

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB6677

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| Project Name | Forestry and Economic Diversification Project |
| Region | Africa |
| Country | Republic of Congo |
| Sector | Forestry (60%); General agriculture, fishing and forestry sector (40%) |
| Lending Instrument | Rural policies and institutions (30%); Biodiversity (20%); Environmental policies and institutions (30%); Land administration and management (20%) |
| Project ID | P124085 |
| <i>{If Add. Fin.}</i> Parent Project ID | N/A |
| Borrower(s) | Ministère du Développement Durable de l'Économie Forestière et de l'Environnement |
| Implementing Agency | Ministère du Développement Durable de l'Économie Forestière et de l'Environnement |
| Environmental Screening Category | [X]A []B []C []FI []TBD (to be determined) |
| Date PID Prepared | 21 June 2011 |
| Estimated Date of Appraisal Completion | 11 November 2011 |
| Estimated Date of Board Approval | 6 March 2012 |
| Concept Review Decision | Following the review of the concept, the decision was taken to proceed with the preparation of the operation. |

I. Introduction and Context

A. Country Context

The Republic of Congo went through a long period of political instability and violence in the 1990's, which destroyed the country's infrastructure and weakened its public institutions. Since the return to peace, most social indicators have improved, but they are still below those of countries with comparable per capita income, and meeting the Millennium Development Goals remains a challenge. Thus for example, the incidence of monetary poverty, which had risen from 40 percent in 1990 to 70 percent in 1997, had fallen back to 50 percent by 2005.

The economy of the Republic of Congo is mainly based on natural resources exploitation, including oil and timber, which represent 60 and 10 percent of GDP respectively. Agriculture employs 40 percent of the workforce, but represents only 6 percent of the GDP. While the oil sector provides much needed resources for public investments, its overbearing dominance in the economy is a major challenge for economic management and diversification. The key policy challenge for the Republic of Congo is, therefore, to use its oil wealth to build a more diversified and competitive economy and thereby reduce poverty and improve social outcomes.

A major handicap in bringing about such a diversified economy is the Republic of Congo's highly uncompetitive business environment, as illustrated in its very low ranking in the Doing Business Ratings (177 out of 183 countries in 2010). The country performs poorly in all assessed categories, especially on taxes, labor laws and regulations, property registration, contract enforcement, and trading across borders. Nevertheless, experience elsewhere in the region has shown that significant and rapid improvements are possible in these areas, if the political will to effect change exists.

As a post-conflict country, the Republic of Congo continues to suffer from weak public institutions and lack of capacity. Given the country's ambitions to transform its economy, the development of a modern and efficient public sector is critical, particularly as regards governance and corruption.

Weaknesses in governance continue to pose significant risks to progress on the country's development agenda. Studies highlight deterioration in the quality of service delivery in the past decade and increased levels of corruption in key sectors. Perceived levels of corruption and weak governance in the most affected institutions (customs, police and tax authorities) increased significantly over said period, while the situation in institutions that were hitherto perceived to have the least problems (such as local governments) deteriorated as well. Corruption was also reported in service delivery institutions, such as schools and hospitals, and despite some recent progress, there are still governance issues in key public sector enterprises, such as the Congolese National Oil Company (Société Nationale des Pétroles du Congo, (SNPC)).

An action plan for investment climate reform, adopted in November 2009, addresses many of the above-mentioned constraints. The action plan includes the establishment of a platform for public-private dialogue, institutional and regulatory reforms, such as the drafting of a Small and Medium Enterprise law, and measures to improve the access to finance, professional training and the promotion of entrepreneurship. The Bank-funded Economic Diversification Support Project will support a number of interventions to improve the business environment and support institutional platforms that enhance private-sector development. The high-level political commitment to improving the investment climate was demonstrated again recently by the establishment of a Public-Private sector dialogue mechanism presided by the Head of State.

A further positive point to note is that as a consequence of sustained high oil prices Congo has considerable financial space for public investment and is working hard to make public investment more effective, e.g. through the more systemic use of Medium Term Expenditure

Frameworks. This has led to considerable amounts of counterpart funding committed for recent Bank-funded projects. As an example, out of the Water, Electricity and Urban Development Project budget of USD 125.5 million, the IDA credit accounts for only USD 25.5 million and the remainder (USD 100 million) consists of Congolese government funds.

B. Sectoral and Institutional Context

Covering over 65 percent of the country's land area, the Republic of Congo's forests (estimated at around 22.5 million hectares) are essential to the social and economic life of the country and a strategic asset to the global environment. Although about 60 percent of the population lives in the five main cities, a large part of the population still relies on forests for its livelihood (food, energy, medicine, etc.). The timber industry accounts for 10 percent of non-oil GDP, 12,000 jobs, USD 200 million of exports, and USD 40 million in fiscal revenues. Additional contributions to the national economy, not captured by statistics but at least as important, include bush-meat (which currently plays a large part in the nutrition of the rural poor) and wood for domestic energy and building materials.

Despite having had limited donor support for the forestry sector in comparison to other Congo Basin countries, the Republic of Congo is leading the region on a number of indicators related to sustainable forest management. Over 50 percent of forest concessions in Congo have approved management plans, and almost all the other concessions are in the process of developing such plans. In addition, the country has 1.9 million hectares of forest concessions certified under the Forest Stewardship Council (FSC), accounting for nearly half of all the FSC-certified forests in the Congo Basin. With support provided under the Highly Indebted Poor Countries (HIPC) initiative, the Ministry of Sustainable Development, Forestry and Environment adopted a number of ambitious policy reforms, among others to increase transparency in the attribution of timber concessions, to strengthen environmental impact assessment requirements and to give local communities and indigenous people more of a voice in the establishment of forest reserves and protected areas.

The Republic of Congo also intends to position itself as a provider of environmental services to the emerging global markets (e.g. Reduced Emissions from Deforestation and Degradation, and, in complement to this, aims to promote afforestation and reforestation efforts eligible for carbon credits and is currently engaged in a process of strengthening national technical and institutional capacities to participate in a future REDD+ mechanism, with support from the Forest Carbon Partnership Facility and other partners. The country is also giving more prominence to its national parks, which contain globally significant biodiversity, as an international tourist attraction. More than 12 percent of the Republic of Congo's land area has been classified as national parks and other protected areas, and progressive forest management rules and monitoring systems are increasingly adopted (with varying degrees of enforcement). A

sustainable forestry management process, officially initiated at the end of 2000, has helped the Republic of Congo progress significantly in protecting its forest ecosystems and it is estimated that by 2012 about 75 percent of the Republic of Congo's close to 13.5 million ha of production forests will benefit from a management plan. Local communities derive uneven levels of benefits from forest concessions: more from the larger, better-managed concessions in the North, many of which generate significant employment and are FSC-certified or in the process of becoming so; and less from the smaller concessions in more densely populated forest areas in the South. . Sharing benefits with local communities living in and around protected areas, however, has proven to be even more of a challenge. Nevertheless, there are some encouraging pilot experiences with benefit sharing from tourism in protected areas near Brazzaville and Pointe-Noire that merit scaling up.

Progress is also being made in recognizing and strengthening traditional rights of forest communities and indigenous populations. A new law on the rights of indigenous peoples was passed by the Senate and the National Assembly of the Republic of Congo on December 30, 2010, and signed by the President on February 25, 2011. This makes the Republic of Congo one of only two countries in Africa to date to have adopted legislation aimed specifically at protecting indigenous peoples' rights.

The Republic of Congo's forests still face a growing threat of degradation and deforestation. Although still relatively low (according to the 2008 State of the Forests atlas, the annual gross deforestation rate was 0.07 percent), the deforestation rate is predicted to rise with population growth and economic and infrastructure development. The main direct causes of deforestation and forest resources degradation in the Republic of Congo include unsustainable slash-and-burn farming practices, unsustainable woodfuel production and consumption, unsustainable and illegal logging, and urban development. These direct causes are compounded by many underlying factors, including the lack of a national land-planning vision, discussed and approved by all stakeholders, the poverty of rural populations, low-productivity agriculture, population growth, the lack of alternative sources of energy adapted to low incomes, inefficient charcoal production and use, and weak forest sector governance.

Convinced that well-managed forests can help diversify the economy and contribute to sustainable growth, the government demonstrated leadership in completing a comprehensive forest and environmental sector study under the Heavily Indebted Poor Countries (HIPC) initiative and subsequently adopting a number of key policy and legal reforms. New legislation was adopted on transparent and competitive concession allocation, a generalized requirement for environmental impact studies for all development projects, and an Inter-Ministerial Commission established to resolve conflicting land uses. However, the experience of recent years has demonstrated that policy and legal reforms alone are not sufficient to realize the potential of forests and that these must be accompanied by specific investments and work programs in the field. With this in mind, the government has requested the World Bank to complement the support the country is already receiving from the European Union (for restructuring Protected

Area institutions at national level), AFD (for bringing remaining, smaller forest concessions in the South under forest management plans), and the African Development Bank. The government has requested Bank support for capacity strengthening of its forest and environmental institutions, for operationalization and implementation of the National Plan for Afforestation and Reforestation (PNAR), and for piloting innovative ecosystem services approaches.

Current donor support for the forestry sector in the Republic of Congo focuses mainly on forest concession management, timber traceability and protected area management, as can be seen from the table below.

Table - Donor Activities in Forest Sector

| Donor | Project | Budget | Timeline | Observations |
|------------|---|------------|-----------|---|
| AFD | PAGEF | EU 5 mn | 2009-2014 | Support for forest management planning in the south (smaller concessions) and institutional strengthening of the National Forest Inventory and Management Centre (CNIAF). |
| AFD | Two full-time Technical Assistants | EU 0.9 mn | 2010-2012 | Support for FLEGT, timber traceability etc. |
| AFD | Study on SNR restructuring and wood energy | EU 0.12 mn | 2011-2012 | Study for PNAR wood energy - looks at feasibility and risk. |
| AFD | Setting up lines of credit for concessionaires to develop forest management plans | TBD | 2012-2015 | |
| AFD | Contribution to TNS Conservation Trust Fund | EU 3 mn | 2011 | TNS = Tri-national Sangha (conservation landscape that Congo shares with Cameroon and CAR) |
| FFEM | Support for forest certification | EU 1.5 mn | 2010-2013 | Fonds Français pour l'Environnement Mondial |
| EU | Reinforcing timber track | EU 3.1 mn | 2009-2012 | Implemented by Société Générale de Surveillance. RoC government is contributing EU 1 mn |
| EU | Independent Observatory of Forestry | EU 2.0 mn | 2011-2015 | Implemented by NGOs Resource Extraction Monitoring (REM) and Forest Monitor |
| EU | PAVAP | EU 2.5 mn | 2008-2010 | Creation of National Parks Agency |
| EU | Ecofac V | EU 3.7 mn | 2005-2010 | Odzala National Park management |
| FAO | PNAR preparation studies | USD 0.1 mn | 2011 | Focusing on technical and financial viability of different plantation models |
| FAO | Support for forest inventory | USD 0.3 mn | 2011-2012 | |
| UNDP | Support for TRIDOM conservation landscape | USD 3 mn | 2010-2015 | Cross border conservation landscape Congo shares with Cameroon and Gabon (Dja-Odzala-Minkebe) |
| World Bank | Forest and environmental policy reforms under HIPC | USD 0.6 mn | 2007-2010 | A policy reform study was followed by the adoption of new legislation on transparent and competitive concession |

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|--------------------------------|----------------------------------|-----------|-----------|---|
| | | | | allocation, environmental impact studies, an Inter-Ministerial Commission established to resolve conflicting land uses. |
| CBFF (Congo Basin Forest Fund) | Regional protected areas project | USD 50 mn | 2011-2015 | 4 out of the 6 sites are in Congo (whole or part), including Lac Tele and Conkouati. |

C. Relationship to the Country Partnership Strategy (CPS)

The 2009 Country Partnership Strategy (CPS) recognizes the need for the Republic of Congo to exploit its comparative advantages related to its natural resource endowment, geographic position and climatic conditions to promote non-oil growth. The government of the Republic of Congo is keen on: (i) playing an increased role in the transit of goods in the sub-region¹; (ii) improving the productivity of the important but underdeveloped agriculture sector; (iii) promoting the smart exploitation of its large forestry resources; and (iv) developing its mining sector. In line with the priorities stated in the Republic of Congo’s 2008 Poverty Reduction Strategy Paper (PRSP), and following extensive consultations with stakeholders, the Bank’s support to the government’s efforts has been planned around two main priority areas, namely: (i) diversification and growth; and (ii) poverty reduction through improved basic service delivery.

The proposed Forestry and Economic Diversification Project is narrowly aligned with the first of these two priorities, diversification and growth. The Project will help develop and implement a strategy for removing key obstacles to private sector development and for promoting involvement of smallholder farmers and agribusinesses in the forestry sector, while taking all possible measures to ensure environmental sustainability. Moreover, the Project is intended to function as a ‘catalyst’, stimulating private sector investment in commercial forestry (plantations) and ecosystem services (e.g. carbon, ecotourism), thereby also contributing to diversification of the economy. Promotion of investments in the above sectors, if successful, will contribute to employment creation in rural areas (plantations in particular are a labor-intensive industry), possibly creating new growth poles, and is therefore expected to positively affect poverty reduction as well. Support for continued decentralization in the forest sector and towards increased local level and community involvement in natural resources management could lead to an increase in benefits from forests accruing to local stakeholders, further enhancing these positive effects. Through the above, the Project will also enhance the resilience of rural

¹ In Pointe-Noire, Congo has the only deep water port on the Atlantic between Luanda and Gabon. The country could become a major transit hub for goods exported from the DRC (a road bridge is planned between Kinshasa and Brazzaville) and the Central African Republic (via the Oubangui), and could become less dependent on Cameroon for (expensive) road transit if it invests in infrastructure wisely.

livelihoods to changes in the physical and economic environment, better equipping rural populations to deal with the uncertainty caused by climate change.

II. Proposed Development Objective(s)

A. Proposed PDO

The **Project Development Objective (PDO)** is to increase the capacity of the government to fulfill its statutory functions in the forestry sector and to reduce barriers to investment in selected sub-sectors (plantations, ecotourism, ecosystem services).

This PDO is directly aligned with one of the key goals of the Bank's Country Partnership Strategy for Congo, which is to diversify the country's economic base away from the oil sector and to create employment in an environmentally, socially, and economically sustainable manner.

B. PDO Level Results Indicators

Progress towards achievement of the Project Development Objective will be assessed through the following outcome indicators:

1. Capacity of the MDDEFE to fulfill its core regulatory functions: attribution and supervision of forest concessions and the implementation of their management plans and social responsibility clauses; application of new legislation on environmental assessment; and capacity to do results-based planning, budgeting, and monitoring and evaluation..
2. Change in identified barriers to private sector investment in plantations, ecotourism and environmental services.²
3. Direct project beneficiaries (number of people), of which female (percentage).
4. Environmental and social benefits accruing from Project's investment in Environmental Services pilots (including investment related to protected areas).

² Barriers will be identified and quantified during project preparation. Overall private sector investments (current and planned) in reforestation/afforestation and in environmental services (hectares, USD equivalent, number of people involved) will also be monitored to allow for outcome monitoring.

III. Preliminary Description

The proposed Project will support the government of the Republic of Congo in its efforts to strengthen its forestry policy and institutions and establish the forestry sector as a central pillar of its economy and a central tool of its sustainable development and growth.

The Project has three substantive components and a management one:

(i) Component 1 - Capacity building for implementation of institutional and policy reforms (approximate IDA allocation US\$ 8 million) :

The first component will support the institutional capacity strengthening efforts needed to successfully implement the forest policy and institutional reforms adopted under the **Highly Indebted Poor Countries (HIPC)** program and the National Afforestation and Reforestation Plan (PNAR). In so doing, this component will also help the government to comply with actions agreed under the **FLEGT Voluntary Partnership Agreement** with the European Union. Activities under this component will include strengthening the overall capacity of MDDEFE and associated structures to deliver on its large mandate, including strengthened capacity to plan, execute and monitor budgets and activities at national level and in a few selected pilot departments. The Congolese government has only recently adopted results-based budgeting and Medium-Term Expenditure Framework and MDDEFE, like many other sectoral ministries, will need significant capacity strengthening to enable it to derive the full benefits from these new financial management tools. The project will thus make a major investment in MDDEFE's fiduciary management capacity. The analysis and recommendations contained in a thorough review of the structure and functioning of forest and environment sector institutions carried out by the Bank in 2007 in preparation for the Highly Indebted Poor Countries (HIPC) initiative in Congo are still largely valid. An update of the review will be funded by the Project Preparation Advance that will be requested as soon as the PCN is approved.

MDDEFE will also need to strengthen its Environment Directorate to implement the legislation adopted recently regarding assessment and monitoring of social and environmental impacts of development activities, including infrastructure, mining, agriculture and forestry. Special emphasis will be placed on strengthening the government's capacity to conform with and uphold international safeguard standards in forestry investments, including overseeing environmental and social impact evaluations and the development of mitigation plans. Another legislative innovation, the establishment of an Inter-ministerial Committee for dealing with conflicting and overlapping land-uses in forest areas still needs to be operationalized. This is of particular importance given the increase in prospective mining projects in forest areas.

New procedures for the gazettelement and degazettelement of forest reserves and protected areas adopted as part of the HIPC initiative will require a significant increase in the capacity of MDDEFE to organize consultation processes with local communities and indigenous peoples directly affected by such changes. A number of forest fiscal measures that were recently introduced still have to be carried through, because of capacity limitations in MDDEFE to operationalize them. Having recently broadened its scope to cover **sustainable development**, the project will support the MDDEFE in better defining the mandate and work program for this Directorate, including its role in the climate change agenda (mitigation and adaptation). The project will also support development of the capacity needed for the oversight of environmental services and wildlife tourism investments. Strengthening of these same capacities is also essential to the implementation of key elements of the *Readiness Plan for REDD+* (Reduced Emissions from Deforestation and Degradation, including the role of conservation, sustainable management of forests and enhancement of forest carbon stocks), in particular the creation of a legal and institutional framework for REDD+ and environmental services.

(ii) Component 2 - Promoting Private sector and smallholder investment in afforestation and reforestation (preliminary IDA allocation US\$ 6 million, dependent on confirmation of economic viability of afforestation and reforestation by studies to be carried out under project preparation advance):

The second component will support the operationalization and initial stage of implementation of the government's National Afforestation and Reforestation Program (PNAR). It will focus mainly on promoting environmentally and socially sustainable private sector and smallholder farmer investment in afforestation and reforestation in the savannah regions of the country, which have low population density and limited suitability for farming as the soils are sandy and poor in nutrients, but have good potential for commercial tree growing and are close to the major urban centers. The first few years of the Bank-financed project would constitute the pilot phase for the implementation of the PNAR, and the mid-term review would draw lessons from experience and inform revision of the PNAR as needed. The longer-term national target of planting a total of 1 million hectares may be too high in terms of what domestic and export markets for forest products would be able to absorb, but this target will be thoroughly analyzed in the project preparation studies, and can be modified accordingly. In ecological terms, planting a million hectares, mainly in savannah areas, seems reasonable given the existence of over 10 million hectares of savannahs, most of which have limited suitability for arable farming and are biologically impoverished. This means that with careful selection of plantation sites to avoid negative environmental and social impacts, and with adoption of standard environmental management practices and local community consultation procedures, negative impacts can be minimized and socioeconomic and environmental benefits optimized.

Provided that it is not subject to high taxes and that the government facilitates access to land and medium term financing to the private sector, wood coming out of efficiently and sustainably managed plantations would be competitive against illegally cut wood for the following reasons:

- The wood will be processed using high yield productive techniques – illegal loggers use time and fuel consuming chainsaws.
- The costs of transporting forest products to market will be much lower as these plantations will be close to the main urban centers and/or ports – transportation costs for illegal loggers (already representing up to 50% of their costs) keep going up as they go further and further away from urban centers to access receding forests. Transportation costs will be further lowered in the case of sustainably managed plantations which will also dry and pre-cut their wood before sending it to the wood markets in the cities (saving another 50% in transportation costs).
- The wood products would be of higher quality – e.g. high energy content charcoal and dry wood pre-cut following standard norms.

The two main constraints for such plantations to be developed by private investors are access to land and access to medium term financing – constraints that the project, in collaboration with other Bank-financed activities such as the Economic Diversification Support Project (PADE) would help the government to address, whether directly (access to land) or indirectly (access to medium-term financing).

Facilitating access to land for plantation investors. Competitive sustainably managed plantations of fast-growing species (acacia, pine, eucalypts) require large land areas of around 10,000 hectares minimum harvested on a five to fifteen year rotation. An attractive economic model consists in small plantation holders selling their wood to a large-scale industrial plantation estate managed by the private sector (the forestry equivalent of the nucleus farm). The large-scale industrial plantation will provide access to the markets, access to technology and access to financing to the small plantation holders. The process for the nucleus plantation investor to obtain long term use rights over a large area from traditional chiefs on customary land exists but it is long, costly and risky (e.g. pending conflicts between the traditional chiefs and their constituencies who may not have been fairly treated by them). One recent investor had to spend three years and \$3 million dollars to acquire 10,000 hectares.

The government can facilitate access to land in several ways, for example:

- Facilitating the creation of land cooperatives among traditional communities and negotiations with potential industrial partners
- Facilitating reforestation on degraded land within forestry and mining concessions – such concessions often include several hundreds of hectares of degraded land. Such reforestation programs, which have already been piloted in the forestry concessions in the North

(“UPARA”) would also contribute to strengthen the links between the concessionaires and the local communities and reduce the incentives and temptation for illegal logging by local residents within these concessions.

- Auctioning land on which the government has clear undisputable rights (making sure it takes due care of any current users of this land) and which is above a thousand hectares and could thus become the nucleus plantation.

Facilitating access to finance for plantation investors. Even after the land has been secured, a 2,000 hectare plantation project requires about \$3 million financing over a five year period. Such financing is simply not available from commercial banks in Congo. Having solid land use rights would help but is far from being enough because of the many other risks facing commercial operators. It should be noted that deep pocket foreign investors (e.g. mining companies, large agribusiness and forestry firms) may have access to such sources of funds.

Given the government’s insistence on investing state funds in reforestation and the poor track record of governments as on-lending institutions, the project preparation advance would fund a review to assess the various (combinations of) instruments that the government might use to facilitate access to plantation finance: long term credit lines in banks with subsidized interest rates; partial credit guarantees, performance-based matching grants (cf the Uganda Sawlog Production Grant scheme); support to microfinance institutions (for small plantation holders); venture capital funds; and possibly others. Assistance on this topic will also be sought from IFC.

The exact division of labor between the Project and other business climate related initiatives of the Bank in addressing the above-mentioned constraints will also be decided during Project preparation.

The Project will use several tools to assist the government in operationalizing the PNAR:

- a. Research and analysis -
 - i. The Project will assess the conditions necessary to attract and encourage such private investment, and will support the government in creating / improving the enabling environment, including exploration of different models of reforestation, targeted at different markets, planting systems (species, silviculture methods, etc.), and economic models.
 - ii. Key forest product markets will be assessed for their accessibility to different types of growers, beginning during project preparation and continuing during project implementation as necessary. Products to be assessed include, but are not limited to: charcoal, chips for pulp and/or biofuels, essential oils, carbon sequestration and more traditional markets such as solid and reconstituted wood products for building. Such assessments will be refined and extended in scope during project implementation.

- b. An in-depth cost-benefit analysis (CBA) will be conducted, taking care to incorporate environmental costs and benefits, with the aim of translating the Congo National Reforestation and Afforestation Plan (which is actually more a high-level policy statement) into an operational plan, providing clear arguments for what the government should and should not undertake (or leave to other actors in the market) regarding reforestation. At least the first phase of this CBA will be conducted as part of project preparation.
- c. This CBA would be in addition to financial analysis of the different reforestation models from the point of view of the different types of planters (large industries, small private planters up to 100 ha, smallholder farmer woodlots and agroforestry), also to be conducted as part of project preparation, through an FAO technical assistance grant.
- d. Potential for South-South cooperation and knowledge-transfer will also be explored, possibly through the Africa-Brazil Innovation Marketplace. In this regard, the Brazilian model of Forest Replacement Associations for the sustainable production of commercial fuelwood will be assessed for its suitability in the Congolese context.
- e. Possible financial mechanisms to support plantation investors will be assessed during project preparation (see above). The financial mechanisms will be designed to stimulate sustainable (and self-sustaining) investment in reforestation activities. Grant mechanisms to smallholders will be considered only for activities that after an initial development phase will become economically viable.
- f. The Project may also assist the government in setting up a mechanism for facilitating private sector access to land for plantations, based on the research and analysis mentioned above, and may support the government in piloting this mechanism.
- g. The environmental and social safeguard studies that will be carried out during the preparation phase will concentrate mainly on reducing and mitigating any negative impacts (which are expected to be small) of large-scale tree planting in savannah areas.³

(iii) Component 3 – Promoting Environmental Services initiatives (approximate IDA allocation US\$ 4 million, possible additional funding from the Global Environment Facility (GEF)):

The third component will focus on promoting Environmental Services initiatives and approaches related to forests. It will entail support to various activities with a potential to generate Ecosystem Services that can be marketed, including carbon, biodiversity, ecotourism, and potentially hydrological services. The component will contribute to the Project's aim to diversify the country's economic base and to promote sustainable forest management.

³ Impacts on indigenous peoples, who dwell mainly in the moist forests in the far North, not the savannah areas that will be planted in the South and the Centre of the country, are expected to be minimal – but environmental and social safeguards instruments will be applied to reduce, mitigate and manage any impacts on local people.

Specific investments will be identified through the studies funded by the Project Preparation Advance, and during project implementation. The component will finance the design and implementation of activities to be executed by various stakeholders, including the government, civil society and private sector. Detailed criteria and process for the selection of activities will be defined during project preparation. The activities to be supported by the component should promote marketable environmental services, and aim to monetize these services in existing voluntary and regulated markets. As the country has demonstrated a strong interest in promoting REDD+ activities, this project would fund a limited number of pilot REDD+ projects, identified as part of the REDD Readiness process. In addition, the component could also support reforestation / afforestation activities aimed at the Voluntary Carbon Market, and possibly linked to the PNAR. Other initiatives include the promotion of ecotourism in protected areas with strong potential, and other innovative niches, such as bio-prospection, biodiversity offsets and hydrological services.

Activities to be supported under this component are:

- a. Design and Implementation of Environmental Services initiatives.

The project will support a few environmental services initiatives dealing with carbon (REDD+, Afforestation/Reforestation (A/R)), biodiversity (biodiversity offsets, bio-prospection) and possibly hydrological services. A few REDD+ pilot projects dealing with different circumstances (tenure situation, stakeholders involved, forest and land use involved, etc.) will be supported, and should generate important information for the REDD+ Strategy under preparation. Carbon offset activities, mainly through reforestation and afforestation under the umbrella of the PNAR, would also be supported in view of their access to carbon payments. The project will pay particular attention to creating opportunities for smallholders to access markets for ecosystem services.

- b. Analysis of the potential for development of domestic markets for environmental services and national capacity development to promote these markets

The project will support an analytical piece to assess the potential of creating domestic markets in the Republic of Congo for different ecosystem services, and the conditions necessary for these markets to flourish. The oil sector in the country, for instance, has expressed interest in seeking carbon offsets from activities in the Republic of Congo. The various new infrastructure and mining projects expected in the coming years are also likely to require various forms of offsets, including carbon and biodiversity. This sub-component would support the country in assessing this potential and identifying the conditions for realizing the potential.

- c. Support eco-tourism development in key protected areas.

This sub-component will support few selected protected areas with strong potential for attracting ecotourism. Support from the project will include strengthening park management, establishment of visitor infrastructure and promotion of community well-

being through the development of alternative income-generating activities for local communities. Examples of protected areas being considered for such support are the Konkouati-Douli National Park near Pointe-Noire and the Lefini Reserve near Brazzaville, which both have proven ecotourism potential (enhanced by their relative proximity to major cities), in addition to harboring important biodiversity in rich and diverse ecosystems.

(iv) Component 4 - Project management (approximate IDA allocation US\$ 2 million):

This component will ensure implementation of management activities, including: preparation of annual work programs and reports, monitoring and evaluation, procurement, and financial management of project resources. It will also focus on environmental and social safeguards implementation and supervision, as well as compliance monitoring and enforcement.

Activities will include: (i) ongoing operation of the Project Management Unit, (ii) developing and supervising annual and quarterly work plans and budgets, (iii) overseeing procurement and financial management and conducting annual audits, and (iv) establishing baselines, and developing planning, monitoring and evaluation systems for any interventions on the ground

IV. Safeguard Policies that might apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|---|------------|-----------|------------|
| Environmental Assessment (OP/BP 4.01) | X | | |
| Natural Habitats (OP/BP 4.04) | X | | |
| Pest Management (OP 4.09) | | | X |
| Physical Cultural Resources (OP/BP 4.11) | X | | |
| Involuntary Resettlement (OP/BP 4.12) | X | | |
| Indigenous Peoples (OP/BP 4.10) | X | | |
| Forests (OP/BP 4.36) | X | | |
| Safety of Dams (OP/BP 4.37) | | X | |
| Projects in Disputed Areas (OP/BP 7.60)* | | X | |
| Projects on International Waterways (OP/BP 7.50) | | X | |

V. Tentative financing

| Source: | (US\$m) |
|--------------------|----------------|
| Borrower/Recipient | 20 |

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

| | |
|--------------|------------|
| IBRD | 0 |
| IDA | 20 |
| GEF | <i>TBD</i> |
| Others | 0 |
| Total | 40 |

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