

Operation Performance Evaluation Review

Forestry and Forest-Industry  
Sector Study in  
Romania

(A public sector TC operation)

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Evaluation Department  
(EvD)



**European Bank**  
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# OPERATION PERFORMANCE EVALUATION REVIEW – TC OPER FORESTRY AND FOREST-INDUSTRY SECTOR STUDY (ROMANIA)

## ABBREVIATIONS

<b>AAC</b>	Annual Allowable Cut (of wood)
<b>BD</b>	Banking Department
<b>EC</b>	European Communities
<b>ED</b>	Environmental Department
<b>EvD</b>	Project Evaluation Department
<b>FDP</b>	Worldbank's Forestry Development Project
<b>FSC</b>	Forest Stewardship Council
<b>GDP</b>	Gross Domestic Product
<b>GEF</b>	Global Environmental Facility
<b>IFI</b>	International Finance Institution
<b>MAFRD</b>	Romanian Ministry of Agriculture, Forestry and Rural Development
<b>MEF</b>	Romanian Ministry of Environment and Forestry
<b>NGO</b>	Non-Governmental Organisations
<b>OCE</b>	Office of the Chief Economist (EBRD)
<b>OL</b>	Operation Leader
<b>OPER</b>	Operation Performance Evaluation Review
<b>PCR</b>	Project Completion Report
<b>TC</b>	Technical Cooperation
<b>TOR</b>	Terms of Reference
<b>WWF</b>	World Wildlife Fund

## Operation Performance Evaluation Review – TC OPER Forestry and Forest-Industry Sector Study (Romania)

### 1. The Project

The EBRD had financed a number of investments in forest industry companies in Romania between 2000 and 2005<sup>1</sup> and considered further engagement. Compared to other countries in the region, Romania's forestry-based sector and industries still contributed substantially to the national economy. Some 3.5-4 per cent of GDP was produced in related sectors and the annual export value of forestry products (including processed timber and furniture) exceeded \$2 billion.<sup>2</sup> The markets, however, were facing some uncertainties about long-term wood supply.

A comprehensive study on the forestry sector and its potential ("the Study") was thus judged to be beneficial for ensuring greater predictability for future investments. After some initial investigations, the team decided that a comprehensive outline of what such a report should deal with would be necessary. For this reason, external expertise was committed to create detailed Terms of Reference (ToR). This assignment was financed by €25,000 of Swedish TC Funds (SWE2-2005-11-07) and took place between August 2005 and February 2006. Based on these ToR,<sup>3</sup> a competitive tender started in July 2006 to identify the best consulting firm for this assignment.

Austria was ready to provide the tied-funding for the Study. The competitive tender was won at the end of 2006. Contract negotiations between the Client, the Romanian Ministry of Agriculture, Forestry and Rural Development (MAFRD) and the Consultant proved to be time consuming. The contract started in April 2007 and lasted initially for one year, but was later extended until September 2008. The Consultant's Final Report dates from August 2008. This is the main phase of the project, financed under commitment AUS1-2007-03-01, with a total commitment amount of €300,000.

The project activities had to be carried out in close coordination with the World Bank's Forestry Development Project (FDP), a \$25 million loan to the Romanian Government that was implemented between 2003 and 2009. The main objectives of the FDP<sup>4</sup> were:

- (i) to improve the management of state-owned forests through capacity building and technical innovation for environmentally sustainable and cost-effective forest management
- (ii) to support the establishment of pilot systems for forest management among underserved private forest owners. Over its lifetime, changes to the project were required and its activities were adapted accordingly.

After the final version of the Study was presented in summer 2008 to all involved stakeholders in Bucharest, it was found that another presentation to the potential investors' community in Austria would be beneficial for the impact of the project. The request for a workshop was granted at a cost of €5,100 and it took place in January 2009 in Vienna (AUS1-2009-01-02).

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<sup>1</sup> Section 3.2 in the report provides further details.

<sup>2</sup> Numbers taken from: "Developments in the Romanian Forestry and its Linkages with other Sectors", Abrudan et al, University of Brasov, 2009.

<sup>3</sup> See Appendix 1 to this report.

<sup>4</sup> After having been officially restructured in March 2008, following an official request from the Government of Romania – see Implementation Completion and Results Report (IBRD-46830).

It had been the intention of both the Banking team and the donor not to allow too much time to elapse between the elaboration and presentation of the Study; however, the timing of the final workshop proved to be counterproductive. First, these months saw the start of the global financial crisis. Second, “legislative” elections took place in Romania on 30 November 2008 and led to a time-consuming Government formation process.<sup>5</sup> As it was difficult for the Romanian counterparts to foresee who would act as their future authority, ultimately they did not appear at this workshop.<sup>6</sup>

This evaluation reviews the design and objectives of the Study as well as its implementation. The way in which its outputs and impacts are perceived by domestic and international key players in-country is of particular importance. During a one-week field visit, the main stakeholders of the Romanian forestry sector were interviewed on the current situation of forestry management and wood-related investments and how it compares to the time before or during the Study. The tangible and intangible outcome of the TC work is presented in Sections 3 and 5. Key issues and lessons learned are illustrated in Section 7.

## **2. Project rationale**

As described in the Romanian Country Strategy 2005:<sup>7</sup> *“The Bank has identified the forestry sector as one of the sectors which are attracting FDI as Romania has an important and very valuable wood resource. At the same time the Bank is working within its policy dialogue with the central and local authorities on the improvement of forestry management to ensure regular and transparent wood supply to all investors.”* From the early period of project preparation, one of the biggest bottlenecks was seen in the insufficient production and supply of wood on an annual basis. In fact, at one time the Study was referred to as the “Wood Supply Sector Study” in a number of different documents.

According to the ToR included in the Consultant contract, the overall objectives of the Study were defined as follows:<sup>8</sup>

- to establish a concept and approach to developing forestry and forest-based industries in Romania
- to promote viable investments in forestry and forest-related industries in Romania by addressing wood supply and associated issues.

These are described in greater detail below.

### **2.1 Establishment of a concept for developing forestry management and timber production**

In order to pursue a comprehensive approach, the study was to describe the general impediments and specific bottlenecks in the timber production and supply process that result from administrative, legal or regulatory constraints. Thus, the following areas were to be included in the work of the Consultant:

- forest policy, legal and institutional frameworks

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<sup>5</sup> The elections introduced a new electoral system changing from party list proportional representation to a mixed member proportional representation system, and featuring, for the first time, sub-county constituencies. The Democratic Liberal Party (PD-L) won most seats in both the Chamber of Deputies and the Senate, although the alliance headed by the Social Democratic Party (PSD) won a fractionally higher vote share.

<sup>6</sup> See the Final List of Participants, provided in Appendix 2.

<sup>7</sup> BDS/RO/05-1 (Final), dd. 16 December 2005, page 27.

<sup>8</sup> Consultancy contract C16372, Schedule A, ToR, page 22.

- state administration of the forestry sector and management of private forests
- technical conditions, including the available logistic infrastructure and harvesting operations
- availability of relevant and reliable information

## **2.2 Promotion of viable investments by addressing wood supply and associated issues**

In this context the activities of local and foreign investors in the forestry and wood processing sectors at the time was to be reviewed, distinguishing between the following sub-segments:

- saw mills
- wood-based panel plants
- pulp and paper mills
- sustainable energy/biomass projects.

In light of the respective industry needs identified, the existing and projected wood supply was to be analysed by region in terms of the wood raw material resources base, the existing and future Annual Allowable Cut (AAC) and the issue of illegal logging.

## **3. Achievement of objectives**

### **3.1 New concept for forestry management**

The Consultant produced a comprehensive report, which had been widely discussed with the Romanian stakeholders, and presented it to a range of potential foreign investors in Vienna. During the field visit, the Evaluation team heard a lot of positive feedback on the approach and quality of the Consultant's work in general. However, some interview partners voiced their concern that the Consultant could have involved more research institutions, and might have used public consultation features to a larger degree. It became clear that forestry is a sensitive issue,<sup>9</sup> as, at times, is the inflow of large foreign investments.<sup>10</sup>

It was very positively noted that despite the Governmental changes within the last two years, the most important counterparts of the Study are still involved in the sector.<sup>11</sup> They confirmed not only the accuracy and importance of the Consultant's findings at the time, but more importantly confirmed their intention to initiate their implementation. For the purpose of revising the key forest management norms, a working group has been established by the Ministry of Environment and Forestry (MEF) that, laudably, includes local non-governmental organisations (NGOs) such as the World Wildlife Fund (WWF), as well as investors (including large foreign forest land owners). Second, and with a view to enabling an effective legal revision, a forest

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<sup>9</sup> The Evaluation team learned that after a project workshop with key stakeholders the public understood the discussions in such a way that "[the] EBRD would aim to exploit the country's forest resources". Consequently, relevant staff at the Resident Office (RO) and Headquarters (HQ) were prompted to explain the objectives and purpose of the Technical Cooperation (TC) to NGOs and newspapers.

<sup>10</sup> The dominance of foreign (for example, Austrian) investors in Romania's wood processing markets was mentioned by some interview partners. Against this backdrop, the wood supply focus of the Study would at times and in some groups of the population be interpreted to serve the needs of the international business community rather than the country.

<sup>11</sup> Notwithstanding, whether they have rotated between the previous MAFRD to the MEF or between Ministries and Romsilva, for example.

inventory is being conducted, updating the centrally available information, planned for completion during the coming year.

In line with some of the Consultant's recommendations, the planned adjustment of the Forestry Code includes changes to the norms set for final cut (that is, the *rotation period*). At present this is set at 120 years, which is widely considered to be too high<sup>12</sup> and limits the annual allowable cut substantially. The Consultant had described this issue as particularly sensitive in previous discussions, thus it is a very encouraging sign of change in the awareness and attitude of the local decision makers. In addition, it appears as if the responsible forest authorities acknowledge the development of *logging technology* applied in practice – again an issue that was included in the Study.<sup>13</sup>

In summary, the Evaluation team found that related officials within the Romanian government approve of the findings of the Study overall and – despite the political changes since then – are committed to pursuing sector reform along those lines.

### **3.2 Promotion of foreign investments in relevant sectors**

As stated above, the link between the Study and the promotion of foreign investments was established through the domestic wood supply. It goes without saying that investors are unlikely to consider engaging with a country because of the mere existence of a sector study. And in fact those that have started and/or extended their investments in the Romanian forest sector either did not know about the Study, or did not consider it influential in their decision. As a matter of fact, the Bank has tended to be less involved in financing investments in the Romanian wood-processing industry in recent years. Also, the sustainable energy and biomass production segment is left out even though some investors or projects include such segments.<sup>14</sup> In some cases, the Bank had participated in negotiations but was not eventually chosen as the financier, apparently due to price reasons.

With regard to the available wood supply in the country, investors confirmed the main finding of the Study, namely that timber resources are underutilised in Romania. The AAC was calculated at the level of 22.3 million m<sup>3</sup> based on the forestry annual growth of 34.5 million m<sup>3</sup>s, while only 17 million m<sup>3</sup> has been harvested per year. From the three possible scenarios elaborated by the Consultant for future annual timber production, the medium one (which estimates that a level of 22.5 million m<sup>3</sup> will be reached by the year 2017) was judged to be realistic by interview partners.

This gap was, and appears still to be, due to two main reasons: first, the inaccessibility of large areas of the forests, as 65 per cent of forests are located in mountain areas, with some 2 million ha being not accessible at all. Even if physically accessible, the harvestable amount is highly dependent upon the quality of forestry road networks, something that will be dealt with in Section 5. Second, and as described in Section 3.1 above, the high age classes determined for final cut in the

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<sup>12</sup> Trees aged 90-100 years or more bear a higher risk of infections and/or internal rotting. As confirmed on site, beech logs from felled trees in that age group often suffer from hollow cores. Thus, the high age can be justified by neither environmental nor economic reasons. A lower rotation period of 80-90 years is therefore being considered, according to the species concerned.

<sup>13</sup> Against the concept of selling "standing timber", felling and skidding to the roadside today proves to be the dominant logging method.

<sup>14</sup> All the investors and experts interviewed agreed on the potential future importance of the biomass/sustainable energy sector, given the vast amount of underutilised land for cultivation. As yet, however, there is no coherent legal framework in place for such activities.

Forestry Code appear to be excessive.<sup>15</sup> Experts estimate that some 20-30 per cent increase in annual harvesting could be achieved without harming the sustainability of this resource.<sup>16</sup>

The foreign investors interviewed confirmed first the principal usefulness of the Study and second, the issue of wood supply to be challenging, particularly with regard to prices. On the other hand, investors universally described their facilities to be running at full capacity and two reported on substantial expansion plans for the near future. This suggests that the wood supply has not proved to be of such paramount importance as assumed at the time of designing the Study (Romania is a wood exporting nation, after all).

Overall, the achievement of objectives is rated **Satisfactory**, which is mainly based on the positive impressions that were gained with regard to the current reform initiatives for forest management and the associated legal framework. Less (positive) correlation could be verified with regard to the Study's anticipated effects on the promotion of foreign investments in the sector.

#### **4. Overall assessment**

Overall, the Romanian Forestry Study is rated **Partly Successful**, as the Consultants have correctly identified the bottlenecks and proposed the right measures to move forward and it appears as if the local Counterparts found new ambition and initiative to pursue the necessary sector reform. Foreign investment in general appears, however, not to have been disturbed by the issue of wood supply to the degree anticipated and a direct link to the Study is difficult to see. The rating of the fulfilment of the project's specific objectives is overall concluded as *Satisfactory*. Transition and environmental impacts are *Not Rated* for the reason that the forestry reform as recommended in the Study has not (yet) been implemented. Bank handling is concluded as *Satisfactory*. Commendable though the initiative for policy dialogue measures is, it would have been equally necessary to underpin the Study with further measures to support sector reform and create better framework conditions in the Romanian forestry and wood-processing industries.

#### **5. Transition impact (TI) and environment**

The documentation submitted for this project to TC Com approval rates the TI potential of the Study as *Good* and attaches a *Low* risk to its realisation. More specifically, the impact is expected to be twofold: first by alerting the Government to deficits in the investment climate for companies operating in the forestry and related sectors. Second, *"the Study will lead to foreign investment in the sectors [which] will have an important demonstration effect"*.<sup>17</sup> As described in Section 3, such a positive direct correlation between the Study and an increased foreign investment activity could not subsequently be proved, which should be a lesson for future similar TC work (see Section 7.2).

It was generally noted that the description of the Study's TI was significantly more modest after project completion than at project appraisal. As stated on page 4 of the

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<sup>15</sup> At present, there are two different forest categories, namely (a) the "production forests" (49 per cent) and (b) the "protection forests" (51 per cent). The Romanian WWF is lobbying for a more specific distinction such as: (i) protected areas with strict conservation, (ii) forests for recreation activities that allow for conservation cuttings, and (iii) areas for wood production.

<sup>16</sup> This, however, would probably require a simultaneous reduction in the degree of illegal logging activities to a fraction of the present level.

<sup>17</sup> Project Profile of TCS Commitment ID 18222, originating from May 2005.

Project Completion Report (PCR, see Appendix 3) “*The Study provides excellent background on the sector, identifies problems that impede the development of the forestry and wood-processing sector in Romania and proposes actions to mitigate negative effects and to improve conditions for efficient operations. The study is (thus) a useful tool for any further projects in the wood processing and related industries that the Bank is currently analysing in Romania.*”

Indeed the recommendations of the Study would first need to be fully implemented in order to produce a visible impact. It goes without saying that the more time elapses, the more difficult it will be to prove a direct link between the Study on one side and a change in policies on the other. It is for these reasons that TI is not rated at this point in time. Nevertheless, the Evaluation team would like to share the information received during the field visit in the areas addressed by the Study as well.

### 5.1 Structure and extent of markets

One of the main bottlenecks identified by the Consultants was the unavailability of relevant and reliable information on a central level. This has been a problem for quite some time, but has recently been aggravated by the increasing number of small private forest owners. In addition, the limited data that is centrally available stems from 1984, and is derived from the needs of a centrally driven socialistic economy. During the field mission, the Romanian authorities informed the team that a comprehensive *forestry inventory*<sup>18</sup> had been underway since 2008 and was envisaged to be completed in 2011. According to the preliminary information that was made available, the inventory is expected to lead to a number of revisions for future forestry management, accounting for a larger forested surface than had been estimated earlier.<sup>19</sup>

Less progress was achieved in respect of *illegal logging*.<sup>20</sup> This is (still) estimated at the level of some 30 per cent (of the total annual cut). There was, however, an important initiative developed and implemented over time, the control system “SUMAL”. With the help of this electronic system, the timber is registered where it is harvested and can thereafter be traced through its transport and sale, up to the final recipient. The investors interviewed were universally critical about the system, which would complicate all related matters without producing any tangible improvements. The WWF and other environmentally active NGOs were involved in the introduction of SUMAL and still believe in its value, although they admitted that the operational problems would exceed the typical teething period.

As presented above, the accessibility of Romanian timber is limited by the lack of an appropriate infrastructure, namely a (well-maintained) *forestry road-network*. Already below the standard set by the EU average at the time of the 1990s,<sup>21</sup> the situation in the country has further deteriorated during the last two decades, with direct

<sup>18</sup> Commissioned by the MEF and conducted by the Institute of Forestry Management in Bucharest.

<sup>19</sup> For example, instead of 6.3 million ha, there appear to be 6.9 million ha of forestry land in Romania, which amounts to some 32 per cent (earlier believed to be 27 per cent) of the country’s surface. Consequently, figures pertaining to annual growth and annual allowable cut (AAC) are likely to be revised (increased) in the future.

<sup>20</sup> Which is understood to include those harvesting activities that are not in compliance with the formal Forestry Management Plans, as well as all kinds of timber transport and trade without valid documents.

<sup>21</sup> Romania’s average forestry road coverage ratio is estimated to be around 6.2 (linear metres per ha) not including provisions as to the quality of the road, which is a further limiting factor, while ideally this value should amount to 10.



consequences for the use of harvesting technology and the unit costs for logging. Hopes for a substantial improvement of the situation have been raised, thanks to a number of internationally financed activities for granting and/or lending funds for the rehabilitation and new construction of forest roads, provided by the EC and the World Bank. However, the first experience reported by local and foreign stakeholders does not sound too encouraging.<sup>22</sup>

## 5.2 Institutions and policies

One of the consequences of a new Government taking over in December 2008 was the shift of forestry-related matters from the MAFRD to the *Ministry of Environment and Forestry (MEF)*, a move that is generally judged positively.<sup>23</sup> The MEF, namely its Directorate for Forestry, is thus the main state authority in charge of forestry policy as well as related information, technical and operational norms and guidelines. It is at present coordinating the working groups on the revision of the Forestry Code as well as conducting the forest inventory (described above), with the expectation that the conclusions of the latter will be fed into the legislative works. One of the weaknesses highlighted in the Study was the turnover of high-level staff in charge of forestry-related matters, a situation that appears to continue.<sup>24</sup> Positively, the individual people seem to stay connected to the sector and are rather rotating between administrative bodies.

The state-owned forest is administered by a subordinated body, “*Romsilva*”, which acts as a legal entity and financially autonomous unit.<sup>25</sup> The role of Romsilva had already changed substantially before the start of the project, in line with early reforms in the sector: separation of regulatory, control and forest management functions, as well as the privatisation of the wood harvesting processing sector. The increasing private ownership of forest land affects Romsilva substantially, hence the Consultant’s recommendations are mainly targeted at a more service-oriented attitude and the improvement of its operational efficiency. Here, a direct link existed to the aforementioned World Bank FDP, which included one component on institution building measures through an adviser to Romsilva. At present, it appears that the changing environment and external financial pressure on the institution is bringing about some changes in attitude and organisation.<sup>26</sup>

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<sup>22</sup> In respect of the EU mechanisms supporting the National Plan for Rural Development (NPRD), one investor reported that not a single application forwarded by a private investor was successful, but that all funds were provided to public bodies (notably Romsilva) instead.

<sup>23</sup> In fact the Forestry-related departments had previously been located at this Ministry (1990-2000), while its combination with agricultural matters thereafter has reportedly created a number of conflicts.

<sup>24</sup> At times causing practical problems. The Consultant team reported, for example, that it was envisaged to make the Study available on the client’s web site. This would have greatly enhanced the visibility of this project. Due to the change of responsibilities, however, this does not subsequently appear to have happened, either on the MARD or the MEF web sites.

<sup>25</sup> Romsilva monitors service activities in private forests and/or offers to do the administration on behalf of private owners. It is also in charge of maintaining the forestry road network, and administers the “forest conservation and regeneration fund”.

<sup>26</sup> It was, for example, recommended in the Study that Romsilva should decrease the number of its forestry inspectors by more than 5,000. During the interview, Romsilva reported that it had reduced its workforce by 1,700 over the last two years (with a current staff of 18,000).

**Box 5.2: Restitution of the Romanian forest and emerging private owners' associations**

In common with other central and eastern European countries, Romania embarked on a process of restitution soon after the restoration of democracy. The first round of the process was started by the respective law of 1991, limiting plots for return to private individuals (the legal heirs of pre-World War II individual owners) to a maximum of 1 ha, and not necessarily at the original location. Since 1996, the second round, plots have also been returned to communities, the church and communes. The maximum size was defined as 10 ha to individuals and 30 ha to judicial persons. The third and last phase started in 2005 and no further restriction of the plot size is anticipated. As a result of the restitution process, some 55 per cent of forest land is estimated to be under private ownership at present. A large number of cases pertaining to 600,000 ha of forest land is under dispute and awaits final court settlement. At the completion of the process, the private share of forest owners could reach 60-70 per cent.

The new private forest owners can be grouped into three different types: (i) the largest land owners, who grouped themselves into "private forest districts" and hired former Romsilva staff to manage them. Of these districts, 110 are currently in place, represented by the Association of Forest Administrators from Romania; (ii) around 800,000 forest owners with an average holding of 1.25 ha are represented by the Association of Private Forest Owners (APPR); (iii) very recently a new association has been established under the name "ProForst" with seven founding members from the foreign business community, owning large (that is, more than 10,000 ha) holdings of forest land.

The Study painted the situation of *private forest owners* rather negatively in 2008. Among the critical issues, some legal weaknesses, the lack of a systematic approach to public-private cooperation, and rivalries among associations representing private owners were the most prominent. The situation appears unchanged as all agents interviewed complained about the limited rights of private forestry owners, lack of access to the national and EU funding and compensation schemes, and the small size of private forestry plots (around 1 ha is estimated as the average size) that prevent efficient management. The interview partners recognise the problem and indicated, for example, their wish to specify norms for forest management that would allow the distinction between smaller and bigger plots in order to tailor them more effectively to the needs of the respective owners.

### 5.3 Market-based behaviour patterns, skills and innovation

The most significant change during the last two decades appears to be a new and much increased attention to the *environmental aspects* of forest management. This may (partly) be attributed to the transfer of forestry-related matters to the MEF, to supra-national activities initiated by the EU and the Global Environment Facility (GEF), and to the engagement of international investors.

Roughly half of the forests are accounted for their "protection function" (that is, preventing soil erosion and pollution, preserving their watershed function and so on), while the other half is reserved for the creation of biomass, and ultimately for "logging" activities. As part of the accession process, Romania had to implement the *Natura 2000 network*, which takes care of species and habitats of community interest

in accordance with the EU requirements.<sup>27</sup> According to the information shared by the MEF and Romsilva, 273 individual sites have been designated by the Romanian authorities to be part of this network.<sup>28</sup> The surface covered by these and other nature parks is estimated to equal some 25 per cent<sup>29</sup> of the entire forest land, applying various degrees of protection.

Further environmental impulses have certainly been triggered by foreign investments. Greenfield investments, especially, usually introduce modern production facilities and a more efficient use of primary resources. In the context of wood supply, the effect is particularly visible, as all of the investors interviewed confirmed their policy of aiming for *FSC certified*<sup>30</sup> wood supply. This is also true for local companies that export to foreign consumers in Western countries as such clients are usually more sensitive with regard to the origin of a product. With these market forces in place, Romania aims to certify 40 per cent of its forested area by the end of 2011.<sup>31</sup>

## **6. Bank handling**

The Bank's performance is here mainly assessed in terms of the project design, the preparation of the ToR, the implementation of the consultant contract (that is, the cooperation with the client and the supervision of the consultant), and – if applicable – the follow-up measures for ensuring sustainability of the project results. Overall, the Evaluation team applies a *Satisfactory* rating for the handling of these projects.

### **6.1 Project design**

The idea for this TC was very relevant to both the problems faced by the Romanian forestry-related sectors at the time as well as the Bank's anticipated future business activities. The design of the Study was thoroughly prepared, with an extra, preparatory TC project for the elaboration of its ToR. The output of this exercise is of very good quality and certainly helped the later consultants to immediately focus their work on the most important issues.

The principal aim of the second project, the Study itself, then appears a bit blurred between policy advisory ambitions and practical support for local and foreign investments in the sector. The Study struggles to serve both aspects under the overriding question of wood supply. It could have been more beneficial if the Consultants, instead, had presented – in addition to the Study – a number of possible investment cases. At the same time, the policy element would have deserved more of the Bank's attention and perseverance (for example, through follow-up measures to promote a real change in the surrounding conditions).

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<sup>27</sup> Two directives are of particular importance here, the Directive for the Protection of Species (79/409 EEC) and the Directive for the Protection of Habitats (92/43 EEC).

<sup>28</sup> Some interview partners complained, however, that the (private) owners of the respective plots had not been sufficiently consulted during the designation of Natura2000 areas. Nor is it clear whether those owners receive an appropriate compensation.

<sup>29</sup> This figure originates from interviews; the available literature – that is, Abrudan (compare to footnote 2) – calculates only 10 per cent.

<sup>30</sup> The Forest Stewardship Council (FSC) is an international body that accredits certification organisations. The goal is to promote environmentally responsible, socially beneficial and economically viable management of the world's forests by establishing a worldwide standard of recognised, respected principles of forest stewardship. Further information can be found at: [www.fsc.org](http://www.fsc.org)

<sup>31</sup> According to "Market Force in Romania and Bulgaria to catch up on forest certification", WWF online article, dd. 13 August 2010 <http://wwf.panda.org>

Consequently, and with the benefit of hindsight, it appears that the three projects for this Study would have been more effective if designed in the following way: (1) fact finding/assessment of market conditions and activities in the sector; (2a) elaboration of a policy and legal advice paper; (2b) preparation of a list of potential investment opportunities; (3) a presentation workshop for the foreign investment community; and (4) ongoing advice and support for implementing the necessary legal and regulatory changes.

The last aspect, especially, would have been necessary for a better achievement of objectives. Policy dialogue, by its very nature, requires a longer term approach. Some follow-up activities or even a full-fledged second TC project demonstrating the utility of modern forestry management methods<sup>32</sup> might have been extremely helpful in this respect, especially in the difficult situation that the country was facing at the end of 2008.

## **6.2 Project implementation**

The impetus for the Study came from the EBRD and was not requested by the Romanian side. Nonetheless, and in line with its general approach, the EBRD wished to see the Client in the role of the contracting party with the Consultant. While this aim is well justified, the negotiation process between the Consultant and the Romanian counterparts proved to be long and cumbersome, thus significantly delaying the start of the project. One of the ever-recurring issues in this kind of project is the eligibility for charging VAT, which was, eventually, resolved by the Consultant's readiness to take over the associated risks.

These problems, however, were limited to the infancy of the project and disappeared completely during project implementation, as both Client and Consultant confirmed they had enjoyed good cooperation. Retrospectively, the client contracting scheme appears to have been a good idea overall, as it helped to secure the counterpart's awareness of and commitment to the project, even though it had initially caused pain to the donor and Consultant. Good coordination was also ensured between the Resident Office in Bucharest on one side, and the Banking team at EBRD HQ on the other. Given that the project saw three different OLS over its lifetime, the consequent implementation of activities and the availability of information are commendable.

On being asked during the interviews what they would have liked to have been done differently, most local stakeholders (and to a certain degree the foreign investors as well) expressed the need for a higher degree of public consultation in such matters. The Evaluation team learned about the sensitivity that is attached to wood supply and forestry management in Romania in general. With such a report focusing on how to increase the wood supply in particular, it is understandable that emotional reactions occurred from different parties. Some of the pressure might have been relieved by a more open approach to the public, including the confirmation of general findings by other international experts.

It is not clear whether the anticipated close cooperation with the World Bank and its FDP had indeed taken place in practice. If so, it left only a few visible traces behind. It is not possible to retroactively judge on the supplementary functions of these two projects and whether the division of tasks actually allowed for a maximum realisation

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<sup>32</sup> In fact, the EBRD's industry expert fully shares this view and had some time ago prepared ToR for such a project but the Bank was not ready to make further efforts in this matter.

of synergic effects.<sup>33</sup> It is also not easy to assess whether the team on site had the possibility to consult with other relevant activities, such as, for example, the WWF, FAO, and other initiatives (as presented in Section 7.3).

## **7. Key issues and lessons learned**

The lessons presented in sections 7.1–7.3 below have been discussed and agreed with the relevant Banking teams and do pertain to the TC projects only. In addition, the World Bank evaluated its FDP at the end of 2009 and published the full report on its website.<sup>34</sup> For completeness of information, an abstract of the ratings and lessons learned are presented in Appendix 2.

### **7.1 TCs with a quasi-link to the Bank's investment operations**

The Study somehow fell between the respective spheres, being neither fully fledged policy advice nor directly related to Bank's investment. This appears to have dented its effectiveness, especially as the wood supply factor proved not to be that significant for triggering foreign investment activities, as envisaged at the project outset. It might have been better, instead, to split the policy dimension from the investment dimension and implement two separate TCs accordingly. It would then also have been possible to split the required expertise into (1) legal experts to advise on the necessary forestry reform, to be followed by (2) project or financial experts, for the identification of investment opportunities.

***Lesson Learned: A sharp design is required for projects that serve multiple interests.*** In order to address the needs identified for policy dialogue measures on the one hand, and the requirements of the (foreign) investment community on the other, these aspects could have been separated more clearly by either splitting one TC project into two components or envisaging two TC projects from the outset.

### **7.2 The limits of short-term policy dialogue interventions on site**

The mere elaboration of a report or study is not likely to initiate long-lasting change. Instead, it is the combined effect of policy dialogue by the Bank's senior management with high-level officials, participation of local and foreign associations in the field, other IFIs and international donors, and the foreign business community together that effectively triggers a reform agenda. Still, the process needs a domestic institution to take the lead, which the field mission confirmed to be the Department of Forestry in the MEF, the Bank's Client. Considering that most of these factors are outside the control of the EBRD, the project objectives appear pretty far-fetched.

***Lesson Learned: Stay realistic when formulating project objectives*** and/or be clear about the opportunities and threats that might have an impact on the project and its outputs over time. Even in the absence of political change and a global financial crisis, it was not realistic to foresee that a TC project of the given size and

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<sup>33</sup> For example, the criticism voiced with regard to a lack of public awareness and consultation of the Consultant on one hand, while the FDP was reportedly pursuing exactly this aim, raises doubts in this regard.

<sup>34</sup> No World Bank staff member related to the FDP appeared available or willing to talk or mail to the Evaluation team. It is thus fortunate that respective information could be found on the internet. The Implementation Completion and Results Report (ICR) is, for example, available at:

<http://web.worldbank.org/external/projects/main?Projectid=P067367&theSitePK=40941&piPK=64302789&pagePK=64330676&menuPK=64282137&Type=Implementation>

duration could “ensure regular and transparent wood supply to all investors” or “lead to foreign investment” as described in its appraisal documents.

### **7.3. Advisory work and policy dialogue in EU Member States**

It is difficult to encourage donors to provide funds for sector reform work to EU members, even though challenges to transition are still in place. The case of forestry management in Romania clearly presents an ongoing need for external support. The Study could have largely benefited from follow-up measures, be it the continuation of policy dialogue through the RO, the implementation of the once considered “demonstration project” or the secondment of a long-term senior expert to the MEF. Even if the EBRD is not able to provide or generate the required grant funds, other appropriate options should be identified, such as the EU twinning programme.<sup>35</sup>

***Lesson Learned: Ensure adequate support to ongoing challenges to transition in the Bank’s advanced countries of operations.*** Tackling such challenges does not necessarily mean the provision of donor funds or the Bank’s own resources. It could mean the targeted approach of other acting agents and programmes in order to supplement the outputs previously produced by the Bank.

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<sup>35</sup> The internet provided, for example, information on a twinning project that was implemented at the MAFRD between May 2006 and July 2007 in which French, German and Hungarian civil servants seem to have participated.

## **Sustainable forestry and forest industry businesses in Romania**

### **Terms of Reference (TOR) for a Wood Supply Sector Study**

#### **1 Introduction**

In recent years the European Bank for Reconstruction and Development (EBRD or the Bank) has financed investments in the forest industry in Romania, and is currently considering a number of new projects within this sector. A secure sustainable long-term wood supply is a key prerequisite of these investments for the investors as well as for the financiers. Some of the companies operating in this sector have recently encountered shortages of wood supply, and all have seen wood prices rising substantially during recent years. The ongoing restitution of up to 2 million hectares of productive forest land to private ownership has affected, and is likely to further radically alter, the forest management regime and future wood supply prospects in Romania, thus affecting investment opportunities in the forest industry, which are needed to bring additional value to the forest resource.

In 2002 the World Bank launched a 6 year “Forest Development Project” (WB-FDP) with the objective of maintaining and improving environmentally sustainable management of state and private forests so as to increase the contribution to the national and rural economies derived from Romanian forest resources. The scope of the WB FDP covers a wide range of issues, identified in previous World Bank studies, e.g. restitution of forest land, Romanian National Forest Administration - Romsilva’s changing position after restitution, timber pricing policy, illegal logging, access to forests, inefficiency within private wood processing industries, security of wood supply, to name a few. USAID has also undertaken work in the forestry sector in addition to internal Romanian initiatives.

The current and future wood demand/supply balance warrants urgent attention. Information is insufficient concerning the actual situation and opinions vary as to the current status. This proposed Wood Supply Sector Study (the Study) is aimed at identifying current and anticipated imbalances in demand and supply of wood raw material within the Romanian forest industry, and associated issues and possible solutions to them.

The Study will draw upon the results of the WB FDP, USAID work and other relevant development work carried out in this sector by the Romanian government and outside agencies. The Romanian Government will support the Study and provide material from the WB FDP and USAID work as well as all available relevant data.

In addition various NGOs, such as the WWF International Danube-Carpathian Programme, are carrying out significant studies and projects - of great importance to the wood supply issue - related to forest protection, biodiversity conservation, etc. as well as supporting forest certification, chain-of-custody certification and other actions aimed at reducing illegal activities. Studies and projects are generally carried out in close cooperation with the industry – for example IKEA, Schweighofer, Kronospan - and financially supported by the industry or by

international financial institutions. The work and results of these studies will form an important basis for the Wood Supply Sector Study.

The Austrian Government will finance the services of a consulting company (“The Consultant”) to undertake the Study under the direction of the EBRD.

In preparing their competitive proposals for this assignment the bidding Consultants are expected to familiarize themselves, to the extent practical and customary in bidding situations, with available relevant work done in this sector in Romania. A brief introduction to Romanian forestry and forest industry sector is presented in attached Appendix – “Romanian Forest Sector in Brief”, which also summarises recent and ongoing projects of relevance to this Study.

## **2 Objectives and scope of study**

### **2.1 Overall Objectives**

These TOR aim at establishing a concept and approach to developing forestry and forest-based industries in Romania. The ultimate goal is to promote viable investments in forestry and forest industries in Romania by addressing wood supply and associated issues, and identifying options for industry expansion and improvements in forest management, harvesting, transportation, trading, etc., taking into account both the economic and social benefits and environmental sustainability. Another aim is to identify barriers to investments in forestry and the forest industry sector which are a result of administrative, legal, or regulatory problems and which affect the supply and accessibility of wood raw material.

The Study will cover the issue of wood supply to:

- saw mills,
- wood-based panel plants,
- pulp mills,
- other primary consumers of wood raw material, including the energy sector.

The Study shall cooperate with and coordinate its activities with other ongoing or recently finished relevant studies.

### **2.2 Specific Objectives and Scope of Study**

The defined wood using industries will be analyzed in terms of:

- current and projected production
- current and projected consumption of wood raw material, both round wood and wood residues (types, species, sources)
- current and recent shortages of wood raw material encountered by the operating companies
- other issues related to the supply of wood raw material encountered by the operating companies

This review should cover, in consultation with interested groups, all large wood using companies and known larger projects – decided as well as planned. The Consultants should



propose a methodology for covering small scale wood using industries in order to estimate the total current and projected consumption of industrial round wood and wood residues.

The current and projected wood supply will be analyzed by region (to be defined, either counties or other regions relevant to the wood supply issue) in terms of:

- wood raw material resource base (volume, species, quality)
- current and future Annual Allowable Cut (AAC)
- current and future demand/supply balance of industrial round wood
- current and recent harvest of hard wood

The Sector Study will further review:

- existing harvesting operations (technology, volumes)
- logistic infrastructure (roads, railways, utilities, esp. energy)

This Study defines wood/wood raw material as both round wood and wood by-products/residues from the forest industry usable as raw material for other wood based industries or for the bioenergy sector.

The Study is not expected to fully cover the demand/supply situation of the bioenergy sector, only review the possible demand of wood raw material usable in wood based industries and possible competition for this raw material.

The Consultant should propose a methodology for covering this review in a cost-effective manner.

Based on the analysis of the current situation, the Study should identify problems that impede the development of the forestry and wood-processing sector in Romania and propose actions to mitigate negative effects and improve conditions for efficient operations. This would include (but not be limited to) resource base, infrastructure and administrative/legal/regulatory frameworks.

### **2.3 Issues to be Specifically Addressed by the Study**

When analysing the demand/supply balance the following issues should be specifically reviewed and the possible affects on the wood supply to the wood based industry analysed.

#### **2.3.1 Policy and Legislative Framework**

The Consultant shall review the present legislative framework and identify gaps and bottlenecks, if any, negatively affecting efficient wood supply operations, or gaps in the legislation which may allow for undesirable forest management and logging operations and thus possibly risk severe damage to the forest resources or jeopardising the environment and biodiversity. The Consultant is supposed to review whether ongoing work for modifying the legislative framework will ensure sustainable management and supply of wood and – if relevant - indicate how possible shortcomings could be improved or eliminated.

### **2.3.2 Institutional Framework and State Administration of the Forestry Sector**

The conditions for the state administration of the forestry sector, as well as for forest management of state owned forests, have radically changed during recent years and are still in a process of change as the restitution of forest land continues. The effects of these changes on the wood supply shall be reviewed as concerns potential cut, accessibility and actual cut, and possible effects on the price level. The roles of the Directorate of Forestry and the National Forest Administration/Romsilva – both subordinated to the Ministry of Agriculture, Forestry and Rural Development - shall be specifically reviewed in terms of division of responsibility and administrative rules that may hamper efficient forestry and wood supply operations both in the state and the non-state sectors.

In order to avoid overlapping work – the review shall be closely coordinated with the ongoing WB Forest Development Project, which includes components aiming at restructuring and developing both the Directorate of Forestry and NFA-Romsilva. Bottlenecks and problem areas for the wood supply related to the institutional framework, especially the state administration of the forest sector, shall be identified and if not already part of the WB FDP, actions to mitigate the negative effects to the wood supply shall be proposed.<sup>1</sup>

The Consultant is supposed to present a detailed plan for coordinating the present Study with the WB FDP in the initial Inception Report.

### **2.3.3 Management and Development of Private Forests**

The scattered and small private forest properties make up a severe problem for the development of rational and cost-effective forest management principles, and for the sustainable supply of wood from these areas. The average size reaches only 1 ha or less. (Phase II and phase III of the restitution process will allow larger properties). Often owners do not live on, or near, their forest land and do not have the relevant experience or knowledge to properly manage their forests.

The risk for over-cuttings in the short-term perspective and corresponding lower potential wood supply in the medium to long-term perspective has been raised. This potential risk for unsustainable development and corresponding negative effects to the wood supply shall be considered and included in the Consultant's analyses.

Forest Management Plans are required for all forest areas, regardless of ownership and size of property. Considering the average size and scattered ownership within the private sector, a simplified model seems realistic for smaller properties, without jeopardising the forest resources, its regeneration or environmental and social values of the forest areas.

The future wood supply may be affected and hampered by the present lack of know-how and skills in forestry within the private sector. This may affect the wood supply both technically, economically and not least organisationally. Small private forest owners do not have the relevant equipment or the organisational/administrative strength to ensure proper delivery of wood to the industry.

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<sup>1</sup> In preparing the present ToR, relevant components of the WB FDP are still in the process of contracting consultants and detailed definitions of scope and work plans are not available.

Forest Owners Associations have been established and can be developed to provide management and harvesting services to their members. Alternatively private forest management companies – or Romsilva – may offer forest management, logging and transportation services on a contractual basis.

The WB FDP also includes components aimed at strengthening the private sector mainly through supporting the development of Forest Owners Associations. However, focus is not directly on the wood supply issue from the consumer's point of view.

The Consultant is supposed to review the current situation and if not already part of the WB FDP, propose actions to mitigate any negative effects on the wood supply<sup>2</sup>.

The Consultant is supposed to initially review the scope and work plans of the WB FDP and present a detailed plan for coordinating the present Study with the WB FDP in the Inception Report.

#### **2.3.4 Availability of Relevant and Reliable Information**

The system for reporting data and gathering relevant and reliable statistics is rather poor. Harvesting companies do not report volumes of wood harvested, sold or delivered to wood consuming industries. The import-export statistics are incomplete and only report reliable data on volumes of wood exported for certain assortments. WWF has reported in their study on illegal logging that the level of illegal harvesting cannot be adequately estimated on the basis of present reporting and available statistics.

The lack of an efficient system for reporting harvested, transported and used volumes of wood results in very poor statistics and doubtful figures for the present use of wood and the actual wood demand/supply balance. This is a severe bottleneck in planning for new investments in wood consuming industries.

The WB FDP includes two components directly addressing the information issue:

- establishing a National Forest Management Information and Monitoring System (FMIMS)
- establishing a Forest Sector Business Information Centre (ForsBIC)

The results of these components will not realistically have any effect in supporting the present Study but will improve the situation in the long-term perspective. Thus the Consultant is supposed to review the present systems for reporting and gathering forestry and wood consumption figures, and make its own judgement as to whether or not the available information is useful and reliable for the purposes of the present Study.

The Consultant is further expected to coordinate its work – where judged relevant – with the WB FDP, and come up with recommendations for actions - not presently addressed within the WB FDP - for further improvements of the information system. Focus shall be on gathering, compiling and presenting information and statistics for future analyses and estimates of the wood demand/supply balance.

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<sup>2</sup> See Footnote 1)

The Consultant is supposed to present a detailed plan for coordinating the present Study with the WB FDP in the initial Inception Report.

### **2.3.5 Growth and Potential Annual Cut**

The annual growth in all Romanian forests is estimated at 34.5 Mm<sup>3</sup>sub. However, the estimate was calculated on 1986 forest inventory data and is based on outdated figures. The recent changes in ownership, and to some extent changes in forest management systems, are not considered.

The Annual Allowable Cut (18.2 Mm<sup>3</sup>s in 2005) is calculated on the basis of the actual growth, taking into consideration species distribution, age class distribution, protected areas, etc. There is a common opinion that the AAC can be increased by some 10 % to around 20 Mm<sup>3</sup>s without jeopardising the biodiversity or the sustainability of the forest resources. It should also be noted that the upper age classes are overrepresented and substantial areas will grow into mature ages and should be cut before being damaged by rot or disease, etc.

On the other hand, the recent development in the private sector is not fully monitored and the status of the private sector is unclear, which may affect the potential annual cut negatively.

The Consultant is supposed to review the present principles for calculating the AAC and, in close cooperation with concerned Romanian authorities and institutions, judge the most realistic future development and come up with a realistic estimate of the potential future cut taking into consideration the aspects mentioned above. These estimates will serve as the upper limit for future potential wood supply.

The potential future cut is a function not only of present status and growth of the forest resources, but also a result of technical and environmental restrictions etc. for forestry operations. The Consultant is supposed to present a methodology for estimating future potential cut and to what extent various types of restrictions are considered.

### **2.3.6 Accessibility and Actual Cut**

The official figures of volumes harvested during recent years show that the limit of AAC has not been reached. However, the volumes of illegally cut wood must be added to these figures in order to calculate the volumes actually harvested. Estimates of illegally cut volumes range from a few percent to substantial volumes.

The Consultant shall analyse the issue of illegal harvesting - types of illegal activities, reasons/driving forces, and conditions that make illegal logging possible - on the basis of available information from various sources. The effect on the wood supply shall be analysed both in the short-term and the long-term perspective. Recommendations on how to mitigate the negative effects of the illegal business shall be proposed, including suggestions for implementing and evaluating forest certification and chain-of-custody certification.

According to the "St Petersburg Declaration" on illegal harvesting – agreed to by the participating countries, including Romania - certain actions are supposed to be taken to mitigate the domestic and international problems related to illegal harvesting. The expected effect of these actions on the Romanian forestry sector, and especially on the wood supply to the domestic wood based industry, should also be considered.

There are various factors influencing the harvesting activity – the main driving forces being the actual domestic demand and the capacity to pay of the wood buying industry – for example:

- mountainous terrain
- lack of forest roads
- inadequate logging technique
- inadequate organisational structure / structural changes
- scattered ownership with generally very small non-state forest properties etc.

Most factors above increase costs and limit deliveries to the industry. When estimating future wood demand/supply balance, these factors, and the extent to which they may hamper access to forest areas - today and in the future, should be considered.

### **2.3.7 Logging Technology and Infrastructure Conditions**

Selective cutting is generally practised today. The dominating logging system is based on chainsaw felling and full stem skidding to the roadside where stems are cross cut into assortments. Cable way systems are applied in steep terrain but their use is decreasing and systems based on felling, delimiting and cross cutting at the stand and forwarding logs to the roadside are slowly being introduced.

The poor forest road network is frequently referred to as the main obstacle to accessing forest areas. Romsilva is presently in charge of the forest roads (forest roads are state owned properties) and private forest owners or forestry companies that want/need to use the forest roads have to pay a fee for use of the roads.

The situation raises a number of questions. Are forest road planning, construction and maintenance coordinated with prevailing forest management plans and does it take into consideration the plans and needs of the private sector? Is the long-term use (annual wood flow, use for other functions than wood transports, etc.) of forest roads considered when road standards are decided? How is this coordinated with the private sector's activities? Etc.

The WB FDP includes a component aimed at restoring and extending the forest road network. The Consultant is supposed to coordinate its analysis with the WB FDP and consider possible future improvements in the forest road network when judging access to various areas and the expected effects on the AAC and actual cut.

It should be noted that logging systems based on cross cutting at the stand and forwarding of logs to the roadside generally demand less dense road networks than skidding systems. Thus continued introduction of forwarding systems will reduce the demand for road construction and maintenance.

### **2.3.8 Competition for Wood Raw Material**

Imports and exports may strongly affect the supply of wood raw material for the domestic industry – in both directions. Presently the export of round wood and other wood raw material is limited, but this may quickly change depending on the competitiveness and capacity to pay of the domestic industry in comparison to neighbouring countries. The risk of increased exports of wood raw material also includes the energy sector where several countries are today

looking for options to increase their use of renewable fuels, including biomass derived from forests.

Presently there are no restrictions or custom duties related to exports of wood raw material and it is likely – considering Romania’s ambition to become an EU member state - that no restrictions will be introduced.

When estimating the future demand for wood raw material possible import and export shall be considered. Attention shall also be paid to the potential risk for competition in wood raw materials, especially industrial wood waste, from the board industry and the bioenergy sector.

### **2.3.9 Wood Trading and Pricing**

The actual supply of wood and the actual demand of wood is not only a question of the market demand and technical capacity but also to a high degree a question of prices of wood raw material and the paying capability of the wood consuming industry. For individual industries the trading and pricing system may have a substantial impact on their ability to secure the wood supply.

The Consultant is not expected to analyze the capacity to pay of the Romanian forest industry. However, this issue shall be discussed at a general level and a comparison of selected neighbouring countries and other relevant countries with present and recent Romanian wood costs shall be included.

Possible bottlenecks related to the trading and pricing system shall be identified.

### **2.3.10 Other Risks and Options**

Damages to forest resources or disturbances in wood supply due to fire, insects, disease, strong winds etc. are reported to occur at a rather low frequency and do not constitute a great problem for the forestry sector. However, in 2005 flooding caused great problems and is also reported to have negatively influenced the supply of wood. The risk for these types of disturbances shall be observed and discussed by the Consultant.

## **3 Work programme – phases of study**

The Sector Study will analyze the current situation of forestry and the forest industry in Romania, current and future demand/supply balance of industrial round wood, identify the issues that impede the sector’s development and propose solutions to address them.

The Consultant is expected to carry out a major part of the work in Romania in close cooperation with relevant and concerned ministries, authorities, institutions and other stakeholder groups.

The approach is based on the following tentative phases (to be further elaborated by the Tenderer):

### **Phase 1. Review of Existing Data**

The Sector Study will draw on the work and results of the WB-FDP, USAID, WWF and other relevant development work and studies carried out within this sector by the Romanian government and outside agencies. The Romanian Government will support this Study, provide material from the WB-FDP and USAID work, as well as all available relevant data, including data on consumption of wood and wood products compiled by the Department of Industrial Policy of the Ministry of Economy and Commerce.

There is a great deal of data available or under study related to Phase 3 of this Study. The Consultant is expected to review all the relevant existing data and information, and based on that prepare a detailed work plan and, if necessary, propose modifications to the initial work plan presented in the Consultant's Technical Proposal.

The Consultant is expected to visit Romania and meet with relevant ministries, state agencies, research institutions, trade associations, NGOs, and individual companies at an early stage of this phase. An Inception Report is supposed to be prepared at the end of Phase I.

### **Phase 2. First Interim Meeting**

The Consultant's detailed work plan for the remaining phases will be reviewed and agreed upon, on the basis of the Inception Report, at a meeting with the EBRD. The meeting is expected to take place in Bucharest.

### **Phase 3. Assessment of Current Situation, including Identification of Problem Areas, Bottlenecks and Development Options**

During Phase 3 the Consultant will carry out surveys of current production and wood supply as well as the survey/review of current logging systems and infrastructure conditions as indicated in Section 2.2 above.

Based on the results of these surveys, and on information gathered during Phase 1, the Consultant will analyse the wood demand/supply situation and prepare forecasts for the future demand/supply balance. Issues listed in Section 2.3 above will be analysed and technical reports/work papers prepared as necessary to allow EBRD and Romanian stakeholders to follow the work and results obtained.

The work of Phase 1 to 3 will be reported in an Interim Report (to be further elaborated in succeeding phases into a Final Report) presenting gained experiences and results obtained from surveys, reviews and analyses referring to the issues listed in Section 2.3. A tentative wood demand/supply balance shall be presented as well as the major obstacles and bottlenecks identified.

It is suggested that Phase 3 conclude with a workshop with representatives of all relevant stakeholders in order to allow for an open discussion on the wood demand/supply issue and the results obtained by the Consultant so far. The workshop shall also be seen as support to a more transparent and cooperative way of working.

#### **Phase 4. Elaboration of Mitigation Plan and Action Programme**

The Consultant will finalise analyses and prepare recommendations for a Mitigation Plan and Action Programme to improve the wood supply situation. It is important that the recommendations are clear and adequate for each issue and that the responsible ministry, agency, institution, or other organisation/company for the next step of each activity is clearly identified.

#### **Phase 5. Final Reporting including Second Meeting**

The Consultant will prepare a Draft Final Report, which will be provided to EBRD and relevant stakeholders.

The Consultant's report will be reviewed at a meeting with the EBRD in Bucharest.

After having received comments on the Draft Final Report the Consultant will modify/amend the report as required and present the Final Report to EBRD.

### **4 Reporting**

Reporting will be in both English and Romanian. Both hard copies and electronic versions of all reports shall be supplied to EBRD.

The following reports are foreseen

End Phase 1: **Inception Report** including initial observations, possible problem areas identified for carrying out the Study, suggestions for modifications if any, and detailed Work Plan and Time Table for succeeding phases, including suggestions for coordinating with WB FDP and other ongoing projects.

Phase 3-4: **Technical Work Papers** (as necessary)

End Phase 3: **Interim Report** presenting the status of the Study and work done so far, as well as basic conditions, experience gained, tentative results covering at a minimum all aspects indicated in Section 2.3, and a preliminary wood demand/supply balance specified by regions, species and relevant assortments.

Phase 5: **Draft Final Report** - to be commented by EBRD  
**Final Report**

The Final Report is supposed to cover all relevant issues affecting the wood demand/supply balance and clearly give options for supplying wood raw material to - in both the short and long term perspective - present industry and possible new investments implying an increased demand. The forecasts and recommendations shall cover a minimum period relevant to the decisions of major investors in the various sub-sectors of the wood based industry.



Technical and economic feasibility and sustainability of the wood supply shall specifically be discussed in terms of nature protection and other environmental considerations.

### 5 Target time table

The Wood Supply Sector Study is planned to start in July/August 2006 and be finalised 8 months later.

Months	1	2	3	4	5	6	7	8	9	10	11	12
Phase 1												
Phase 2												
Phase 3												
Phase 4												
Phase 5												
Inception Report		<b>X</b>										
Work Papers			x	x	x	x	x	x	x	x		
Interim Report							<b>X</b>					
Draft Final Report								<b>X</b>				
Final report									<b>X</b>			

Ratings And Lessons Learned  
Implementation Completion And Results Report On The Worldbank Forestry Development Project (FDP) In  
Romania  
ICR 1176<sup>1</sup>

## **RATINGS**

Ratings for the Forest Development Project for Romania were as follows:

- outcomes were *satisfactory*,
- the risk to development outcome was *substantial*<sup>2</sup>,
- Bank performance was *satisfactory*, and
- Borrower performance was also satisfactory.

### Lessons Learned

- 1. Forest Management Information and Monitoring System (FMIMS) timing and ownership:** Agreeing on the structure and development of new information management systems for the forest sector, programming the software, and instituting the proper use of those new systems can take considerable time. At appraisal, very few cost-effective systems existed. For future FMIMS developments, off-the-shelf systems are now available at reasonable costs.
- 2. Managing NGO relations in forestry projects:** In recent years, the Bank has been hesitant to invest in forestry, and in particular, road activities because of heightened NGO attention. Because of the generally good outcomes of this project, especially with access roads, and the strong environmental and social linkages, this positive experience could offer an important lesson for the Bank both in terms of how to engage NGOs in seeking a way forward, but also in addressing critical safeguards issues.
- 3. Forestry investment programs require a “longer term” development horizon and planning.** The Bank should acknowledge this up-front by explicitly balancing the portfolio with an appropriate mix of both longer term and short term development support to avoid unrealistic expectations. Disbursement projections should be heavily loaded on to the outer project years. If projects involve forest road rehabilitation probably add 2-3 years to expected disbursement periods, including:
  - i) 18 months for developing and getting consensus on BPGs for roads construction and rehabilitation;
  - ii) six months for the preparation of the technical specifications (an engineering job); and
  - iii) six months for bidding document preparation and the tendering process.
- 4. Clarifying implementation and monitoring responsibilities:** Where there are overlapping responsibilities for ensuring the technical quality and environmental sustainability of contracted works, as with the Roads Rehabilitation activities under this project, contract management can be challenging. The PMU reached an explicit agreement with the NFA about how to share oversight for supervisory roles and responsibilities.

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<sup>1</sup> Report is published in full on the Worldbank's website.

<sup>2</sup> Stemming mainly from the Government budgetary constraints to sustain a number of project achievements

- 5. Providing incentives to small private forest owners:** A lesson emerging from the project is that small-scale forest owners may require initial incentives to form associations and grow, such as training and technical support, accessing financing through a revolving fund partially funded through member contributions, tapping new forest carbon funds, etc.
- 6. Building M&E into project preparation and design:** It is important that at effectiveness, projects have made good progress to establish a robust M&E system with a baseline (or clear plans to do so), plus a program and format for regular collection of data on input/outputs, processes, institutional development, impacts and outcomes
- 7. Linking public awareness with government policy:** As governments change the forest policy framework, it would be useful to link it with public awareness campaigns to help foster better understanding and support. At the same time, these campaigns need to be carefully targeted at specific audiences to improve efficiency.