ICR Review
Operations Evaluation Department

Report Number : ICRR11404

1. Project Data:		Date Posted :	01/10/2003	
PROJ ID :	P008302		Appraisal	Actual
Project Name :	Forestry Development	Project Costs (US$M)	54.7	NA
Country :	Belarus	Loan/Credit (US$M)	41.9	33.4
Sector(s):	Board: RDV - Central government administration (52%), Forestry (48%)	Cofinancing (US$M)		
L/C Number :	L3741			
		Board Approval (FY)		94
Partners involved :		Closing Date	03/31/2000	04/30/2002

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2. Project Objectives and Components

a. Objectives

The overall goal was to restructure the forestry sector to ensure that it could make an optimal contribution to the economy. More specifically, the objectives were : in the short-term, to introduce significant sector policy and management reforms; to reverse the decline in wood harvesting and production; to improve operating efficiency; to substitute for wood imports and possibly expand exports; and, in the medium -term, to improve forest resource management. In 1999, the development objectives were rephrased to focus more on seed supplies, business planning capacity, and new approaches to resource management such as forest certification . but these were more adjustments in emphasis for the final two years than major changes in the fundamental objectives . OED ratings here are against the original objectives.

b. Components

The project design was extremely complex and unfocused, with 27 components. The main component categories were: 1. Sector Policy Reform, including increased stumpage fee, reduced subsidies, and trade liberalization (no direct project cost); 2. Improved Forest Productivity including intensive silviculture, harvest mechanization including spare parts, and seed processing facilities ($32.2 million); 3. Environment Related Components, including fire protection, pollution monitoring, and wetlands monitoring, (US$8.5 million); 4. Technical Assistance and Institution Building, including a forestry strategic plan, a forestry management information system, education and training, a Project Implementation Unit and technical assistance (US$14.0 million).

c. Comments on Project Cost, Financing and Dates

The project closed two years after the original closing date . US$7.5 million was canceled.

3. Achievement of Relevant Objectives:

As noted in the ICR, the objectives mixed overlapping strategic ideas, cost effectiveness, improved resource management, and more mundane technical concerns which makes it difficult to evaluate and weight achievements . With respect to *policy and management reforms*, there appears to have been partial achievement : stumpage fees were raised; budget subsidies were somewhat reduced; so -called "market sales" of wood increased; but modest progress was made in private sector participation; export quotas, licenses of wood and wood products were abolished; and training programs were undertaken . With respect to *reversing the decline in harvesting and production,* achievement was poor, there was a decline in commercial harvesting with firewood and pulpwood production remaining unchanged . With respect to *improving efficiency*, there is some limited evidence that efficiency was somewhat improved. With respect to *substituting for wood imports and increasing exports* , both were achieved over the project period although exports have fallen subsequently . With respect to *improving forest resource management,* a seed selection center was established and thinning operations carried out supported by the new equipment, however, as noted above, private sector participation, which presumably would contribute to improved forest management, remains very small. Substantial weight should be placed on the enabling sector policy reforms which appear to have been the most important need, still accepting that a hybrid operation supporting both public sector and an enabling private environment may have been the only realistic option at the time, however the policy reforms had modest impact.

4. Significant Outcomes/Impacts:

The most significant outcomes include the following: a Forestry Strategic Plan was developed which reportedly now has strong ownership; a Forest Code, defining and regulating relations in the forest sector, was developed; stumpage fees were raised; "market sales" of wood increased from 16 percent of volume to 80 percent of volume by 1998; export quotas and licenses of wood and wood products were abolished; there was a substantial growth in exports and contraction in imports although other factors including transport policies played a role; there was some reduction in the subsidy element; forest management was improved through thinning and salvage logging operations; a Seed Center was developed; radiation monitoring equipment related to the Chernobyl accident fallout was expanded and further radiation monitoring carried out; initial steps were taken for the establishment of a forest certification system; fire and pest management were improved. There were improvements in education, training, research, and data analysis which are expected to have long-term benefits. The region notes that the project did help to sustain a wider natural resource management and environment dialogue.

5. Significant Shortcomings (including non-compliance with safeguard policies):

There were a number of economic shifts that went against the project, although at the time, in 1994, prospects for quite rapid reform appear to have been reasonable. In the event, the Belarus economy did not reform as rapidly as anticipated into a market economy, impacting on this project as on others. There were also global price shifts. Border prices for pulpwood fell by about half over the project period. Domestic prices for round wood fell to about half the projection in the appraisal report. Also, the government's policy shifted away from fuelwood towards natural gas for energy production in spite of expected rising natural gas prices. There remains considerable administration discretion in wood allocation with potential for distortion. Private companies still carry out only about 2 percent of all forest harvesting. Wood exports are still largely the prerogative of the public sector. There was a 25 percent decline in commercial harvesting over the period 1991 to 2001, partly due to pricing, although the ICR argues that, without the project, the decline would have been greater. Quality at entry was unsatisfactory. As noted by the ICR, the project was poorly conceived and designed and overambitious. There was an absence of key monitoring indicators against which to assess progress and and this also was one reason for the lack of an ex post economic analysis. Complaints related to two large contracts (related to which borrower performance was satisfactory) caused a substantial procurement delay. The combination, to this extent, of complex multi-component investment and policy conditions within one investment instrument was risky, although some degree of investment and policy in a transition economy may be desireable for building ownership.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Unsatisfactory	There was an absence of key performance indicators. The project achieved most of its objectives but with major shortcomings. Policy reforms took place but with modest impact. Firewood and pulp production remained unchanged. Private sector harvesting increased little and is still only about 2% of the total. Wood exports are still largely public sector managed. (Commercial harvesting fell but this was due to price declines.)
Institutional Dev .:	Substantial	Modest	Some initial enabling reforms were achieved but, overall, with such a high percentage of the industry still in public hands, the project only increased the country's "ability to use human and financial resources" (a brief definition of ID) to a limited extent.
Sustainability :	Likely	Likely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

The main lessons, drawn partly from the ICR, include:

1. The Bank should not proceed with a project until it has obtained adequate knowledge of the issues facing the sector and developed a well thought-out strategy for addressing them, as is generally done through diagnostic ESW. Where sector knowledge remains a constraint a much smaller project would be appropriate.
2. Extreme complexity can arise from attempting to cover all relevant reform and investment bases at the same time.

Even if individually justified. Beyond a certain modest level more components are competitive (for management attention) not complementary. Prioritizing and sequencing is a better way to cover all constraints over time. Furthermore, mixing a substantial set of policy reform conditionality with many investments is risky with investments that are difficult to switch on and off.
3. Capacity in procurement needs to be developed very early or scheduling of procurement needs to match capacity.
4. Mid-term Reviews should carry out fundamental reassessment of project rationale against current borrower and Bank priorities and, where necessary, be ready to make fundamental changes.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ratings analysis by separate objectives is carefully done and quite useful. Some of the tables are incorrect, stating planned and actual loan amounts rather than total project expenditure as project costs. The lessons do not do justice to the quite thorough and frank analysis.