

COSTING VOLUNTARY PARTNERSHIP AGREEMENTS (VPA)

An Internal Briefing Note

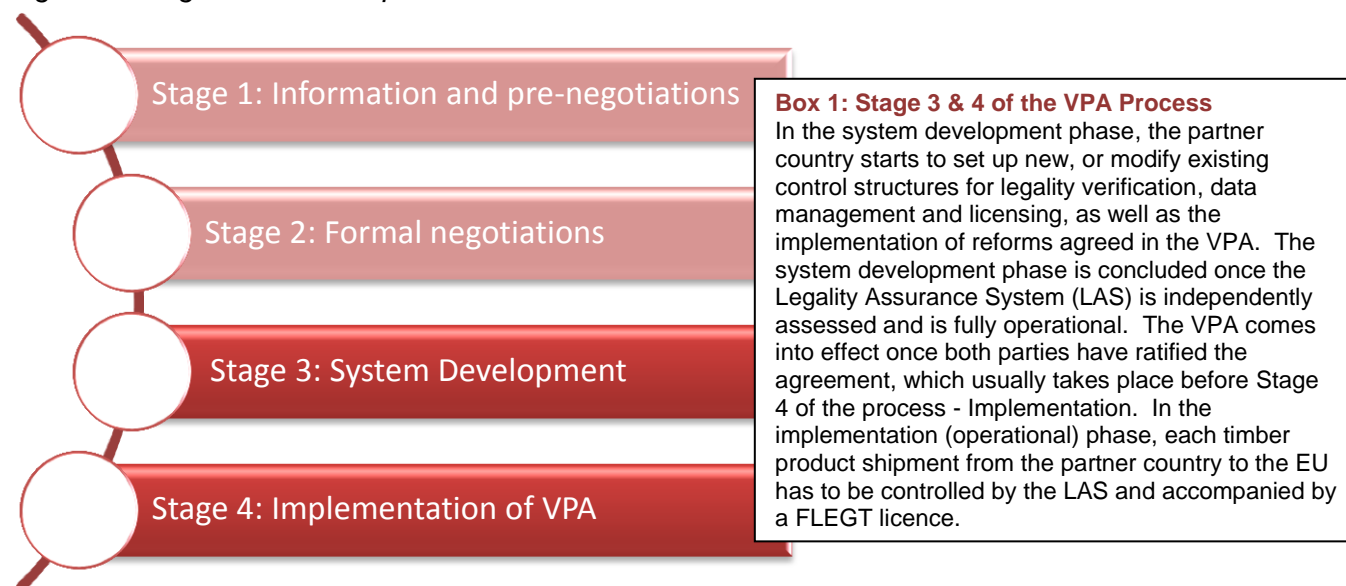
Final Version

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Introduction

The [EU Forest Law Enforcement, Governance and Trade \(FLEGT\) Action Plan¹](#), published in 2003 aims to improve forest governance and reduce illegal logging. Central to the Action Plan is the negotiation and implementation of Voluntary Partnership Agreements (VPAs). The VPA process (bi-lateral agreements between the EU and countries exporting their timber into the EU) has four main stages as shown in Figure 1.

Figure 1: Stages of the VPA process



This costing tool in the form of a Briefing Note and accompanying tables (Table 1, Annex A and Annex B) have been designed to guide VPA resource persons² through the process (from conceptual planning and thinking, to detailed budgets) of costing the system development and implementation (Stages 3 and 4³ in Figure 1) of a VPA. A costing exercise or a preliminary costing exercise could also be undertaken prior to Stage 3: VPA Development⁴ if deemed beneficial to the negotiation process, i.e., to help make decisions on the content of the VPA. However, for the purposes of this guidance note, the costing is assumed to take place when the VPA has been initialled and system development is about to begin. This will also coincide in some VPA countries with the development of a strategic implementation plan. The costing exercise will consider a series of key questions⁵ and their impact on costs which should clarify cost implications for countries, helping to prioritise activities.

¹ http://www.euflegt.efi.int/portal/home/flegt_intro/flegt_action_plan/

² It is thought that the EU Delegation in the partner country will nominate a person to coordinate the efforts to estimate the VPA costs and identify funding sources. An independent consultant could also be contracted to undertake this work. The cost estimates can also be generated by so called FLEGT advisors/envoys that the EC or EU Member States have placed in the country.

³ Implementation is yet to be completed in any partner country as of July 2011.

⁴ Costs incurred in the process before concluding the negotiations are not included in this costing tool.

⁵ The key questions include: (i) what are the main results to be achieved, by when? (ii) what activities are needed to achieve each result? (iii) what are the detailed inputs of each activity? (iv) what year are these inputs needed? (v) what is the unit cost of each input? and (vi) what are investment and recurrent costs?

Who should use this Briefing Note?

This note has been designed to support the person tasked with costing a VPA, and/or tasked with developing the Terms of Reference to hire a consultant to undertake the costing exercise, hereinafter referred to as a VPA resource person. The level of awareness and knowledge about VPAs of the resource person (internal EC staff, independent consultant etc) will vary. If necessary, further guidance can be obtained from the EC FLEGT team and other technical experts.

The costing tool can be used to determine the funding needs associated with the system development and implementation stages of the VPA process. Using prompt questions, generic information, examples and tools, the Briefing Note, along with the accompanying tables, aims to assist the resource person to cost the activities in the VPA development and implementation. The costing could be “indicative” or “headline” budgets, or developed into a more detailed budget, depending on needs and the resources available.

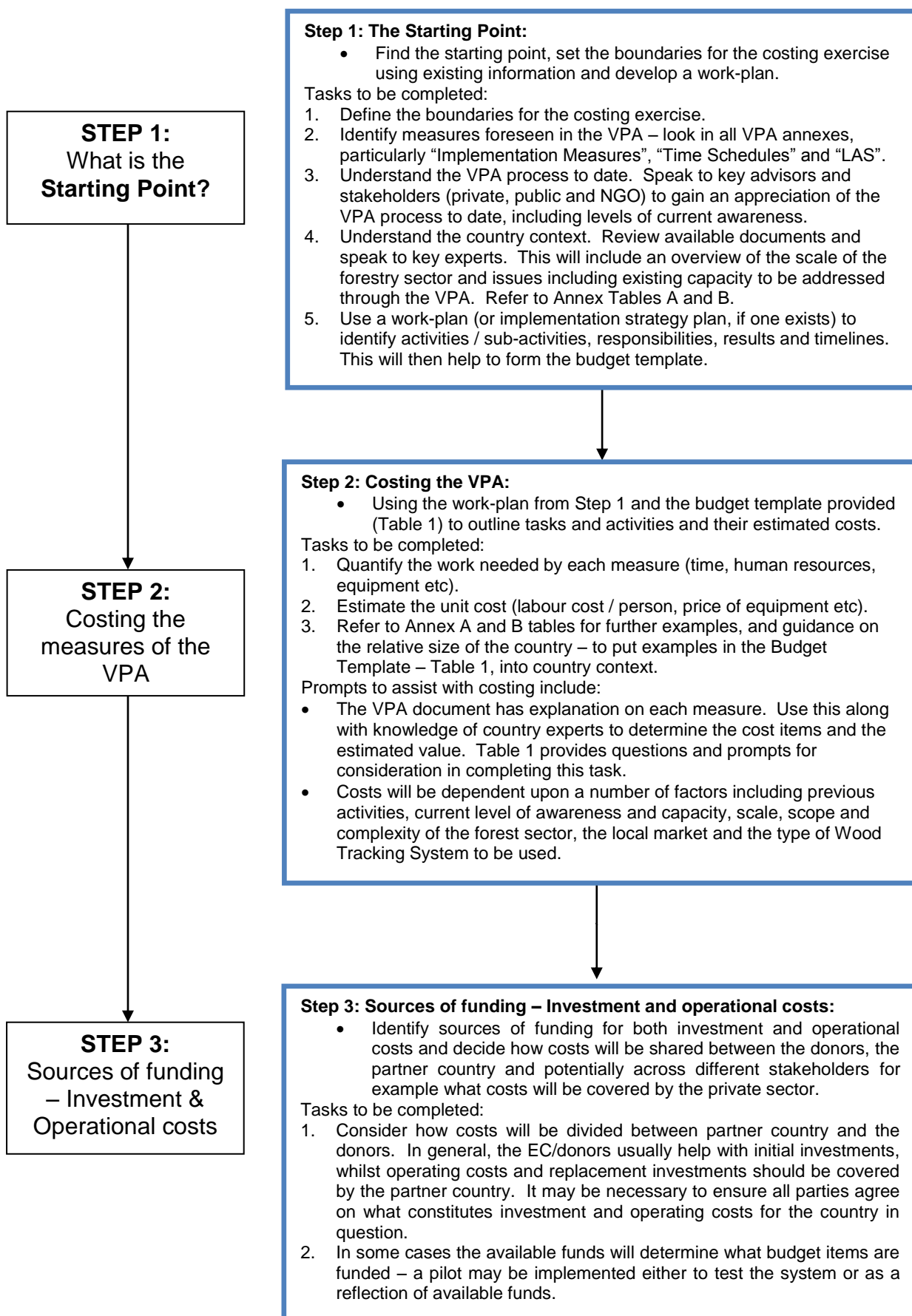
How to use this Briefing Note?

A VPA reinforces existing functions or regulations within a country. A question to be addressed at the very outset of the costing exercise is whether the costing will focus specifically on the VPA activities (the additional tasks) or cover wider activities required by the Government, civil society and private sector, to conform to regulatory requirements. For example, in many VPA countries, capacity building may be required to allow agencies to deliver their existing regulatory functions, which are not specific to the VPA, but need to be effectively delivered in order for the VPA to work.

Therefore an important first step, discussed in more detail below, is to define the boundary for the costing exercise, i.e., what costs and activities should be included, and what is the expected timeframe for the implementation and budget. This is something that can be discussed with the stakeholders involved.

This costing tool (Briefing Note and accompanying tables) can therefore only provide guidance to identify what costs should be included and how to develop a budget. It is important to note, that the budget template should be used as a guide only, and not taken as being exhaustive or exact in both the list of activities and costs examples provided. The costing tool follows three steps, as presented in Figure 2.

Figure 2: Step-wise approach to costing VPAs



Step 1: Starting Point

Costing the VPA measures is a complex process, based on many factors that vary from one country to another. The costs will be highly dependent on a number of variables some of which are highlighted below. There is no simple, quick fix or “one budget fits all” for each VPA country.

Task 1: Setting the boundaries for the costing

The first step in undertaking the costing exercise is to understand the boundaries of the costing exercise (the budget scope). Such is the nature of the VPA that the activities and the associated costs cannot be taken in isolation of other routine costs and budgets. The following questions raise some points for consideration (this is not an exhaustive list).

- 1. What is the boundary or scope of the budget?** For example, the costing could cover only the specific activities related to the development of the LAS/FLEGT Licensing Scheme and introduction of any other new function defined in the VPA (additional measures/costs), or it could address more broadly regulatory controls by the government and activities by other stakeholders (private sector and NGOs) for ensuring compliance with forest laws and regulations (core functions/ costs). Since VPAs tend to support or reinforce existing core functions, it is essential to determine which of these activities will be included in the VPA budget and which will be considered routine costs of regulating and managing the forest sector, (i.e. activities that should happen without the presence of a VPA and should be covered by annual budgets of the government and other stakeholders). However, it should be noted that this will depend on the agreement between the partner country government and the donors. It may be necessary to calculate wider costs of implementation before having that discussion.
- 2. Have there been any budgets or costing exercises completed in the earlier stages of VPA preparation?** In some countries cost estimates of alternative systems (eg for wood tracking) may have been prepared as part of the strategic decision making process. If so these budgets should provide useful baseline information. It is very important to gather all the information and previous costing exercises up front. For example both donors and partner country governments may have conducted costing exercises as part of forest sector support initiatives or capacity needs assessments for strengthening certain parts of the sector, ie, patrolling, transportation, regulation and these will provide useful baseline information.
- 3. Has there been any consideration to the proportion of cost sharing between the Government and the private sector, for example?** The design of the VPA Wood Tracking System and means of regulating the industry will take into account the existing systems for regulating the industry. In some countries, the cost burden will fall more on the private sector than in others and the cost sharing will consider this. In particular, this will occur where the VPA follows an operator based approach, as is the case in Indonesia. In such cases, the cost of compliance and verification for legality may be met predominantly by the private sector. In other countries, a government led approach is taken and the system of legal verification is through a central system, as in the case of Ghana, and thus the costs are more likely to predominantly lie with the government. The explicit sharing of costs between sectors should be handled with care.
- 4. Is there a prescribed budget format that the Government would like?** This costing process may result in budgets and costs presented in a way that is not the norm for the Government and an alternative approach may be required. Clarification

of how investment and operational costs are presented by the government is required, when looking at government budgets and templates⁶.

Other salient questions that could be considered, include

- What are the main results to be achieved, by when?
- What activities are needed to achieve each result?
- What are the detailed inputs of each activity?
- Which year are these inputs needed?
- What is the unit cost of each input?
- What are the investment and recurrent costs?
- Are there major variables that might change cost profiles? (eg different rates of implementation)?
- What are the likely donor and partner country shares?

Tasks 2 & 3: Understand the VPA process & VPA measures to be implemented

The VPA process

Review the VPA process to date to gain an understanding of the current levels of knowledge, awareness and capacity, of all stakeholders engaged in the VPA. This is important information for developing activities for costing purposes as it provides a baseline of information, capacity and resources in the VPA country and this will have a direct impact on the cost of system development activities and implementation of the VPA measures.

Consult key experts in the country from all stakeholders groups (public, private and civil society sectors) and talk to key VPA experts in Europe.

The VPA document & measures

Once the boundaries for the costing have been set⁷, the next step is to define specific measures to be developed and implemented. These measures should be detailed in the VPA and its supporting annexes, which set out how the VPA is expected to operate. However, depending at which point in the VPA negotiations process the costing is being carried out, there may be more than one option for some of the elements of the VPA which needs to be costed. These measures should then be included in the budget. The VPA annexes may also include information on who is responsible and the initial details of the required measures to be developed and implemented, including a work plan.

The VPA document is therefore an important starting point for building the budget. It is essential to review everything in detail and find out about the history, before moving forward. All VPA documents and annexes of countries that have ratified the VPA can be found on <http://ec.europa.eu/environment/forests/flegt.htm>.

Central to every VPA is the Legality Assurance System (LAS), which consists of 5 core elements – Legality definition; Wood Tracking System; Verification; Issuance of licences; and Independent Auditing⁸. For more information on the 5 elements, with definitions, refer to the agreed LAS Annex.

⁶ Some governments group “investment” and “operational” costs differently, which could impact how this costing exercise is presented back to them and to donors. For example, in Liberia, staff training in government agencies is considered operational costs whereas donors generally see this as an investment cost.

⁷ Setting the boundaries will generally need to be negotiated between a partner country and the donors. This may not be possible until a first calculation of implementation costs have been made.

⁸ See Figure 4 for diagram of a LAS.

There are other measures of the VPA in addition to the development of LAS. These are further explained in Table 1 – Template Budget, and are, in no particular order, as follows:

- Monitoring of the implementation impacts;
- International market monitoring;
- Capacity building of government agencies, civil society and the private sector;
- Regulatory reforms;
- Institutional reforms;
- Trade promotion;
- Communication;
- Information management;
- Independent monitoring by civil society; and
- Other, as defined in the VPA.

The above measures are outlined in the annexes of the VPA document - particularly “Implementation Measures”, “Time Schedules” and “LAS”. It is important for budgetary purposes to ensure that all annexes are reviewed.

Task 4: Understand the country context

Understanding the country context is essential to developing the budget for the VPA. Talking to all the representatives of government, leading NGO’s, civil society, timber trade associations and donor organisations is an important initial step in the process and where possible a technical team of experts should jointly develop the work plan and budget. To support this dialogue there are many sources of information, some of which are listed at the end of the Briefing Note.

It is useful to place the VPA process and the development of the LAS within the country context. The forestry sector (size, scale, scope etc) and the existing level of resources (current knowledge, capacity and awareness of the VPA) will impact on the scale and scope of required VPA measures and thus on the costs of developing and implementing measures such as Wood Tracking Systems (WTS). Consideration of these factors, for example, and their impact on the work to be done in the LAS and the VPA should be taken into account. Some of these wider factors are looked at in more detail below.

Size and structure of the forest sector

Why is the size of the forest sector important in the VPA process? The larger the volume of production (a “Large country” as opposed to a “Small country”⁹), the higher the costs of implementing the VPA are likely to be, due to greater complexity, or requirement of more resources. On the other hand, the unit costs (EUR/m³) could be lower, which could therefore increase the potential to raise revenue in the form of taxes / export fees to cover the operating costs – an important consideration when looking at funding solutions, Step 3. The structure of the forest sector will vary from country to country, with different forest management units and allocation processes, users and thus differing levels of complexity. This will impact the costs of implementing a WTS and verification of compliance with the Legality Definition, for example.

How do you know whether your country is large or small in terms of volume production of timber? National timber trade associations should be able to provide up to date figures on export and domestic markets. Also refer to the reference websites listed at the end of the Briefing Note (in particular FAO) and Annex B – Country Information.

⁹ Refer to Table 1B: Country Data for examples of large and small countries in terms of size currently involved in the VPA process.

Other specific information would be useful: How many provinces/ districts need to be covered? What inputs do the agreed systems require? What capacity building in terms of training, equipment and facilities do agencies need? What does the agreed monitoring system look like?

Complexity of the supply chains

Another important factor to look at is how complex the supply chains are. This takes into account the number of logging areas, harvesting companies, processing sites (i.e., what level of processing takes place before export), import sources, export companies and number and range of products produced and exported. Consider the status of the infrastructure (roads and ports) and talk to the national timber trade associations and to government officials to find out who is involved, what they are doing in the forestry sector, and what they know about the VPA process.

Why is this important to know? The complexity of the supply chain will have a large impact on the costs of implementing the VPA measures including the WTS; the verification of compliance with the Legality Definition and capacity building requirements. Check the LAS description for more detail on the complexity of the supply chains.

Complexity of the regulation of the sector

The regulation of the forest sector varies considerably from country to country. In some countries regulation may be conducted by one government department and in others many more departments may be involved. The complexity of regulation will, to some extent, depend on the scale and scope of the forest sector, but also due to historical political processes that have determined the complexity of the regulatory framework.

Understanding this complexity and the number of government departments involved will impact on the costs and sharing of costs. The more complex the process, the more time and potentially resources are required to implement the VPA but also to ensure coordination and sharing information across departments. The relevant roles of each agency involved need to be worked out, as well as estimates of the additional capacity needed to fulfil the agreed commitments.

Other factors

Other factors including institutional frameworks, levels of capacity in government and civil society, and information awareness by all stakeholders (who knows what, in terms of VPA process, compliance with forestry laws and regulations, certification / verification systems) will also affect the cost of the VPA process and the implementation of measures. These factors are further discussed in Step 2.

Task 5: Develop a work plan¹⁰ with timeframes for the budget

Using the VPA document and drawing on the wider information discussed above, a work-plan should be developed. In some countries a strategic implementation plan may be produced. The work-plan or strategic implementation plan should outline the VPA measures, activities and tasks, responsibilities, milestones and timelines. This will form the basis for the budget. Table 1- Template Budget, provides examples of the activities that can be included in a work plan.

It is important that timeframes for the budget are determined. Is the budget to cover a fixed term for investment and initial operating costs or is it a longer term budget¹¹? What will happen if the timeframe changes? When is implementation and issuance of licences due to

¹⁰ The workplan is likely to be developed as a strategic implementation plan and this is/should be developed by a team of experts, preferably those that have been involved in the VPA process and consultation.

¹¹ Scenarios of 1 – 5 years are often a good timeframe for donors and government planning.

be completed? What are the agreed dates for key deliverables? The timeframe will have an important bearing on the budget, and on the options for cost sharing under Step 3.

Step 2: Costing the VPA measures

What comes first – the available funds or the budget and scope of tasks? What needs to be done, what is it going to cost, and who will pay for it? Costing the VPA measures needs to consider all these questions. The activities covered in Step 1 should have provided some of these answers (e.g. the availability of funds may decide whether a pilot WTS is considered rather than a nation-wide WTS), but more details will be required in the costing exercise.

Best practice is to complete the work plan with timeframe and use this to develop the budget for the VPA. This will include a breakdown of activities for each VPA measure with an estimation of the number of units, unit cost and total cost per measure. A total cost for VPA system development and implementation stages will be produced. Table 1 – Template Budget presents the range of activities and associated costs that could be included. It follows the format shown in Figure 3 but provides more information in the form of prompt questions, explanations and examples from other VPA processes.

Figure 3: Example budget template

VPA measure	Questions / prompts	Activities - examples	Unit	No Units	Unit cost, EUR	Total, EUR
Legality Definition (LD)		Hire consultants for revision of the LD	Day	1	750	750
Wood Tracking System						
etc						

To complete the budget, the resource person should work through each item methodically, calling on local and international experts to provide further explanation where necessary. Costs for each measure (eg monthly/daily fee of a consultant) will vary from one country to another and the local situation should be taken into account.

Figure 4 details examples of costs that may be included in the budget, focusing on the core elements of the VPA. The other additional measures (covered in Table 1 – Template Budget) are not included in Figure 4. For each measure a description and prompts or questions are provided, with examples of the types of cost that may need to be included in the budget. These are further explained in Table 1 – Template Budget along with additional measures of the VPA including regulatory and institutional reform and capacity building of government agencies, civil society and the private sector. It must be remembered that the costing will cover activities by different organisations involved in implementing the VPA: eg, government may need capacity building to manage the system, the private sector may need capacity building to be able to work with it, and some elements of the VPA may be outsourced to external service providers.

Figure 4: Examples of the types of costs to be included in the budget¹²



Institutional structures and arrangements to support the VPA process

An important consideration is how will the VPA process be overseen and managed - which departments will be involved, what will be the institutional home for the VPA process and its implementation?

A Joint Implementation Committee (JIC)¹³, a national structure(s)/task force to support the JIC, technical working groups (TWG) and other committees¹⁴ will be established to support the VPA process. The longevity and structure of such groups will need to be determined along with the costs involved and the means for covering such costs.

¹² This costing exercise covers not only the cost elements of the LAS, but also other aspects of the VPA.

¹³ JIC is mandatory, and has a stand-alone Annex.

¹⁴ A very important element of the VPA is the commitment to transparency and engaging stakeholders, so the costs could be substantial in some partner countries.

Step 3: Funding options – investment and operating costs

Having developed the budget the funding options need to be determined. There are two types of costs, the financing of which may be sourced differently – investment costs and operating costs. Details of financing of the investment and operating costs are not covered in the VPA document or supporting annexes, and is not included in the negotiation mandate of the EC. The resource person completing the budget needs to give careful consideration to how the costs can be financed and how to split the costs between the EC, other donors and the partner country. A sustainable financing plan could be developed for VPA implementation.

Investment and operating costs

Short term costs, in particular for building capacity, raising awareness and providing the necessary equipment are normally considered **investment costs**. Investments in for example systems, people and equipment are at the most prevalent during system development and are often funded by donor sources, such as the EC, EU Member States and non-EU sources). Different funding bodies are likely to fund different activities, depending on their policy objectives or commitments.

In the long-term the partner country needs to establish sustainable financing options to cover **operating costs, system enhancements and replacement investment**. In general, the operating costs are covered by the partner country. In some countries, (export) taxes or fees will be used to cover part of the costs of implementing the LAS. In the operational phase, the cost burden falls more on the partner country and could cover different stakeholders including public and private sectors. Sustainable financing solutions are essential. Figure 5 provides examples of the types of costs that can be considered investment costs and operating costs.

Figure 5: Investment and operating costs - examples

<p>Investment costs include:</p> <ul style="list-style-type: none">• Capacity building (staffing, training and equipment) – will depend on institutional set up and existing capacity;• Technical equipment and training required (related to type of Wood Tracking System (WTS));• Development and implementation of protocols for verifying compliance with the Legality Definition and chain of custody requirements;• Purchase and rent of vehicles and property. <p>Annual operating costs include:</p> <ul style="list-style-type: none">• Cost of verifying compliance with the Legality Definition;• Operating the WTS or an equivalent tool;• Cost of licensing;• Cost of implementing the VPA process on-going:<ul style="list-style-type: none">○ Staffing○ Equipment, e.g. rent, office equipment, field equipment, maintenance of vehicles, fuel, insurance – initial equipment is investment, but future updates will be operating costs○ Continued stakeholder engagement – monitoring and outreach
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A point to note

In some circumstances the available budget may be the determining factor in what activities of the VPA measures are funded. There may not be enough funds to cover the full budget initially. In such circumstances the resource person will need to work closely with the government and external funders to prioritize and find solutions to ensure an efficient implementation of the VPA measures.

Further Sources of Information

- (i) Refer to websites of the forest management authority in the country of interest;
- (ii) For an overview of the FLEGT VPA process, go to [EU EFI FLEGT](#); [EU FLEGT ACP programme](#);
- (iii) For general information on the forestry sector, go to country websites and to [ITTO](#); [FAO Statistics](#); [ATIBT website](#) and [Illegal Logging Chatham House](#) website.
- (iv) Country specific national timber trade association websites will give a good overview of timber and forest sector;
- (v) Look at the leading NGO's websites, such as [Global Witness](#), [Forest Monitor](#);
- (vi) Other development partners working in the forestry sector, for example, [UN agencies](#), [USAID](#), [World Bank](#), EU member states.