

Recommendations for establishing a flexible and effective Institutional framework for the National Forestry Agency and other forest related bodies

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ABBREVIATIONS AND TECHNICAL TERMS

AAC	Annual Allowable Cut
ADC	Austrian Development Cooperation
APA	Agency for Protected Areas
APDR	Administration for protection and disaster relief
BFD	Biodiversity and Forestry Department
BiH	Bosnia and Herzegovina
CENN	Caucasus Environmental NGO Network
DES	Department for Environmental Supervision
DFR	Division for Forest Resources
DRR	Disaster Risk Reduction
EUTR	European Union Timber Regulation No 995/2010
FAM	Forest administration of Montenegro
FC	Forest Code
FD	Forestry Division
FE	Forest Enterprise
FGS	Forest Guarding Service
FMB	Forest Management Body
FMU	Forest Management Unit
GIZ	Gesellschaft für internationale Zusammenarbeit
GoG	Government of Georgia
JSC	Joint Stock Company
LLC	Limited Liability Company
LEPL	Legal Entity of Public Law
MARD	Ministry of agriculture and rural development Montenegro
MD	Ministry of defence
MEPA	Ministry of Environment Protection and Agriculture of Georgia
MESP	Ministry for environment and spatial planning Slovenia
MoA	Ministry of Agriculture
MoEPNR	Ministry of Environment Protection and Natural Resources
MoESD	Ministry of Economy and Sustainable Development
NDR	natural disaster recovery
NFA	National Forestry Agency
NFC	National Forst Company
NWFP	Non Wood Forest Product
ONF	French National Forests
PE	Public Enterprise
SA	State Agency
SB	Service for Biodiversity
SE	State Enterprise
SFC	State Forest Company
SFS	Slovenian forest service
TAC	torrent and avalanche control

1 BACKGROUND AND OBJECTIVE

On November 13, 2017, the Government of Georgia (GoG) announced a major reshuffle, where several ministries were merged to strive towards more sustainable and decentralized administration, including improved forest management. Under the reshuffle process, the Ministry of Environment and Natural Resources Protection (MoENPR) was divided, with its natural resource management component being transferred to the Ministry of Economy and Sustainable Development (MoESD) and the environmental component being merged with the Ministry of Agriculture. The latter was named the Ministry of Environment Protection and Agriculture of Georgia (MEPA).

The MEPA is initiating the modernization process of the National Forestry Agency (NFA). According to the current vision of the MEPA, multi-purpose forest use is the vital step in the process of practising sustainable forest management based on the national -forest Concept (NFC). Therefore, the renewed institutional model of the forest sector governance should address the challenges in the forestry sector and the country. The topics to be reflected in the institutional model include stimulating recreational use of forest resources and increasing the role of forests in rural development, which on its turn will decrease social pressure on forests (using forest resources as energy sources in rural areas) and will generate income at local and central levels and will contribute to the development of rural areas. Additionally, the new institutional model shall consider creation of mechanisms for strengthening environmental functions of MEPAs and introduction of Sustainable Forest Management Principles, gradual elimination of “social cutting” practices, engaging NFA in watershed management and disaster risk reduction (DRR) in forest lands, sustainable management of non-forest resources, biomass utilization, forest fire prevention, and so forth.

In order to support newly formed ministry in developing the institutional model of the forest sector governance, considering on-going structural changes and reforms, the need to involve international expertise for strengthening the capacity of forestry policy division of biodiversity and forestry department and NFA was felt. This report should analyse and propose flexible institutional mechanisms, based on principles of sustainable forest management and experience of Austria and Slovenia.

This initiative is being implemented under the auspices of the MEPA in cooperation with CENN and with the financial support of the Austrian Development Cooperation (ADC). In particular, CENN is implementing the project *Sustainable Forest Governance in Georgia: Phase II*. The overall objective of the project is to contribute to the successful implementation of forest reform in Georgia via the development of policy tools, modernization of forest management practices, strengthening the capacities of authorities and civil society, and enhancing issue-based policy dialogue. One of the three main purposes of the project is to develop national forest policy implementation tools and mainstreaming forestry priorities in sectors' policy documents.

The Georgian forest sector has been under increased scrutiny for its difficulties in providing information and transparency concerning the fulfilment of societal expectations. EU and GIZ/ADC have continuously supported the ministry and NFA in the definition of National Forest Concept, National Forest Programme and Action Plan for the forest sector within the Environmental and Rural Development Agendas of the GoG. This report shall continue this assistance and identify how the institutional landscape can be improved to serve the purposes and objectives of the Action Plan and development objectives of GoG and MEPA specifically.

2 OVERVIEW OF EUROPEAN FORESTRY ORGANISATION MODELS

2.1 Typical European models and distribution of organisational functions

According to the basic functional criterion to be used in this report, i.e. distribution of main forestry organisational functions among the forest institutions and/or bodies, with particular attention to the forest administration / service and the management functions, the European forestry's can be generally classified into two main models (please see also Table 1 and Figure 1):

1) Model in which the functions of the public administration of forests or public forestry service, and the commercial management of state forests are integrated in the same organisational body which could be:

- a) a dependant body (division or agency) within the ministry: Classical examples of German states until 2004 (with their so called Unified Forest Administrations) and now only a few of these countries which did not separate the state forest management from the forest administration (e.g. Baden-Württemberg); examples of Poland (with Polish state forests as an economic department within the ministry), Romania (with Romanian state forests as an economic department of the State Forest Administration) and Bulgaria (with Forest Agency as an economic body within the ministry), as well as of Montenegro (with the Administration for forests) and Kosovo (with the Agency for forestry);
- b) a public (PE) or state enterprise (SE) established under public law and performing on commercial principles: Examples of current forestry PEs in Serbia (which are now under restructuring into public companies based on private law) and former PEs in Bosnia and Herzegovina (BiH), Montenegro and Macedonia (which had already been restructured or transformed); examples of the SEs in the Czech Republic (with the Czech State Forests) and France (with the French National Forests ONF).

2) Model in which the functions of public administration of forests or public forestry service, and commercial management of state forests are separated between two state institutions / organizations, where the:

- A) Public administration / service function is organised as:
 - a) a dependant body (division or agency) within the competent ministry: examples of state forest administrations / services of German states, Austria, Hungary etc., or
 - b) an independent legal body under supervision of the competent ministry: examples of Slovenia (Forest Service) and Latvia (Forest Service); and
- B) Commercial management function is organised as a legally independent economic entity in the form of:
 - a) a state agency (SA) established under special public law (on management of state forests): Example of Slovenia until 2016 (with the Fund for Agricultural Land and Forests in charge mainly for concessional management and disposal of state forests);
 - b) a state enterprise (SE) established under public law (on management of state forests), but performing on commercial principles: Examples of restructured

German state FEs, which are in the status of public economic institutions (e.g. Bavarian and other state forests), and

- c) a state company (SC) established under the public law (on state forest management) and the private (company) law - as limited liability companies (LLC) or joint stock companies (JSC) in 100% state ownership. Examples: cantonal LLCs for management of state forests in the Federation of BiH, JSC for management of state forests in the Republic of Srpska BiH, LLC "Croatian Forests", new (2016) LLC of "Slovenian State Forests", JSC "Austrian Federal Forests", Hungarian state FCs, JSC "Latvian State Forests" and others.

An overview over distribution of other main forestry organisational functions by models, such as performing of forest operations, control of forest operations, forest monitoring and supervision is given in the Table 1 below.

Table 1: General types of European state forest models and distribution of main organisational functions

Organisational function	Integrated Model		Separated models	
	Ministry (M) w. its Dpts / Dpnd. Bodies	Ministry (M) w. its Dpnd. Body & Indp. agencies	Ministry (M) w. its Dpts / Dpnd. Bodies & Forest Enterprise (FE)	Ministry (M) w. its Dpnd. Body & Indp. agency & (FE)
Forest administration / service	Admin/Service of M	Forest Service (FS)	Admin/Service of M	Forest Service (FS)
Forest management / use	Mgt Body of M	For. Mgt Agency (FMA)	FE of public or commercial law	FE of commercial law
Forest operation performing	Mgt Body of M and/or Contractors	Concession holders w. FMA	FE and/or Contractors	FE and/or Contractors
Forest operation control	Mgt Body of M	FS	FE	FS and FE
Forest monitoring	Forest Institute	FS & Forest Institute	Dpt of M / Forest Institute	FS / Forest Institute
Forest supervision	Admin/Service or Ins. Body of M	Ins. Body of M	Dpt/Ins. Body of M or Gov.	Ins. Body of M and one external Ins. Body
Example of European countries	D < 2004, D-BW > 2004, PO, BU, RO, MNE, KOS	SLO (former)	D > 2004, AU, FR, CZ, SLR, HU, CRO, SRB, BIH, MAK	LT, SLO (new)

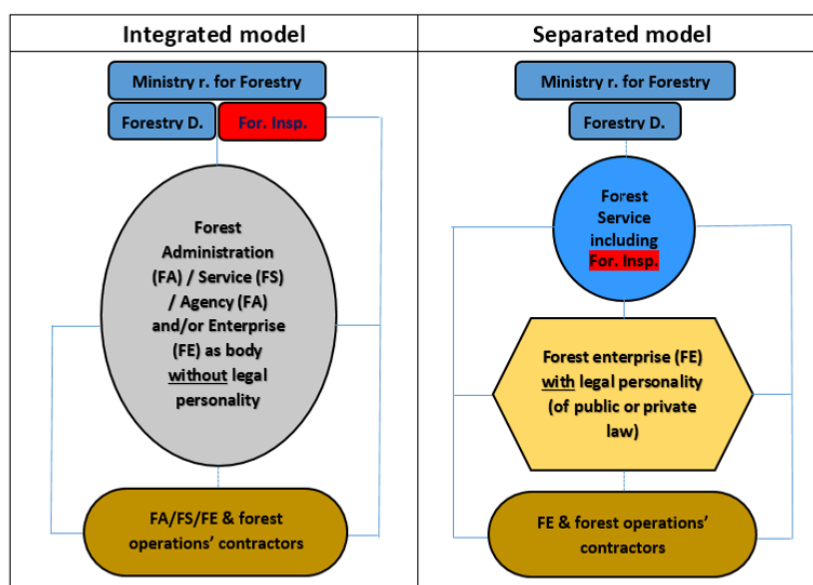
Legend: Dpts - departments, Dpnd - dependant, Indp - independent, D - Germany, D-BW - Baden Württemberg, PO - Poland, BU - Bulgaria, RO - Romania, MNE - Montenegro, KOS - Kosovo, SLO - Slovenia, FR - France, CZ - Czech Rep., SLR - Slovak R., HU - Hungary, CRO - Croatia, SRB - Serbia, BiH - Bosnia & Herzegovina, MAK - Macedonia, LT - Latvia

This makes the two organisational models quite diverse and specific, providing that no any model is the same. For purposes of this report, the situation and trends in the approaches of performing forest operations, which are more or less independent on general organisation models, could be characterised as follows:

- a majority of forest management bodies (FMBs), which traditionally performed their forest operations predominantly in their own capacities, now perform them

- to a lesser part only, while majority of the operations are performed by contractors and the wood assortments are sold by the FMBs;
- some FMBs are using the state forests only based on contracting the forest operations (e.g. the Polish state forests) or combine such contracting by selling of standing timber (e.g. Romanian Forest administration and Bulgarian Forestry Agency) or self-performing the forest operations (Slovenian state forests) and sell the wood assortments in their own arrangements;
- some FMBs sell the standing timber only, mainly based on short-term contracts (the French state forests and Kosovo Forestry agency) or implement the combination of concession and short-term contracts (Montenegro Forest Administration).
- Majority of FMBs combine all the forest utilisation approaches (e.g. own execution of operations, contracting of operations and own selling of wood, and standing timber selling).
- Majority of commercialised FMBs perform also various other, forest-related and non-forestry activities and services (e.g. use of NWFPs, forest and other land rent, management of protected natural areas, water management, hunting, tourist services etc.), from which they could gain significant incomes.

Figure 1: Two general models of European countries' forestry sectors



Legend: Forestry D. - Forestry Department/Directorate, For. Insp. - Forestry inspection division

Note: Forestry inspection within the integrated model could be also within the body in charge for administration and management of state forests (FA/FS/FE).

The general trend of the organizational development of the European forestry sectors (in the last 10 – 20 years) is characterised by transition from the (traditionally) integrated to the separated model(s). Main driver for such a development or restructuring was economic balance sheet, which was usually negative - because of non-rational, non-commercial and non-efficient state forest administration and management - although the state forest production and economic potential was high.

Within these separation processes, the following developmental directions or stages (of potential interests to Georgia) were present:

- a) Development towards commercialised management of state forest within SEs based on public law, where the financial benefit for the state as forest owner is equally important as other forest benefits and services for the public, which such SEs perform as its regular activities: Examples of most German states, France, Czech Republic and Slovakia;
- b) Development towards commercial management of state forests within SCs in the form of LLCs, based on public and private law, where the profit for the state as forest owner is more important as other forest benefits for the public, while the last activities should be performed by the SC also as its regular (or obligatory) ones: Examples of Slovenia, Croatia, cantonal companies in BiH;
- c) Development towards highly commercial management of state forests within SCs in the form of JSCs, based on public and private law, where the profit for the state as forest owner is much more important than other forest benefits for the public. In many instances, however, public functions are performed by the SC as paid services (e.g. environmental services of national parks): Examples of Austria, Latvia and Hungary.

In terms of (re)organization of the state forest management in European countries, there is however also a rare practice of long-term persistence in the existing integrated model. Examples: a minority of the German states, which kept the management of state forests integrated within the forest administrations (e.g. Baden-Württemberg, Thuringia) and Poland, which (since 1929) persists in the status of "Polish state forests" as a directorate within the ministry, responsible for forestry.

The reversed organizational development is uncommon in European countries. The only exceptions are Montenegro and Kosovo, where the reversed developments - from PEs for forest management to an integral Forest administration or Forestry agency as bodies of responsible ministries - happened after 2000. In both cases, the administration body or agency were established after the collapse of the mentioned PEs in the transition to market economy, mainly caused by non-sustainable privatisation approach (in terms of forest operations and towards forestry concessions), accompanied by corruption. The decision makers of other, particularly transition countries, with low forest and economic potentials and similar social and business risks, should thus be aware also of such a possible reverse development.

2.2 Slovenian model(s) and functions

Slovenia is a small, mountainous European country (bordering with Austria, Italy, Croatia and Hungary), with a sustainable and near-natural forestry tradition from over 125 years. Within the new forestry system (established in 1993), multi-functionality has been added also on legal and institutional level and implemented in forest-related activities and practices. Forests cover 1.2 million ha or 60% of the land. There is almost equal share of broadleaved and coniferous forests. Growing stock reaches already 330 m³/ha and its increment more than 7.5 m³/ha. Annual cut reaches up to 5 m³ / ha (80% of AAC) in the last years, while usual share of logs is 50%. There is (almost) no illegal harvesting. Share of state forests is however only 20%. More than a half of all forests, of them more than two third of state forests, is included into NATURA 2000 sites, comprising 43% of Slovenian territory. Openness of state forests is already optimal (over 25 m/ha with roads and more than 50 m/ha with skidding ways) and the state forest management is now very profitable. However, in the last few years, catastrophic forest events (with ice, bark beetles and wind damages) occurred, causing more than 10 million cubic meter unplanned cuts over the country.

The ministry, responsible for the forestry sector is now (again) ministry of agriculture, forestry and food (MAFF). Within a former Government (between 2012 and 2014) forestry sector was under the merged ministry of agriculture and environment (MAO). However, the structure and functions of the forestry sector institutions and bodies had not been changed at all due to the merging. No any merger stress and pressure on forestry sector structures and functions, not undergoing any inter-sectorial integration (such as of nature conservation and forestry departments or environmental and forestry supervisions) happened. Instead of it, for example, integration of certain environmental responsibilities into forestry sector, such as direct nature protection supervision, happened, while a number of other environmental issues were integrated into forestry sector already a long time ago. Also, after the demerging, the existent sectorial structures and functions remain the same and continue to work.

Current Slovenian forestry organisation model (after 2016) corresponds to a specific separated model (please see Table 1 and Figure 2). The public forest administration or service function (without supervision) is performed by the Slovenian forest service (SFS) as a legally independent public service institution which is financed by the state (for all forest owners, including the state). The forest service function includes the forest administrative tasks (issuing administrative orders / permissions for cutting etc.), forest planning (national, regional and FMU level), forest inventories and monitoring, wildlife and hunting planning, forestry professional tasks (related to forest protection and biodiversity conservation, silviculture, forest technology and forest roads, as well as to other ecological and societal functions), operational forest utilisation tasks (operational planning and individual marking of trees for felling), duties on forest protection and rehabilitation of damaged forests and assuring forest planting material, obligation for provision of forestry extension (education and advising) services and forestry promotion, as well as financial support to forest owners (in planning and transferring the state budget funds). Apart from gratis public service activities, the SFS could perform also professionally technical services for forest owners (e.g. needed for management of their forest holdings) and other clients. The SFS is also publicly authorised for management and conservation of all Slovenian hunting grounds with special purpose. Finally, the SFS is publicly authorised for performing the direct nature protection supervision (as part of the nature protection service) within the forest area. The SFS has round 700 employees (i.e. 0.6 per 1,000 ha or 1,700 ha per 1 employee), of which 90% are foresters. Among them, 400 are district foresters (with a required minimum of higher school education, i.e. forestry engineer), covering averagely 3,000 hectares large forest district units.

The state forest management and use function is performed by the new state forest company (SFC) "Slovenian state forests" LLC, established by the law on management of state forests (2016) and based on the company law. In parallel to the SFC and based on its payment obligations to the state as forest owner (i.e. 20% of the gross income from the sold wood assortments), also a state budget fund, i.e. forest fund has been established (by the same law). The fund is managed by the ministry, responsible for forestry. One of the main functions of the Forest fund is to support and promote the forest and wood related activities, which are in the public interest (e.g. forest and wood research, Natura 2000 measures, promotion of sustainable use of wood and local wood value chains).

The SFC has now 165 employees (0.7 per 1000 ha or 14,000 ha per 1 employee) for exercising its forest operation function and selling of wood. Currently, the SFC implements forest utilisation mainly through (short term) contracting of forest operations and own (short and longer term) selling of wood assortments to wood industry operators at the forest road side. A special governmental policy was endorsed for selling of wood assortments, aiming at prioritising prospective local wood value chains, while taking into

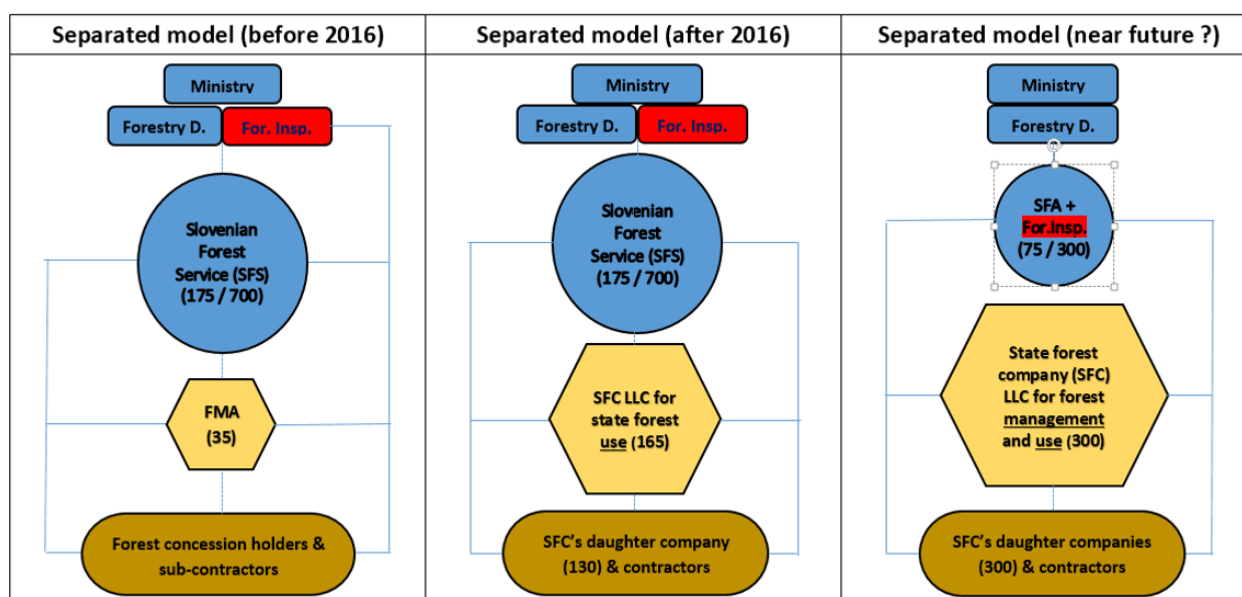
account the market conditions under the Article 107 of the EU Treaty (related to non-allowed state aid). To a small extent (currently below 10%, in future up to 20%), the SFC also performs forest operations in its own capacities. For these operations, the SFC owns and develops a daughter company, which employs 130 persons, mainly physical forest workers. The SFC sells also standing timber to a very limited extent, restricted to specific forest conditions (e.g. small isolated forest parcels). The SFC is (to be) engaged also in support to the development of wood processing centres and related value chains. The SFC performs its forest and wood business in economic terms much better than it was the case within the former concession system (from the state side). Its current net income (in 2017) reached, despite of lower wood prices as a consequence of the catastrophic bark beetle attack, even 31 EUR per cubic meter (at average selling price of 50 EUR). The only problem, however, were much too small forest biological and technical investments of the SFC, i.e. below 3 EUR per cubic meter (while the optimum should be a few times higher). The last is a pretty negative indicator (apart of several positive ones) of the new SFC LLC and its (too strong) profit orientation on the account of lesser ecological sustainability of forests.

The control of the SFC's forest operations within the forest stands is provided by the SFS, while on the forest roads and outside the forests it is performed by the SFC itself. Forest and forest management monitoring is performed by two institutions: the Slovenian forestry institute (for IPC, forest biodiversity and other special types of monitoring) and the SFS (for monitoring of all forests and forest operations at local level). Forest supervision is performed by Forestry inspection (17 inspectors or 1 per 70.000 ha), as a division of a joint Agriculture, forestry and food inspectorate of the same named ministry, while the supervision of transport and trade of wood assortments (according to EUTR) is carried out by Forestry inspection (within forests) and Customs inspection (outside forests).

It is important to stress that current Slovenian forestry organisational model significantly differs from the former one (established in 1993 and lasted until 2016) in terms of management and utilisation of state forests (please see also Figure 2). The former state FMB was a state agency (i.e. Fund for agricultural land and forests), based on public law, while the state forest users and operators were the concession holders and their sub-contractors. A part of the state forest management function, e.g. the forest management and operations planning, including marking of trees for felling, was and still is performed for free by the SFS.

The former concessions had been granted directly by law (in 1996) and lasted for 20 years. In 2016, the concessions expired and the concession system was abolished (mainly because it was economically not efficient enough for the state) and legally replaced by new state company system. At the same time also, forestry department of the Fund for agricultural land and forests' agency was abolished and its responsibilities for management of state forests (including the staff) transferred to a newly established SFC.

Figure 2: Slovenian forestry organisational model and its current and possible future development



Legend: Forestry D. - Forestry Directorate, For. Insp. - Forestry inspection, FMA – Forest Management Agency of the Republic of Slovenia (RS), SFC LLC – State Forest Company of the RS with limited liability; (35), (165), (300) ... are staff numbers.

Current forestry organisational model and system needs however further development / reform (please see also the Picture 3, the third model), which is expected within anticipated new government (to be established in the autumn this year). Although there is no consent yet in the forestry sector about final reform solutions, it could be expected, among others, that the public forest service and the commercial forest management functions will be redefined towards reduction of the first ones and appurtenant increase of the second ones. In that way also, the state budget burden for forestry would be significantly released. According to this, the afore mentioned forest management function's part of the SFS (including the staff) should be transferred to the SFC and other (bigger) forest owners, while the forest administrative, forest planning (regional) and monitoring, forestry professional and forestry extension support, and nature supervision functions remain with the (reduced) SFS. After that, the SFS should change its status to the Slovenian forestry administration (SFA) as a dependent body of the ministry, responsible for forestry. Ideally, the Forestry inspection should be joined with the SFA, in order not to overlap the forest supervision functions.

2.3 Montenegrin model(s) and functions

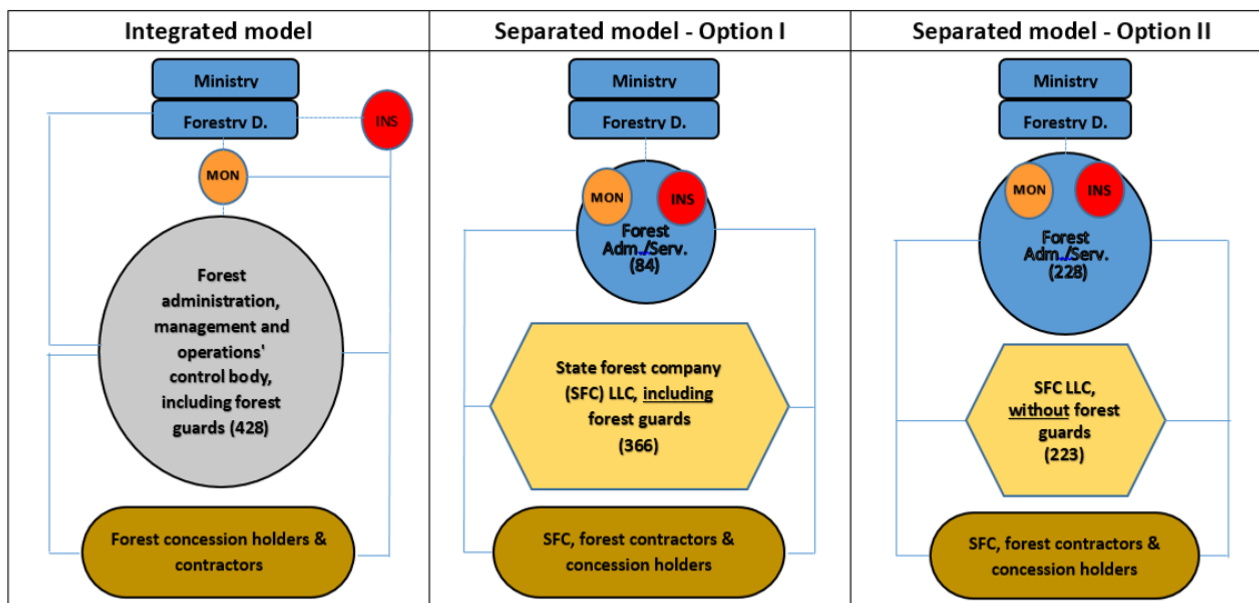
Montenegro is a small, mountainous West Balkans' country (bordering with Serbia, Kosovo, Macedonia, BiH and Croatia), with also quite a long sustainable forestry tradition (from ex-Yugoslavia). Current forestry system was established in 2000 and further developed in 2010. Forests cover 0.8 million ha or 59.5% of the land. Broadleaved forests dominate. Growing stock reaches only 155 m³/ha and its increment 3.5 m³/ha. Registered annual cut amounts to 1 m³ / ha (about 50% of AAC) only, while usual share of logs is about 25%. A remarkable share of illegal harvesting (up to 75% of the registered one) is still present. Almost 50% of forests is degraded (to coppice and coppice with stands). Share of state forests is about 50%. Access to the state forests is relatively good

(over 70% of forests is within 500 m skidding distance) and the forest management could now already be profitable if the system would be properly implemented.

The responsible ministry for forestry sector (after 2012) is Ministry of agriculture and rural development (MARD). Within former governments, the forestry sector was under the Ministry of agriculture, forestry and water management. Until now, no merging aspirations between the agriculture and the environment ministries were present and it is also not to expect them in near future. One of the reasons lies in permanent conflicts between environmentalists and foresters, related to unsustainable forest use, although the forest legislation is already well harmonised with nature conservation legislation. The main problem is actually in non-implementation of the legislation, both the forest (e.g. in terms of concessions) and nature-related ones (e.g. in terms of assuring corresponding nature protection regimes and their supervision).

Current Montenegrin forestry organisation model corresponds to an integrated model (please see also Table 1 and Figure 3). The forest administration or service function (without supervision), as well as the state forest management function is performed by the Forest administration of Montenegro (FAM) as a dependent body of the ministry, responsible for forestry. The FAM currently employs only 420 public officers (0.5 per 1000 ha or 1 person per 2,000 ha), of which a half are forest guards (covering averagely 4,000 ha forests). The public authority tasks of the FAM include forest administrative ones (issuing permits for cutting etc.), forest planning (regional and FMU level), forest inventories and monitoring, wildlife and hunting planning, forestry professional tasks (related to forest protection, silviculture and forest use), assuring sustainable forest utilisation (by operational planning and individual marking of trees for felling), forest protection and rehabilitation of damaged forests, forestry extension (education and advising) and promotion. The forest management responsibilities and tasks include granting forest concessions and short-term contracts for state forest use (i.e. selling of standing timber), contracting and control of forest operations and own selling of wood assortments. The contracting of operations and own selling of wood assortments have not been started to be performed yet mainly because of non-assured state budget funds for paying the forest operation costs. Financing of the FAM and the forestry operations and measures, which are not part of the concessions or other use contracts, is channelled through the state budget, which is however extremely restrictive. This is mainly because the concessions, which have been established (based on Slovenian experiences) in 2007/2008, are not correspondingly financially effective for the state (budget), resulting in nonsufficient budget incomes for covering of all the forestry expenditures. However, if the concession system would be implemented accordingly and all the concession fees paid (on time), the economic balance of the state forest management would be positive. Another key problem in this regard is that even 70% of the income from concessions and other contracts is legally taken out and granted to the local self-governments, causing that forestry sectors' functioning becomes totally financially unsustainable, if not (sufficiently) compensated by the state budget

Figure 3: Montenegrin forestry organisational model and its future development options



Legend: Forestry D. - Forestry Directorate, INS. - Forestry Inspection (as external supervision body), MON - Forestry Monitoring division; (428), (366), (223) ... are staff numbers.

The control of the forest operations is provided by the FAM. Forest and forest management monitoring is performed both, by Monitoring division within the ministry and by FAM. Finally, forest supervision is performed by external Forestry inspection (15 forestry inspectors or 1 pet 70,000 ha of forests), as a division of a joint State administration for supervision affairs under the Government.

Current forestry organisational model and system needs a comprehensive reform, which is expected to be started soon, based on a previous, complex forestry reform study (elaborated by Ferlin, 2017) and current further preparatory steps (ongoing). In terms of necessary changes, there is a consent and governmental decision on separation of the state forest management function from the public forest administration or service function, where the second would remain with the reduced FAM, while the first one would be transferred (together with appurtenant staff) to the newly established SFC LLC (in 100% state ownership), based on forest and company laws. Two separate organisational model options (please see also Figure 4), containing key functional differences particularly in terms of where the forest guarding service would be settled, are actual in this sense. In the first option, the forest guards would be transferred from the FAM to the SFC (for which the SFC would need a special public authorisation), while in the second option they would remain in the FAM. Consequently, the sizes of the future FAM and SFC would be significantly different, providing also different impact on the state budget and having different self-financing needs.

However, the main obstacle for implementation of such reform concept is afore described financial unsustainability of the current state forest management system. If this key issue is not previously politically and legally solved, there is no chance to separate the FAM and establish the new SFC, which could successfully financially operate.

All the experience could be instructive for similar restructuring intentions or establishing new forest companies in other countries with low capacities of state / public budgets and other similar problems.

2.4 Austrian model and functions

The forest areas in Austria have grown continuously over the last few decades. About 4 million hectares of land, or 47.6% of the national territory, are now covered by forest, while the growing stock in forests continues to increase. Since the very first Austrian Forest Inventory, performed in 1961/1970, the growing stock has increased by about one third, thus reaching about 1,135 million cubic metres overbark.

Presently the increment amounts to 30.4 million m³, while timber use is only 25.9 million m³. This makes forests crucial for economic growth. In 2013 the wood-based sector contributed a gross value of 5 billion euro and a trade surplus of 3.41 billion euro to Austria's economic performance. Using wood from sustainably managed forests also has a positive impact on climate change, and is a major pillar of the green economy. Still the share of protected forests is steadily rising in Austria. Almost 22 % of the total forest area is now protected under nature conservation legislation.

Apart from the economic and environmental benefits that forests provide in Austria, they also play an important role in the protection against natural hazards. This is especially true in areas with steep slopes, as forests act as a natural barrier against soil erosion by both wind and water thereby also having the secondary effect of protecting settlements and infrastructure from hazards such as mudslides. This is the main function of about 20 % of the total forest area.

The Federal Ministry for Sustainability and Tourism emerged from the Ministry for Agriculture, Forestry, Environment and Water Management (BMLFUW) and comprises of seven Directorates - General:

- Chief Executive Department
- DG I – Environment and Water Management
- DG II – Agriculture and Rural Development
- DG III – Forestry and Sustainability
- DG IV - Climate
- DG V – Waste Management, Chemicals Policy and Environmental Technology
- DG VI - Energy and Mining
- DG VII - Tourism and Regional policy.

The Forestry DG is further subdivided into divisions: Forest Policy and Information; Forest Training and Education, Research; Forest Resources; Forest Area Planning, Forest Protection; Torrent and Avalanche Control.

Forest Management is performed by and on behalf of the forest owner, ~80% of the Austrian forests are privately owned, more than 50% by smallholder owners with less than 200 ha forests per family. The other half is managed by larger forest companies, the biggest one being the JSC Austrian Federal Forests (Österreichische Bundesforste ÖBf AG), managing the federal forest holdings of Austria, on an area of 800,000 ha with commercially managed forest stocking on 350,000 ha, and providing an annual allowable cut of 1.6 mio m³ per year. ÖBf was founded in 1923 as budget enterprise and detached from the federal budget as a joint stock company in the sole ownership of the Republic in 1997 with a constitutional law regulating the change of the management institution. Its ~1,000 staff members generate a turnover of approximately 225 mio € per year and an average annual net profit of 20 mio € for the Republic of Austria as forest owner.

Research and Education is coordinated by the Austrian Research Centre for forests and the federal forest office, both subordinated to the ministry directly.

2.5 Environmental supervision in selected countries

Supervision and Control of all forests is performed by district forest administrations which are integrated in the territorial administration of the federal states of **Austria**. The forest administrations closely cooperate with the hunting and nature conservation departments of the district and state administrations and with the agricultural chambers that provide extension and subsidy administration for private forests. As there is practically no illegal logging and poaching the monitoring functions are predominant in the daily routine of the territorial administrations. Technical planning is provided by forest bureaus or specialised teams of larger forest owners and is approved/endorsed by the forest administration on district level. This applies as well for clear-cuts between 0.5 and 2.0 ha, where a specific permit is required. Forest administration is also involved in spatial planning and protection issues, but often as advisors only. The conversion of forests into other land use is also handled by the district forest administration in close cooperation with other line departments (tourism, conservation, economy).

In **Slovenia**, environmental supervision is organised within the Ministry for environment and spatial planning (MESP), as a dependant ministerial body (Environmental inspection), while in Montenegro, environmental supervision is included into a joint Administration of inspection affairs, which is a dependant body, directly under Government. However, within the individual environmental supervisions (from air and water to pollution and waste sectors) there is no also forestry supervision. This is classically organised as an individual / separate division within the mentioned inspections' bodies, leaded by a chief forestry inspector. In case of Slovenia, it is important to repeat in this context, that the direct nature protection supervision within the forest space was legally entrusted to the SFS, which was also fully capable to take over these duties. However, under assured budget financing of the services from the environment ministry. In this way, an important integration of the public forest service and the nature protection service was made. This was however not the case with the Forestry inspection service, which otherwise apart from forestry, already perform certain environmental supervision duties (such as collecting of mushrooms and other natural plants/products, driving in the natural environment and supervision of fires in natural environment).

2.6 Watershed management, torrent and avalanche control and natural disaster recovery

In **Slovenia**, the MESP is responsible for water protection, use and water regulation and provision of appurtenant public services. The overall water resource management is introduced in accordance with the EU Water Framework Directive. The priority is eliminating adverse effects on waters, providing an appropriate quality of water for humans and natural ecosystems, and maintaining biodiversity. Competent bodies for the water sector are Directorate for Water and investments of the MESP with its Water management division, the Slovenian Environmental Agency (SEA) and the Slovenian Water Agency (SWA) as dependant ministerial bodies. Certain activities in terms of forest water protection and conservation are regularly integrated into the SFS planning activities (e.g. mapping of water function), as well as everyday forestry practices, particularly through sustainable forest management as well as certain forest water protection regimes and some additional forestry measures (e.g. removing of fallen trees from the water streams).

There is no any special division or service within the MEPS for the torrent and avalanche control (TAC). From the other side, there was until now also no serious needs for such a special service, as the problems in Slovenia are not so big (like for example in Austria), particularly because of traditionally sustainable forest management. However, with

heavy rainfalls and more frequent torrent events in the last period, also such a special service or division seems to be needed. Until now, these activities and investments, which were pretty low, are integrated in the Directorate for Water and investments of MESP. Care about the erosion (and indirectly the torrent) control has been also integrated into the SFS activities, while the forest protection measures in such areas also financially supported (even 100%) through state budget. And not the least, protection forests which include also all the erosion and torrent (risk) areas, have been designated by Government, based on forest sector proposal. The only problem in terms of the forest protection measures is a significant lack of budget funds.

For natural disaster recovery (NDR), the NDR division of the Directorate for Water and investments of MESP and the SEA are responsible from MESP's side. This includes, among others, adoption of natural disaster recovery programmes, implementation of urgent tasks for the stabilization and prevention of spread of natural disaster consequences, identification of necessary infrastructure facilities and installations for the arrangement of the areas of influence of slides, running administrative procedures, keeping data and providing monitoring of NDR measures. The forestry sector and SFS cooperate with the MESP bodies in this regard. A very good such practice were the last years' catastrophic forest events with largescale ice brake (in 2014) and consequent calamity of bark beetles, for rehabilitation of which also a special law was endorsed and significant budget funds allocated.

The prime responsibility in protection against natural disasters (and fires) lies on the Administration for protection and disaster relief (APDR) of the Ministry of defence's (MD). APDR includes the Civil protection service, the Duty protection and rescue service, professional fire brigades and closely cooperates with numerous voluntary fire brigades (over 1300) over all the country. APDR develops, coordinates and implements a comprehensive Slovenian system of protection against natural and other disasters including protection of people, animals, property, cultural heritage and the environment, with a view of reducing the number of disasters and preventing or reducing the number of casualties and other consequences of such disasters. This system is implemented by the state, municipalities and other local communities. It comprises the programming, planning, organization, implementation, supervision, financing of measures and activities for the protection against natural and other disasters. The SFS plays a key role in directing and coordinating the actions, particularly the firefighting ones, within the forest space.

Montenegro has similar organisation in terms of water management and protection against natural disasters, but has much less technical and financial capacities, and particularly tradition and human resources for these purposes. As regards the forestry sector, the water protection and conservation activities and measures, as well as the ones for ETC have not yet been integrated into the forestry system and practices.

The protection against torrents and avalanches is laid down in the **Austrian** Constitution as a competence of the Federal Government (Art. 10) both with respect to legislation and execution. On the basis of the Forest Act of 1975 the Federal Government attends to this task via a decentralised agency immediately subordinated to the Ministry of sustainability and Tourism, the Austrian **Service for Torrent and Avalanche Control**. In the Forest Act all tasks of its offices are laid down, among them the drawing up of hazard zone maps, the planning and implementation of technical and forest-biological control measures, the consulting services and expert activities, the care for the torrent and avalanche catchment areas, the administration of the subsidies allocated, and the representation of the public interest concerning the protection against alpine natural hazards.

The Forest Act includes also provisions on the headquarters and organisation of the offices. Presently there are 7 provincial headquarters (Vienna, Lower Austria and Burgenland in the same one) and 27 regional offices. Further, 3 technical staff units (geology, snow and avalanches, geological information) fulfil important planning tasks. Also, the legal foundations of the hazard zone map, which is one of the forest landuse plans, are laid down in the Forest Act and its Regulation. As far as its legal effect is concerned the hazard zone map is only an expert opinion, but it is binding due to its being laid down in the local land-use planning.

The provincial laws regulating land use and building contain building restrictions for areas exposed to natural hazards. The identification of the hazard zones in the zoning and development plans makes it possible for the authorities to assess the risk for each individual parcel and, if necessary, to determine provisions for making a site apt for development.

Torrent, avalanche and erosion control measures are financed from the Disaster Relief Fund of the Federal State (Disaster Relief Fund Act). Subsidies are granted subject to the provisions of the Hydraulic Engineering Assistance Act, which defines the terms and conditions under which subsidisation is provided as well as the principles of the planning and implementation of control measures. However, comprehensive protection against alpine natural hazards includes also organisational measures (emergency alert, alarm, evacuation) and civil disaster control, tasks which are mostly implemented by the Federal Provinces.

Modern natural hazard management can best be explained by means of the principle of the risk cycle, which begins with the event (disaster) and comprises disaster intervention, repair, reconstruction, prevention, and measures of disaster preparedness. The objective is to improve and enhance society's preparedness for future natural disasters. Provision of these security services requires the cooperation of experts of numerous technical disciplines and many public and private organisations. A task of natural hazard management is also to harmonise all relevant technical plans to serve the goal of protecting against natural hazards. To coordinate this task the political business unit "Protection against Natural Hazards" has been established at the Ministry of Sustainability and Tourism, which is to attend to the task beyond the specific competences of the individual ministries, regional units and technical fields.

2.6.1 Coordination of work with local communities

Unlike Germany and Switzerland, where communal forest constitutes more than a third of the forest and are often the main recreation and capital resource of communities, **Austria** does not provide for specific participation of municipal and communal institutions in forest development. Politically the representation of the population is considered to be achieved by the huge number of small and medium forest owners who also organise themselves in chambers, associations and interest groups. Hence, the institutional stakeholdership is less pronounced than in other countries. The Austrian Forest Dialogue is a well-established process for the further development of the national forest programme and its subchapters but does not involve participation rights in concrete forest management planning and implementation, where the private property rights are core pillars defining restrictive transparency and publication regulations. Thus, even public forests (ÖBf, municipal forests of Vienna) do not disclose their management planning, neither do they involve the public in the elaboration of these, neither officially nor indirectly.

In **Slovenia**, the local self-governments and communities have almost no responsibilities over the forest, except for maintenance of the forest roads (including the ones in state forests), as all the others are centralised (within responsibility of the SFS). In that regard,

the cooperation of the SFS with municipalities is very good, based on comprehensive annual programmes of forest roads maintenance, which are regularly prepared by the SFS, in coordination with municipalities. In that way, the system of forest road maintenance is very successfully implemented by municipalities and mutually monitored. Another matter of such cooperation and coordination are obligatory payments to municipalities from the state forest management (5% of the total income), which have to be purposely used by municipalities for maintenance of rural infrastructure. In terms of institutional management of the SFS, however, the local self-governments are included (regionally and nationally) in its decision-making process, which is carried out through the Council of SFS (as its management board).

In **Montenegro**, there is no forestry responsibility within the local self-governments, except in terms of receiving and using similar payments from the state forest income, which are relatively higher than in Slovenia. However, there is no cooperation and coordination yet between the FAM and municipalities in this regard, as municipalities do not use the received funds for forest-related needs. Local communities are also not involved yet in the forestry planning and decision making.

3 GEORGIAN SITUATION OVERVIEW & ASSESSMENT

The current Georgian forestry organisation model mainly corresponds to an integrated model (please see also Figure 4, the first organigram) when the forest administrative / service functions and the forest management functions are considered. In terms of legal status of the FMB, i.e. NFA, the model however already tends to a separated one.

3.1 Forestry authority

The supreme state forestry authority is within the MEPA's Biodiversity and Forestry Department (BFD) and its (planned) Forestry Division (FD). The FD develops national forest legislation, policy, strategy and programmes, reviews proposals of FMBs and exercises the powers of the supreme authority. It employs currently, however, only 2 (!) forestry professionals, which are, of course, not in the position to perform all the FD's duties to the desirable extent. A minimum number of the forestry officials for covering of core FD's responsibilities and duties should be assured. The positions should be the following: (1) development and implementation of forest legislation and regulation, (2) development and implementation of forest policy, strategy and programme(s), (3) reviewing draft forest management plans, (4) exercising the state's and owners' authority function over the FMB, (5) planning, distribution and monitoring of state budget funds, (6) exercising the highest level of forest administration affairs, (7) maintaining forest information system and (8) international cooperation and donor coordination.

The biodiversity division would require equal attention and the necessary staffing accordingly. Details were not assessed in this mission.

3.2 Forestry supervision

The central forest supervision quarter is settled within the Department for Environmental Supervision (DES) and its Service for Biodiversity (SB), where it should form the Division for Forest Resources (DFR). The DES is organised also regionally (6 regions) and includes forestry supervision with a few (1 to 3) planned inspectors per regional unit. The

DFR responsibilities and duties include supervising the (social and commercial) harvesting of wood, transport of wood assortments and issuing papers on origin of timber (which has to be labelled by barcodes), as well as control of wood processing facilities, based on a central electronic information system, with the aim to prevent and detect related illegal activities. However, the DFR currently employs only 4 forestry inspectors. Integration of the forestry inspection with the environmental and biodiversity ones did obviously not yet contribute to increasing of forestry supervision capacities and performance. For Georgia would now be most important to assure at least minimal fulfilment by forestry inspectors (e.g. by 1 inspector per 100,000 ha of forests).

3.3 Forest administration and management level

The forest administration or service function and the forest management function, including control function related to forests and forest operations, is performed by the NFA and its 964 employees (in 2018). The NFA has a status of legal entity of public law (LEPL) and is generally similar to those public forestry agencies or enterprises in European countries (e.g. German state forests, French state forests, Czech State forests, Serbian state forests and former Slovenian FMA), with however a significant difference in financial or commercial terms. Namely, the listed European state FMBs are functioning on a self-financing principle under which majority of them provide also a considerable profit for the state as owner of the forests. The NFA is however currently still mainly budget-supported, receiving (in 2018) even 57% of funds for its functioning from the budget, while the total budget support to state forests (i.e. for the NFA and forest activities and measures) amounts to 43% of planned needs. In European circumstances, such institution could not fulfil a key precondition, i.e. economic self-sustainability, for restructuring to a commercial body.

Such forestry financing situation is obviously, mainly consequence of:

- a) a very low timber harvesting intensity (0.34 m³/ha in 2016 and 0.25 m³/ha in 2017), which is currently even declining (from 0.58 million m³ in 2016 and 0.44 million in 2017);
- b) absolutely predominated fuelwood in the harvesting structure (91% of low quality in 2016 and 95% in 2017), and
- c) implementation of the social cuttings (with “tickets” of 3 GEL per cubic meter of standing timber) and related forest operations, carried out by nonskilled local people or their “contractors”, which are still absolutely dominating (97% of cut volume in 2016 and 93% in 2017), and from the other side, that less than one tenth of the harvesting (7% in 2017 and 3% in 2016) was carried out in own arrangement of the NFA.

Regarding the human resources, which the NFA had in 2016 (882 employees or 0.5 per 1000 ha or 1.5 per 1000 m³ harvest) and in 2017 (920 employees or 0.5 per 1000 ha or 2.1 per 1000 m³), it could be generally stated that the total number of employees is low with respect to the total forest area. This is e.g. similar to Montenegro as one of the most critical European examples in this sense. The total number of NFA employees with respect to total annual harvesting is however quite optimal (1.5 per 1000 ha in 2016) or even high (2.1 per 1000 ha in 2017), expecting that the potential of NFA should exist for intensification of the forest management and increase of harvesting.

However, the professional (staffing) structure is very unsatisfactory, as there are only 11% of foresters and even 75% of forest guards among the territorial staff. The education structure of employees is even more worrying, as only 7% of territorial and 16% of all employees possess higher forestry education. The figures are much worse than corresponding ones of Montenegro.

Based on the above, it could be stated that the current state forest management is not mainly based on forestry professionals, which is a fundamental precondition for sustainable, efficient and effective forest management.

In spite of the fact that NFA is trying to increase its originally low professional (human) capacities, it has also a serious lack in appropriate forestry equipment, technology and skills for starting, and particularly expanding the forest operations (in self-capacities of the NFA). Support by ADC, EU, GIZ and WB has improved the sector and NFA already, but especially staff capacities cannot be built overnight and require persistence and perspective.

3.3.1 Forest operation level

The forest operations, as third organisation level, are predominantly being performed by many local people as (social) forest users and their “contractors”, and to a minimum extent by the NFA (if at all). The functioning of the operators in the forests is, because of lack of any forestry skills and (appropriate) equipment, most critical with respect to forest and biodiversity conservation, as well as the people’s life safety. There is an urgent need for the development of forestry knowledge and skills of forest users and operators, but also through legal mechanisms (such as prescribing minimal conditions for operators).

3.3.2 Forestry support level

Currently, only the LEPL National Forest Nursery (NFN)¹ Saartichala has been included by MEPA as other forest sector organisation. It could thus be considered as a forest supporting body, assuring necessary plant reproduction material including the one in public interest. The legal status of it seems to be quite appropriate for its public and commercial mission, although it could also be merged with the NFA or restructured into the state-owned company (if economically viable).

3.4 Competences of the forest management executive bodies

Based on the review of current competences of the executive FMBs in Georgia (Box 1), it could be generally stated that they are already quite well and clearly defined. The competences, however, mostly indicate and ensure the mono-functional forest management and use concept. The FMB’s competences include also determining of the forest management policy and development of regulations / rules, which should normally be under the responsibility of the forestry authority, not the FMBs. Related to this, it should be clarified which sub-functions, tasks and activities could be included in the forest management term and consequently in the FMBs. Among FMB competences, there is already one environmental or biodiversity protection competency (e.g. control of use of

¹ The NFN could not be visited and its issues not considered during the consultant mission.

chemical means), as well as a pure nature protection competency (i.e. red book maintenance). The first one should actually be a competency of the nature protection body, while the second one of the forest control and/or supervision body.

Box 1: Competences of the executive bodies in the management of the state forest fund according to the 1999 Forest Code (consolidated version, 2017)

Article 11 of the Forest Code

Competences of the executive bodies of Georgia in the field of management of the state forest:

1. determining and implementing the state policy for management of the state forest fund;
2. coordinating activities in the field of management of the state forest fund;
3. organising and regulating tending, protection, restoration and use of forests and forest resources and providing state control and delegating special authority, and establishing rules for issuing permits for use of forest resources;
4. establishing rules for tending, protection and restoration of forests, as well as for importing and exporting forest resources into and from Georgia;
5. implementing of a unified scientific and technical policy in the field of management of the state forest fund, elaborating and approving normative and methodological documents, organising and financing fundamental and applied scientific research;
6. restoring forests damaged by environmental disasters, epidemics and other causes;
7. maintaining the Red Book of Georgia;
8. organising registry system for the state forest fund, and establishing rules for forest monitoring and maintaining of cadastre of the state forest fund;
9. signing international agreements and treaties on tending, protection and restoration of forest and the use of forest resources;
10. controlling use of biological and chemical means in order to protect forests;
11. establishing rules for forest use;
12. financing forest tending, protection and restoration of forests and monitoring expenditures;
13. establishing rules for restricting, suspending and terminating rights for forest use.

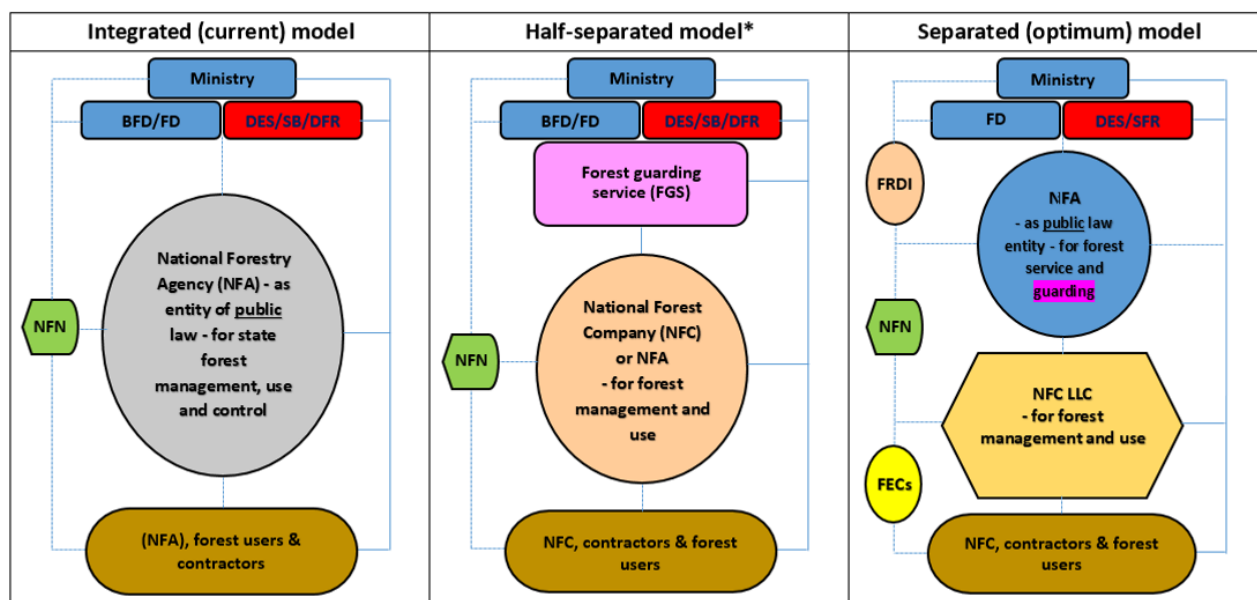
The basic two goals of the NFA (Article 2 of the Regulation), i.e. maintenance and regeneration of forest and sustainable use of the components of biological diversity, do not include only forest use, which is promising. However, overview of the basic NFA tasks, i.e. forest fund management; implementation of forest maintenance and regeneration measures; regulation of forest use; control of forest (with exception of license terms) on the territory of forest fund and implementation of forest inventory, as well as its detailed tasks and duties (please see Box 2), confirms a still fully mono-functional orientation of the NFA. In this way, the NFA is also classically internally structured.

Practical implementation of the prescribed tasks and duties by the NFA is however at a very low level, particularly regarding the forest production and use. Namely, the NFA is still carrying it to a minimum extent only, e.g. 10 - 20% of the forest potential and the (theoretically) possible timber harvesting. Additionally, the forest production and use are still predominantly oriented on fuelwood. The experiences from traditional European countries suggest, while taking the Georgian forest sector capacities and developments into account, that there is a very long way (e.g. many decades) ahead of the sector in which it could gradually intensify its forest management and use in sustainable way. In parallel, however, the forest planning and management practices should start to integrate other ecological and societal functions and services with the (wood) production, as much this is possible and feasible.

Box 2: Rights and obligations of the NFA as prescribed by its Regulation (No. 25)

Article 3 of the NFA Regulation	
The rights and obligation of the Agency are:	
1.	Forest <u>maintenance and regeneration</u> ;
2.	Implementation of forest fund <u>monitoring and processing of the data</u> ;
3.	<u>Inventory and planning</u> of forest fund;
4.	Division of forest fund into forest districts;
5.	Development and implementation of <u>measures against illegal forest use</u> ;
6.	Participation in <u>emergency measures</u> in the case of natural disasters...;
7.	Observance of <u>antifire rule</u> on the territory of the forest fund ...;
8.	Detection of <u>administrative law violations</u> and corresponding reactions;
9.	Identification (calculation) of <u>damage</u> caused to the nature ...;
10.	<u>Timber harvesting</u> ...;
11.	Issuing of timber <u>harvesting ticket</u> and the document of <u>origin of wood</u> ...;
12.	Identification of forests for use ...;
13.	<u>Marking and/or allocation of cutting area</u> ...
14.	Participation in international relations...;
15.	Cooperation with local and international organizations;
16.	Participation in creation of forestry legal, normative and economic bases;
17.	Development of purposeful programs;
18.	Facilitation of <u>retraining and raising of skills</u> of the personnel;
19.	Application of <u>mandatory measures</u> ... and issuance of administrative instructions ...;
20.	International and national reporting...
21.	Implementation of other authorities provided by legislation.

Figure 4: Current and proposed future forestry organisation models in Georgia



Note: *This model integrates both FMB options: the Governmental one with the NFC (May, 2018) and the Parliamentary one (mid-June, 2018) with the non-changed NFA.

Legend:

BFD/FD – Biodiversity and Forestry Department / Forestry division,

DES/SB/DFR - Department of Environmental Supervision / Service for Biodiversity / Department for forest resources

FD – Forestry department (of the Ministry)
SFR – Service for forest resources supervision (within the DES)
NFN – National forest nursery (LEPL Saartichala)
FRDI – Forest research and development institute
FECs – Forestry education centres

3.5 Ongoing forestry and related policy reform activities

The MEPA and its institutions are deep in the reform process accompanying the National 'Forest Program Process. With support from GIZ/ADC, the EU Twinning project and other cooperation partners the BFD has identified main fields of action which are currently tackled.

The most prominent activity is the transfer of ~400 forest guards to the DES in order to stop illegal logging. As this transfer process is in a nascent stage, the local organisational aspects are not finalised, but currently supported by the administrations providing institutional assistance in the EU Twinning project. This allows to incorporate Lithuanian, Hungarian and Slovak expertise in this crucial field and should be led by this project.

The NFA is eager to expand its activities providing fuelwood to budget institutions, i.e. kindergartens and schools as well as public buildings. This is a good start to obtain experience and capacities in the wood supply chains and widening the economic base of NFA activities.

The provision of social wood (fuel and timber) is supposed to be reduced significantly and still forms the major challenge for the forest institutions in general. The attempts to control access and activities within the forest areas will decide upon the change from an extractive and exploitative use to a sustainable management in order to improve the forest resources. Results of the forest inventory and new model forest management plans will provide the framework for a political definition of quantities and qualities of social services provided within the carrying and productive potential of Georgian forests. Western European forests faced the same challenge in previous centuries but were often saved by fuel switches to coal and other fossil energy sources. It is an obligation of the whole government of Georgia to explore and provide sustainable and affordable alternatives for the rural population in order to reduce the pressure on the forests.

Forests should however not be seen as fuel source only as they can be the nucleus for sustainable ecological development of the rural areas. Employment from wood processing, tourism and organic agriculture may contribute to the livelihoods in the disadvantaged mountain regions while maintaining the protective and service functions of the forests.

To this end grazing, especially in mountain areas will need a regulatory effort and transparent access regulations based on the carrying capacities of the forests and pastures in question.

This would also influence the biodiversity and conservation values of the forest which require consideration according to the association agreement and dedicated departments within NFA to make sure that the multifunctional forest management envisaged covers the economic, social and ecological functions of the forests holistically.

4 ASSESSMENTS AND RECOMMENDATIONS FOR INSTITUTIONAL DEVELOPMENT

The analysis above indicates that the forest sector is dynamically addressing the challenges ahead but will require capacity building and structural support for the next decades to be fit for the future. Our detailed assessments and recommendations under this

chapter are first related to the Governmental and Parliamentary organisational model options, while in the second part also our alternative and/or improved solutions of the proposed organisational model are presented. Also a comparison of all the proposed models, based on a SWOT analysis is presented.

4.1 Half-separated state forest company model proposed by Government

As the first relevant proposal of the future organisational model, the Governmental model included in the Draft Forest Code (Version 2017) was taken into assessment by the consultants. The model was strongly supported by MARD's leadership (in early May, 2018) as the only option². The proposed reorganisation actually relates to the NFA and its future status and functioning. Based on this model, the NFA should undergo restructuring into the company in 100% of state ownership, based on the Company law. This should happen until 2021.

An important additional, still non-formal decision related to future NFA's functioning, which has been taken by MEPA (before May, 2018), has also been taken into our consideration. Namely, based on the decision, a majority of forest guards (around 400) should be transferred from NFA to MEPA, meaning that NFA's staff would be significantly reduced. Internal organisation of this service, i.e. would it be a separate service or division under MEPA or included into the DES as a division or even a subdivision, was not yet known.

Such a solution with separated forest guarding function could be find in few European countries (with extensive illegal cuttings), such as Italy and FYRM Macedonia - actually in the form of forest police. The separation of forest guarding is also a re-organisational option in Montenegro (please see the Figure 3).

4.1.1 General organisational and economic aspects

Organigram of the proposed Governmental model is in the Figure 4 (the second one). It generally corresponds to a half-separated model - when the forest administration and management functions and the physical forest control functions are considered. Because the ministry level organisation - after the anticipated transfer of the forest guards - is not known yet, the organigram structure at that level was left the same as current one, and the new Forest guarding service (FGS) was just exemplarily added as a new division.

Thus, the governmentally proposed model differs (in comparison with the current one) only with regard to the status, a part of the function and size of the FMB, i.e. National forest company (NFC), and the new FGS body. After separation, the NFC should consequently become correspondingly smaller than current NFA. It is expected, although not concretely defined yet, that the NFC would take over a significant share of forest equipment). operations in its own arrangement and gradually increase their extent. In the first stage, NFC could most probably assure the forest operations through contractors, while later also and particularly increasingly in its own capacities (i.e. by own workers and Such a model with a commercial FMB however, requires serious feasibility pre-assessment, particularly in economic terms, i.e. self-sufficiency. Namely, based on general preconditions for establishing and functioning of commercial companies, among them the profit as a leading motive, international experiences in establishing or restructuring the forest enterprises, current situation and trends in the state forest and wood use and related income generation (which is very low), current and expected trends in the state budget support to the NFA (which is relatively very high), and particularly the anticipated

² That is why, we did not develop and recommend other model(s) at that time.

business functions of the NFC (which could not be on high commercial level as they include all non-commercial ones), it could be stated that the new company could NOT be economically viable and thus feasible.

The above statement is based on a very quick and rough calculation of the potential net income or yield (=timber selling value minus forest utilisation costs) from the state forest, which shows, for example, that for covering of functioning costs of the future NFC with current number of staff (964), an annual harvesting of wood of around one million m³ is needed, of which 70% must be realised in own arrangement of NFC (i.e. by contracting of forest operations and own selling of wood assortments). In case of reduced NFC's extent (e.g. on 500 employees), an annual harvesting of 600,000 m³ would be enough, however under precondition that around 50% of it is realised through own NFC's arrangement. On the other hand, if 100% of this harvesting amount is performed in the own NFC's arrangement, the net income from it would be sufficient for covering the NFC's functioning with a round of 800 staff (only).

This suggests that financial sustainability of the future NFC could be assured - based on a strong previous, starting financial injection and extensive (credit) funds for forest and other investments – only under the following main preconditions: (a) that company takes over (almost) complete extent of forest utilisation in the own arrangement, (b) that the harvesting amount is significantly increased and the technical wood is produced apart the fuelwood, and (c) that state budget and other (donor) funds are assured in long-term for non-commercial forestry activities and measures.

There is however also another issue which must be seriously taken into account in case of self financially not viable state companies. As Georgia signed the accession agreement with EU, the EU rules regarding the non-allowed state aid become crucial when planning to establish economically not sustainable state companies. Namely, according to the Article 107 (State aid) of the EU Treaty, it is not allowed to support public commercial enterprises from the state. According to the so called *de minimis* Regulation, certain minimum support is actually allowed, but is limited to specific activities (which do not distort the EU market) and on a maximum amount of up to 200.000 € per company (within 3 years' period). This suggests, that (also such) state companies must function economically self-sufficiently. In Slovenia, for example, such (co)financing from the state is allowed only for forest protection and damaged forest restoration measures (being also part of EU Rural development programme), which are legally defined and previously notified and are within the *de minimis* limit. Current situation in Georgia, where 57% of the NFA functioning costs or 41% of total (NFA and forest management) costs is covered by the state budget, or where only 43% and 59% are own incomes, respectively, is not convenient background for establishing the company.

Although it seems that allocations from state budget to public enterprises are currently not questionable in Georgia, and such allocation for the NFC was anticipated also in the Draft Forest Code, it could be expected that after restructuring of LEPLs, the country would start to implement similar rules (to the EU ones), meaning that restructured companies could not (any more) receive the state financing for covering their operations, except for very specific measures which are explicitly defined by law. Such principle and rules should be expected to be applied also to the new NFC, once it is established. Therefore the current discussion of detail scrutiny and delay of a commercial NFC establishment appear reasonable and should be supported.

4.1.2 Functional aspects of the forest management bodies

Based on the review of competences of the executive FMBs from the Draft FC (Box 3), it could be stated that the non-commercial ones largely prevail. Several competences

and obligations regarding environmental and societal forest functions are still missing. The forest maintenance or tending (in narrower sense), which is introduced through the Draft FC and included into the FMB competencies should, however, already contribute also to the maintenance of ecological and societal forest functions, i.e. indirectly to multifunctionality.

Box 3: Competences of the forest management body according to the Draft Forest Code (translated version, 2017)

Article 21 (Forest management body)

Forest management body:

1. Arranges forest protection, maintenance and reforestation/afforestation activities;
2. Implements forest use activities;
3. Carries out assessment of forest condition and creates database based on monitoring;
4. Demands from other forest users prevention of forest destruction and termination of detrimental activities to the forest;
5. Participates in the emergency response actions during natural disasters in forests;
6. Ensures compliance with the fire safety rules; takes appropriate measures for extinguishing fires and immediately informs relevant bodies;
7. Develops draft forest management plans (except for autonomous republic) and submits them to the Ministry for approval;
8. Develops and approves the annual work plans;
9. Participates in the organizing reforestation/afforestation of forests damaged by natural disasters, pests and diseases, and other causes;
10. Suppress illegal forest use and report it to the respective bodies;
11. Implements other authorities envisaged in the legislation and regulations.

With the aim to make the governmentally proposed competences more “green” and/or multifunctional and to come across other sectors related to forests, the following competences would be appreciated to be added to the forestry ones:

- a. the care for forest biodiversity, including watershed conservation, particularly through sustainable forest management systems and practices based on natural processes;
- b. the care for forest water protection, particularly through forest management planning (e.g. by mapping of water function), sustainable forest management and adapted forestry practices, respecting water protection regimes and performing some additional measures (e.g. removing of fallen trees from the water streams);
- c. the erosion (and indirectly torrent) control, through forest management planning (e.g. by mapping of protection forest function), designating protection forests, through adapted forestry practices, as well as through certain special measures, if corresponding budget financial support is assured;
- d. cooperation of FMB with competent authorities in the preparation of system of protection against natural and other disasters, as well as against fires, and coordination the activities when such events occur.

In the above context, it would be optimally to form at least one additional division of the FMB, e.g. Forest environmental division, which would also be entitled for planning and implementation outside the forest fund strictu sensu.

However, the NFA with such a current and extended public or non-commercial functions and tasks should better keep its public or non-commercial status also in future.

4.2 Half-separated national forestry agency model proposed by the Parliamentary Commission

As the second and currently politically relevant Georgian forestry (re)organisational model, the Parliamentary Commission's option (from middle of June, 2018)³ with half-separated NFA model was taken into our consideration. According to the option, the NFA should not undergo restructuring into the NFC. Other details regarding the model are not known yet. It is however to anticipate that the former MEPA's intention related to the transfer of forest guards from the NFA to the MEPA was not changed.

The organigram of the Parliamentary model option is thus generally the same as the one presented in the Figure 4 (second organigram), with the only difference for the FMB status, i.e. the NFA instead of the NFC. As regards the anticipated functions and competencies of the NFA, it is to expect that would be similar, if not the same, as defined in the Draft Forest Code (2017).

Taking the current Georgian forest sector development trends and prospective, along with our assessments under 4.2.1 into consideration, it could be stated that the decision for keeping the NFA (as LEPL) is quite a proper one – at least for next 10 years' period in which the capacities and necessary conditions of the NFA can be developed in direction of commercialisation of forest management and use, as background for sustainable restructuring of the NFA into the SFC.

4.3 Separated national forest agency and company model proposed by consultants

4.3.1 General organisation and economic aspects

With the aim to present a common (European) organisational alternative to the Governmental FSC model (actual in early May, 2018), a model with functionally reduced (current) NFA and functionally modified (future) NFC was developed and recommended by consultants (please see Figure 4, the third organigram). Models with separated state forest administration / service institution and the state forest company are currently present in Latvia, Hungary and Slovenia, while in Austria the forest administration is a dependent body within the ministry.

Such organisational solution should assure better provision of (extended) forest administration / service functions within the reduced NFA in long-term, as well as more efficient and viable economic functioning within the newly and rationally organised NFC. It should create also a better systemic environment for public (state and donors) financing of the NFA for performing the public forestry measures, as well as for commercial financing of the NFC (through financing institutions) for forest equipment and investments needed for sustainable and efficient forest utilisation.

The model anticipates also a change in organisational structure at MEPA's level, i.e. establishing of a sovereign Forestry department (at the same level as the Nature / Biodiversity department), as the forestry sector with about 1000 employees is a very big one and needs such a status and visibility. Also, the forestry supervision should be upgraded for one level, i.e. to the Service for forest resources supervision.

In order to establish the proposed model, a previous separation of the forest administration / service functions (and corresponding staff) from the commercial forest management and use functions is necessary. This should be done in a way that the first group

³ Based on a non-formal information received from the Parliamentary Commission responsible for forestry.

of functions, including forest guarding ones, remain in the NFA, while the second group transfers to the newly established NFC. In terms of status, the NFA should continue as LEPL and be fully financed by the state budget.

The NFC could be established as LLC based on the forest legislation, i.e. adaptation of the Forest fund management law, and the Company law. Yet, it needs additionally to be assessed in detail in view of EU subsidy regulations, budget availability deliberations and long-term viability. The first law would define the NFC's forestry functions, objectives, rights and obligations in the public/state interests, with certain company's specifics, such as corresponding business flexibility mechanisms (e.g. in terms of procurement and contracting), mechanisms for arrangement of relations between the company and the state (e.g. forest management contract) with appurtenant payment obligations to the state as forest owner, etc.

Also, a special budget fund, i.e. Forest fund could be established by the first law. The fund could be used for support to the implementation of non-commercial forest activities and measures (in public interest).

According to the Company law, the status, establishing capital, managing, operating and other NFC's (company) issues should be regulated. Due to the fact that Georgia is about to introduce new legislation concerning public enterprises, these developments need to be monitored and participated in, also to allow consideration of the specific forest challenges involved. The NFC should in any case remain in 100% of state ownership. After a remarkable financial injection for establishing the NFC, depending on company's strategic orientation (e.g. on how much of forest operations should perform with own capacities) and assured financing for the state forest infrastructural investments, the NFC should generate enough own income for its self-sufficiency, i.e. to cover the costs of its functioning, its forest use and silvicultural operations and its obligations to the state and (anticipated international) financial institutions. Finally, the NFC should generate at least also some profit.

Apart of NFN Sartichala, two other forest sector supporting organisations are proposed as essential to be further developed and functionally expanded, i.e. a Forest research and development institute (FRDI), and the Regional environmental education centres (REECs), optimally as a continuation/further development of the GIZ support to the existing environmental and newly-agricultural educations centres.

Based on the anticipated business functions and appurtenant size of the NFC, and the rough calculations within the 4.1.1, it could be stated that such a model would be significantly more economically viable and feasible than the integrated NFC model. This suggests that financial sustainability of the separated NFC model could be assured under the similar preconditions as for the integrated NFC model, except that the state budget funds would not be needed. It would be however needed for financing the NFA and public forestry activities and measures.

The EU rules regarding the state aid would thus not be in question for (self) financing of the NFC's functioning. For other market competition issues (e.g. procurement of forest operations and selling of wood based on multiannual contracts), off course, yes.

4.3.2 Functional aspects of the forest sector bodies

More detailed recommendations for definition and separation of the competencies, duties and activities between the NFA and the NFC, are given in the Table 2.

Table 2: Proposed separation of forestry organisational functions and tasks among the NFA and the NFC (discussion draft list)

Forestry functions and tasks	Competent body
Forest management planning:	
• Development of draft forest management plans	NFA
• Preparation and adoption of annual forest protection and afforestation/reforestation plans, financed by the state or donors	NFA
• Preparation and adoption of annual forest maintenance and use plans, financed by the income from forests	NFC
Forest monitoring & information:	
• Assessing and monitoring forest condition and establishing the database based on monitoring	NFA
• Establishing and maintaining of database based on monitoring the forest condition	NFA
• Establishing and maintaining the database based on recording the forest operations	NFA & NFC
Forest protection and re/afforestation:	
• Assuring preventive forest protection measures (against pest and diseases), financed by the state (contract based)	NFA
• Assuring and/or carrying out the forest protection, rehabilitation and afforestation / reforestation measures, financed by the state or donors (contract based)	NFA & NFC
Forest biodiversity, including water conservation:	
• Planning and implementation of the conservation measures integrated in the forest management plans and operations	NFA & NFC
• Carrying out the special conservation measures, financed by the state budget or donors (based on contract)	NFC
Maintenance of recreational forest function:	
• Planning and implementation of recreational forest measures and works	NFA & NFC
Forest erosion and torrent control:	
• Planning and implementation of the preventive measures in forest areas integrated in the FMPs and operations	NFA & NFC
• Carry out the special protection measures, financed by the state budget or donors (based on contract)	NFC
Prevention of forest destruction and fires:	
• Preventing the forest destruction activities (through forest guarding service)	NFA
• Participating in coordination of the emergency response actions in forests during natural disasters	NFA
• Participating in the emergency response actions in forests during natural disasters	NFC
• Performing measures for fire danger prevention and informing competent bodies	NFA & NFC
Suppression of Illegal forest use:	
• Suppression and reporting to the responsible bodies (through guarding service)	NFA (NFC)
Forest use and maintenance:	
• (Annual) Planning of the operations, including identifying of appurtenant areas and marking of trees for felling	NFC
• Controlling of quality of operational forest use planning, including marking of trees for felling	NFA
• Carrying out the operations, including timber / wood selling	NFC
• Controlling the harvesting sites and issuing the wood transport papers or certificates of wood origin	NFC

As it could be seen from the table, the NFA's functions and tasks generally include planning and monitoring aspects, while the NFC's ones the implementation aspects. Related

to the forest management planning and appurtenant inventories, which should finally be modernized and become multifunctional, it is normal that the NFA keeps competency in this field. This is particularly needed because the regional forest planning does not exist, nor it is expected to be introduced. Correspondingly capacitated (private) service providers for carrying out the inventories and elaboration of forest management plans (FMPs) are also needed.

The separation of forest activities is recommended also with regard to public or non-commercial and “private” or commercial interests. According to these, majority of the activities, except for the ones within the forest use and maintenance functions, are classified as public or non-commercial ones and allocated to the NFA, among them also the forest guarding. The forest use and maintenance, as well as contract-based services, are thus considered as commercial ones as usual, and allocated to the NFC.

Based on the recommended functional separation, the appurtenant current staff numbers of the NFA and the NFC could be identified and planned according to the future needs. It is however the fact that staffing of two entities will be more demanding than focussing all forest functions in one entity, but the joint staff numbers not necessarily higher or at least not much higher, if based on recommended separation principles. These principles could actually, primarily be used also for the design of improved current organisational structure of the NFA (without separation).

The FRDI could/should provide the following target-oriented forestry tasks for the sector: carry out the R&D work for the needs of the NFA and Forestry department of MEPA, develop inventory and forest management planning methods and tools, coordinate and carry out special national level forest monitoring (e.g. ICP and biodiversity), assure special forest protection and diagnostic tasks, control the forest reproduction material, and develop the forest information system.

The RECs should provide indispensable forestry education and training of skills for forest users and contractors’ workers. The NFN should assure production of forest planting material which is in public interest as well as (ex situ) conservation of rare forest genetic resources. The national ‘forest programme has generated valuable ground work for all these activities and deserves attention and consideration for the establishment of a sustainable forest sector.

4.4 Advanced half-separated national forest agency model proposed by the consultants

In order to contribute to development of the actual Parliamentary model option, which is based on current NFA (as LEPL), however with separated FGS, only extension of the NFA functions and competencies, as proposed also under the Table 2 (for the NFA and the NFC together), would be recommended. It is self-understandable that (in that way) the functionally advanced NFA should carry out both, the public and commercial forest functions. Attention should be paid to strengthening both of the function groups, with particular attention to gradual commercialisation of forest management.

The advanced model should thus figure as a transitional one and be developed and kept all until the real pre-conditions for sustainable restructuring of the NFA into a viable SFC would be reached.

4.5 Comparative SWOT analysis of the proposed models

There are several pros and cons of the proposed models in comparison to the current one and between each other.

Based on the bellow SWOT analysis (Table 3), the details in implementation of specific issues could show if the commercial advantages and entrepreneurial freedom outweighs the ecological and social benefits (granted by state budget), but also the risks of an ecological and social negligence - once subsidy regulation undergo external political pressures, leaving the potential NFC with the income form regulated fuel wood provision only.

Table 3: SWOT analysis of the proposed organisational models in comparison to the current one

SWOT aspects and issues	Advanced NFA	NFC	NFA & NFC
Strengths:			
• Clear responsibilities	Introducing	Partly	YES
• No conflict of interests among public and commercial functions	NO	Partly	YES
• More efficient forest management	Introducing	YES	YES+
• Higher salary flexibility	NO	YES	YES+
• Dominating entrepreneurial spirit and principles	Introducing	YES	YES+
• Dominating market principles and prices	NO	Partly	YES
• Increased and widen forest income sources	Introducing	YES	YES+
• Decreased state budget sources' needs	NO	Partly	YES
• Better systemic environment for (international and national) public and commercial financing	NO	Partly	YES
Opportunities:			
• Integration of ecological and social services (contract-based)	NO	YES	YES
• Transparency of environmental and social service costs	NO	Partly	YES
• Potentially higher extent of forest utilisation in own FMB's arrangement	Introducing	YES	YES+
• Potentially higher income gained from forest	Introducing	YES	YES+
• Potentially lower pressure on state budget needs	NO	Partly	YES
• More efficient use of resources	Introducing	YES	YES
Weakness:			
• (Slightly) Increased forestry staff needs	NO	NO	YES
• Lack of forestry (company) managerial potential	N.A.	YES	YES
• Need for self-financing of social and ecological forest services	YES	Partly	NO
• Lack of forest (management and operation) financing sources	YES	Partly	NO
• Many years needed for establishing conditions for the model	NO	YES	YES
Threats:			
• Continuation with current social forest practices by FMB	YES	Partly	NO
• Legal wood commercially non-competitive	YES	Partly	NO
• Prioritisation of economic/commercial functions	NO	Partly	YES
• Economic/commercial non-viability of the FMB	YES	Partly	NO
• Non-allowed state support / subsidies to the FMB for its forest utilisation / use operations	NO	YES	YES+

From the comparative SWOT analysis, which also summarises our previous assessments, it could be seen that the most effective and sustainable model in long-term should

be the separated NFA & NFC model, while the advanced half-separated NFA model would be quite appropriate for the medium-term. Based on it, the NFC model could be established by the time when necessary preconditions for efficient and sustainable functioning are fulfilled.

4.6 Other forest policy and related recommendations

The key recommendations for sustainable and multifunctional forest management, which are not included into organisation and functioning chapters, are often part of project activities of GIZ/ADC and EU already, yet it appears important to highlight the relevance of these actions to develop the forest sector as a whole. Hence, they are listed again to stress their importance:

1. Urgent modernisation of the forest management planning and the forest management (maintenance and use) regulations, using best practices and experiences of the (mountainous) European countries;
2. Pilot level development of, and capacity building for the development of sustainable FMPs and sound implementation of sustainable forest management systems, techniques and practices (silvicultural and forest utilisation ones);
3. Development of a sustainable social and economic concept for supply and/or provision of wood to local people, based on certain West Balkans examples (e.g. Montenegro) which would receive the timber / wood for: (a) gratis, (b) beneficial prices and (c) normal prices;
4. Development of a feasible concept of forest utilisation in the FMB's arrangement at the beginning (by contracting or self-performing of the operations, followed by providing / selling of wood assortments), depending on anticipated FMB's human capacities, equipment and financing sources,
5. Recommendations for establishing the free market of wood, both of fuel and technical wood – apart the social one, which is regulated by the state – to be followed / monitored by the FMB;
6. Establishing of a Forest fund based on the income from (or compensation for) the state forest utilisation and forest land use, in which also other nonconventional and possible donor sources could be collected and used for public or non-commercial forest purposes;
7. Defining responsibilities and development of guidance for non-forest use and users of forest land (e.g. mobile phone towers, energy (hydro, solar, wind), recreation facilities) etc.

5 ACTION PROGRAMME FOR IMPLEMENTATION OF THE ORGANISATIONAL MODELS

The BFD/FD and NFA are in an ongoing intensive process defined by the expected new forest code. Based on the NFP and internal processes the key institutions are already doing their very best to address the challenges of the sector. Therefore, an action programme is not proposed as a new and separate process but as a proposal which steps may be useful to develop the institutional landscape to a functioning network of actors that shape the sector in future for the overall better development of rural Georgia.

All ongoing activities are designed and shaped in a way that they should continue as they are, the ideas and recommendations are additional in character and meant as discussion base.

The following steps would be needed in the process of further institutional development, which is at current (Parliamentary) political level in favour of keeping the NFA in its non-restructured status (i.e. LEPL):

- 1) Continuation and deepening of detailed functional analysis of NFA, BFD, DES and other relevant institutions (NEA, universities, institutes);
- 2) Definition of key and support processes inside and outside of NFA and MEPA;
- 3) Elaboration of institutional alternatives for key commercially viable and public processes, including stakeholder participation in development and selection process;
- 4) Definition of safeguards and control mechanisms: legal control, internal and budget controls, public involvement, boards and advisors;
- 5) Definition of business and funding models including immediate sources, loans / grants, own income, CNF models (?), PPPs etc.;
- 6) Final agreement on the institutional model structure and functions;
- 7) Adaptation of legal framework: elaboration of bylaws and regulations;
- 8) Elaboration of strategic plan for implementation of the agreed model (by institutions and bodies), including corresponding HR and business development scenarios, particularly for the NFA;
- 9) Elaboration of human capacity building plan (by institutions and bodies), as part of the strategic plan;
- 10) Assuring necessary additional HR and financial sources from state budget (for the next year) for implementation of the agreed model (by institutions and bodies);
- 11) Assuring donor support to, and implementation of the strategic plan;
- 12) Implementation of the agreed model.