires, pests and diseases. Year

2002 : 14 millions hectares damaged by fires.

ANNEX 3. REFERENCES (TO BE COMPLETED)

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