

# A Revised Forest Strategy for the World Bank Group

**Draft**

**30 July 2001**



**The World Bank Group**

## **PREFACE**

The World Bank Group (WBG) consists of closely associated but legally and financially distinct institutions that support development in low- and middle-income client countries.

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) have a mandate to lend to sovereign governments. They are often referred to as the World Bank (WB). Through its ongoing dialogue with client governments on a wide range of issues and its financial support to the public sector, the World Bank is in a position to support government policy on a wide range of issues.

The International Finance Corporation (IFC) promotes sustainable private sector investment as a way of enhancing economic growth and improving peoples' lives. It operates principally through direct or indirect support of private sector projects.

The Multilateral Investment Guarantee Agency (MIGA) provides guarantees against certain non-commercial risks (primarily political risk insurance) to foreign investors for qualified investments in developing countries.

The International Centre for Settlement of Investment Disputes (ICSID) provides facilities for the settlement-by conciliation or arbitration-of investment disputes between foreign investors and their host countries.

The five WBG institutions are aligned to the core mission of poverty reduction—and therefore the overall vision, strategic framework and objectives of this Forest Strategy are shared by the entire WBG. The specific implementation tasks identified in the Forest Strategy document are addressed to the WB. IFC and MIGA will implement the Forestry Strategy through their on-going emphasis on financing/insuring private sector investments that contribute to improving forest management and sustainable outcomes. As for IFC's forestry policy, it should be noted that all IFC's environmental and social safeguard policies will be the subject of a comprehensive review by IFC's Office of the Compliance Advisor and Ombudsman and any future safeguard policy formulation for the forestry sector needs to be congruent with the findings of that review and consistent with IFC's need to provide clear policy guidance for private sector investments. For these reasons, the WB's approach to the Forestry Policy described in Chapter 2 of this Strategy may not apply in its entirety to IFC.

## Table of Contents

<b>Executive Summary</b>	<b>2</b>
The Challenges	2
The Bank's Performance in the Forest Sector	2
The Elements of the Strategy	3
<i>Harnessing the Potential of Forests to Reduce Poverty</i>	4
<i>Integrating Forests into Sustainable Economic Development</i>	5
<i>Protecting Global Forest Values</i>	6
Implementing the Strategy	7
<i>Modifying the Forest Policy</i>	7
<i>Developing Demand: the Global Common and ESW</i>	8
<i>Catalyzing Engagement and Investment</i>	8
<i>Partnerships</i>	9
<i>Selectivity and Sequencing</i>	10
<i>Risks</i>	11
Monitoring Outcomes	12
<i>Outcomes</i>	12
<b>Chapter 1. Challenges and Realities in Forests</b>	<b>14</b>
1.1 The Importance of Forests	14
<i>The International Context: Global Conventions and Agreements</i>	14
1.2 Global Challenges and Opportunities	16
1.3 World Bank Forest Performance, Strategies and Policies	17
<i>The OED Review of the 1991 Strategy and Policy</i>	17
<i>Further Indicators of Performance</i>	19
<i>New Directions in Bank Priorities</i>	19
1.4 Links to Other Bank Strategies and Policies	19
<i>Bank Safeguard and Operational Policies</i>	19
<i>Integrating Forests Issues into Poverty, Environment and Rural Development</i>	20
1.5 Developing and Implementing the New Bank Approach to Forests	21
<i>Developing the Approach</i>	21
<i>Implementing the Strategy</i>	21

<b>Chapter 2. The Forest Strategy: Proposed Bank Action</b>	<b>23</b>
2.1 Principles of Engagement, Comparative Advantage and the Pillars of the Strategy	23
<i>Lessons for Engagement in Forests</i>	23
<i>Comparative Advantage</i>	23
<i>The Three Pillars of the Forest Strategy</i>	24
2.2 Harnessing the Potential of Forests to Reduce Poverty	24
2.3 Integrating Forests into Sustainable Economic Development	27
<i>Cross-sectoral and Macroeconomic Linkages</i>	27
<i>Expanding Non-Farm Rural Activities: The Role of Small-Scale Forest Product Enterprises</i>	28
<i>Governance in the Forest Sector: Forest Crime, Corruption and Regulation</i>	28
<i>Building a Role for Civil Society in Sustainable Forest Management</i>	29
<i>A Revised Approach to the Bank's Forest Policy and Sustainable Forest Management</i>	32
2.4 Protecting Global and Local Forest Values	36
<i>Evolving Perception of Protected Area Strategies</i>	36
<i>Fostering Markets for Ecological Public Goods</i>	37
<i>Fostering the Linkage between Forests and Climate Change</i>	38
<i>Fostering Linkages between Poverty Reduction and Forest Conservation Strategy</i>	39
2.5 Aligning Regional Programs with Corporate Objectives	40
<i>Africa</i>	40
<i>East Asia and Pacific</i>	42
<i>Europe and Central Asia</i>	43
<i>Latin America and Caribbean</i>	43
<i>Middle East and North Africa</i>	44
<i>South Asia</i>	44
<b>Chapter 3. Implementing the Strategy: Building Effective Partnerships</b>	<b>46</b>
3.1 Issues in Implementation	46
<i>Building Effectiveness</i>	46
3.2 Developing the Partnerships Necessary to Implement the Strategy	46
<i>Donor and National Stakeholder Partnerships</i>	46
<i>NGO Partnerships</i>	51
<i>Improving Links to the Private Sector</i>	53

3.3 Improving Internal Bank Working Relationships and Accountabilities	55
<i>The IFC and MIGA</i>	55
<i>The World Bank Institute</i>	56
<i>The Role of the ESSD Forests Team</i>	56
<b>Chapter 4. Implementing the Strategy: Incentives, Selectivity and Deliverables</b>	<b>57</b>
4.1 Building the Internal Bank Commitment to Forests	58
<i>Increasing Economic and Sector Work</i>	58
<i>Utilizing Partnerships to Leverage Impact</i>	59
<i>Seeking Blended Financing to Address Local and Global Issues</i>	59
<i>Supporting and Strengthening the WWF-WB Alliance</i>	60
<i>Increasing Involvement with Private Sector Partners</i>	60
4.2 Selectivity	61
<i>Alignment and Selecting Countries for Focus</i>	61
<i>Developing the Focus on More Flexible Lending</i>	61
4.3 Incentives and Potential Outcome	62
<i>Monitoring the Bank's Role</i>	64
<i>Risks</i>	64
<b>Boxes</b>	
1.1 Why Forests are Important	15
1.2 World Bank and Forests	17
1.3 Staff Survey: Effectiveness of Forest Policy and Strategy	18
3.1 Functions of the United Nations Forum on Forests	47
3.2 Principals of National Forest Programs	48
3.3 World Bank-WWF Alliance Targets for Forest Conservation and Management	52
<b>Tables</b>	
4.1 Appropriate Forest Investments	63
<b>Figures</b>	
2.1 A Pyramid Based Approach For Assessing Progress Towards Achievement of SFM	32
<b>Annexes</b>	
Annex 1 Responses to OED Recommendations	
Annex 2. Forests and Poverty Reduction	
Annex 3. Integrating Forests into Economic Development	
Annex 4. Protecting Global Forest Values	
Annex 5. Regional Strategies and Work Plans	
Annex 6. Bank Experience with Strategy and Policy in Forests – Lessons and Incentives	
Annex 7. The World Bank Forest Strategy Consultation Process and Feedback	
Annex 8. Analytical Studies on Forests	
Annex 9. Forest Portfolio Data	
Annex 10. Selected References	

## Acronyms

AFR	Africa Region	IFC	International Finance Corporation
APL	Adaptable Program Loan	IFF	Intergovernmental Forum on Forests
CAS	Country Assistance Strategy	IIED	International Institute for Environment and Development
CBD	United Nations Framework Convention on Biological Diversity	IMF	International Monetary Fund
CDD	Community Driven Development	IPCC	Intergovernmental Panel on Climate Change
CDF	Comprehensive Development Framework	IPF	Intergovernmental Panel on Forests
CDM	Clean Development Mechanism	ITFF	Interagency Task Force on Forests
CEO	Chief Executive Officer	ITTC	International Tropical Timber Council
CEPF	Critical Ecosystem Partnership Fund	ITTO	International Tropical Timber Organization
CFM	Collaborative Forest Management	IUCN	World Conservation Union
CI	Conservation International	IUFRO	International Union of Forest Research Organizations
CIFOR	Center for International Forest Research	LAC	Latin America and Caribbean Region
CGIAR	Consultative Group on International Agricultural Research	LIL	Learning and Innovation Loan
CPF	Collaborative Partnership on Forests	MIGA	Multilateral Investment Guarantee Agency
CO <sub>2</sub>	Carbon dioxide	MNA	Middle East and North Africa Region
CSD	UN Commission on Sustainable Development	NGO	Nongovernmental Organization
DESA	UN Dept. of Economic and Social Affairs	NFP	National Forest Program
EAP	East Asia and Pacific Region	NWFP	Non Wood Forest Products
EC	European Commission	OECD	Organization for Economic Co-operation and Development
ECA	Europe and Central Asia Region	OED	Operations Evaluation Department
ECOSOC	Economic and Social Council	OP	Operational Policy
ENFP	Enhanced National Forest Program	PCF	Prototype Carbon Fund
ESMAP	Energy Sector Management Assistance Program	PROFOR	Program on Forests
ESD	Environmentally and Socially Sustainable Development Vice Presidency,	PRSP	Poverty Reduction Strategy Papers
ESW	Economic and Sector Work	SAR	South Asia Region
EU	European Union	SFM	Sustainable forest management
FAO	UN Food and Agriculture Organization	TNC	The Nature Conservancy
FPIRS	Forest Policy Implementation Review and Strategy	UN	United Nations
FSC	Forest Stewardship Council	UNDP	United Nations Development Program
GDP	Gross Domestic Product	UNEP	United Nations Environment Program
GEF	Global Environment Facility	UNFF	United Nations Forum on Forests
GNP	Gross National Product	UNFCCC	United Nations Framework Convention on Climate Change
HIPC	Heavily Indebted Poor Countries	UNGASS	United Nations General Assembly Special Session for Review and Appraisal of Agenda 21
IBRD	International Bank for Reconstruction and Development	WB	World Bank
ICRAF	International Center for Research on Agroforestry	WBI	World Bank Institute
IDA	International Development Association	WBG	World Bank Group
		WRI	World Resources Institute
		WWF	World Wide Fund for Nature/World Wildlife Fund

## **Executive Summary**

### **The Challenges**

Over 150 heads of state have declared that halving extreme poverty by 2015 is central to the International Development goals. These goals include increasing school enrollment, reducing child and maternal mortality, expanding health services, eliminating gender disparities and improving environmental management for sustainable development. The Bank supports these goals by emphasizing the social and structural dimensions of development, focusing its efforts, increasing selectivity and emphasizing partnerships and transparency. Global and corporate advocacy priorities and areas of core competencies are being pursued as a result.

A forest strategy for the Bank that can make an effective contribution to poverty reduction and environmental management is central to achieving the International Development goals. Forest resources directly contribute to the livelihoods of 90 percent of the 1.2 billion people living in extreme poverty and indirectly support the natural environment that nourishes agriculture and the food supplies of nearly half the population of the developing world. Forests are also central to growth in many developing countries through trade and industrial development. However, mismanagement of this resource has cost governments revenues that exceed World Bank lending to these countries. Illegal logging results in additional losses of at least US\$10 to 15 billion per year of forest resources from public lands. If captured by governments, these losses could support expenditures in education and health that would exceed current development assistance to these sectors.

Forests are also central to the environmental commons. Nearly 90 percent of terrestrial biodiversity is found in the forests of developing countries. Most of the carbon emissions of developing countries come from deforestation contributing to 10 to 30 percent of global carbon emissions. Unfortunately, the lack of markets for the national and global environmental services offered by forests has contributed to high rates of deforestation in developing countries. Growing forests are a valuable resource not just for their timber and biodiversity values but also for their prospective value if a global market emerges for the sequestering of carbon from forests.

### **The Bank's Performance in the Forest Sector**

The Bank's performance in the forest sector has been unsatisfactory. The World Bank's 1991 forest strategy and 1993 policy largely focused on environmental issues and protecting tropical moist forests. They reflected rising international concern about the rate of tropical deforestation and strongly emphasized the need to preserve intact forest areas. While the 1991 strategy recognized the role that forests could play in poverty reduction and the importance of policy reforms in containing deforestation, its hallmark was a strong commitment not to finance commercial logging in primary tropical moist forests.

This emphasis on safeguarding forests has meant in practice that little attention was paid to the management of natural forests in the tropics and therefore to the poverty-reduction potential of forests. The 1993 policy led to a generally passive "do no harm" stance on natural forests in the tropics. Interventions designed to more proactively improve economic and environmental management of those forests were often seen as too costly and risky. What OED has termed "the chilling effect" permeated operations in the Bank Group, including the IFC and MIGA. Furthermore, the 1991 forest strategy did not have clearly defined implementation mechanisms. As a consequence, countries rich in forest resources have not been recipients of World Bank funding, nor have they benefited from strong research and analytical sector work (Economic and Sector Work termed ESW in the World Bank), or engaged in a strong dialogue on forest policy and strategy. The bulk of the US\$3.7 billion lent by the World Bank for forests during the 1990s went to China, India

and Eastern Europe. The OED review concluded that the Bank had been “irrelevant” in slowing deforestation despite the commitment to this objective in the 1991 Forest Strategy. The World Bank needs to modify its strategy, expand its policy to include all forest areas and refocus the strategy on poverty reduction and economic management, including good governance.

Moreover, it is now acknowledged that the impacts on forests and forest-dependent people of what the Bank does in support of policy reforms and investments *outside* the forest sector is of equal, or even greater, significance than its forest sector activities. Non-forest interventions, such as rural development and infrastructure programs and projects and economic adjustment measures, must be carefully formulated to take account of important forest outcomes.

### **The Elements of the Strategy**

The Comprehensive Development Framework implies that the Bank retains a broad diagnostic and analytic capability but will be selective in its direct assistance, seeking its comparative advantage and working with clients and partners. Through this approach, it is expected that the Bank will maintain a high degree of economic and technical work while widely consulting with partners and stakeholders.

The building of the Bank’s new forest strategy has followed this model of analysis and consultations. As detailed in Annex 7, a two-year process of analysis and consultation has gathered input from around the world, from development partners and stakeholders including governments, civil society in developing and developed countries, industry, forest-dependent people and partner donor agencies and UN bodies. The process also included wide consultations with Bank task managers and other staff.

These consultations were supported by extensive analytical, technical and economic studies, some commissioned by the World Bank and others done in parallel by independent institutions and NGOs (see Annex 8), on a wide range of subjects. Among other things, these studies emphasized the importance of dealing with governance and quantified for several countries the costs of poor forest management and illegal activities. The studies also confirmed the close link between the livelihoods of the poor and forests and helped to refute the largely false notion that the poor are the cause of deforestation in developing countries. They also identified strategic approaches to forest issues, including participation and partnerships.

From this process, the revised Forest Strategy has been built on three pillars:

- **Harnessing the potential of forests to reduce poverty**
- **Integrating forests in sustainable economic development**
- **Protecting global forest values**

Addressing these three aspects together makes a forest strategy complex and multifaceted—it is not just about growing or protecting trees but is a complex interaction of policy, institutions and incentives. A narrow perspective on forestry—even sustainable forestry—is insufficient. To be effective, the strategy demands a multi-sectoral approach that addresses cross-sectoral issues and takes into account impacts on forests and forest people of activities, policies and practices outside the sector.

In activities within these three pillars of engagement the Bank must be selective in its support. In broad terms, the Bank would focus on economic policy and rural strategies that embrace both sustainable use and conservation of vital forest environmental services. It would provide institutional and policy for community and joint forest management, governance and control of illegal activities, the building of markets and financial instruments in support of private investment in sustainable



forest management and conservation. For IFC and MIGA, the major focus would be to support private investments in sustainable forest management, conservation and rural forest industries.

### ***Harnessing the Potential of Forests to Reduce Poverty***

Analytic studies and field experience show that forest outcomes are crucial for poverty reduction in many of the Bank's client countries. This result is true in countries with large forest endowments as well as those with limited forests, although the nature and urgency of the challenge may vary. If forest issues are not fully incorporated into a broad assistance strategy, then the broader goals of poverty reduction will not be met.

Effectively addressing the poverty issues related to forests is not straightforward. Experience has shown that remedial strategies can generate internal conflicts. If not done correctly, assisting groups of poor people living in or near forests in developing their abilities to service forest products markets can increase competition for the forests; exclude the access by the poorest of the poor to essential forest products; or disrupt communal systems of management by groups that traditionally have relied on common property forest resources for meeting essential fuel wood, grazing and other needs. The Bank would need to rely on its partners--particularly civil society--and on pilot operations supported by others to demonstrate feasible approaches.

Within this framework, the Bank's strategy would focus on creating economic opportunity, empowerment and security for rural people, especially the poor and indigenous groups. The main instrument would be through policy and institutional strengthening to ensure that the rural poor are able to manage their natural resources, especially forests, for their own benefit. It would assist governments in building the capacity to support and regulate community use of forests and plantations. Special attention would be directed to the welfare of some 60 million highly forest dependent indigenous tribal people living in the rain forests of Latin America, Southeast Asia and West Africa. Impacts would be reflected in strengthened tenure rights, improved food security and spiritual welfare among the poorest of the poor through assured access to essential forest products on which they depend primarily for subsistence.

Equally important would be the Bank's support to joint and collaborative forest management systems that are emerging in India and many other parts of the world and which have proven to be both beneficial and sustainable when managed correctly. Using a wider definition of protected areas that embraces the concepts of IUCN Category VI: as: "*areas containing predominantly natural systems managed to ensure long term protection and maintenance of biological diversity while providing at the same time a sustainable flow of natural products and services to meet community needs*" suggests that community-managed forests (for example, those in India) could also be recognized as making a major contribution to the preservation of biodiversity, carbon sequestration and other environmental services. In support of forest operations, IFC and MIGA have important roles in providing catalytic investments and guarantees to the private sector in forest industries in support of community and larger scale sustainable forest management.

In collaboration with its client countries and partners, the Bank's primary roles would be:

- Working with client countries in strengthening policy, institutional and legal frameworks to ensure the rights of forest-dependent peoples and communities;
- Ensuring that women, the poor and marginalized groups in society are able to take a more active role in formulating and implementing rural forest policies and programs;

- Supporting the scaling up of collaborative and community forest management so local people can manage their own resources, freely market forest products and benefit from security of tenure; and
- Working with local groups, NGOs and other partners to integrate forest, agroforestry and small enterprise activities into rural development strategies.

### ***Integrating Forests into Sustainable Economic Development***

The analytic work and consultations have demonstrated that forests are one of the most mis-managed resources of developing countries. This is because forests are seriously undervalued, many of their environmental benefits do not enter markets and poor governance has fueled illegal activities. In addition, the impact on forests of policy and investments in other sectors is not well understood or is disregarded. Although deforestation is likely to continue even with strong economic management and governance, the rapid rates of deforestation in the last decades are largely a result of the spillover of poor policies in other sectors (including macroeconomic and trade policy) and lack of governance in the sector.

The Bank would need to focus on helping governments improve policy, economic management and governance in the forest sector, including forest concessions policy and allocations. By supporting applied research and improving economic analysis, the Bank would assist governments in evaluating their policies and interventions and support reforms through adjustment credits and loans.

The Bank would also support government efforts to bring about socially, ecologically and economically sound management of production forests. The Bank would also encourage independent monitoring of forest operations: -- an increasingly accepted approach to ensuring good forest management. Independent certification and monitoring would be additional to its regular implementation and safeguard procedures. It would help ensure that Bank Group investments directly in production forests or indirectly through financial intermediaries or forest industries are contributing to improving forest management and toward more sustainable outcomes, including the protection of biodiversity and of socially and ecologically sensitive areas.

In supporting independent monitoring, the Bank would not endorse any one particular approach to certification. Outside the Bank there is an ongoing “mutual recognition” discussion among certification groups that is seeking to achieve harmonization of standards and approaches. In addition, the Bank and WWF through their Alliance have adopted a set of principles and criteria for judging progress toward sound forest management. They have also developed a staged *modus operandi* that allows for periodic independent assessment of the progressive steps needed to put in place a sound legislative, institutional and fiscal policy framework for improved forest management.

The Bank’s primary roles in supporting the objectives of the second pillar would be:

- Analyzing and coordinating policies and projects to ensure a cross-sectoral approach to planning and implementation of sustainable forest management and forest conservation and development. In this context, the Bank would support governments in making policy and institutional reforms to reduce the pressures on forests from activities and interventions in other sectors;
- Supporting improved governance through reform of inappropriate timber concession and subsidy policies;
- Assisting governments in containing illegal activities and corruption through improved forest laws, regulations and enforcement;

- Addressing finance, fiscal and trade issues related to the forest sector and forest products to allow governments to capture a higher portion of forest revenues for economic development; and
- Promoting catalytic investments in sustainable harvesting and forest management, but only in situations that can be independently monitored through a system of verification or certification that meets nationally agreed and internationally acceptable standards.

### ***Protecting Global Forest Values***

Over 600 million hectares of protected areas have been established in developing countries. While many of these areas are economically inaccessible, other areas are under increasing pressure from development and illegal activities including logging and poaching. Many governments do not have the resources to effectively administer and protect these areas. In addition, other forests outside of protected areas that are ecologically sensitive and rich in biodiversity are under increasing threat.

OED noted the difficulty inherent in protecting forests that are in high demand for a range of (frequently mutually exclusive) uses by competing groups within society. Although the Bank has generated significant increases in funding for biodiversity protection and related purposes, contribution is dwarfed by the incursions into forests. The problem of invasive pressures is likely to worsen unless significant additional funds can be made available from multiple sources, at highly concessional or on grant terms, for protection, or unless effective markets for the ecosystem values of forests can be developed. The Bank would assist in developing and funding mechanisms to ensure that parks receive the minimum funding needed for effective management and in building and facilitating new markets for forest ecosystem services.

The increased revenues and incomes that national governments and local communities can gain from these environmental services can serve as a major incentive to sustain forests.

The Bank's primary role in implementing the third pillar would be:

- Developing options to build markets and finance for international public goods such as biodiversity and carbon;
- Assisting governments to develop measures to mitigate and adapt to the anticipated impacts of climate change and reduce the vulnerability of the poorest people to its effects;
- Assisting governments in designing, implementing and financing national markets for local environmental services provided by forests;
- Assisting governments in strengthening forest investments, policies and institutions to ensure that indirect and cross-sectoral impacts of policy and investments on high conservation and protection areas are minimized; and
- Assuring that Bank investments and programs in the forest sector and other sectors that could potentially harm protected forests and natural habitats are implemented according to the Bank's operational policies and safeguards.

## **Implementing the Strategy**

If the importance of the forest sector to poverty reduction, sustainable development and environmental services is recognized, then the gap between performance and vision needs to be closed. The Bank's effectiveness in forests has been declining in some important regions of the world. As pointed out by OED, involvement in the forest sector is often seen as being high-cost and risky. To increase engagement and demand on the part of some major client governments, the benefits of forest operations need to be demonstrated, the costs of doing business reduced and the risks better managed.

A basic premise of this strategy is that this downward trend needs to be broken and the Bank involvement in the forest sector needs to move closer to the central commitments of poverty reduction and good economic and environmental management. A number of specific measures would need to be taken in the Bank, including: updating the operational policy framework, strengthening analysis to ensure forest impacts and issues are adequately considered in Country Assistance Strategies (CASs) and Poverty Reduction Strategy Programs (PRSPs) and increasing enhanced loans and credits in the sector, based on the country's demand and readiness to invest in forests. The objective would not be to necessarily have stand alone forest operations, but to integrate forest issues into the broad agenda of country dialogue, poverty reduction strategies and economic support.

The proposed approach has significant implications for the Bank in implementation. Steps that would need to be taken include: modifying its current forest policy to permit more proactive support of sustainable forest management; developing demand through knowledge sharing and ESW; catalyzing engagement and investments by the Bank, other donors and the private sector; building and strengthening partnerships; and applying selectivity and sequencing to the Bank's engagement.

## ***Modifying the Forest Policy***

One of the most controversial issues relating to the Bank's operations in the forest sector is the impact of the Bank's current Operational Policy on Forestry (OP 4.36). OED in its review of the policy, most participants in the regional consultations and the World Bank sector boards and ESSD Council have all recommended that the current 1993 forest operational policy be modified.

To do so, the Bank would need to recognize in its policy the reality that accessible and commercially valuable forests around the world will tend to be utilized for timber production sooner, in all likelihood, rather than later. It recognizes that the incentives for non-sustainable logging are frequently very strong both for governments and for the private sector. Very often the real choice available is not between doing logging and doing something less invasive and damaging to the forest (especially when these alternatives have not been developed to large-scale market viability), but between doing logging reasonably well, or doing it very badly and in a destructive manner so that conversion of the logged-over site to other non-forest uses becomes almost inevitable.

The Bank sees its role as proactively assisting in improving the quality and sustainability of forest operations, in addressing illegal logging, in directing more of the benefits from forestry toward local communities and in ensuring that logging operations are carried out in a manner that minimizes their impact on biodiversity, water catchment and other forest environmental functions. Under no circumstances will the Bank Group invest in non-sustainable commercial logging.

Revisions to the Bank's Operational Policy on Forestry (OP 4.36) discussed in Chapter 2 would permit the Bank Group to become more proactively involved in supporting sustainable forest management. While retaining many of the strengths of the current OP 4.36, the revised policy would utilize new initiatives in third party monitoring that have been developed since the current operational policy was adopted in 1993. This new approach would require all forestry harvesting and

management operations financed by the World Bank Group to be monitored through independent assessment and certification. These third party monitoring systems have been developed through various initiatives and organizations, involving civil society and the private sector. The risks associated with this approach are discussed under the general section on risks towards the end of this summary.

In addition, all Bank Group supported forest harvesting and management operations would be required to conform to existing Bank policies including especially, OP 4.01 (Environmental Assessment), OP 4.10 (Indigenous People), OP 4.04 (Natural Habitats), OP 4.11 (Cultural Property), and OP 4.12 (Involuntary Re-settlement). This full complement of operational policies if implemented will provide the bases for ensuring that forest operations meet the high standards demanded by many stakeholders in the sector. Monitoring by government bodies, the Bank in its supervision and third parties would provide the necessary assurances that forest operations are benefiting forest-dependent peoples while contributing to economic growth and poverty reduction. Although shortfalls in implementation have occurred, the Bank has strengthened its capacity to meet the high standards that it has imposed on its operations. These standards continue to set the benchmark to which other organizations in development strive to achieve.

### ***Developing Demand: the Global Commons and ESW***

The Bank has recognized forests as a global environmental common and has elevated conserving and managing forests well to be one of its global priorities. To meet this priority the Bank is committed to improving both the level and effectiveness of its engagement in forests and increasing and strengthening diagnostic and analytical work within the Bank on forest sector issues. Unfortunately, forest ESW has precipitously declined in the Bank. The new strategy proposes increasing ESW as a primary instrument for enabling the Bank to re-engage effectively in forests and to generate increased commitment to the forest sector from clients and other stakeholders. Incorporating timely and accurate analysis of the importance of forests into economic and social outcomes will be fundamental to the Bank achieving its broader goals in poverty reduction and sustainable development.

The enhanced level and quality of ESW for the forest sector provide the analytical support for effectively integrating forests into Country Assistance Strategies and into broader poverty reduction and economic development programs being prepared by Country and Sector Departments. Besides addressing how forest operations and policies can best contribute to poverty reduction, sector work would determine the potential impacts on forests and forest dependent people of non-forest sector activities contemplated by the Bank through investment, adjustment and broad poverty-reduction programs. For the most part ESW will be initiated by Country Departments, but in some cases ESW will need to be co-sponsored by non-forest sector units responsible for design of the broad programs.

- *Develop and maintain an enhanced forests sector lending portfolio in the Bank.* An increased ESW program is indispensable for lending. It would need to be leveraged by stronger interaction with borrower countries, donors and other stakeholders with common interests in the forest sector.

While the normal ESW budget of the Bank would finance most of the sector work, some of these incremental activities would be financed through the Bank's Global Public Goods program. As discussed later, knowledge building partnerships with other private and public organizations including PROFOR would also contribute to the enhanced knowledge of the forest sector and cross-sectoral impacts.

### ***Catalyzing Engagement and Investment***

For the forest strategy to be successfully implemented, sufficient financing would need to be made available to assist countries in realizing their national forest objectives for both development and conservation. It would need to be available on blended terms, ranging from funds at market rates

through to concessional terms, including grants. To achieve this, the Bank would need to work together with other donors including the GEF, NGOs, civil society and the private sector (including 'green' private investment funds) to create the right blend of lending and grant financing from multiple sources.

To catalyze this financing strategy, the Bank would have to be prepared to raise its own profile and participation and to make available its own loans and credits to finance forest operations in close cooperation with other institutions and entities. The proposal presented in this strategy is that the Bank would make available additional lending for the sector and would centrally help defray the costs to regions and country departments of preparation of any additional lending. The longer term objective would be to lower the transaction costs of forest operations and to bring these costs more in line with averages across the Bank for project preparation. This approach would be implemented under country programs, based on willingness to commit to incremental lending from their own resources and encouraged through corporate funding to cover the higher initial costs of preparing investments in this sector. A continued debatable issue is how to provide incentives for the Bank's Country Departments to initiate lending in difficult sectors where the issues are important to development and the Bank's mission but risks and costs tend to be higher than the norm. In the Business Plan that would accompany this strategy, this issue would be addressed.

Incremental Bank lending needs to be supplemented by other sources of finances. The motivation and coordinating framework would be based upon shared agenda for forests, so that all groups are able to focus their inputs on the same basic set of objectives in the sector. This framework would be provided by enhanced national forest programs (NFPs) lead by governments but developed with the participation of all stakeholders. These NFPs would not only address investments and policies within the forest sector but also account for activities outside the sector which may impact the success or failure of forest operations and policies. Over the next five years, funding for forest activities in countries willing to commit to NFPs would be expected to increase significantly. The disbursement of these funds would be handled in parallel but coordinated programs to support countries in realizing their forest related objectives.

This risk would be minimized by (a) ensuring analytic work and other ESW are concentrated upon the building of momentum and consensus for reform, not upon analysis for its own sake, with flexibility so that resources can quickly be re-channeled to more promising prospects if the dynamic for change is not building, and (b) working closely with partners early in the analytical process, so that understanding and confidence in where investments will be successful could be built jointly, through strong interaction with borrowers and other stakeholders.

### ***Partnerships***

Partners including important donors have already indicated their willingness to work together both analytically and financially to realize the objectives of better forest management and conservation at both the country and global levels. Working with its partners, the Bank would need to assist in developing a framework for policy and investments. In many countries the Bank is already operating within Comprehensive Development Frameworks to establish the overall development and policy agenda for a country. The proposed NFPs would rest within the umbrella of the Comprehensive Development Framework and form the bases for partnerships in the countries. This forest strategy proposal argues that additional Bank investment in partnerships in three areas would be essential to underpin its own efforts at raising engagement in forests and contribute to building coordination and agreement on priorities for investments and policy reform:

- *Partnerships with other Donors:* An existing donor forests partnerships – PROFOR (the Program on Forests) – is proposed to move from its present location in UNDP, which has decided to reduce its direct involvement in forests, to the Bank. This knowledge building partnership, would be a means to achieve this. Increased knowledge of forest issues in several critical areas. Bringing

PROFOR to the Bank would allow an enhanced focus on three aspects of national forest programs that match closely the Bank's priorities and strengths, cross-sectoral policies, governance and financial instruments. The current PROFOR donors strongly favor moving it to the Bank because this would allow the PROFOR analytical resources to combine with the strengths of the Bank in analytic and sector work and country dialogue and also to draw on the knowledge and expertise of other research and policy bodies, including those in the CGIAR system, with whom the Bank has close relationships.

- *Partnerships with NGOs.* The World Bank-WWF Alliance is a well-developed partnership for sustainable forest management and effective forest protection. The Alliance, however, requires additional support to increase its ability to draw on the strengths of each institution and to mainstream dialogue on important issues, including independent monitoring of forest operations. Another major NGO partnership is the Critical Ecosystem Partnership Fund with Conservation International, which supports the protection and management of particularly important areas of biodiversity. Each partnership is time-bound with the Bank's contribution highly leveraged in terms of resource flows.
- *Partnerships with the private sector.* The CEOs Forum, chaired by the Bank's President, has initiated a dialogue among leading forest companies, NGOs and the Bank. Through plenary meetings and working groups, it has debated major issues such as sustainable forest management and controlling illegal forest operations. In Africa, it has led to a draft code of conduct that could have significant implications for how responsible logging companies conduct business in the region. The CEO Forum needs to widen its contacts in the private sector, especially to intensify the dialogue with some very large institutional investors who have expressed interest in working more closely with the Bank on investments in sustainable forest management in some key Bank client countries. The new forest strategy would build further on the CEO Forum to strengthen its engagement with the private sector. IFC and MIGA are crucial to this engagement.

Together, these partnerships would allow the Bank to apply more effectively its multisectoral approach, convening power, access to economic decision makers and its instruments, such as the adjustment approach, the guarantee instrument, CAS and other approaches to the central objective of improving poverty reduction and economic sustainability outcomes from forests. At the same time, other partners will be able to utilize their comparative advantage and financing capabilities to participate in the development of a broad and cohesive program in forests, in major forest countries.

The result of these partnerships is to bring to the forest sector both knowledge that is widely shared and accepted and financing that is blended from public and private sources. Combining knowledge and sufficient financing at a spread of terms and rates would provide powerful incentives to bring forests into the mainstream of sustainable development and to assist in conserving their environmental services to the countries and globe. Exceeding a threshold of knowledge and financing would be the most critical step in reversing the negative outcomes of increasing poverty and environmental degradation that often accompany the exploitation of forest resources.

### ***Selectivity and Sequencing***

Raising the level of engagement of the Bank will need to proceed in a measured and prioritized manner, especially given the shortcomings of the past, identified by OED in its thorough review of the Bank forest operations. Selectivity and focus across countries will be important as will linking specific forest interventions with country assistance priorities and programs. Two steps in this process are envisaged.

- An initial selection of countries upon which to focus incremental ESW and then follow up investment will need to be made. Obviously, regional and country teams and their client

governments would be the primary actors in this process. In this selection, between six and eight countries are contemplated for major focus, with perhaps ten more for some additional attention. If the Forest Strategy is approved and the additional resources are provided through various sources, preliminary analyses by Bank Regional staff indicate significant potential for expansion in lending for forest activities and policy interventions, well beyond levels projected under business-as-usual assumptions. Obviously, a sequenced approach to expansion would be required in practice, so that progress on sector analysis, international cooperation, the establishment of rational sector objectives and priorities and the receptivity of the borrower in each case could be assessed.

- As each country would be at a different level of readiness--with public commitment, institutions and policy at various stages of development, it is important to prioritize the type of engagement. In the main text (see Table 4.1, Chapter 4), a hierarchy of engagement is suggested, including the types of activities and associated estimates of the transaction costs per dollar lent. Initially, the high transaction costs for forest operations would require higher budgets than normal for the Bank to prepare investments in this sector. However, the medium term objective is to *lower* the overall costs of participation in this sector. The analytical and consultative processes which would be financed under this strategy through increased ESW and the leveraging of this through donor partnerships will lead to better designed projects with higher and more specific benefits to the community and country. Once the base of knowledge through sector work, of experience through projects and of learning through monitoring has been built and sufficient agreement on priorities and basic reforms needed emerges from national forest programs, transaction costs can be reduced to levels more consistent with or even below other Bank operations.

### **Risks**

Two major risks are inherent in the proposed forest strategy. The first is non-performance – the Bank may be unable to engage effectively in the sector either because governments are unwilling to borrow for forest related activities or because it may run into difficulty in mobilizing partnerships and complementary sources of funding both for investments and for technical assistance and capacity building.

Second, the Bank's intentions in the sector could be misconstrued. By modifying the Operational Policy to include the possibility of more proactive support to sustainable forest operations in tropical moist forests, the Bank could be accused of contributing to fostering destructive deforestation.

These risks, however, are already present. Non-engagement, besides being detrimental to achieving the Bank's mission to fight poverty, would present higher risks than directly dealing with forest issues. By supporting policy changes and investments in non-forest operations which potentially could indirectly impact forests, the Bank is inadvertently contributing to deforestation and further impoverishing forest-dependent peoples. It is widely recognized that policies and investments influencing cross-sectoral programs potentially impact forests more than direct forest operations. This risk is best managed by the proposed approach to forest strategy, which would generate analysis and knowledge to allow such impacts to be anticipated and mitigated. In addition, by supporting sustainable forest management, independently certified and verified, the Bank could be instrumental in bringing together the means for partnerships to monitor performance.

Risks of failure could also be minimized if the Bank pursues its intention more proactively to support on-going country-driven national forest programs that allow for involvement of a wide range of stakeholder interests in forest management. It can do this for example by bringing to bear experiences gained through existing partnerships such as those that have been developed through the WWF/WB Alliance, the CEO Forum, the Critical Ecosystem Partnership Fund and by working with other Multilateral Banks and UN agencies. Finally the Bank has been strengthening its compliance



responsibilities through providing increased budget resources and staff training to its safeguard implementation.

Lastly, while there are clear political risks in adopting a policy which will enable the Bank to become more proactively involved in the sustainable management of forests under production, there are also major reputational risks for the Bank in retaining the existing policy. The current Operational Policy does not address the issue of the temperate forests at all, has been severely criticized by many stakeholders and interested parties outside the Bank as being a major factor in the Bank's perceived withdrawal from major areas of the sector.

The best approach to managing this risk is not to adhere to the status quo, but to develop a proactive policy which engages critical stakeholders with the Bank in defining acceptable forest outcomes and then monitoring activities to ensure these are achieved. A revised forest operational policy that permits engagement in sustainable forest management while retaining the emphasis on cross-sectoral impacts is a crucial element in the Bank achieving its overall objectives of poverty reduction while sending an important message, that forests can be managed better for both economic growth and conservation. Avoiding the risks of engagement is tantamount to accepting the destructive practices current in many major forests of the world. And in truth encompasses more risks than engagement for both the Bank and our client countries.

## **Monitoring Outcomes**

### ***Outcomes***

Although in some quarters, bold quantitative targets seem to have lost favor. Also it is difficult in the forest sector to define outcomes and to attribute them to specific policies and investments, especially in the case of the forest sector which is so strongly influenced by broad economic policy and activities in other sectors. Nevertheless, it is useful to consider the magnitude of impacts that could result from an effective international program build on partnerships that addresses the major issues and problems in the forests. Over the next five to ten year period, the international community, working together and with governments and other partners, could achieve the following outcomes:

- Improving the livelihoods of 500 million people, most of them poor and dependent on forest and tree resources primarily through community forest management and development of agro-forestry;
- Strengthening institutional capacity to reduce the losses from illegal logging by \$5 billion per year;
- Improving the management of forest concessions to increase government revenues by \$2.5 billion per year;
- Bringing 50 million hectares of forests into protected areas;
- Improving the management of 50 million hectares of currently protected areas;
- Bringing 200 million hectares under sustainable forest management independently verified and certified, globally;

The risks of a program aimed at these outcomes are considerable, but manageable. Within the Bank, a major requirement will be increased attention to quality and compliance, not just of forest operations but of *all* investment programs that could indirectly impact upon forest resources. The costs are equally manageable, even under tight budget constraints; the increased budgets proposed for the program in forests proposed above would amount to less than 0.1 percent of its overall budget. Critical however will be putting in place the necessary incentives to address difficult issues and manage risks and costs. Meeting this challenge is possible but it requires some bold approaches to how the Bank does business. It also requires support from governments, the private sector and civil society, working in partnership to achieve these results. A program that addresses economic

priorities, addresses the well-being of the poor, seeks voice of all stakeholders and is open and transparent in its operation will be essential. Monitoring of implementation will be an essential ingredient of success.

Monitoring of Bank's program would be included on the following indicators:

- *Developing demand.* The effectiveness of incremental analytical and consultative activities would be monitored in the focus countries. Criteria would include: the alignment of NFPs with the major pillars of engagement put forward in this strategy the establishment of working partnerships at country level with other donors and major local stakeholders and the degree of ownership and consensus on major elements of reform in the sector, including the development of interest and participation by major agencies of government in the agenda. Monitoring would be through analysis of programs and focus groups.
- *Building sector engagement.* The test of this component would come later in the program, in the form of initiation of preparation of investments which have resulted from the ESW activities supported. In addition to normal Bank quality-at-entry and performance indicators, an important additional criterion would be assessment of the degree of parallel or co-financing by donor partners and the private sector, that emerges as a result of collaborative activities. Establishing a baseline at the beginning of the program will be an important measure to allow assessment of this factor. Working with the Collaborative Partnership on Forest would provide a base for monitoring financial flows. The amount and direction of financing flows to the forest sector in countries engaged in forest programs that are consistent with the three pillars of strategy would be an indicator of implementation.
- *Impact on forest outcomes of broader involvement.* It would also be necessary to evaluate the impact of the knowledge and analysis generated through this strategy on Bank activities originating outside the forests sector: the identification and incorporation of critical forests issues into cross sectoral, adjustment and broad programmatic lending; the inclusion of forest topics into broader ESW and CAS development work programs. Monitoring would include indicators of inclusion of forests in CASs and PRSPs
- *Selectivity and sequencing.* Effective disbursement and implementation of the incremental activities proposed, in the time frame outlined, will be a major factor here. The balance of activity types and progress towards the lowering of overall costs of doing business in the sector, through a movement of country situations being addressed up through the hierarchy of engagement as illustrated in Table 4.1, would be a major factor for evaluation. Using Table 4.1 as a model indicators of types of engagement and costs would be recorded.

Although these indicators are important for tracking of progress, effective monitoring will involve both senior management and CODE engagement. Without some form of accountability that penetrates to the country level and teams, monitoring will be an empty exercise. Management would bear the responsibility to see that the overall objectives of the forest strategy are being realized.

## **Chapter 1. Challenges and Realities in Forests**

### **1.1 The Importance of Forests**

Important progress has been made in overall living standards in a significant number of developing countries. Over the past 40 years child mortality rates in developing countries have been more than halved and malnutrition rates have declined by almost a third. Despite these positive trends, poverty persists in many countries—1.2 billion people live on less than \$1 a day and 2.8 billion people on less than \$2 a day. Mounting evidence demonstrates that poverty—especially in rural areas—can only be sustainably reduced by managing natural resources for both the income they generate and the environmental services they provide. The forests of the world are one of the most important of these natural resources.

The forests that provide support for nearly half of the 2.8 billion people living on \$2 or less a day can—and must—take a far larger role in meeting the UN Millennium Summit’s target of halving extreme poverty by 2015. A World Bank Group Forest Strategy must give priority to poverty reduction, while also focusing on lowering the wider risks of environmental and biodiversity loss and global warming. To do so, it must focus on people as well as trees. It must participate in bringing national, local and international stakeholders together in making decisions as to how forests are to be used and protected. And it must recognize that forests are always a part of larger economic, environmental and governance systems that must work together for the goals of poverty reduction sustainable economic development and environmental protection to be met.

Global agreements and initiatives now require that the World Bank must carry forest issues deeper into the agenda of poverty reduction and sustainable development. The Rio process has closely linked environmental concerns with sustainable development. New financing instruments are emerging that can considerably change the landscape for financing of goods such as biodiversity and carbon, both of which are integral to forests and their management. The World Bank is prepared and obligated to assist its member nations in meeting their commitments under international conventions and taking advantage of new financing opportunities to manage their forests.

#### ***The International Context: Global Conventions and Agreements***

The legal and international framework that governs forest issues has broadened and advanced since the last Bank forest strategy was issued in 1991, bringing forth additional concerns and providing new opportunities. The World Bank Group’s new Forest Strategy must be consistent with and supportive of this emerging international framework.

*The Rio Earth Summit.* The 1992 Declaration of Forest Principles at the Rio Earth Summit affirmed that states have sovereign rights over their natural resources, but also recognized that forests are a global public good that provide ecosystem services of global value and significance, such as biodiversity preservation, carbon sequestration and nutrient and hydrological cycling. Throughout the 1990s, forests became a topic of increasing concern, contention and cooperation in diplomatic circles and in the global marketplace. In October 2000, through the Economic and Social Council of the United Nations, the international community created the United Nations Forum on Forests (UNFF), a new international body that will provide the platform for high-level policy discussions and cooperation. The Bank is obligated to assist its clients to meet the commitments and international conventions arising from the Rio Earth Summit. In 2002 under Rio +10, the world will be assessing progress and taking up new commitments for the next decades. Forests are likely to be high on the political agenda leading up to and at the Summit.

### **Box 1.1 Why Forests are Important**

Forests cover 33 million km<sup>2</sup>—26 percent of the Earth's land surface. They fulfill major economic functions, help maintain the fertility of agricultural land, protect water sources and reduce the risks of natural disasters such as landslides and flooding. The world's forests are home to at least 80 percent of remaining terrestrial biodiversity and are a major carbon sink that mitigates climate change.

More than 1.6 billion people depend to varying degrees on forests for their livelihoods. About 60 million indigenous people are almost wholly dependent on forests. Some 350 million people who live within or adjacent to dense forests depend on them to a high degree for subsistence and income. In developing countries about 1.2 billion people rely on agroforestry farming systems that help to sustain agricultural productivity and generate income. Worldwide, forest industries provide employment for 60 million people. Some 1 billion people depend on drugs derived from forest plants for their medicinal needs.

In the 1990s forests were lost at the rate of 15 to 17 million hectares per year and up to 2 to 3 percent of forest cover per year was lost in some countries in the Asia-Pacific region. Forest destruction is responsible for 2 to 5 percent per decade of global biodiversity losses, with inestimable losses to ecosystem stability and human well-being and for up to 20 percent of the greenhouse gases contributing to global warming. Mismanagement of woodlands in humid and sub-humid tropical countries significantly contributes to soil losses equivalent to 10 percent of agricultural GDP per year.

Forests are consistently and seriously undervalued in economic and social terms. For example, in Indonesia official data show forests contribute 1 to 2 percent of GDP, but the Bank estimates that the potential value of forests to that economy to be closer to 15 to 20 percent of GDP. Nationally and regionally, forests provide important watershed, soil management, pollination and pest management functions that are usually not captured by markets, in addition to timber and non-timber forest products. For many peoples, forests are also an important part of their cultural and religious heritage and practice.

While extremely difficult to quantify, the economic value of the ecosystem services of the world's forests is vast. A 1997 study in the journal *Nature* estimated the global value of the goods and services forest ecosystems provide—from timber to climate regulation to water supply to recreation—at some \$4.7 trillion a year—more than a quarter of that year's world GNP of \$18 trillion. It was estimated that at least 70 percent of these values are generated in developing countries. Subsequent comments, published in *Nature* and elsewhere, questioned the basis of estimation of these aggregate figures by Costanza et al. Among the criticisms were (a) non-marketed values from forests tend to be site-specific and aggregation as in the paper is therefore problematic and (b) the basic usefulness of valuing the stock of forests is questionable since what matters in the end are the changes in human well-being that result from incremental changes in the use of specific forest areas.

There is, however, general agreement that the value of ecosystem services from forests that are outside formal markets is significant. It is also generally agreed that relatively little account is taken of these values in much of the land-use decision making that presently drives forest change. The challenge for policymakers is to bring these values into markets, cross-sectoral decisions, macro-economic policymaking and into the development of the economy in general.

*The Kyoto Protocol.* The UNFCCC's 1997 Kyoto Protocol created three "Flexible Mechanisms" for mitigating climate change and two of these relate to the Bank's client countries. The first, "Joint Implementation" allows parties within the so-called Annex 1 countries (developed countries and countries in economic transition) to transfer or acquire emission reduction units from any other party. This mechanism could play an important role to support sustainable forest management in countries in economic transition. The second mechanism, the "Clean Development Mechanism" regulates greenhouse gas emission trading between industrial countries and developing countries. The role of forests in CDM has yet to be clearly defined, however, the protocol holds out the possibility to integrate forest management and conservation. This could mobilize substantial resource flows to developing countries. The Bank is not directly engaged in the political debate that underlies the Protocol but has taken up the role to test the market for some of the flexible mechanisms. Also, a representative of the Bank has chaired the scientific panel examining the evidence on climate

warming. Both because of the potential resource flows from markets in carbon and the need for its clients to adapt to possible climate change, the Bank has a strong role to play, especially in the forest sector.

## 1.2 Global Challenges and Opportunities

Many studies have drawn attention to the formidable global challenges presented by forests. They underscore the point that the forest sector represents one of the areas of greatest challenge for the development of community and global public policy.

Despite significant resource flows, international concern and political pressure, the potential of forests to reduce poverty, realize economic growth and be valued for their contributions to the local and global environment has not been realized. A combination of market and institutional failures has led to forests failing to contribute as significantly to address these issues as would be possible under good economic and technical management. Instead, the forest sector often demonstrates the failure of markets and governance to capture its full value:

*The Failure of Governance.* Forests have often been disregarded in economic policy and have been plundered for short-term gain (and often then removed and replaced by other activities of less value and sustainability). This has often been at the expense of national economies in general and rural people who depend on forest resources for their livelihoods. Governments, despite their desperate need for fiscal resources for development, have failed to capitalize on the value of their forest resources. World Bank estimates place the loss in revenues to governments at over \$5 billion a year from failure to collect taxes from forest concessions. In addition, the market value of losses from illegal cutting of forests is placed at over \$10 billion per year.

*The Need to Integrate Forests into the Fight against Rural Poverty.* To realize the international commitment to reduce by half the number of poor living in absolute poverty by 2015, increased prosperity must be brought to rural areas where the majority of poor live. In many developing countries rural poverty cannot be reduced unless forest resources—broadly defined to include dense forests, open woodlands, agroforestry, smallholder woodlots and commercial scale plantations—can be developed and better utilized. However, forests are often neglected in rural strategies as they are mistakenly viewed as outside the mainstream of agricultural development.

*The Need to Deal with Conflict in Resolving Forest Issues.* Forest policy has become one of the most controversial and heated issues in development. To utilize forests for poverty reduction requires a strong institutional framework—and a legal and regulatory environment—in which the rights of specific groups among the poor are recognized and protected, while opportunities to develop sustainable forest businesses are provided to other groups – and this has often been lacking. Dealing with these issues puts a premium on participation, conflict resolution and an institutional structure attuned not only to the technical and economic issues in forestry, but also to the conflicts that will inevitably arise.

*The Failure of Markets to Capture Environmental Services of Forests.* Although forests deliver products—primarily lumber and fuelwood—through markets, many of the other contributions of forests to the environment and biodiversity and to the stability of the global climate are unrecognized in terms of financial values and, therefore, in markets. The indirect consequences for a nation's economy and environment, although rarely estimated, are likely to be even more devastating as local people lose their sources of fuelwood and fodder and the protection that intact forests offer their water and soils.

*The Need to Account for Global Values from Forests.* Globally, forests are one of the world's most manageable sinks for carbon and the home of most of the planet's biodiversity. These values are not just local since they contribute to the world's well-being. Climate change will have widespread consequences for the poor and the rich. A world without significant diversity of life has negative economic consequences and impoverishes the lives of all people.

To maximize its potential to address these challenges, the Bank will have to focus its efforts – both those specific to forests and those it undertakes more broadly which can impact upon forests and forest people – on the role of forests in poverty reduction; on the integration of forests into sustainable economic growth; and on the protection of the local and global values provided by forest ecosystems. It will need to function at the country and global level. Most important, its contribution will need to be built on partnerships, consultation and participation. Unfortunately, the Bank has so far failed to rise to these challenges despite its very visible economic and political presence in the forest sector.

### **1.3 World Bank Forest Performance, Strategies and Policies**

These values of forests and the institutional and market failures in managing the sector have not gone unrecognized in World Bank strategies and policies although the emphasis and remedies have evolved over the years guided by major policy papers published in 1978 and 1991 (Box 1.2).

#### **Box 1.2 The World Bank and Forests**

The Bank financed its first forest operations—in then Yugoslavia and Finland—in 1949. The early projects financed timber equipment and the Bank's approach evolved from a focus on industrial operations to agroforestry and then to an emphasis on conservation. Prior to publication of its 1978 Forest Policy, the World Bank Group had mainly supported forestry by investing in log extraction operations, pulp and paper mills, technical assistance for species trials and strengthening forestry institutions. Forest-related lending was *ad hoc* without overall appraisal of the potential of forests to contribute to economic development or environmental protection. The 1978 policy paper reflected growing awareness of the ecological functions of forests and their contributions to agricultural productivity and enhanced rural incomes in addition to the role that forest industries play in creating employment and generating incomes.

During the 1980s rising international concerns about the escalating rate of tropical deforestation and its implications for biodiversity loss, global warming and environmental degradation, triggered a revision of the Bank's policy. The ensuing 1991 policy paper, while recognizing poverty reduction, policy reforms aimed at containing deforestation and resource expansion as themes, gave very strong emphasis to preserving intact forest areas, including a Bank commitment not to finance commercial logging in primary moist tropical forests. The broad goals of the 1991 strategy were to prevent or significantly reduce deforestation and to stimulate plantations and additional forest resource creation. The strategy argued that the existence of major externalities arising from forest use and a range of perverse policies and incentives, were leading to exploitative and non-sustainable use of natural forests by a range of stakeholders—including the poor, who were seen as a major cause of forest destruction.

#### ***The OED Review of the 1991 Strategy and Policy***

In a 1999-2000 review of the Bank's 1991 policy, the Operations Evaluation Department (OED) lauded the Bank's ambitious goals and the strong signal it sent about the Bank's new emphasis on conservation. However, OED found that implementation of the strategy had fallen far short of those goals and that the logging ban and controversy about the policy had "a chilling effect" on new forest initiatives. The Bank's direct forest lending has stagnated, "hobbled" by low borrower demand, high transaction costs and fear of public controversy. OED termed the effectiveness of the strategy "modest," and called for a new policy that would "make the Bank Forest Strategy more relevant and strengthen the Bank's ability to achieve its strategic objectives in the forest sector." It

called for the Bank to integrate forests more closely to its overall mission of reducing poverty and to bring forest strategies into rural development programs.

OED recommended that the Bank take a much more active role in forest-related activities, extending its reach by mobilizing additional concessional resources for the sector and entering into partnerships with national and global stakeholders. It felt that the Bank's role should also be broadened away from its concentration on moist tropical forests to encompass all types of natural and planted forests and conservation efforts should be streamlined and linked to national development goals. OED called for the Bank to mainstream its forest activities by giving them more weight in macroeconomic analysis and paying attention to forest issues in its operations in other sectors and to provide its staff the resources and incentives "to address the risky and controversial issues of the forest sector." It also noted the impact that national governance issues have on forests—particularly on illegal logging—and recommended that the Bank mobilize national stakeholders to monitor improved governance. It also called for the Bank to continue its involvement at the global level through participation in United Nations efforts to unite governments in achieving better forest management.

OED's analysis included a survey of Bank staff involved in forest issues and it found that staff tended to agree with the overall aims of the policy, but saw problems in the specifics of the policy and did not believe that the Bank had succeeded in its major aim of reducing deforestation (Box 1.3).

Annex 6 adds further detail to the data provided by OED and summarizes the history of the forest portfolio from 1992—when the new strategy and policy began taking effect—until 1999. The "chilling" effect identified by OED is evident: direct Bank investments in forest management in the tropics either declined, or remained static at fairly low levels, over the 1992-1999 period. Annex 1 summarizes the responses to OED's recommendations that are embodied in this strategy.

### **Box 1.3 Staff Survey: Effectiveness of Forest Policy and Strategy**

The staff surveyed found that:

- The ban on Bank financing of commercial logging in primary tropical moist forests had no impact in these areas and a more flexible policy that encouraged the Bank to enter this realm (on the right side) would have been more effective.
- Forest sector issues were not well integrated with the Bank's broader mission of poverty reduction and economically and socially sustainable development and performance in the sector would be improved by promoting more focus on natural resource protection, institutional reforms, multi-sectoral approaches to forest development and plantations.
- Country managers saw forest sector involvement as high cost, low return and risky. Apart from the political risk factor, the staff felt there were internal reasons for this managerial attitude: inadequate resources for economic and sector work, (ESW) project preparation and supervision—the costs of which have been relatively high. This past experience reflects the reality that in many situations politically difficult land use social and environmental issues have had to be addressed in the course of project design.
- There were also exogenous reasons for managerial reluctance to become engaged in forests. These included high levels of corruption often present in the sector and inadequate appreciation of the sector and its issues by policymakers in client countries—exacerbated by the low status and influence of forest and environment ministries in most cases.
- The Bank could and should, become a global leader in forest-related matters, such as climate change, carbon and the Clean Development Mechanism, biodiversity conservation and natural resources management. A clearer strategy and incentives, with the necessary resources, would allow better use to be made of GEF resources.

### ***Further Indicators of Performance.***

Annex 9 shows strong regional differences in investment in forests and in specific responses to sector issues. There are also indications in the data that the forest portfolio in general is in decline: disbursement trends show a decrease since 1995, and the Bank's forward pipeline implies a continuing decline in forest sector projects, unless something changes. There are very few forest projects in preparation for Africa or Latin America and there are problems elsewhere as well. Economic and sector work in the forest sector (a major prerequisite in building a portfolio pipeline) fell from \$3.2 million in 1992 to \$870,000 in 1999, and this decline has been general across all regions.

Staff turnover and high costs have also been contributing factors to this decline. An average of 3.2 task managers has been engaged per forest project, from preparation through to close. It is well known and recognized in the Bank that a high turnover of task managers through a project is undesirable for continuity and good supervision. The average cost of preparing and supervising a forest loan is about 1.6 percent of the value of the loan; the Bank project loan average seems to be in the order of 1.1 percent. This added budgetary cost has been a disincentive to Bank managers to engage in the sector. While some of this difference reflects the fact that forest projects tend to be smaller than average—and some preparation costs are fixed regardless of project size—the bulk are due to the complexity and high transaction costs of dealing with consultations and safeguards in this sector. Clearly there is a need to deal with these costs through seeking greater efficiencies, selectivity and reduction in the average costs of forest lending operations.

### ***New Directions in Bank Priorities.***

As elaborated in Chapter 4 of this document, the Bank has finalized selection and definition of the Bank's global priorities and is in the process of better aligning global corporate priorities with country program goals. Forests are among the five top issues that have been singled out as an integral part of the Bank's new global priorities: the environmental commons.

The principles underlying the strategic approach to these priorities include effectively mapping them into country programs, applying realistic stretch targets for individual priorities and developing action programs and cost estimates for doing so and this approach is adopted for forests in this strategy. In the strategic approach for the global priorities, to the need to centrally budget and finance these priorities is recognized, as an incentive for implementation at the country level. In Chapter 4, specific attention is given to this aspect of implementation of the new strategy for forests. Sector strategies are to focus on the priorities and the needed programs and targets to achieve them. CASs are to be aligned with the priorities and sector boards are to monitor implementation. This implies that the Bank will need to apply a multi-sectoral approach to forests and integrate forests priorities and issues into its broader Comprehensive Development Framework and its major poverty reduction initiatives such as PRSPs.

## **1.4 Links to Other Bank Strategies and Policies**

### ***Bank Safeguard and Operational Policies.***

For the Bank to implement a genuinely multi-sectoral approach to forests, it would have to address the policy, institutional and structural issues in broader non-forest sector programs that have particular influence on forests and integrates forest outcomes into these programs. The current review of OP 8.60, which governs the implementation of structural adjustment programs, will be of particular relevance in this regard.



Also relevant are the provisions of environmental assessment embodied in OP 4.01, which require that impacts of any proposed activity on the natural environment, human health and safety and social aspects are taken into account. Operational Directive 4.20 (Indigenous Peoples), and Operational Policies 4.11 (Cultural Property), 4.12 (Involuntary Resettlement - forthcoming) and 4.04 (Natural Habitats). In particular requires that the Bank not support projects that, in the Bank's opinion, involve the significant conversion or degradation of critical natural habitats, or that, if such damage is done, the project must include mitigation measures acceptable to the Bank. These include minimizing habitat loss (for example strategic habitat retention and post-development restoration) and establishing and maintaining an ecologically similar protected area. The Bank accepts other forms of mitigation measures only when they are technically justified.

### ***Integrating Forest Issues into Poverty, Environment and Rural Development Strategies***

The Bank will need to continue and further exploit its comparative advantage to influence non-forest sector policies that impact on forests. It will also need to proactively seek opportunities to integrate the main elements of this new strategy for forests into the Bank's broader poverty reduction, rural development, (including integrated natural resource management) and environment strategies.

- In December 1999, a new framework for poverty reduction was endorsed by the Bank and the International Monetary Fund that requires the preparation of Poverty Reduction Strategy Papers (PRSPs) as a basis for providing funding from the Bank and Fund as well as debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. Recently there has been intensive dialogue on how to ensure that these PRSPs incorporate and quantify environmental determinants of poverty dimensions and the results of this will be vital in forming a real linkage between forest outcomes and broad Bank activities aimed at poverty reduction. In Chapters 2 and 3 below and in Annexes 2 and 3, some quantification of the economic importance of forests and their relationships to very large numbers of rural poor, is provided. It will be important that, when formulating target country PRSPs, the strategy and implementation plan for forests provides opportunities to factor forests information into the broader proposals for poverty reduction.
- The rural development and natural resource framework that is being developed focuses on the two highest global good priorities for which the Bank's Central Vice Presidency for Environmentally and Socially Sustainable Development has responsibility, namely (1) environmental sustainability and protection of the environmental commons, which includes (a) atmosphere (climate change and ozone depletion); (b) biodiversity, (c) forests, (d) food and water security, and (e) land management, and (2) long-term social sustainability, with emphasis on: the empowerment of poor people; voice; engaging civil society in dialogue; community-based development; and managing pre and post conflict situations. The approaches and issues raised in this proposed strategy for forests are fully consistent with these broader priorities and this would make integration of forests issues and concerns into larger rural development programs relatively straightforward, so long as the investment in linkage of the programs and strategies is made at the field level.
- Similarly, this proposed strategy is consistent with the three basic objectives of the Bank's recently approved environmental strategy: (a) improving people's quality of life by focusing on enhancing livelihoods, reducing environmental health risks and vulnerability of the poor to natural disasters (such as deforestation induced landslides and forest fires), (b) improving the quality of growth, with special emphasis on helping countries to develop a better policy regulatory and institutional framework for sustainable economic growth and on strengthening safeguard systems for protecting the environment, and (c) improving the quality of the global commons, through approaches including special financing mechanisms to compensate countries for the incremental costs they incur to protect the global commons.

## 1.5 Developing and Implementing the New Bank Approach to Forests

### *Developing the Approach*

Chapter 2 sets out the strategic pillars for the Bank's new forest strategy. In the process, it considers some potential difficulties or conflicts that need to be dealt with when considering approaches. These include the difficulties inherent in assisting one category of poor people living near forests without inadvertently worsening the situation for other groups; the controversy which surrounds the use of the concept of sustainable forest management as a basis for engaging in operations occurring in natural forests; the limitations on present approaches in the Bank to incorporation of forests issues and activities into larger cross sectoral and macroeconomic programs; constraints on the Bank and other funding agencies, to finance protection forests (when compared to the magnitude of competition for forest areas) and the options available to leverage the impact of these limited financial resources. Finally, Chapter 2 summarizes some projections of future forest supporting activities that could be considered by the Bank, in the context of an expanded program of involvement in the sector.

### *Implementing the Strategy*

*Selectivity.* Implicit in the discussion of the strategy is the principle of *selectivity* in Bank activities in forests. The specific activities discussed in Chapter 2 indicate a re-focusing of Bank activities in this portfolio on poverty reduction, with the resulting increase in emphasis on forest resources and forest-dependent people. In addition, the need to integrate forests activities and issues into larger cross sectoral and broad economic programs, will progressively move the forest portfolio towards a more programmatic and less specific-project oriented approach. How the Bank should attempt to develop its portfolio and in what way, is also discussed in Chapters 2, 3 and 4. In Chapter 4, an argument is made for a selective engagement based on commitment and readiness for support – ranging from basic policy dialogue, through to large scale programmatic lending.

*Developing partnerships.* As discussed in Chapter 3, the World Bank has entered into partnerships with other institutions—in part through an interagency task force on forests and now a newly formed Collaborative Partnership on Forests in support of the new UNFF. The Bank is also building specific partnerships with bilateral donors in forests. In addition, the Bank has formed partnerships with non-governmental organizations—including the Alliance with the Worldwide Fund for Nature, Conservation International and other civil society groups—and is further exploring closer relationships with large international private sector investors interested in following a sustainable development approach to forests.

These partnerships are an important part of the Bank's new strategy. They will allow the Bank to build on its comparative advantages in addressing forest issues through a broad spectrum of cross-sectoral strategies and policies. It will permit it to closely collaborate with national governments and other groups that will be more able to take up some of the specific technical, capacity and knowledge development activities needed for an integrated forest intervention.

*Coordinating across the Bank.* As outlined in Chapter 2, there has been close collaboration between an ESSD Forest Team responsible for preparation of this strategy and Regional sector operational staff and managers. The IFC has also been a major participant, in the strategy preparation. Chapter 3 argues that it will be important that this level of cooperation and coordination is maintained: the World Bank Group must follow the same strategic path to encourage sustainable development of the forest and forest industry sector. Its several institutional arms—the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Bank for Reconstruction and Development

(IBRD)/World Bank and the World Bank Institute (WBI)—will be linked through a partnership of technical support and economic analysis internationally supported and financed.

*Financing the new strategy and leveraging impact.* As noted at the outset of this chapter, forests are presently regarded as an important element in one of the Bank's new global priorities, the environmental commons and significant changes in approach to the sector are expected to result from this. The proposed financing strategy presented in Chapter 4 is based on:

- Encouraging the development of blended financing arrangements from multiple sources to bring down the overall financing cost to client countries of overall forest and environmental services. This would bring the Bank, donors and the private sector into closer coordination of their support. These funds would go to countries willing to implement national programs of sustainable forest management, forest policy reform and improved governance and institutions. The International Finance Corporation will continue to invest in private sector companies willing to operate in accordance with internationally accepted criteria for sustainable forest management and that are committed to independent certification of their operations.
- Encouraging an enhanced commitment to focused ESW. The approach described in Chapter 4 is to utilize some of a proposed increase in ESW to leverage larger increases in donor funds committed to policy development and consultative purposes into cooperative analytical work.

## **Chapter 2. The Forest Strategy: Proposed Bank Action**

An effective Bank forest strategy must consider all activities, current and potential, that can influence forest and related social, economic and environmental outcomes—rather than focusing only on forestry activities such as production or conservation. However, it must be selective in its engagement, seek its comparative advantage and build on the pillars that set the base for its activities.

### **2.1 Principles of Engagement, Comparative Advantage and the Pillars of the Strategy**

The Bank's impact on forests is determined not only by its direct investments in forests and forest-related activities, but also by investments in other activities that have indirect effects on forests and people dependent on those forests. As a consequence its non-lending activities—analysis, dialogue and safeguard policies, take on increased importance. Also, to have impact on the ground, it must follow the principles that underlie the Comprehensive Development Framework. Partnerships, ownership and a framework for engagement in the sector that defines the roles and requirements for progress will all be fundamental to success.

#### ***Lessons for Engagement in Forests***

Bank experience in the forest and other sectors suggests several principles that need to apply to its new strategy:

- *The Bank will help build and respect ownership.* Governments and people must own the policies and interventions that will make forests more viable. This ownership can only be built through knowledge, participation and consultations. With its partners, the Bank must help bring knowledge to bear and be open in supporting the voice of the people.
- *The Bank will operate in partnership.* The Bank has neither the financial resources nor the staff to meet the objectives of this strategy on its own. Specializing in its comparative advantage will allow the Bank to concentrate on its own strengths without diffusing its resources, while drawing on and contributing to the strengths of its partners.
- *The Bank's commitment to addressing forest issues will be long term and of a sufficiently large scale to allow change to materialize.* The foundations of sustainable management of forest resources are good governance and institutions. Building these foundations will take time.

#### ***Comparative Advantage***

The Forest Strategy relies on the Bank Group focusing on its strengths. The Bank Group has comparative advantage in the forest sector in five areas:

*Cross-sectoral analysis, dialogue and investments.* The Bank has the ability and means to operate across sectors with both policy dialogue and investment programs. Its economic and technical work emphasizes linkages across sectors, with the macroeconomy and with trade.

*Economic policy and country dialogue.* The Bank's leadership in country policy dialogues and assistance strategies gives it the capability to foster dialogue and influence policy. This dialogue has expanded to include support to good governance and combating corruption.

*Convening power.* The Bank is capable of bringing together stakeholders and donors to discuss important issues and to set objectives for assistance strategies. As the chair of the consultative groups for most countries the Bank has the responsibility to work with governments and donors as

they set out their investment programs and policy agendas. This convening power allows the Bank to be catalytic in bringing forth new and experimental programs and agendas.

*Scaling up and mainstreaming projects and programs.* Through its ability to bring large amounts of loans and grants to projects and programs, the Bank has the means to scale up and mainstream successful projects and programs. In doing this, the Bank can encourage and support meaningful policy reforms and institutional changes. The Bank Group can also bring into play a multitude of financing and guarantee instruments to support the engagement of many different stakeholders, including civil society and private enterprise and can address issues such as political and regulatory risk.

*Working with the private sector.* The focus will be on bringing public sector interventions and private sector objectives into alignment. The Bank Group through its focus on the enabling environment for investments, catalytic investments by IFC and the guarantees provided by MIGA has an important role in stimulating private sector activity in the forest sector.

### ***The Three Pillars of the Forest Strategy***

The Bank's forest strategy will be based on three pillars:

- Harnessing the potential of forests to reduce poverty
- Integrating forests in sustainable economic development
- Protecting global forest values.

It must be borne in mind that these three aspects must be addressed *together*. This makes the forest strategy complex and multifaceted—it is not just about growing or protecting trees but is a complex interaction of policy, institutions and incentives. A narrow perspective on forestry—even sustainable forestry—is insufficient. To be effective, the strategy demands a multi-sectoral approach that addresses cross-sectoral issues and takes into account impacts on forests and forest people that originate from activities, policies and practices outside the sector.

## **2.2 Harnessing the Potential of Forests to Reduce Poverty**

Growth alone cannot combat poverty effectively. More focused interventions are required that address opportunity, empowerment and security and that acknowledge the potential conflicts inherent in addressing different groupings of poor people who depend in differing ways on forests. A broader livelihoods approach must be taken that puts forests—productive capacity, institutional and legal structures, market access and tenure—into the broader context of rural development. Priority areas for Bank action will include:

- Promoting policy, institutional and legal frameworks that ensure that the rights of indigenous forest-dependent peoples and communities are protected.
- Empowering women, the poor and marginalized groups in society to take a more active role in formulating and implementing rural forest policies and programs.
- Supporting the scaling up of collaborative forest management so local communities can manage their own resources, rehabilitate and protect forests, market forest products and benefit from security of tenure. The emphasis here will be on involving small farmers and a principal mechanism will be much closer integration of forest activities and investments with broader rural development programs.
- Working with local groups, NGOs, the private sector and other partners to integrate forest and agroforestry farming systems into rural development strategies.

Annex 2 summarizes some past experiences of attempts that have been made by the Bank and other agencies to incorporate poverty reduction concerns into forest strategies and national development plans. It highlights some of the more difficult issues and lessons learned from these experiences.

*Ensuring participation of the poorest.* Though most rural households are poor in absolute terms, there are considerable variations in levels of wealth within the rural poor, even in individual communities. This usually means that only the better endowed, or politically more powerful, are able to take advantage of the more rewarding forest product opportunities available. Moreover, their advancement is all too often at the expense of the poorest, who may easily find themselves excluded from access to the resources upon which they rely. As the intention of the new Bank strategy is to help the poorest as well as those better able to benefit from assistance, care will be taken to structure Bank support to reach all segments of rural society.

*Protecting access by the poorest to non-traditional forest products.* A primary focus of Bank support for many forest dwellers will be poverty reduction and ensuring continued access to subsistence supplies. Specific measures through which the Bank will seek to implement this strategy include:

- Implementing the policies spelled out in OP 4.10 (when approved by the Board) to protect indigenous peoples' rights. Within that framework special emphasis will be given to supporting policy dialogue aimed at legislative reforms that will protect the forest land ownership and access rights of the poorest.
- In its support for collaborative forest management (CFM) and improved forest harvesting and management programs, incorporation of safeguard measures aimed at minimizing the risk of more powerful members of the community or outside commercial interests appropriating non-timber forest products on which the poorest depend.
- Through a combination of ESW, policy dialogue and policy-based investment programs tackling difficult issues such as how to mitigate undesirable impacts of globalization and market liberalization in the forest and other industrial sectors on forest-dwelling poor societies. These include expanding commercial-scale forest and agribusiness operations, mining, oil exploration operations that may lead to appropriation, or privatization of forest resources that the very poor need to continue to be able to access as common property.

*The shares of the state and the rural poor in forest benefits.* One of the more fundamental policy issues that the Bank will need to address is competition between smallholder and community producers for their share of the economic benefits from forest outputs. Governments impose taxes and other charges and costs on forest outputs. In addition, state forest agencies often provide support for local producers under one program and subsidize state-run operations, or large corporate activities which unfairly compete with local producers, under another. In the short term the scope for improving the situation probably lies mainly in removing or relaxing regulatory provisions that reinforce the structural and scale advantages that the state possesses as a producer of many forest products. The relationship between forest departments and small local forest users could also benefit from separation of the regulatory functions of forest departments from forest delivery of support services.

A logical longer-term solution in some situations will be to phase out state production in those markets where smallholder production has a comparative advantage. This would also contribute to meeting a more fundamental concern that has been raised: that the potential for the rural poor to benefit will continue to be limited as long as they are unable to participate in the more profitable and dynamic production activities.

*Integrating forest activities focused on the very poor into rural development strategies.* Special attention will be given to incorporating sustainable forest resource management and agroforestry initiatives into Bank-supported dryland, water catchment, wasteland reclamation and other rural development programs.

Past Bank experience in Burkina Faso, (community based natural resource management programs) in Turkey (Anatolia Watershed Project) and in poverty reduction-oriented projects in China provide useful lessons of wider relevance.

- In terms of the interests of the poorest of the poor, the arguments in favor of joint and collaborative management have become more prominent as it has become apparent that user communities and institutions are often unable to take responsibility for control and management unaided. Joint management has also been favored by governments because transferring management and protection responsibilities to the community level can help offset the reduction in budgetary resources available to forest departments. However, such forms of local management run the risk that they may result in the state continuing to exert too great a measure of control.
- While Bank experiences with collaborative management have in general been reported as successful and have resulted in a greater degree of involvement of rural users, this has not always been in ways that have benefited the poorest of the poor. Some earlier interventions were based on insufficient understanding of the circumstances under which collective management is appropriate and of the realities of the present circumstances of the rural populations involved. Experience has also exposed serious problems in the ways in which governments have pursued devolution of responsibilities for forest management. Accordingly the Bank's strategy will seek, through ESW and policy dialogue, to address some of the inherent weakness in current approaches to CFM. These include issues such as failure by governments to transfer effective authority; restrictions on rights granted to the poor and ineffective and frequently inequitable local institutions.
- Emphasis will be given to situations where land, labor and capital availability favor multi-story "home gardens" that increase land productivity. In such situations agroforestry systems as demonstrated by Bank supported ICRAF research can make a significant impact on poverty reduction by providing low cost inputs from, for example, nitrogen fixing fodder trees that reduce dependency of poorer farmers on purchased fertilizer or animal feed.

*Fostering linkages between forest industry and the rural poor.* The Bank will foster partnerships between industry and local communities and smallholders to provide access to credit, extension, markets and skills development. It will also seek to strengthen cooperative arrangements that will improve the bargaining position of the rural poor and enable them to participate in the benefits from downstream processing and trading. This could include removal of government subsidies for expanding industrial capacity that impinges on small-scale producers—as has happened with rattan production in Indonesia.

An underlying objective of Bank strategy in this area will be to encourage situations in which the bulk of timber or industrial roundwood requirements of larger forest industries such as pulp and paper are met from common property, collaboratively managed, or privately owned forest resources. For example, fostering collaboration between small private woodland owners and industrial companies is a major focus of ongoing Bank-supported strategies in Bulgaria, Romania and several other transition countries of Eastern Europe.

Tree out grower arrangements and other forms of contractual agreements such as those fostered by Bank loans in Argentina, Brazil and the Philippines can provide important links to markets and support for farmers, but care needs to be taken to ensure that they are targeted at those able to benefit from them. Growing can be especially appropriate for smallholders where they have sufficient annual income from other sources to secure their ongoing needs and land they can use for trees that is not needed for food crop production or for other basic needs. Tree growing is likely to be an attractive option in these circumstances where the features of an assured market and access to

technical advice and inputs make tree crops a more stable source of income than alternative uses of the land. These features and the probable need to have title to their land in order to be eligible for a loan, indicate that tree out growing is unlikely to be feasible for very many smaller or extremely poor farming families. It is more likely to be an appropriate activity for the moderately poor.

### **2.3 Integrating Forests into Sustainable Economic Development**

This element focuses on the issue of capturing the very large current and potential asset value of forests (as outlined in Annex 3) and proposes that this asset needs to be well managed to yield sustainable economic growth. Good management of this resource includes control of illegal activities, promotion of effective participation and management of strong cross-sectoral and macroeconomic linkages with forests.

#### ***Cross-sectoral and Macroeconomic Linkages***

The Bank must have an appreciation of how its actions and investments in other sectors, or at the macroeconomic level, will impact on forests and forest people and it must then act on this information to incorporate measures to effectively offset or minimize the impacts. At the present time the level of integration of major forest concerns into the design of larger adjustment and cross-sectoral activities is relatively low in the Bank. The priorities for Bank engagement in this area will be:

*Cross-sectoral approaches.* Policies and projects need to be analyzed and coordinated to ensure a cross-sectoral approach to planning and implementation of sustainable forest management and forest conservation and development. The Bank's strategy will give special emphasis to supporting the very large number of rural poor living within forest margins or outside forests (predominantly agricultural populations) who are able to access forests, tree stocks outside forests and trees on farms and to respond to market opportunities. Forestry assistance will be defined widely to encompass all tree stocks and activities based on them.

The Bank will invest more in analyzing the potential impacts on forests of large programs in rural development and infrastructure.<sup>1</sup> A major task for Bank operations staff and management in this strategy will be to develop the necessary linkages and processes to ensure that when large rural programs are under consideration, forest issues are considered and factored in. Most of the poor who live in or near forests will be associated with some form of agriculture, as well as being significantly dependent on nearby forests for aspects of their livelihood. The broad patterns of development that occur should preserve this balance (Annex 3). Closer linkages will need to be developed with agencies such as ICRAF and CIFOR, which have considerable experience in the design and implementation of these options.

The Bank will actively seek opportunities to support collaborative forest management, building in particular on past Bank experiences in countries such as India, Mali, Mexico and Niger. Much has been learned in these countries about how to involve user groups in sustainable harvesting and management of dryland savanna fuelwood resources.

*Macroeconomic impacts.* Relatively little analysis has been done in the Bank on the impact of macroeconomic policies on forest outcomes and most of what has been done directly addresses the impacts of specific provisions for forests and forestry that have occasionally been included in these larger policy frameworks. The current revision of the Bank's Operational Directive on adjustment

---

<sup>1</sup> A recent example is a recent study: *Sustainable Amazon: Limitations and Opportunities*, World Bank and Imazon, 2000. This study shows that 83 percent of the area of the Amazon is unsuitable for agriculture and ranching, and that continuation of these activities in forests will result in extremely low returns to land use, as well as the permanent loss of the forest areas.



operations is expected to consider such impacts and issues. In the meantime, careful attention will be paid to policies with the potential to have major impacts on forests, including trade and tariff policies favoring extensive agriculture or tree crops and overall public expenditure reduction (Annex 3).

### ***Expanding Non-Farm Rural Activities: The Role of Small-Scale Forest Product Enterprises***

In nearly every country where such information exists, small-scale forest product activities are among the three largest categories of non-farm rural commercial activity, in terms of numbers of people engaged in these activities. Bank interventions in this area have the potential to benefit very large numbers of people.

The Bank will target its assistance to small wood-based enterprises toward helping the rural poor successfully to engage in processing and trading. It will support:

- Market research and improved marketing strategies.
- Provision of microcredit (as a component of more broadly based Bank support for small-scale enterprise development).
- Technical and business management training.
- Economic and sector work aimed at identifying regulatory and other constraints to small-scale wood enterprises.

### ***Governance in the Forest Sector: Forest Crime, Corruption and Regulation***

Examples given in Annex 3 show the costs and the pervasiveness of crime and corruption in the forest sector in many countries. Resource rents that are persistently low and non-transparent resource allocation procedures are strong indicators of the potential for major forest corruption and governance problems. Other indicators include market cartels and other distortions, inadequate forest conservation and protection measures, significant and organized illegal activity including timber theft, misrepresentation of volumes, species or the quality of log harvests; poaching and commercial-scale encroachment of agricultural or other activities on lands designated as permanent forest zones. Poor governance is also usually reflected in unclear and conflicting tenure or management mandates for forest lands and the systematic exclusion of local peoples from decision-making affecting forest lands.

*Illegal logging and corruption.* By far the greatest area of concern for many governments is the cost of illegal logging and forest-related corruption. In this area:

- The World Bank will use its involvement in the formulation of country assistance strategies and national forest programs (Chapter 3) to support legislative and institutional reforms that will help make forest law enforcement more effective and just. Guidelines for future Bank involvement in forest law enforcement activities are currently being developed.
- The Bank will finance monitoring programs that support sustainable forest management planning and help identify the extent of problems. This, along with deeper analysis on the underlying incentives to forest users and managers, will provide valuable input to governments as they develop national forest programs or strategies.
- The Bank is initiating dialogue with countries and regions to foster collaborative partnerships between national governments, local people living in and near forest areas, private industry,

NGOs, donors and other stakeholders to more effectively monitor and control forest use. This will include a wide range of measures aimed at detecting, preventing and suppressing illegal forest activities, with particular emphasis on strengthening civil society and key actors such as the judiciary, law enforcement branches and government forest management agencies. The Bank will also initiate dialogue with other intergovernmental organizations such as FAO and ITTO and international NGOs, such as Global Witness and Global Forest Watch that work in this area.

Although experience in this area is still limited, there have already been encouraging responses from governments such as those of Cambodia and Indonesia to Bank-supported forest law enforcement initiatives. As a result, similar activities are currently being planned in other regions.

*Reforming timber concession policies.* The Bank will promote the use of rigorously designed regulatory frameworks for timber concessions to enhance the contribution of planned forest utilization to economic and social development and environmental protection. Forest concessions in both tropical and temperate countries often have not yielded an equitable distribution of economic benefits and intensive exploitation of forests has frequently led to degradation of the forest resource and the unnecessary loss of both timber and non-timber values.

Policy changes will have to be coupled with addressing the technical competency of forest officials, eliminating corruption in field-level operations and involving local communities and their representatives in forest management, including concession allocation processes. The Bank will encourage governments to take advantage of growing opportunities to engage independent third-party certification bodies in performance-based monitoring of forest harvesting and management operations.

### ***Building a Role for Civil Society in Sustainable Forest Management***

*The sustainable forest management issue.* There is growing recognition that effective forest management is critical to sustainable development, particularly where the local or national economy is based significantly on the use of forest resources. Given the extent of the resource in many countries, few governments or community stakeholders accept that logging should be banned in all accessible forests. Therefore the key questions in most countries are where logging should occur and how well it will be managed.

In a land use planning context, the major challenge is to ensure that extractive activities like logging take place in areas where the benefits of the activities outweigh any social or environmental costs that they may engender. An important priority here is to ensure that areas of special conservation value or social significance are conserved in culturally appropriate forms of protected areas. However, few countries have been able to afford to allocate more than 10-20% of their forest areas for this purpose and there is a growing consensus amongst ecologists and resource management specialists that protected areas by themselves can never adequately protect biodiversity.

This has proven to be the case in North America with arguably the world's best funded and most extensive national park-wilderness conservation system. It is likely to prove to be even more the case in tropical areas with their higher levels of habitat differentiation, disjunctive species distributions, the low aerial population densities of many species and high endemism. In addition, IUCN data indicates that globally some 85% of existing protected areas have human populations living either inside or immediately adjacent to the reserve. The long term future of biodiversity will therefore depend just as much on sympathetic management of productive, humanized landscapes as it will on the balanced selection and management of traditional protected areas.

A key part of this process that will need to be applied on a larger portion of the world's accessible natural forests, is to combine conservation and production goals in the same area. Such an approach needs to be based on consensus and, whenever ownership and tenure arrangements permit, planning

and management should be collaborative. While ecological and silvicultural knowledge is incomplete, sufficient knowledge is available and proven for all major forest types, including tropical humid forests, to enable natural forests to be managed in ways that will maintain high levels of environmental, economic and social value. However, even this available knowledge is frequently not put into practice due to a lack of appropriate incentives for forests users and inefficient monitoring by forest services. Larger economic and governance issues are frequently at the root of these problems.

The issue of what the Bank should and should not do in forests was a cause of considerable controversy, both inside and outside the Bank, when the 1991 strategy and the 1993 policy were developed. It remains contentious at the present time.

A complicating factor has been the continuing and still unresolved and at times, highly emotional debate about definitions of sustainable forest management (SFM). Given that many national governments of forest rich tropical countries, such as Brazil, Cameroon and Indonesia will continue to sanction harvesting operations in significant areas of their primary tropical forests, considerable support emerged from the regional consultations leading up to formulation of this strategy for the Bank to become actively involved in the promotion of more sustainable forms of utilization in forests outside formally protected areas. Support for this type of activity was seen as being essential if the Bank was to be a meaningful actor in the fight to contain socially, ecologically and economically damaging forest activities that reduce the potential of forests to contribute to sustainable poverty reduction.

As an interim step, pending a more clear international consensus on this issue, the Bank has agreed with leading international conservation agencies that it will encourage the widespread use internationally agreed criteria and indicators for sustainable forest management. These include those defined by the International Tropical Timber Council (ITTC) and discussed in the Intergovernmental Panel on Forests (IPF, IFF) and embodied in the Principles and Criteria of bodies such as the Forest Stewardship Council. In this regard, the Bank worked with WWF and a wide range of forest sector stakeholders to develop a set of principles and criteria for certification systems designed to help move forest management toward SFM. These are set out in the World Bank-WWF Alliance guidance note on Improved Forest Management.<sup>2</sup> It would be divisive and potentially misleading to suggest that sustainable forest management can be unambiguously defined and then assumed to be always attainable within the time frame of a given intervention. Rather, the emphasis in this strategy will be on improving forest management, along the lines of the pyramid approach described below. This

---

<sup>2</sup> The Alliance believes that a common set of principles should underscore any standard for improving the management of both natural and planted forests. These principles include compliance with all relevant laws, documented tenure and use rights, respect for indigenous peoples' rights, respect for community relations and workers' rights, encouraging multiple benefits from the forest, containing the environmental impacts of forest use, rigorous forest management planning, active monitoring and assessment, and the maintenance of natural forests. The Alliance believes that credible certification systems must be consistent with the following criteria:

- Institutionally and politically adapted to local conditions;
- Goal oriented and effective in reaching objectives
- Acceptable to all involved parties
- Based on performance standards defined at the national level that are compatible with generally accepted principles of sustainable forest management
- Based on objective and measurable criteria
- Based on reliable and independent assessment
- Credible to major stakeholder groups (including consumers, producers, and conservation NGOs)
- Certification decisions free of conflicts of interest from parties with vested interests?
- Cost effective
- Transparent
- Equitable access to all countries.

approach has been developed by the World Bank-WWF Alliance to support the Alliance's global target for SFM that aims to achieve 200 million hectares of independently certified production forests by 2005.

The Bank has accepted the principle of independent monitoring forest operations under the principles and criteria set out above. However, the Bank has not endorsed any particular certification system but will assess particular approaches in relation to their compliance with these principles and criteria. The Bank recognizes that there is an ongoing "mutual recognition" debate in the international community that is seeking to harmonize acceptable standards and approaches and hopes that these principles and criteria will contribute to these discussions.

The Bank believes, in many countries, greater involvement of local communities and other key stakeholders in forest management and planning is needed to produce equitable outcomes and raise the overall social value of forests. In some cases, the need for greater transparency and accountability at the local level will require the use of local stakeholder assessment as an alternative to third-party assessment of commercial scale operations.

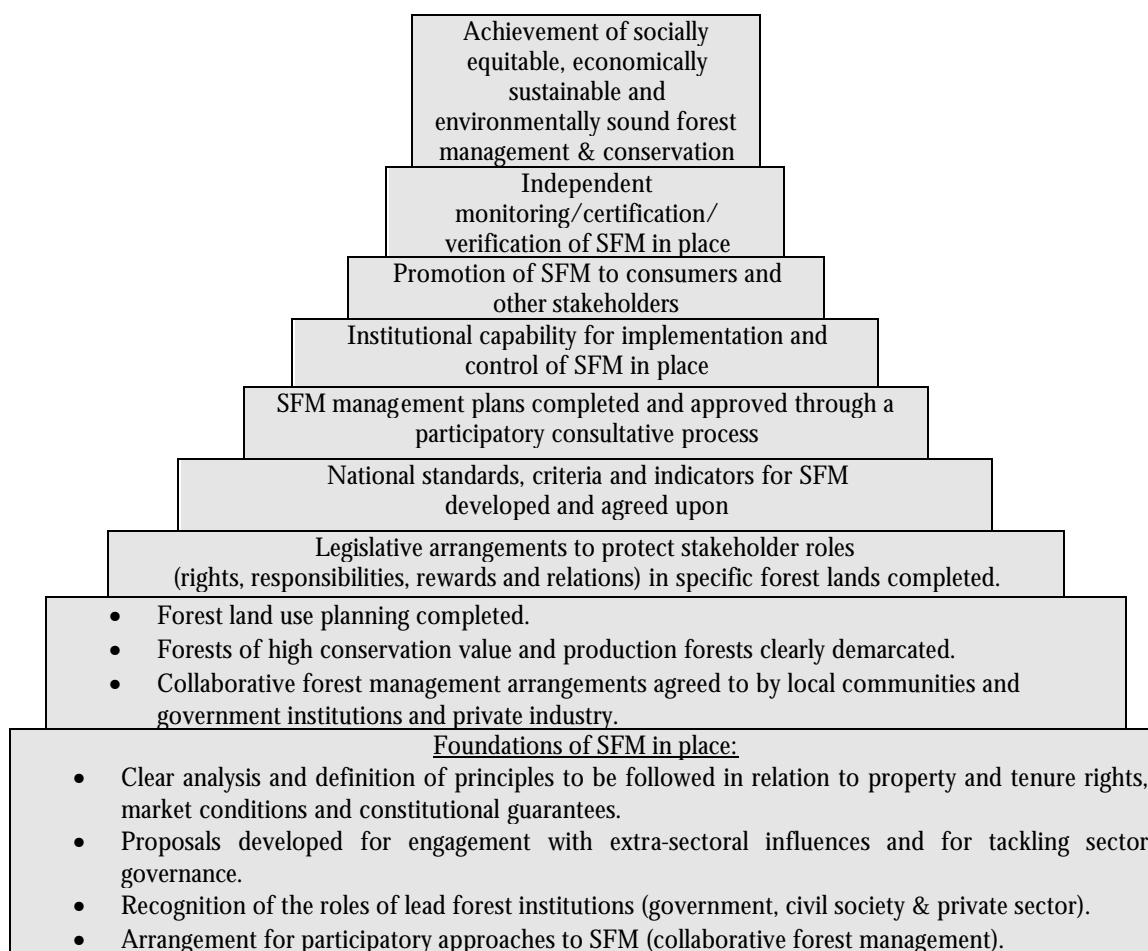
The Bank will encourage national governments to develop locally relevant standards for natural forest management and forest restoration that meet internationally recognized principles and criteria for SFM. It will also provide support to national governments to create representative, multi-stakeholder, independent forest monitoring bodies.

*The "pyramid" approach to assessing improvements in forest management.* Developing systematic approaches for monitoring and evaluating forest resource harvesting and management calls for adopting an analytical framework such as the World Bank-WWF Alliance forest policy "pyramid" framework. This provides a basis for both planning interventions needed to achieve improved forest governance and assessing progress toward this objective. The pyramid (Figure 2.1) serves as a guide for identifying the steps needed at the country level to enable and sustain improved forest conservation, management and livelihoods. The pyramid's tiers serve as prompts for assessing a country's forest management performance and for noting aspects of good management that are in place. It also helps governments and other key stakeholders to identify what stepwise improvements are needed and how progress will be measured.

Ideally, all major stakeholders should participate in the application and interpretation of the pyramid in a specific country or province. Furthermore, it is important to note that the process of certification, independent verification, or stakeholder-based assessment of progress can be applied at any part of the pyramid.

The individual tiers of the pyramid are seen as mutually reinforcing and not necessarily so rigidly linked as to form preconditions. The pyramid concept acknowledges different stages and approaches in building improved forest management and avoids forcing the pace with unsustainable solutions beyond the absorptive capacities of the governments and communities concerned. It also helps identify "milestones" that acknowledge incremental gains in places where forest governance problems are greatest. It also helps encourage policy dialogue aimed at eliminating those constraints.

**Figure 2.1 A Pyramid Model for Assessing Progress toward Sustainable Forest Management**



***A Revised Approach to the Bank’s Forest Policy and Sustainable Forest Management***

To respond to OED’s recommendations, the concerns raised in the external and internal consultations and the analytical studies on advances in understanding forest issues, it is necessary to modify the current Forest Policy, OP 4.36, in terms of both its scope and clarity and to ensure consistency with this revised strategy. Since Rio, the international community has agreed that the international forest dialogue must extend beyond discussion of tropical forests to a focus on all forests in all countries. In addition temperate or boreal forests have become major elements in the Bank’s forest lending program, especially since the advent of the Bank’s major engagement with the Eastern European and Central Asian countries. Currently, however, OP 4.36 is primarily focused on tropical moist forests. In addition, OP 4.36 was issued before the approach to independent assessment of the quality of forest operations based on performance-based certification was developed. Independent certification is becoming the industrial standard for improved forest management. OP 4.36 is silent on certification.

In addition and as demonstrated by OED, OP 4.36 has proven to have a “chilling effect” on Bank Group involvement in virtually any aspect of the management of tropical forests. This creates a particular difficulty in relation to the major targets for the achievement of sustainable forest management that the President of the Bank presented to the Special Rio+5 Session of the General Assembly of the United Nations and the Bank and its partner in the Global Alliance for Forest Conservation and Sustainable Use, the WWF, have adopted as one of the major objectives of that partnership.

This target of 200 million hectares under sustainable forest management will be difficult to achieve with a Bank Operation Policy which puts a blanket restriction on financing logging operations in tropical moist forests, under any circumstances<sup>3</sup>. This prohibition on Bank involvement in financing commercial harvesting “in any circumstances” was entirely justified at the time in relation to the vast majority of cases in tropical forests where commercial harvesting practices were demonstrably unsustainable.<sup>4</sup> However, such prohibition policy must also, a-priori, preclude circumstances where such involvement would demonstrably lead to improved conservation and development outcomes. It also inhibits the Bank and particularly the IFC, from assisting countries and the private sector to improve their forest operations or, for that matter, from engaging in a meaningful dialogue on sustainable forest management. Several client countries in consultations have indicated their reluctance to engage with the Bank in this area when it takes such a prohibitive stance on financing regardless of the quality of the forest operation.

A revised Forest Policy should seek to redress this weakness and allow the Bank to more pro-actively promote desirable forest conservation and development outcomes. A revised policy should prevent the financing of commercial logging operations in critical natural habitats in all forest types not just moist tropical forests. It should also ensure that no funding is provided to logging operations in any type of forests where these operations do not meet acceptable standards of sustainability. However, Bank funding should be used to encourage improved forest land allocations for socially and culturally appropriate protected areas and to help transform private sector practice in forests outside protected areas. In all forests, high standards of sustainability must become the operational norm rather than the operational exception.

A revised policy should help the Bank to achieve these objectives by providing a clear operational framework based on rigorous performance-based independent certification and consistent application of the Bank’s overall safeguards policy framework. Although this policy stance may result in only modest additional financial flows to independently certified logging operations, it will clarify to the forest community that the Bank is supportive of well managed forest operations that conform to recognized international standards of certification.

The investment provisions of a revised Forest Policy would apply to what is considered the *permanent forest estate*, or forests that are designated to remain under forest cover. The Bank would regard all areas of natural forest as being intended to remain as forests if they are under the regulatory control of local, regional or national governments as part of a permanent forest estate. This would also include forests owned by private sector and other non-government interests in countries where these owners have overriding environmental and social responsibilities in the management of those forests, stipulated under national laws and regulations. These permanent forest estates could be tropical, temperate or boreal areas.

Several of the Bank’s existing operational policies would also apply to all Bank investment affecting forest areas including forest areas beyond the formally designated permanent forest estate in client countries. The Bank’s Natural Habitats Policy, OP 4.04, states that the Bank does not support projects that, in the Bank’s opinion, involve the significant conversion or degradation of critical natural habitats. In the definitions accompanying this policy, critical natural habitats are defined as existing protected areas and areas officially proposed by governments as protected areas, areas

---

<sup>3</sup> See discussion of the Principles of Bank Involvement with Regard to the preservation of intact forest areas on pages 20 and 65 the 1991 Policy Paper on The Forest Sector.

<sup>4</sup> An ITTO study published in 1989 found that less than 1% of commercial operations in tropical forest globally met reasonable operational standards for sustainable forest management – see D. Poore, P. Burgess, J. Palmer, S. Riethergen and T. Synnott, 1989 *No Timber Without Trees – Sustainability in the Tropical Forest*. Earthscan Publications, London.

recognized as protected by traditional local communities and sites that maintain conditions vital for the viability of these protected areas. They are also defined in listings developed by authoritative sources based on evaluations of factors such as: species richness; the degree of endemism, rarity and vulnerability of component species; representativeness; and the integrity of ecosystem processes.

Wherever feasible, Bank-financed projects in all sectors are sited on lands already converted (excluding any lands that were specifically converted in anticipation of the project in question). The Bank does not support projects involving the significant conversion of any natural habitats<sup>5</sup> unless there are no feasible alternatives for the project and its siting and where comprehensive analysis demonstrates that overall benefits from the project substantially outweigh the environmental costs. Where habitat conversion or degradation becomes necessary, the project must include mitigation measures acceptable to the Bank. These include minimizing habitat loss (e.g. strategic habitat retention and post development restoration) and establishing and maintaining an ecologically similar protected area. The Bank accepts other forms of mitigation measures only when they are technically justified.

The Bank's environmental assessment safeguard policy, OP 4.01, requires the Bank to encourage borrowers to maintain an open dialogue with stakeholders from the earliest stages of project development, to provide stakeholders with appropriate information and opportunities to take an active role in planning, designing, implementing, monitoring and evaluating projects. Obviously, this would apply to both defining production forest elements within the permanent forest estate and operations in these elements. The Bank itself is required to anticipate and engage with the borrower in an iterative learning and refinement of the policy environment through ongoing dialogue and feedback from stakeholders during project implementation.

In these processes, attention would be given to agreeing upon and delineating forest areas of particular social or cultural significance. The Bank already requires that the rights and usage access of indigenous forest dwellers and others traditionally dependent upon forest areas, are addressed, utilizing the provisions of OP 4.10 (Indigenous People), OP 4.11 (Cultural Property), OP 4.12 (Involuntary resettlement, forthcoming).

In addition to the application of these existing safeguards, a new Bank policy would need to develop a general precautionary approach for the permanent forest estate. In cases where protected areas are delineated in the permanent forest estate, the Bank Group should not participate in any *commercial scale harvesting*<sup>6</sup> in those that are classified under IUCN categories I through VI.

A revised policy would state that the Bank would not finance commercial scale harvesting or the purchase of equipment for that purpose for use in the elements of the permanent forest estate in any region, unless the operations for intended investments designated for production forestry already meet agreed standards for improved forest use and management, or the project itself would bring about the widespread adoption of these standards in commercial practice.<sup>7</sup> Locally relevant standards

---

<sup>5</sup> This aspect of the policy covers all natural habitats not just natural habitats considered to be "critical natural habitats".

<sup>6</sup> *Commercial scale harvesting* here is defined as an operation financed by an investor who has acquired the rights to log an area through concession or purchase from the state or local owners, and who will retain all profits from so doing.

<sup>7</sup> In cases where the standards for sustainability are not able to be met at the outset the investment program would have a clear and time-bound plan to achieve them. Locally relevant standards would have to be developed through a transparent consultative process prior to implementation. These standards would themselves need to contain performance indicators for the investment which would state clearly what needs to be achieved before the next phase of activity proceeds. These indicators would be publicly disclosed and available for scrutiny by government, local community and other civil society stakeholder groups.

would need to be consistent with the objectives for natural forest management developed the principles, criteria and indicators for SFM and forest certification adopted by international fora. They would be adapted to local conditions through an acceptable consultative process, such as that outlined under the Environmental Assessment OP. International standards (and many national laws and regulations) require that even within forest zones identified for production purposes, certain areas of the forest would be protected for biodiversity and for other environmental or social and cultural purposes.

Once the local standards are adopted for commercial scale operations, compliance and progress towards achieving them is to be assessed either by:

- a competent third party, committed to impartial performance-based certification (in situations where a significant proportion of forest production enters environmentally discriminating domestic or export markets in which formal certification is likely to provide direct market incentives for high standards of forest practice); or
- an open process of review by the main participants and interest groups involved in or affected by the forest use, based around the standards and objectives for the operation established in consultation with these groups at the outset, (in situations where the bulk of production will go to non-environmentally discriminating domestic markets.)

Intended investments supporting small farmers and community based forest operations, including joint forest management programs, will be appraised on the basis of their own social, economic and environmental merits using performance standards developed in consultation with the main parties affected by, involved in, or interested in the operations. A key requirement will be to ensure that the provisions of OP 4.10 are applied to protect the access and usage rights of the weaker segments of society.

*Risks and issues.* There will be some political risk in adopting a more proactive policy which enables the Bank to become involved in the sustainable management of production forests. However, there are also major reputational risks for the Bank in retaining the existing policy, which does not address the issue of the temperate forests at all. This policy has been severely criticized by many stakeholders and interested parties outside the Bank as being a major factor in the Bank's failure to make a significant contribution to forest conservation and development and the challenge of mobilizing the considerable potential contribution of forest conservation in the attack on poverty and economic and social underdevelopment.

A further implication of adopting the policy approach proposed above is that it will require monitoring of all prospective and ongoing operations for compliance with these standards.

Major underlying arguments for the new policy approach are first that the Bank needs to recognize in its policy the reality that many forests around the world that are accessible and commercially valuable *will* be utilized for timber production - sooner, in all likelihood, rather than later. Under the proposed revised policy, the Bank will commit to avoid at all costs financing commercial logging in critical natural habitats and other non sustainable forms of commercial scale logging. It would also be prepared to use its influence and financial resources to help improve the quality and sustainability of these operations and ensure that a more equitable share of the benefits from commercial activities is directed toward local communities living in or near forest areas. Very often the real choice available in this sector is not between logging and doing something less invasive and damaging to the forest (especially when these alternatives have not been developed to large-scale market viability). Rather, it is between doing logging reasonably well, or doing it very badly and in a destructive manner so that conversion of the logged-over site to other uses becomes almost inevitable.

---

Disbursement of funds would be contingent upon the achievement of targets for establishment of monitoring processes defined in the indicators.



Secondly, as already discussed earlier in this chapter, powerful citizen driven certification and independent monitoring procedures have emerged since the existing Forest Policy was adopted in the early 1990's. These processes are helping to ensure that large commercial scale logging and forest industrial operations around the world are increasingly being subjected to and accepting close scrutiny and systematic assessment of their impact both on people and forests. The fact that, in partnership with the WWF, the Bank has committed to a global target of 200 million hectares of independently certified well managed forest by year 2005, should help to allay the fears of some environmentally concerned groups that, by revising the Operational Policy on Forests, the Bank would merely open the flood gates to a massive expansion of non sustainable logging.

Third there is growing recognition around the world of the complementarity of forest conservation and sustainable forest land use strategies. Governments of leading forested countries such as Canada, Brazil and Malaysia have adopted forest land use "zoning" strategies that allow for a continuum of: (a) totally protected areas; (b) multiple use forests in which overriding concerns for protection of biodiversity and other environmental benefits are integrated with continued harvesting of those numerous forest products that are essential for subsistence and local use; and (c) production forests in which independently certified sustainable timber harvesting embraces the goals of preservation of vital forest environmental functions.<sup>8</sup> Such an integrated ecosystem-based approach is the driver for the mix of conservation and sustainable management objectives defined in the World Bank-WWF Alliance for Forest Conservation and Sustainable Use. The suggested revision in policy will enable the Bank to become a more pro-active partner in the process of addressing the urgent need to assist client countries achieve better conservation and development outcomes from their forest resources.

## **2.4 Protecting Global and Local Forest Values**

The third major pillar of the revised strategy—protecting vital global and local environmental services and values from forests—focuses on the problem that domestic and international markets and individual incentives do not account for these externalities, despite their importance for sustaining rural incomes, economic growth and ecosystem protection. There is also little international financing to offset these tendencies at the national level.

### ***Evolving Perception of Protected Area Strategies.***

One of the problems identified by OED is the difficulty inherent in addressing the problem of protecting forests in high demand for a range of—frequently mutually exclusive—uses, by competing groups within society. While the Bank, in cooperation with the GEF, has generated significant increases in funding for biodiversity protection and related purposes (Chapter 3 and Annex 4), the scale of this contribution is dwarfed by the incursions being made into forest areas—including those that ideally should be protected from invasive use. Moreover, Bank client governments do not, by and large, wish to borrow funds for forest protection. The reality, therefore, is that, unless significant additional funds at highly concessional or grant terms blended from multiple sources can be made available for protection, or effective markets for the ecosystem values of forests developed, the problem is likely to worsen. It is important to bear this in mind, when considering the Bank strategy in this area.

This larger problem is not always apparent when observing protection activities. Unlike the Alliance sustainability target discussed above, achievement of the Alliance year 2005 target of 50 million

---

<sup>8</sup> To illustrate: Government of Brazil has recently announced its intention to develop a mosaic of conservation areas in the Amazon within which some 50 million hectares of national forests under sustainable harvesting and management operations will form a buffer around a network of national parks and indigenous reserves covering about two thirds of the Amazon forest region.

hectares of new protected areas is well on the way to realization. Through the Critical Ecosystem Partnership Fund another major effort is underway to set aside important biodiversity hotspots. However, if these efforts are to lead to protection across the board in remaining natural forests, not just in selected areas, perceptions of protected areas that gave high priority to setting aside discrete wilderness areas and biodiversity reserves and excluding them from all forms of human use will have to evolve. There are signs that this is happening; it is now widely recognized that local communities and forest fringe farmers can play a key role in biodiversity preservation. There is a trend toward a wider definition of protected areas that embraces the concepts of IUCN Category VI: “areas containing predominantly natural systems managed to ensure long-term protection and maintenance of biological diversity while providing at the same time a sustainable flow of natural products and services to meet community needs.”

Adoption and promotion of expansion of IUCN Category VI Protected Areas has major implications for the Bank’s revised strategy. It suggests the possibility that very large areas of community-managed forest such as those in India and many other parts of the world will also be recognized as making a major contribution to the preservation of biodiversity, carbon sequestration and other environmental services.

### ***Fostering Markets for Ecological Public Goods***

A second key element for the Bank in expanding the potential for protection of forests, further discussed in Chapter 3, is helping to build and facilitate new markets for forest ecosystem services. These include services of local and national significance (watershed, soil and other environmental sustainability purposes) to global forest commons goods (biodiversity, already the subject of debt-for-nature swaps, conservation concessions and so on) and carbon, potentially a much larger and more lucrative source of funding for retention of forests. Developing such markets is an important factor in enabling countries to recognize and then realize, the real value of their forests. The increased revenues and incomes that national governments and local communities can reap from these environmental services can serve as a major incentive to sustain forests—rather than cutting or burning them over for short-term returns. But these longer-term uses will only begin to be attractive to national decision makers when reliable market mechanisms are in place.

The two major opportunities that will be pursued by the Bank in this area are:

- Helping to build and finance markets for international public goods, such as carbon and biodiversity. Major potential appears to exist for use of the guarantee instrument. The Bank has recently initiated an experimental Partial Risk Guarantee to encourage international private investment in Russia’s forest products sector through a guarantee arrangement between the government and the Bank. This instrument will underwrite the risk that adverse and unpredictable policy changes pose for private investors in the Russian economic environment. In this case it is a potentially powerful approach for building the partnership between the Bank and the private sector, but it could be an equally powerful approach to underwriting commitment to sequestration or protection zones, when combined with grant-based financing for these purposes.
- Taking advantage of a considerably under-exploited opportunity by assisting governments to design, implement and finance the startup of effective national markets for environmental services provided by forests. A number of options have been explored, by the Bank and others, including financing regulation, environmental services payments, tradable rights development systems, disincentive systems and financing innovation.<sup>9</sup> All these approaches have been applied

---

<sup>9</sup> *Financing Sustainable Forest Management: Doing More With (Probably) Less* World Bank paper presented at United Nations Forest Forum workshop, Oslo, February 2001.

successfully in forests situations to protect or preserve aspects of the forest ecosystem that would otherwise be in jeopardy.

### ***Fostering the Linkage between Forests and Climate Change***

Climate change is projected to significantly alter the composition and possibly the productivity, of tropical and boreal forests, due to changes in the mean, variability and extremes of temperature and precipitation, coupled with an increase in disturbance regimes, i.e., pest outbreaks and fires. Forests and forestry can, however, play a major role in the mitigation<sup>10</sup> of greenhouse gas emissions and in preparing client countries to adapt<sup>11</sup> to today's climate variability and long-term climate change.

The economic consequences of climate change are expected to fall disproportionately on developing countries and within these countries, to the poor. Climate change will have its greatest negative impact in the tropics and sub-tropics, with higher temperatures, increases and decreases in total rainfall, more heavy precipitation events, more El-Nino-like conditions and an increase in tropical cyclone wind and precipitation intensities. This will lead to, *inter-alia*, an increase in floods, droughts and landslides that often affect the poor most of all and plunge them deeper into poverty. Climate change is expected to exacerbate inequities in health status and access to adequate food, clean water and other resources. Although some adaptation is possible, developing countries and especially the poor within developing countries, are unlikely to have the institutional, technical and financial means to adapt.

The role of forests in reducing and preventing risks and vulnerability from natural disasters at local level is well-known and does not require a new agenda. For example, reforestation can help avoid landslides, avalanches and downstream flash floods. Forest products and tree crops are less vulnerable to weather hazards and often provide a cushion for the poor in times of food shortage. In the present strategy, adaptation measures involving forestry are considered as integral part of the proposed poverty reduction strategy.

Of a more controversial nature is use of the capability of forests to sequester carbon and hold it over long periods of time. While the bulk of global carbon emissions come from fossil fuel consumption in industrialized countries, deforestation and subsequent land-use change are also significant, especially in the tropics. In the tropics, forest loss causes 10 to 30 percent of the global CO<sub>2</sub> releases. Afforestation and reforestation are regarded as an efficient means of sequestering atmospheric carbon. Moreover, conserving and sustainably managing existing natural forests and forest soils, which are very large stores of carbon, will significantly reduce greenhouse gas emissions. If the Kyoto Protocol allows afforestation, reforestation and avoided deforestation to be eligible activities within Article 12 of the Kyoto Protocol, i.e., the Clean Development Mechanism,<sup>12</sup> this could provide new revenue streams to local economies for forest protection and forest management. Industrialized countries, including countries with economies in transition, are already allowed to meet their obligations by trading carbon using afforestation, reforestation and avoided deforestation

---

<sup>10</sup> Mitigation is defined here as human intervention to reduce the sources of greenhouse gases or enhance their sinks.

<sup>11</sup> Adaptation is defined as the ability to adjust to climate change (including climate variability and extremes), to moderate potential damages, to take advantage of opportunities, or to cope with the consequences.

<sup>12</sup> The two major flexible mechanisms under the Kyoto Protocol are Joint Implementation (JI), dealing with carbon emission trade in the so-called Annex 1 countries and the Clean Development Mechanism (CDM) dealing with carbon emission trade between Annex 1 countries and developing countries. The role of forests and forestry need still to be specified in the CDM-framework.

activities under Article 6, i.e., Joint Implementation. Hence, forests could have a major role in climate mitigation in the near future and the Bank could take a leadership role in the development and facilitation of the market systems that will allow this to happen.

The special report on Land Use, Land Use Change and Forestry of the Intergovernmental Panel on Climate Change specifies the specific role of forests and forestry within the climate change framework. Forestry projects are likely to be as, or more, cost-effective in offsetting carbon emissions than other options and could have a significant impact on sustainable development in many of the Bank's client countries. Taking into account the considerable political uncertainties and controversy that prevail, the Bank needs to consider the perceived value of forests offered within the framework of the UN Convention on Climate Change. As stated earlier, if the 1997 Kyoto Protocol comes into effect and forestry activities are eligible under the Clean Development Mechanism, it will stimulate the development of international markets for carbon credits from forestry through new forest plantations, natural forest management, forest conservation and restoration. However, procedures are yet to be negotiated. To the extent that such trading reduces deforestation, especially tropical deforestation, it will also reduce loss of biodiversity and other local environmental services, such as watershed protection.

If the Kyoto Protocol fails to come into force, or if the Clean Development Mechanism does not recognize forest activities as an eligible source of tradable emissions reductions, there will be far less external financing for forest carbon activities. In the long run, the world's interest in abating greenhouse gas emissions is likely to remain strong and forests can and should play an important role. Thus, it is imperative that the international community fund forestry activities that reduce net carbon emissions. This suggests that sooner or later, market-like mechanisms are likely to be created to encourage forest-based carbon storage or abatement. Hence the motivation for the World Bank to take a pioneer role in the field of "carbon forestry" and to continuously engage in the development of forest carbon markets and to develop adaptation measures in forestry.

### ***Fostering Linkages between Poverty Reduction and Forest Conservation Strategy***

The concerns with biodiversity conservation that have shaped so much of GEF, Bank and World Bank-WWF Alliance assistance for forests have been primarily about global conservation values. They reflect predominantly northern concepts and donor preoccupations and in some situations have constrained the pursuit of forest uses that can alleviate poverty. The Bank's revised strategy is based on the recognition that forest degradation and removal are not necessarily a consequence of poverty. They can be as readily precipitated by rising incomes. In addition, the poor often conserve rather than overuse the resources they manage. Therefore approaches to sustainable forest management should not be based on assumptions of a mutually reinforcing "downward spiral": of poverty and forest degradation that can only be halted by limiting or preventing use of the forests by the poor.

Through ESW, policy dialogue and its support to protected area programs, the Bank will seek to promote improved understanding of the linkages between human activity, landscape change and preservation of biodiversity. Much of what might be considered by ecologists and foresters to be degradation or depletion of a forest resource can be considered to be transformation and even improvement of the resource by those depending on it for inputs into their livelihood systems.

There is need for greater appreciation that the poor experience their own environmental problems, which need to be addressed separately from environmental policies seeking to satisfy concerns about global values. To address these local concerns the Bank will seek opportunities to combine global macro-scale initiatives with a more situation-specific focus, reflecting the protective mechanisms that local users themselves adopt and the attributes of a resource that they value and seek to conserve (recent Bank-supported initiatives in Costa Rica, for example, are moving in this direction).

Because a large part of the remaining tropical forest genetic resource exists in managed landscapes rather than in protected areas, it will be logical to focus more of the conservation effort on sustainable management of what is in use. Many of these locally managed resources have a high measure of biodiversity. It needs to be stressed that in developing these arguments the Bank is not advocating downgrading the importance of biodiversity conservation. Its concern is to focus the approach better on conservation. In recognition of the importance of forest uses for poverty reduction, conservation objectives for forests of value to local people could appropriately shift from a predominantly protective orientation toward encouraging sustainable systems of producing livelihood benefits in as “environmentally benign” a way as possible. This can be done, for example, by encouraging options that result in landscapes such as those found in parts of Southeast Asia that maintain a patchwork or mosaic of agricultural and agroforestry systems. While less species-rich than forests, these preserve much more biodiversity than the alternatives of plantations or clearance to crop agriculture. The Bank-supported MesoAmerican Biological Corridor is one example of this approach.

## **2.5 Aligning Regional Programs with Corporate Objectives**

The key challenge to improving Bank performance in forests along the lines described in this chapter is to link global priorities with the country initiatives of its regional departments. The best approach to this task is improved coordination among Country Departments and regional sector units, regional operational units and those groups in the Bank responsible for establishing and maintaining external partnership arrangements, special funding initiatives, safeguard policy application and monitoring and knowledge management.

The Bank’s operational units face severe budget constraints and will need to find cost-effective mechanisms to add these ingredients to their normal workload. Choices will need to be made on how to focus budget and staff time on activities that can reap the highest benefits for poverty reduction and sustainable development. It is likely that incremental assistance to individual task managers through the Bank’s system of networks will be needed to achieve this emphasis.

This implies both a need for more focused and timely economic and sector work and a strong preference for integrating forest issues and activities into larger cross-sectoral or economy-wide programs, wherever possible.

The operational regions of the Bank have given considerable thought to these issues. As part of the forest strategy development process in the Bank, each region assessed its previous programs and framed its own forest strategy for discussion at the regional consultations. Following those consultations and the development of the three pillars of strategy and the financing proposal presented here, each region has prepared an outline of its current portfolio and has reviewed the issues involved in building a program consistent with the three pillars of strategy developed in this document.

At this stage, real prospects for increased investment in forests have yet to be assessed. Willingness to borrow, in particular, will be influenced by investments made in ESW (broadly defined to include consultative work) and the extent to which the Bank succeeds in the strategy of drawing donor grant-based assistance and focused investment from the private sector, into the forest portfolio (see Chapter 4). Further work will need to be done with the Regions on developing an expanded portfolio, based on country demand, among other factors.

### ***Africa***

Over 70 percent of the population of Sub-Saharan Africa (SSA) is rural and depends on forests and woodlands for their livelihood. As much as one-fifth of the daily livelihood needs for rural families comes directly or indirectly from forests, including 20 percent of the disposable income used by the

landless and the poor families to pay for school fees and meet other family needs. Woodlands and forests supply about 60 percent of all energy (including industrial) used in Africa, as well as building materials and domestic energy for about 80 percent of all Africans and the totality of the rural population.

At various times throughout the last decade, forest-related activities have accounted for at least 10 percent of the GDP of 19 (forest-rich and forest-poor) African nations and for more than 10 percent of the national trade of ten nations. Due to poor governance, the share of economic benefits remains highly skewed in favor of vested-interest groups, with the State and the rural people being often deprived of their fair share of benefits.

From a global biodiversity perspective, Africa is home to 25 percent of the remaining world's rainforests and contains 20 percent of the world's biodiversity hotspots. Four African countries feature among the world's 17 'mega-diversity' countries. Central African forests alone store over 23 billions tons of carbon, rendering them a critical buffer against global climate change.

Contrary to growth trends in the Bank as a whole, the Africa Region's forest related portfolio has been declining for over 15 years. Current operations are of good quality, but the overall Bank intervention is now considered to be too small to be meaningful.

Bank's support to Africa Region is shifting away from traditional projects toward programmatic operations that emphasize policies, institutional capacity and partnerships and are based on broad consultation, country ownership, national and local political understanding and support.

*Poverty reduction.* A strategy would focus on integrating forests and biodiversity-related dimensions into broader Bank supported rural-development policies and lending. In forest poor countries interventions would emphasize tree management and tree planting as part of policy and technology packages designed to help small farmers and income generation for the landless poor in the management of woodlands. In forest rich countries emphasis would be on protecting rights (traditional and modern) and continued access to forest resources by those who depend on it for subsistence, especially during the lean season. Emphasis would also be placed on creating frameworks enabling the poor to become partners with external investors in sustainable timber harvesting and establish local hunters/wildlife management associations to use wildlife and other non-timber forest product sustainably.

- Progress would be measured by the number and performance of new operations/programs integrating forests into broader Bank activities (especially community driven development, natural resource management); social monitoring of access of the poor to forests and of participation of poor communities in forest management and use.

*Integrating forests into sustainable economic development.* Integration of forests into sustainable economic development would be primarily through interventions on governance. These include improving core functions of government forest institutions, privatization, integration of forests into decentralization processes, fighting corruption and empowering communities. Politically difficult issues such as concessions and taxation reforms, tree tenure issues, improved revenue collection would be tackled using instruments such as public information, independent observers, participation and partnerships to ensure that broad-based self-sustaining support is gathered around the environmental governance agenda.

- Progress would be measured by the introduction of successful implementation of institutional and policy reforms and improvements, increased employment opportunities and fiscal forest revenues to the state and local communities; and increased transparency and decline of corruption.

*Protecting global and local forest values.* Bank interventions would help reconcile long term global environmental goals with short term national economic needs and local priorities. While actively promoting market-based instruments to demonstrate that environmental services, certified products and processes can indeed accrue economically important benefits, the Bank would also create opportunities for direct international resource transfers dedicated to conservation. Global initiatives such as transboundary parks and protected areas will be used to spearhead subregional integration through the harmonization of environmental policies and implementation environment-related conventions (biodiversity, desertification, climate change, etc.).

- Progress would be measured by flow-of-funds into successful protection activities and development of successful ecosystem market development programs.

### ***East Asia and Pacific***

The current forest program is about 7 percent of total lending in this region: significantly larger, in relative terms, than in other regions. A sector-wide approach is being taken in most cases, strongly integrated with rural development and natural resource management programs. A major focus of concern for the Bank in the natural forest part of its program has been the prevalence of the concession management system of management which has, in practice, produced great pressure on the resource and social and environmental problems in many places. Governance issues are at the core of this problem. There is a rapid trend toward decentralization in the countries of the region and the consequences of this for managing the complicated interconnected natural resource systems are not necessarily positive.

*Poverty reduction.* The focus is on the role of forests in the broader rural economy, community development and participation in forest management by user groups; resource expansion has been and would remain a major activity and will continue to move further toward management by communities and small farmers.

Progress will be assessed by the presence of forest issue activities in larger cross-sectoral programs, community ownership and management of new resource projects.

*Integrating forests into economic development.* Major activities are being undertaken on the governance issue, principally focused on illegal logging operations (primarily in Cambodia and Indonesia). Policy analysis and reform are being pursued, especially in China where rapid change in regulatory and institutional structures is occurring. Land tenure reform is a particularly important issue in natural resource management in general throughout this region. The application of Bank instruments such as guarantee operations could be considered and incorporation of forests and natural resource issues into structural adjustment and other broad economic programs and operations have been and are being implemented.

Progress would be measured by developments in the illegal log trade, introduction of policy and regulatory reforms, changes in forest land tenure and treatment of forest issues in broad economic interventions.

*Protecting global and local values.* The focus would be on developing additional grant-based financing, working more effectively with partners and the application of safeguards to achieve protection results.

Progress would be measured by the development of financing for protected areas and safeguard monitoring.

### ***Europe and Central Asia***

Primary issues of concern in forests in this region relate to: the weakening of forest institutions and industries through rapid political change and conflicts; the impacts of changes in resource ownership, especially the restitution issue in some countries; and major needs for upgrading, training and education throughout the region.

*Poverty reduction.* The major focus would be on: recovery of forests and forest industries that have fallen into major disrepair and become major contributors to intensifying poverty; and more effective engagement of civil society in collaborative forest management.

Progress would be measured by success in the revitalization of forest activities and industries and social assessment of the engagement of the poor in forest management and protection.

*Integrating forests into economic development.* Close attention would be given to the impacts of macroeconomic reforms and adjustment, including measures taken under EU accession; transparency and governance; improving the investment climate for forest industries; major privatization issues in the sector; and improved forest management and protection, including investments in fire and watershed management.

Progress would be assessed by monitoring inclusion of major forest issues in adjustment, PRSP and CAS preparation, as well as in governance and public-sector reform programs. Developments in forest industry development will be tracked in addition to forest management outcomes.

*Protecting global and local values.* Focus would be in forest-poor areas and direct contributions for protection and conservation activities, especially those involving the poor; in forest-rich regions, developing effective markets for ecosystem services to generate greater national and local benefits.

Progress would be monitored in terms of incremental GEF and other grant-based financing for protection and conservation activities and evidence of developing markets for ecosystem services.

### ***Latin America and Caribbean***

The forest portfolio has declined in this region in recent years and yet significant potential exists to invest in forests. The LAC region contains the largest remaining areas of tropical moist rainforest and dependence of local and poor communities on forests of all types is high. A major forthcoming joint paper by the World Bank and Imazon, in Brazil, indicates that in 83 percent of the Amazon forest, agricultural land use has low returns and limited potential and sustainable forest management is a much more preferable option from the national economic point of view.

*Poverty reduction.* Some 40 million indigenous people—the majority of them poor—are concentrated in forest areas in the LAC Region. The Bank's strategy is, with governments: to develop the policy, institutional and legal bases for protecting the rights and access to forests of indigenous people; empower poor and marginalized groups; develop tenure security; and integrate agroforestry and secondary forest restoration activities involving the poor into rural development programs.

Progress would be measured by: implementation of policy and legal reforms and social assessment of outcomes and by increases in engagement of the poor in forest aspects of larger cross-sectoral programs.

*Integrating forests into economic development.* Increased emphasis would be given to integrating forest management into major cross-sectoral programs; attention to governance and illegal operations issues; developing awareness of the link between broad economic reforms in trade and fiscal areas to forest outcomes; and catalytic investments in sustainable forest management.



Progress measured by presence of forests issues/activities in cross-sectoral programs; developments in governance and illegal removals; and field investments in sustainable forest management.

*Protecting global and local values.* Focus would be on: Bank involvement in GEF and other grant-based support to protected areas; building markets for ecosystem services; and evaluating cross-sectoral impacts on forest areas.

Progress would be assessed by: initiation of functioning protected areas; evidence of ecosystem service market development; and ESW on cross-sectoral impacts.

### ***Middle East and North Africa***

Forests in the Middle East and North Africa region are scarce, but vital to water and landscape outcomes and they need to be strongly integrated into natural resource management and sustainable rural development as a whole.

*Poverty reduction.* The priorities are to: increase employment of the poor in reforestation, conservation and rehabilitation activities; build stakeholder incentives to manage resources sustainably; and develop local participation in these processes.

Progress would be measured by: social assessments of participation of the poor in forest activities.

*Integrating forests into economic development.* Priorities are: incorporating forest issues in comprehensive development frameworks; developing linkages to forests in cross-sectoral investments, especially in rural development and water management; and undertaking further ESW on the linkages between forest land management and broader economic, rural, watershed and grazing policy and institutional reforms.

Progress would be measured by the presence of forest issues and activities in large development programs.

### ***South Asia***

The focus in South Asia is increasingly on: better use of major inputs for rural development (especially land and credit) and development of better markets (trade and agro-processing issues); and public sector institution reform (agriculture, water, forests, energy, health, finance and infrastructure) especially to achieve better service delivery to the poor. The forest program is closely tied to this broad approach to rural development and has the following objectives: (1) to increase benefits to the rural poor through empowerment, ensuring they control natural resources through rights to ownership, access, management or usufruct and maximizing the value of the resources through efficient markets, and (2) to provide environmental services for all sections of society through a managed viable system of sustainable use, increased productivity and improved conservation of natural resources. This will operate through rural development and natural resource management programs on issues such as empowerment of the poor, sustainable forest management and improved local community control over natural resources use, rights and markets.

*Poverty reduction.* Building on a long history of engagement in community forestry in South Asia, the Bank would continue to emphasize: an enabling environment for poverty reduction, improving community participation and institutions; increasing returns to forest activities (through productivity and joint forest management); and reducing vulnerability by securing access and diversifying ownership of the resource asset base toward the poor.

- Progress would be measured by continued social and implementation assessment of joint forest management activities.

*Integrating forests into economic development.* The focus would be on improving governance (especially correcting major distortions in incentives and markets that are reducing the value of the forest resource and experimenting on how to provide adequate payment to communities for provision of ecosystem services); public sector reform (including responsiveness, accountability and fiscal soundness of institutions); and the development of efficient markets and competitive private sector producers in the sector.

- Progress would be assessed by policy and institutional reforms designed and adopted; performance of local forest product and ecosystem service markets; and changes in relative private sector and public sector roles in forestry-related activities.

*Protecting global and local values.* South Asian governments have emphasized the interests of poor rural communities in international fora such as those on climate change, biodiversity and desertification conventions. The regional strategies' emphasis on poverty reduction and sustainable livelihoods provides further backing to this stance and supports meaningful action in the field. This may include the conservation of biodiversity in mixed-use forest settings, adding rigor to fiscal and poverty impact analysis, strengthening participatory performance monitoring and more effectively addressing the impacts of non-forest activities on forest areas, among others.

- Progress would be assessed by the further development of mixed-use forest management systems which successfully address local livelihood as well as global biodiversity and global warming concerns, the development of cost-effective assessment and monitoring systems which meet adaptive management requirements, document local and global impacts and more effectively address land use management and social and environmental assessment needs.

## **Chapter 3. Implementing the Strategy: Building Effective Partnerships**

### **3.1 Issues in Implementation**

The new forest strategy proposed here would need special emphasis on implementation. OED in its review of the 1991 Forest Strategy was not only critical of its content but was particularly concerned about the failure in implementation. OED recommended that the Bank be proactive in establishing partnerships with all relevant stakeholders to fulfill both its global and country roles, that it align its resources with its objectives in the forest sector and that it use its 'global reach' to address mechanisms for and mobilization of international concessional resources outside its lending activities (see Annex 1 for a specific response to OED recommendations and Annex 6 for the full text of those recommendations).

Implementation of the proposed strategy would emphasize selectivity in areas of focus so that resource use would more closely match objectives, partnerships that generate effectiveness both internationally and in its client countries and mobilizing financing both externally and internally. In addition, the content of the strategy is built around the strengths of the Bank in its analytic capacity and its ability to convene multiple stakeholders. Although implementation would remain a major challenge, requiring innovation and facing risks, the rewards in terms of reducing poverty and preserving environmental services would be significant.

#### ***Building Effectiveness***

Building the Bank's effectiveness to achieve the objectives discussed in this document would require:

- Addressing the global challenges and realities for forests and the Bank's role and then refocusing the Bank on engagement in the sector based on the priorities embodied in the three pillars of the revised strategy, as discussed in Chapters 1 and 2.
- Addressing the major cross-sectoral and macroeconomic linkages and sector policy issues, as discussed in Chapter 2.
- Developing the necessary partnerships with donors and other stakeholders to leverage coordinated efforts being made in forests.
- Attending to the internal Bank institutional issues and incentives, so that these will (within a prudent and realistic framework) encourage rather than work against the overall directions of the proposed Forest Strategy.

This chapter will discuss the development of partnerships which would be needed to maximize the Bank's effectiveness in forests and it will introduce important internal institutional issues. The internal incentive implications related to these topics will be discussed in Chapter 4.

### **3.2 Developing the Partnerships Necessary to Implement the Strategy**

#### ***Donor and National Stakeholder Partnerships.***

Past failures by the donor community to effectively address deforestation and related issues is partly a reflection of the fragmentation of individual donor priorities. It is also related to the reluctance of governments and some donors to engage in policy dialogue on politically sensitive issues such as the negative social and environmental consequences of powerful vested interests. Major emphasis should therefore be given in this strategy to working with national and local partners on strong consensus-based agendas. When vested interests and very large financial gains are at stake the potential to leverage solutions depends on the agreement of the *major* stakeholders about a shared strategy for

forests and on developing the necessary consultation and dialogue with actors at all levels to ensure that the agreed strategy can and will be implemented. Donors in particular would need to agree on the broad objectives of their engagement in forests but even more importantly on the specific steps and investments to be made through a carefully developed engagement strategy. This dialogue and approach would need to have the strong support and ownership of governments and other stakeholders if it is to succeed. Building this dialogue and consensus would be one of the major challenges of the partnerships.

At the global level, the Bank should continue to participate in fora that allow it to work in partnership with other organizations of global reach and within the framework of international agendas. The **United Nations Forum on Forests** (UNFF) could provide a core framework. UNFF was created under the Economic and Social Council of the United Nations in October 2000 (Box 3.1) after a 10-year process of intensive discussions among governments. UNFF's objectives are to "promote the management, conservation and sustainable development of all types of forests and to strengthen long-term political commitment to this end." UNFF offers a political platform where difficult issues, such as good governance in the sector, can be reinforced by a broad inter-governmental commitment and effective monitoring and progress assessment. It offers an inter-governmental forum in which countries can put forward their pledges and accomplishments in sustainable forest management. It is a forum in which the Bank can support international commitments to promote the implementation of Intergovernmental Panel on Forests (IPF)/Intergovernmental Forum on Forests (IFF) Proposals for Actions while working closely with other institutions, particularly in the areas in which the Bank has a comparative advantage.

### **Box 3.1 Functions of the United Nations Forum on Forests**

The ECOSOC resolution assigns the following functions to the UNFF:

- Facilitate and promote the implementation of the Intergovernmental Panel on Forests/Intergovernmental Forum on Forests Proposals for Action as well as other actions that may be agreed upon.
- Provide a forum for continued policy development and dialogue.
- Enhance cooperation as well as policy and program coordination on forest-related issues.
- Foster international cooperation.
- Monitor and assess progress at the national, regional and global levels.
- Strengthen political commitment for the management, conservation and sustainable development of all types of forests.

Economic and Social Council Resolution E/2000/L.32\*

In parallel and supportive of the UNFF, is the newly formed **Collaborative Partnership on Forests** (CPF), which will contribute substantively to the work program of the UNFF. CPF consists of major multilateral organizations such as the World Bank, other UN agencies, research organizations and other forest related organizations.<sup>13</sup> The role of the CPF will encompass facilitating and promoting coordinated and cooperative action, including joint programming and submissions of coordinated proposals and facilitating donor coordination. The CPF will submit coordinated inputs and progress reports to the UNFF and undertake periodic reviews of its effectiveness. The World Bank will continue to take reporting responsibility in the specific fields where it sees its comparative advantages.

---

<sup>13</sup> At the time of writing this document, the composition of the CPF has not been concluded. All former members of the Interagency Task Force on Forests (ITFF) will be members of the CPF along with some other organizations. ITFF members are: CBD, CIFOR, FAO, ITTO, UN/DESA, UNDP, UNEP, and the World Bank.

The Bank is already operating within comprehensive development frameworks that establish the overall development and policy agenda for a country

*National forest programs* (NFPs) with governments and other stakeholders is a concept which has been developed through recent major intergovernmental dialogues on forests – the Intergovernmental Panel on Forests and the follow-up Intergovernmental Forum on Forests, which were the forerunners to the UNFF. These processes have developed strong political commitment to reform and development of forests sectors. In the field, an NFP is convened by a government, supported by a group of donors and based on consultation with a broad group of stakeholders – to develop a consensus on how forests are to be used, by whom and for what and then to implement that agreement.

The Bank could become involved in this process in selected countries, where the potential exists to develop and refine programs which are highly compatible with the comprehensive development framework, by providing an organizing mechanism for governments, donors, NGO's and the private sector to work together on sector matters and on the linkages to broader economic and environmental issues. This would amount to an *enhanced* NFP approach and where it is possible to achieve, it could be a productive mechanism to align, select and prioritize donor activities in the forest sector, with a longer-term objective of improving the performance of donor programs in forests and thus enhancing the willingness of donors to raise their future contributions to the sector. It must be emphasized here that the Bank could probably utilize this approach only on a highly selective basis, at this stage.

Two major aspects of developing and enhancing national forest programs are a challenge for the Bank and its partners: (1) integrating cross-sectoral approaches into NFP formulation and implementation processes; and (2) coordinating Bank programs and priorities with broader donor programs. NFPs will need to be comprehensive, covering forest issues ranging from cross-sectoral policies and investments in forest management to establishing and sustaining protected areas. The implementation of these NFPs will require blended financing from multiple sources ranging from funds at commercial rates to funds at highly concessional terms.

### **Box 3.2 Principles of National Forest Programs**

Principles of national forest programs include:

- National sovereignty and country leadership.
- Consistency with national policies and international commitments.
- Integration with the country's sustainable development strategies.
- Partnership and participation.
- Holistic and inter-sectoral approaches (UN-CSD-IPF, 1997, 5<sup>th</sup> Session).

In addition, at its 5<sup>th</sup> session, the IPF adopted the following specific elements to be considered during the development and implementation of national forest programs:

- Appropriate participatory mechanisms that should involve all interested parties.
- Decentralization, where applicable.
- Empowerment of regional and local governments structures consistent with the constitutional and legal frameworks of each country.
- Recognition and respect for customary and traditional rights of *inter alia* indigenous peoples, local communities, forest dwellers and forest owners.
- Secure land tenure arrangements.
- The establishment of effective coordination mechanisms and conflict -resolution schemes.

*The PROFOR Initiative.* Critical to the implementation of the proposed strategy is the analytic work that will underlie national forest programs. Since knowledge is an important public good, it requires that it be developed in partnership and shared among stakeholders. An important means by which the Bank could pursue this objective would be to host a multidonor partnership on forests.

The potential move of an existing donor forests partnerships – PROFOR<sup>14</sup> (the Program on Forests) – from its present location in UNDP to the Bank, is a possible means to achieve this. UNDP is reducing its emphasis on specific forest investments and bringing the PROFOR arrangement closer to the Bank would allow an enhanced focus on three aspects of national forest programs which match closely the Bank's interests: cross-sectoral policies, governance and financial instruments. The current PROFOR donors strongly favor moving it to the Bank because this would allow the PROFOR analytical resources to combine with the strengths of the Bank in analytic and sector work and country dialogue and also to draw on the knowledge and expertise of other research and policy bodies, including those in the CGIAR system, with whom the Bank has close relationships.

PROFOR would supplement the World Bank's operations in economic and sector work and support governments in their policy reforms and planning. Specific provision will be made, for Regional operational staff of the Bank to work with PROFOR on both the definition of priority countries and tasks and then on implementation of the work program. The terms of reference and objectives for PROFOR would ensure that each supporter obtains value from the arrangement and an oversight committee would be established to guide activities and monitor progress to ensure key stakeholder representation. The Bank would need to provide an effective linkage between the PROFOR program and its sector portfolio and manage economic and sector work, identification and preparation activities so that major improvements in coordination result from the process.

Activities sponsored by the PROFOR initiative would be based upon the three objectives listed in Chapter 2: the importance of forests for the poor; the integration of forests into sustainable economic development; and the value of forest environmental services and the global commons. The PROFOR team would work closely with Bank operational staff, client governments and other stakeholders in selecting the group of partner countries and then refining the specific analytical and knowledge activities to be carried out in each, to best serve the purpose of developing an NFP. The team would ensure that this analytic work is integrated and coordinated with broader cross sectoral and economy wide interventions. Opportunities would be sought to incorporate the results of enhanced sector analysis and consultation and the issues these raise, into Bank CAS, business plans, forthcoming PRSP; adjustment operations; and major cross-sectoral programs in rural development, natural resource management and infrastructure.

The model for PROFOR in the Bank is ESMAP.<sup>15</sup> In recent years, ESMAP has been one of the Bank's more successful resource-based partnerships with donors. This partnership has allowed the

---

<sup>14</sup> PROFOR (Program for Forests) was established in 1997 in response to the proposals for action of the Intergovernmental Panel on Forests (IPF) to promote sustainable forest management (SFM) and related public and private sector partnerships and thus enhance forests' contribution to sustainable livelihoods. PROFOR's collaborative work at a national level supports countries in developing and implementing forest policy planning and implementation processes that more effectively address local needs, national priorities, and reflect the internationally-agreed principles for national forest programs. It also promotes the use of national forest programs as a basis to enhance cooperation in the forest sector. At the international level, PROFOR generates and promotes knowledge on national forest program processes and critical thematic issues related to national forest programs (notably livelihoods, governance, and financing strategies) among client countries and international organizations.

<sup>15</sup> The Energy Sector Management Assistance Program (ESMAP) is a cooperative international effort coordinated by the World Bank that is directed at improving a wide spectrum of analytical planning, and operational activities in the energy sectors of developing countries.

Bank and other donors to cooperate in a focused way on specific analytical and other tasks in the energy sector, leading to more effective and coordinated investment.

Total donor support for PROFOR is expected to be about \$22 million over 5 years. This will permit a dedicated group of experts to support economic and sector work and the development of sector programs. In their support to improved national forest program processes, the PROFOR team will focus on four critical thematic areas:

- Building institutional, legal and policy structures to enhance the contribution of forests to sustainable livelihoods.
- Building and reinforcing the relationship between improved governance and forest sector development.
- Putting together the institutional and legal framework for national financing strategies for forest sector development, including analyzing new and innovative financing mechanisms.
- Analyzing the cross-sectoral and macroeconomic effects on forests of policy interventions and investments.

*Other international arrangements.* Successful implementation of enhanced national forest programs, as outlined earlier, will require the active participation of all stakeholders through a consultative process. Consultation should be ongoing throughout implementation. It will be necessary to bring together national and international research and technical groups. The main international collaborative research organizations will be CIFOR, ICRAF, the European Forest Institute, FAO and ITTO. In addition, research and technical support will be sought from international NGOs such as IUCN, WWF, WRI and IIED.

- *Collaboration with FAO.* FAO is in the process of establishing an Implementation Facility to provide technical support to strengthen in-country capacity for developmental work on national forest programs. It will be important for the Bank Group and FAO to work together and with other major partners on this initiative, utilizing their respective comparative advantages. For the past 30 years the Bank has had a strong collaborative partnership with FAO especially through the partly-Bank financed FAO/IBRD Cooperative Program that has played a key role in supporting Bank in-country agriculture and forest-related sector studies and project identification/preparation activities. The PROFOR initiative will provide an important vehicle for the two agencies to collaborate. For the focus group of countries, PROFOR would utilize the resources and comparative advantages of the partners, to formulate a consultative and analytical process in the country, working closely with the government and other stakeholders. This would then be the basis of an NFP: the government would be in a position to identify issues and priorities and a comprehensive request for an NFP to support the broad based program of reform and development.
- *The Consultative Group for Agricultural Research (CGIAR).* Through its support to the CGIAR systems the Bank has developed strong partnership with the Indonesia-based Center for International Forest Research (CIFOR) and Kenya-based International Center for Research on Agroforestry (ICRAF). The emerging research results of these and other CGIAR centers will be integrated into Bank-supported in-country sector work.
- *Other Research Institutions.* The Bank has a global role in sharing knowledge and supporting research on forest issues. While the Bank has little advantage in forestry and the technical aspects of forest management, it can be a vehicle for producing and sharing knowledge in the areas of cross-sectoral impacts as well as economic and policy analysis. The Global Forest Information Service coordinated by the International Union of Forest Research Organizations

(IUFRO) and FAO has the potential to support activities in this field. Although not supported directly by the Bank, the work of several other specialized technical and/or policy research institutions has helped enhance Bank staff understanding of forest-related issues, constraints to progress and potential solutions. These institutions include, for example, IUFRO, the European Forest Institute, the World Resources Institute (WRI) and the International Institute for Environment and Development (IIED). The Bank has also periodically drawn on its linkages with universities that are pursuing research on topics of mutual interest.

- *The Global Environmental Facility (GEF)*. The GEF brings together more than 165 member governments, development institutions and the scientific community as well as a wide range of non-governmental and private-sector organizations to work toward the common goal of global environmental protection. It facilitates technical and information linkages between GEF's focal points and projects. The GEF has been a close partner of the Bank in helping to develop the Bank's forest and biodiversity portfolio amounting to about \$380 million in more than 50 countries.
- *ITTO*. An active dialogue is ongoing about the possibility for closer collaboration between the Bank and the International Tropical Timber Organization (ITTO). This intergovernmental organization is currently undergoing a reform process. It has adopted a series of targets that fit well with the some aspects of the Bank's own programs, including: (1) a 15 million hectare protected area target by the year 2003 for transboundary protection areas in the tropics; and (2) a forest management target of bringing 500 forest enterprises under the C&I scheme of ITTO by the year 2003. This second target includes the establishment of an independent monitoring system. A third target relates to forest restoration of 10 million hectares of restored forest ecosystems by the year 2003.

## **NGO Partnerships**

*The WWF-World Bank Alliance*. In 1998 the Bank joined forces with WWF to form the World Bank-WWF Alliance with the goal of promoting conservation of forests and sustainable forest management. This partnership has embraced the World Bank goal of ensuring sustainable livelihoods for forest-dependent poor and indigenous peoples and was founded to achieve two global targets by 2005 (Box 3.3). The Alliance will be an important partnership in implementing the Bank's forest strategy and policy. The Alliance's ambitious targets challenge not only the Bank and WWF, but also other actors—governments, business, conservation groups, local communities and aid agencies—to take action to reduce the loss and degradation of forest resources.

The partnership strives to achieve its goals and objectives through strengthening policies and institutions and bringing together stakeholders and facilitating their work, building capacity for improved management and providing the framework for independent certification of forest management both in market and non-market contexts.

The Alliance is now moving into implementation of its protected areas and forest management targets. It is doing this through pursuing :

- target-driven activities in key forest countries in which the Alliance works with governments, NGOs and the private sector to develop programs and projects that can bring about commitment and change at the scale required by the global targets; and
- activities designed to enhance integration of the Alliance targets and activities with "upstream" investments aimed at generating future interventions and resources to improve forest management and facilitating key stakeholder groups within countries to develop and apply standards for forest management certification and assess and improve the effectiveness of protected area design and management.



Through the Alliance, WWF and the World Bank are committed to finding ways to achieve more than either organization could accomplish independently. By combining the World Bank's financing operations, access to policy dialogue, convening power, private-sector partnerships and analytical capacity with WWF's field presence and expertise, the Alliance provides a mechanism for tackling forest management issues much more widely. It will require additional support and partners to maximize its ability to draw on the strengths of each institution and to mainstream dialogue on important issues, including independent monitoring of forest operations.

**Box 3.3 World Bank-WWF Alliance Targets for Forest Conservation and Improved Management**

**The targets for 2005:**

- 50 million hectares of new forest protected areas
- a comparable area of existing but highly threatened forest protected areas secured under effective management; and
- a global target of 200 million hectares of production forests under independently certified sustainable management.

Initial global targets for forest conservation and improved forest management had to be significant considering the scale of the problem, but also had to be achievable within a reasonable timeframe (seven years).

**Conservation Targets:** Of the 3,300 million hectares of forests remaining on Earth, only 6 percent are in legally protected areas. Many of these legally protected areas exist only on paper, without effective protections in place. Hence the targets would nearly double the current area under IUCN protection categories I-III.

**Improved Forest Management Targets:** These targets aim at improving the overall biological, social, cultural and long-term equity and economic outcomes of existing forest timber operations. Targets would be achieved through a range of approaches, from large-scale landscape analysis to local projects. Achieving these targets would mean improved management in approximately 30 percent of production forests worldwide.

*Other NGO partnerships.* Other NGO partnerships are also being developed and will need further strengthening:

- *Forest Trends* is a Washington-based NGO, created in 1998 with support of the World Bank and the MacArthur Foundation. Forest Trends grew out of an earlier multi-stakeholder Bank-supported Forest Market Transformation Initiative. Forest Trends has built a coalition through its board of directors of northern and southern private sector entities and NGOs actively engaged in the forest sector. Forest Trends focuses its work on two strategic directions. One is the development of markets for forest ecosystem goods and services and sustainable forest management that will lead to healthy and expanding forest ecosystems and sustainable livelihoods for forest-dependent peoples. The other is improving the efficiency of forest product use and the development of alternative sustainable sources of fiber to take the pressure off natural forests. Forest Trends has made important contributions to increasing private-sector understanding of forest carbon market opportunities and the challenges in creating a market in forest carbon offsets that supports forest conservation and sustainable use. It has also convened industry leaders, analysts and advocates to evaluate and promote dialogue and investment in non-timber forest goods and services.
- *Critical Ecosystem Partnership Fund (CEPF).* The Critical Ecosystems Partnership Funds is major new source of international funding directed primarily to nongovernmental, community and grassroots organizations. It seeks to engage all stakeholders within 21 "hotspot" ecoregion, who can best contribute to solutions for biodiversity conservation. The Fund is a partnership among Conservation International (CI), the GEF the MacArthur Foundation and the World Bank.

- *Other partnerships.* Closer collaboration between the Bank and the World Conservation Union (IUCN) – a major partner of the Bank in the development of the revised forest strategy and policy – is under active consideration. Cooperation with IUCN could greatly strengthen Bank approaches to collaborative forest management, achievement of sustainable forest management and protected area targets and strategies for more effective containment of forest fires. Possibilities are also being explored for developing collaboration with The Nature Conservancy (TNC), a leading conservation agency that has been collaborating closely with the Bank in developing innovative financing approaches to tropical forest conservation. Collaborative possibilities are also being explored with Global Forest Watch, a WRI-sponsored initiative that is engaged in Global Forest Watch, an independent network of national and local organizations engaged in monitoring and mapping of logging, mining road building and other developments that impact on forests in major forested regions of the world.

### ***Improving Links to the Private Sector***

Participation of the international private sector is especially important to produce favorable forest outcomes. International flows from private interests to forest operations and forest-using industries dwarf flows from multilateral development banks, donor agencies and NGOs combined. There are major opportunities to leverage more private-sector investment into sustainable forest activities, or other investments (for example, in processing), especially in situations where the investment environment is not favorable.

*The CEOs Forum.* In 1998 the president of the World Bank initiated the CEOs Forum on Forestry, a dialogue originally initiated with the chief executive officers of large forestry firms from around the world. This arrangement has since expanded to include firms from retailing and production and some major international and southern NGOs. It has become an important forum for the Bank and others to exchange views and develop ideas on how to approach forest issues, to partner more effectively with the private sector in its programs and to more actively incorporate the private sector in forest policy dialog with national and international stakeholders. A number of working groups on specific issues and regions have been initiated as a direct result of the CEOs Forum. The CEOs Forum Africa Working Group has become a major initiative in the Congo Basin, bringing together major international forest companies, international and local NGOs, representatives from science and the African Timber Organization. The group focuses its work on codes of conduct, bushmeat poaching, reduced impact logging, biodiversity conservation in forest concession areas and issues in sector governance and timber trade. The Forest Dialogue Group is another spin-off from the CEOs Forum that seeks to maintain a global dialogue on important issues in forest development among industry, NGOs, forest owners and forest workers associations.

*The need for further partnerships.* A new partnership with the private sector civil society and governments needs to be established for forest carbon. All forests store carbon and this carbon is released when they are disturbed or burned. Indeed, it has been estimated that up to a third of greenhouse gases currently being emitted into the atmosphere come from biomass burning, clearing and related activities. Protection of threatened forests and reduction of the impacts from logging and agricultural development are potentially important ways of reducing the contributions of forest lands to carbon missions. In addition, the creation or enhancement of new carbon sinks through tree planting has been suggested as a way of offsetting some greenhouse gas emissions.

The clear potential to reduce emissions from forests lands and to use forest lands to sequester carbon currently stored in the atmosphere have led to considerable interest from some countries and companies in sponsoring forest conservation and management projects to offset their carbon emissions. However, while this could provide useful funds for forest conservation and management, it remains controversial. Many environmentalists fear that offset projects might encourage bad

forestry practices, for example, by providing incentives for replacing natural forests with fast growing exotic species. It is also clear that forests alone can never be more than a relatively small but still significant part of an overall solution to the greenhouse gas problem and that early actions to reduce industrialized nations fossil fuel emissions at source remain essential.

The enhancement and improved management of “carbon sinks”, including afforestation, reforestation and forest conservation, are eligible activities under the Joint Implementation provision of the Kyoto Protocol. At the resumed Sixth Conference of the Parties in Bonn, July 2001, Parties to the UNFCCC also agreed that afforestation and reforestation activities were eligible activities for the achievement of emissions reductions under the Kyoto Protocol and that applicable rules would be agreed at the Ninth Conference of the Parties to the UNFCCC in 2004. The volume of certified emissions reductions achieved through afforestation and reforestation to meet obligations of the industrialized countries in the first commitment period of 2008-2012 is five times 1% of their individual emissions reductions obligations under the Protocol. The door is now formally opened to using the carbon-offset trade to stimulate reforestation and afforestation activities, but not as an incentive to avoid deforestation. Nevertheless, applied sensitivity to environmental and social concerns, these eligible forest asset creation activities under the Kyoto Protocol can support improved forest management in developing countries.<sup>16</sup> Through public-private partnerships and with its experience from the implementation of the Prototype Carbon Fund, the Bank should contribute to the Parties review of the rules governing afforestation and reforestation activities in the Clean Development Mechanism.

The Bank’s Prototype Carbon Fund (PCF) is able to invest up to 10% of its subscribed capital – about US\$15 million – in Kyoto Protocol eligible carbon sequestration activities in economies in transition and developing countries. These PCF carbon purchase activities will enable the Bank to pioneer environmentally, economically and socially responsible investment in forest conservation, management and restoration activities in developing and transition economies catalyzed by largely private sector finance. As PCF resources are still modest in terms of the scale of required demonstration activities, a “prototype forest carbon” or “sinks” fund embracing partnership with NGOs, industry and governments seems warranted to extend “learning-by-doing” in creation of Protocol-eligible carbon assets from forestry in an environmentally and socially responsible way across a representative range of potentially re-forested landscapes and contexts. However, the Bank’s role should only be catalytic. Once sound performance benchmarks are in place and these markets have attracted private-sector participation, the Bank’s role will have been completed.

More generally, the Bank needs to consider the expanded opportunities for interaction with the private sector that are presented by increased private-sector interest in investment in forests in Bank client countries. For example there are now a number of very large institutional investors who are becoming interested in supporting forest investments both in the large remaining natural forest areas of the world, as well as in plantation activities. Institutional investors cite the findings of studies indicating that returns to forests investments are counter-cyclical to equities markets movements and therefore a useful hedge. They recognize the option values of forests namely the fact that there is a long term tendency of the real price of forest output to rise (contrary to virtually all other commodities traded internationally). There are also strong possibilities that the potential markets for carbon sequestration and other environmental goods and services from these forests will grow.

The interest of these firms is very firmly in the area of sustainable investments – because of the origin of the funds they invest. There is strong interest on the part of many governments for such investors to enter the forests sector in their countries, because of their management strength, their

---

<sup>16</sup> Even in the absence of this agreement, carbon trading is taking place using developing country forests as sinks. This activity has become policy for some corporations even in the absence of a formal international agreement on mechanisms.

access to reliable international funds and their ultimate impact upon the credit standing of the countries in which they invest. What is very often lacking is reasonable security on political risk and the means to address problems or constraints with the investment-enabling environment in some of the countries with large forest potential. The Bank could have a major role in developing this potential, largely through its capacity to address issues of the investment enabling environment in forests sectors, dealing with some of the risk factors that presently inhibit this development.

The Bank Group and its partners are in a good position to address some of these difficulties: (1) they have access to government economic decision-makers based on long association under existing lending and other programs; (2) they have access to the guarantee instrument, which could be employed in creative ways to combine reducing the exposure of potential investors to policy risk, with private underwriting of commercial risk; (3) they have the means to incorporate specific reforms and undertakings needed to attract private investors to the forest sector, into larger economic restructuring and reform programs being developed under structural adjustment, poverty reduction, or other broad scale economic reform interventions; and (4) they have the field presence to include specific forest activities in larger rural development or natural resource management programs that can gain the attention and support of important local stakeholders and political figures in positive forest outcomes.

Through the IFC, the Bank has a direct pathway to taking equity positions with private-sector investors in critical investments in the forest sector. Clarifying and supporting a framework to attract appropriate private sector investment in the forest and forest industry sector will facilitate IFC's role in financing new investments and investors in sustainable forest operations. IFC has the capacity to finance a wide range of operations from large investors down to medium sized enterprises through loans or equity investments made by IFC directly or through financial intermediaries.

The Bank Group could follow a three-fold strategy to develop this potential. First, it would raise its own profile within the framework of national forest programs. Second, it would develop a sharper focus on the interests of forest-dependent people, improved forest management and effective protection of forest resources in critical forest regions. To achieve this, the Bank Group would need to invest in partnership-based consultative processes. Third, it would emphasize bringing the message of the value of forests to all stakeholders.

There is a need now for the Bank to deepen both the range of activities supported through its interaction with the private sector and its contacts in the private sector, especially to intensify the dialogue with some very large institutional investors who have expressed interest in working more closely with the Bank on investments in sustainable forest management in some key Bank client countries.

### **3.3 Improving Internal Bank Working Relationships and Accountabilities**

#### ***The IFC and MIGA***

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) offer additional important instruments for drawing the international private sector into investing in sustainable forest management in Bank client countries. Clearly, if this strategy is implemented, a closer working relationship would be sought between the IFC and IBRD/IDA. The ESSD Forests Team will have a role in bringing this about by building a closer relationship with forest-oriented staff in IFC. MIGA could potentially have a larger role in forests through its ability to insure private investors against political and catastrophic risk.

### ***The World Bank Institute***

The World Bank Institute (WBI) has the capacity to bring awareness and training to policymakers in developing countries. By focusing on the thematic areas of forests and poverty, governance and economic management and local and global markets, WBI can help lay the groundwork for solid forest policy. WBI can also help countries that wish to embark on forest policy reform programs. In countries where programs and projects are being prepared, it can work in parallel with the Bank to support the intensive consultation and dialogue processes that will be needed to ensure that understanding and feedback on forest initiatives are broadened and that constituencies for change are developed.

### ***The Role of the ESSD Forests Team***

The integration of forest-focused staff and resources from the Environment and Rural Development Departments of the ESSD Vice Presidency into a single forests anchor team will provide a basis for coordinating policy and some global tasks for forests. The expanded activities implied for the Bank forest program in this new sector strategy suggests some major tasks for this team. The team will:

- Be instrumental in improving coordination with IFC, MIGA, WBI and GEF. However, to achieve this, it must broaden its mandate beyond the IBRD/IDA forest community and develop specific strategies to engage with these groups.
- Be able to coordinate with and assist in fulfilling the objectives of PROFOR, to support the World Bank-WWF Alliance and to manage other major international partnership arrangements.
- Need to take major responsibility, through the sector boards and by other means, for monitoring and advising regional forest teams in the Bank on implementing the new strategy—and it will need to develop partnership arrangements with the Quality Assurance Group to do this effectively.
- Advise the regions in applying and monitoring the current and possibly new Operational Policy on forests.

## **Chapter 4. Implementing the Strategy: Incentives, Selectivity and Deliverables**

The Bank's strategic approach to forests will need to be integrated into country programs through developing and costing interventions and through applying realistic targets for achieving country priorities. Such integration will need to be consistent with the Bank's organizational structure and decision-making. Special incentives may be necessary to ensure that the objectives of the strategy are achieved.

Decentralization of Bank decision-making with its focus on demand-driven priorities established at the country level has implications for the institution's engagement in the forest sector. On the one hand, it is highly compatible with the emphasis in this strategy on integrating forests issues and activities into broader economy-wide and cross-sectoral programs and strategies and achieving country ownership. On the other hand, it may strengthen the tendency already apparent in some countries to avoid proposing and borrowing for projects and programs with more risks and higher transaction costs, but whose importance to economic and environmental sustainability is substantial and whose benefits to the poor are high but possibly less immediate. This is an especially likely outcome in cases where forest projects are also perceived by Bank country teams and managers to involve intensive management of external relations. The average size of forest projects in the Bank is relatively small, but some project preparation costs are fixed and safeguard compliance costs are higher in this sector than in many others. The net result is that overall transaction costs of engagement in forests are higher than the average for Bank budget allocations. These higher transaction costs and higher risks must be balanced against the importance of forests to poverty reduction and to delivery of environmental services both locally and globally.

The Bank must find strategic ways to leverage its finance and utilize its influence to address global and country issues in the forest sector while recognizing the importance of country ownership and acknowledging the higher costs associated with managing projects and programs in important but sensitive sectors such as forestry.<sup>17</sup> The approach to implement the strategy proposed in this document is based upon:

- *Adapting the new approach to global and corporate priorities* being developed in the World Bank to enhance the commitment and resources devoted to the incremental program for forests outlined in Chapter 3. This includes utilizing the new global public goods funding mechanism of the Bank to address important global and corporate priority areas.
- *Utilizing incremental budget commitments* for ESW which will allow country teams to incorporate potential forests impacts more adequately into CASs, PRSPs and cross-sectoral and economy-wide measures under consideration by the Bank and then in the medium term will underwrite the

---

<sup>17</sup> It is axiomatic that, to succeed, a strategy for building the Bank's engagement and effectiveness in forest outcomes will need to be:

- Implemented through country teams and programs, beginning with the clear reflection of intentions and priorities in CASs, PRSPs and business plans;
- Activated under the management of Regional Vice Presidents, who will hold the responsibility for linking outcomes under the newly adopted Bank global issues with country programs;
- Demand driven with sufficient attention and resources devoted to dialogue and incentives to attract the interest of borrower governments, other major stakeholders, and also Bank Country Departments in investment in the forest sector.

(relatively higher) costs of preparing and supervising some incremental investment in forests. ESW and analytic work would be front-loaded into the program to build the foundations for increased investments in the forest sector and to heighten awareness inside and outside of the Bank on forest issues.

- *Utilizing this enhanced level of commitment by the Bank to leverage additional donor funds and stronger participation by other partners.* These will be channeled into better-aligned programs of assistance for the forest sectors in selected client countries. Enhanced funding and stronger participation by the Bank and other partners will also provide an opportunity to coordinate donor analytical work more effectively and to make better use of the comparative knowledge and analytical strengths of the major partners. This will involve support for some donor and NGO partnership initiatives that are already well advanced in conceptual design and the formation of other initiatives that are currently less well developed. Especially important will be strengthening relationships in client countries with compatible private-sector investors (or potential investors) in forest management and protection and forest industry development. Developing and maintaining an enhanced forests sector lending portfolio in the Bank. An increased ESW program is indispensable, to be leveraged by stronger interaction with borrower countries, donors and other stakeholders with common interests in the forest sector (see under 4.2 below). However, sector work will not be enough in itself. Country Departments would need to obtain access to incremental investment preparation funds, if investment is eventually to increase.

#### **4.1 Building the Internal Bank Commitment to Forests**

Raising the Bank's engagement in the forest sector would be initiated through incorporation of forest issues, where these are relevant and important, into PRSP and CAS discussions *well upstream*, so that Country Departments are then able to undertake the necessary follow up analysis in a timely fashion. The basic objective of this would be to raise awareness of the potential and importance of dealing effectively with forest outcomes. Then, as demand is expressed as a result of this process, additional resources could be committed to increasing lending and non-lending activities in the sector.

##### ***Increasing Economic and Sector Work***

The primary means to initiate the process of building analysis, awareness and then demand for forests investments and for incorporation of forests issues into larger programs, through the CAS and PRSP processes, would begin with an enhanced commitment to focused ESW. As noted in Chapter 1, economic and sector work has precipitously declined in the forest program of the Bank. A major objective of the proposed strategy would be to re-build ESW in forests and forest-related work to a level close to that which prevailed at the beginning of the 1990s. There are two specific objectives of increased forests ESW, under the broader goal of having forests take their place in an enhanced commitment to environmental commons in the Bank:

- *Providing the knowledge base and analytical support for effectively integrating forests into development programs and establishing the linkages between policies, projects and programs in other sectors to forest outcomes* Besides establishing the importance of forests in poverty reduction, sector work would determine the potential impacts on forests and forest dependent people of forest and non-forest sector activities contemplated by the Bank through investment, adjustment and broad poverty-reduction programs. It would establish the alternative paths by which policy, institutions and management of forest resources can be improved.
- *Developing the analytical and consultative bases needed to build awareness and demand for forest investments.* Sector work will provide the bases for effectively integrating forest programs in to CASs and PRSPs by not only creating knowledge of forest outcomes but by building the government and

public support for engagement. For sector work to build this awareness and demand, it must be participatory and discussed widely.

### ***Utilizing Partnerships to Leverage Impact***

*Donor partnership to boost the ESW program.* As discussed in Chapter 3, the Bank could greatly strengthen its international role in the forest sector by hosting PROFOR, an existing donor partnership on forests. Donor support for PROFOR is expected to be in the order of \$4.5 million a year, an amount that permits a dedicated group of experts to support economic and sector work and the development of sector program investments. A primary spin-off of this initiative would be the addition of analytical outputs for country forest sectors that would go well beyond the capability of any one of the partners to develop alone. Since the externalities of this sector work are high, it is expected that all donors including the Bank would contribute to the common effort of building knowledge through analysis.

The hosting of PROFOR in the Bank would have budgetary implications:

- The Bank might be expected to support the facilities, administrative and other costs associated with hosting the PROFOR facility. This consists of office space for an estimated four seconded experts from donor agencies and for administrative and research support staff.
- It would be necessary to assign at least 50 percent of the time of one senior ESSD Forests Team member to participate in the PROFOR cooperative arrangement.

An extremely important aspect of this initiative would be the participation of regional operations staff, to align Bank programs in the regions with PROFOR activities. It is estimated that the cost of this participation will be 20 percent of the staff time of one senior member of each regional forests team to the PROFOR initiative. It would be proposed that this participation would be funded largely by PROFOR funds.

### ***Seeking Blended Financing to Address Local and Global Forest Issues***

Forests are part of the environmental commons and as demonstrated in Chapter 2, offer many externalities to the globe. Improving the quality of forest operations, besides addressing poverty and economic development, will generate benefits thorough preserving biodiversity and sequestering of carbon benefits in the global environmental commons. Many client countries have argued that because these are global benefits, the countries which provide them must be compensated through concessional funding mechanisms. OED has discussed and agreed with this view in the review of the 1991 Forest Policy.

In addition to the need for concessional resources, forest operations will need financing of sufficient magnitude to make a difference. Isolated forest projects will not always bring sufficient benefits to stakeholders to warrant their interest in conserving forest cover. Financing from other donors, the private sector and NGOs will be needed to supplement government and Bank investments. This program of investment from various sources will need to be coordinated and have a unified strategic focus.

To leverage the impact of its own increased commitment to forests, the Bank would seek equivalent participation from donors and the private sector. This would contribute to the development of a shared agenda, allowing all groups to focus their inputs on the same basic set of objectives in the sector within the framework of enhanced NFPs. The disbursement of these funds would be handled in parallel – no centralized fund is proposed - using coordinated programs to support countries in realizing their national forest programs. Financing partners have already indicated their willingness to work together both analytically and financially to realize these objectives.



The advantage of this arrangement is that participating donors would be relying on a single strategic approach: one that would emulate a grant-and loan-based instrument to client countries. This should lead to greater focus and cohesiveness in investment strategy. All stakeholders will benefit from this approach, as it is based on developing assistance programs that focus on priority improvements, with a strong emphasis on necessary extensive sector analysis and stakeholder consultation. It would allow the application of the principles of selectivity and alignment across the activities of a group of participating financiers, rather than just the Bank itself. It would improve the focus of interventions and lower political risk in the sector for all involved, by ensuring more participation by stakeholders early in the commitment cycle. In addition:

- The Bank would gain leveraging impact on its financing and other donors would gain the impact of coordinated policy reform and strong linkage of sector issues with broader economic frameworks.
- Opportunities would increase for private sector participation in forest investments from the reduced risk that is expected to be generated by the improved policy and enabling environment and the more unified stakeholder approach to the sector that would result from this program.
- Clients would gain from efficiencies and streamlining in the sector programs they are planning and expected to implement.

### ***Supporting and Strengthening the WWF-WB Alliance***

The Bank has been supporting the WWF-World Bank Alliance, through trust funds, the Development Grant Facility and some Bank budget funds raised through the ESSD network. There is a need to ensure that the trust fund support continues: some commitments to the Alliance are time bound and will terminate in FY 2002. There also needs to be adequate support in ESSD for the management of this Alliance and in the regions to continue support for operational staff to dedicate some of their time to act as regional coordinators. Some prospects for expanding this initiative to focus more on mainstream forest issues, to include a broader group of NGO partners and for involving the GEF more directly, are presently under consideration by the Alliance Steering Committee.

### ***Increasing Involvement with Private Sector Partners.***

For forest management to improve, private investors that are willing to support sustainable forest management need to be brought into the sector and logging enterprises that currently participate in destructive and sometimes rogue and illegal forest operations shut down. If governments, the Bank and its partners work together to develop a positive enabling environment for long term and sustainable private sector investments in natural resources, responsible and environmentally conscious investors can be brought into the sector who are interested in supporting sustainable forest management and conservation. The potential for this is likely to increase as mechanisms are developed for investments in forest-based carbon where afforestation, reforestation and preserving standing natural forests can be made more financially attractive. At the present time, the main Bank interaction with the private sector on a multilateral basis is the CEOs Forum where private enterprises meet alongside leading NGOs. This Forum has been recently expanded to include participation from institutional investors, in addition to the large forest products firms that formed the original group of private sector participants. As is the case of the Africa working group of the CEO Forum, collective action can bring about codes of conduct that meet international standards of forest management. Working together through dialogue, third party oversight and encouraging responsible institutional investments can change the landscape of private investment in production forests from non-sustainable practices to sustainable management and conservation. Abandoning

the partnership with the private sector can only lead to more destructive and environmentally irresponsible exploitation of the forests of the world.

The IFC has many individual partnerships in various private sector companies. By drawing on these contacts, another avenue is opened by which the Bank Group could expand its involvement with the private sector. Maintaining the CEOs Forum, contacting potential new members and expanding efforts through the Forum to generate specific field investments will require additional budgetary support for the Forum and increasingly shared responsibility.

## **4.2 Selectivity**

Given the limits on both resources and capacity, it would be necessary to be selective in where the efforts to increase Bank engagement in forests are to be applied and also to prioritize the specific forms of involvement so as to gain most impact.

### ***Alignment and Selecting Countries for Focus.***

The task of building engagement would consist of bringing selected candidates from among these potential investments through the CAS and PRSP processes, then into project identification and concept development process and on into the regional pipelines.

The essential items needed to realize a selected program of investments from this range of possibilities are: the generation of Bank and borrower commitment to increased investments; partnerships with donors and others to create blended financing and feasible rates of return. If a decision is made to proceed with the strategy proposed in this document to rebuild Bank engagement in forests, the first step would be select a group of client *focus* countries where the Bank is (or will be) engaged in development of CASs, PRSPs and/or significant natural resources or adjustment operations and where forests are important, environmentally and in the poverty reduction objective. About 15 countries in this category would be identified and initial evaluation of the prospects would be made. Further selection will be made, to identify about six to eight countries to receive more intensive and direct support, as indicated by the evaluation.

### ***Developing the Focus on More Flexible Lending.***

One of the medium term implementation objectives of the forest strategy will be to move towards more flexible programmatic lending, assisting borrowers to implement their forest programs with lower transaction costs. Under this strategy, the Bank would adopt a different approach depending on the readiness of countries to go forward with their enhanced national forest programs (Table 4.1). In some countries, the Bank would only be able to participate in country dialogue and do initial sector work. At the other extreme, lending would be low cost with heavy reliance on government commitment to implement agreed forest programs. Facilitated by increased economic and sector work, this approach is expected to lower lending costs and improve loan effectiveness in the forest sector.

Once the base of knowledge through sector work, of experience through projects and of learning through monitoring has been built, the Bank can proceed into more flexible forms of lending at lower transaction costs. Table 4.1 indicates how this progression would take place and how the cost of lending would change with each step increase in country ownership and commitment.

### **4.3 Incentives and Potential Outcomes**

A primary message of the consultations done for this strategy is that the Bank must become more engaged to make a difference in the forest sector. As outlined in the strategy, this would require expanded budget allocations to forests. The ultimate beneficiary of the Bank's renewed engagement in the forest sector through this strategy would be the poor and the global environmental commons. In the earlier part of the initial five years of implementation of the strategy, the focus would be primarily on analytic work and on implementing the financial partnerships with donors, NGOs and the private sector in focus countries willing to make progress on forest issues. Later in that five year period, incremental lending commitments in the sector (or related areas) from the Bank should expand

The Bank's estimated initial contribution to the increased funding of forest operations is relatively modest compared with the potential – due in large part to the reality that a re-engagement in this sector would take time to build, from the present low resource and technical base available in the Bank - but an increase would be essential. An incremental lending program would need initially to be supported and arranged in a way that provides incentives for operational areas of the Bank to develop their forest activities.

The intention is not to set hard targets within a specific time frame for each region of the Bank. An overall incremental figure for lending would need to be established and funded and then Country Departments would utilize the higher preparation cost budgets for investments that qualify, until the full investment figure is drawn down. The time frame over which this occurs and the effectiveness of the individual programs, would form the basis upon which point Bank management would evaluate and consider whether the initiative should be extended, or terminated.

The Bank's commitment to an overall lending figure would serve as a mechanism to raise other donor, NGO and private sector confidence that the Bank is willing to implement its forest strategy. Bank engagement would follow its comparative advantage, in policy and institutional strengthening and scaling up successful programs of forest management and conservation.

It is useful to consider the magnitude of impacts that could result from an effective international program that addresses the major issues and problems in the forests. On this basis, over the next five to ten year period, the international community, working together and with governments and other partners, could achieve the following outcomes:

#### **Poverty**

- Improving the livelihoods of 500 million people dependent on forest and tree resources primarily through community forest management and development of agro-forestry;

#### **Governance**

- Strengthening institutional capacity to reduce the losses from illegal logging by \$5 billion per year;
- Improving the management of forest concessions to increase government revenues by \$2.5 billion per year.

**Table 4.1 Appropriate Forest Investments**

<b>Category of Client Forest Situation</b>	<b>Type of Involvement</b>	<b>Cost/Implementation Implications</b>
<b>Category 1:</b> Completed (or well advanced) enhanced national forest programs (ENFP); demonstrated capacity to implement forest programs and adequate policy and institutions including fiduciary oversight and good governance.	Adoption of longer term, more flexible approach to support of the sector. Continuation with adjustment lending and use of guarantees where needed.	<i>Bank:</i> Lower budgetary costs; 0.75% - 1.0% of funds lent as preparation and supervision costs.  <i>Client:</i> Lower risk status for private sector borrowing; higher leveraging of grant funds into protection and related purposes.
<b>Category 2:</b> Government and other major stakeholders committed to (or in early stages of involvement in) ENFPs or equivalent national-sector strategy development; policy and institutional reforms and strengthening still needed.	Major participation in ENFP development. Follow-up investments for scaling up piloted approaches to national scale via project investment lending, APLs, etc. Intensification of donor technical assistance in field operations and monitoring and evaluation. Possible utilization of sector adjustment instruments and guarantee mechanisms to stimulate scaling up of appropriate investments in the sector.	<i>Bank:</i> Medium budgetary cost: 1% - 2% of funds lent (depending on proportion of sector lending adjustment present in portfolio).  <i>Client:</i> Reducing risk perceived by potential private sector lenders; higher prospects of successful Bank and other institutional loans being successful.
<b>Category 3:</b> Significant interest among stakeholders and reformist elements in government in forest sector management and development; major policy and institutional issues unresolved.	ESW and other investment in dialogue and sector analysis, investment in institution building and piloting of feasible approaches to management, protection and improved participatory approaches (via LILs). Possibly some incorporation of basic policy reforms into planned structural adjustment operations.	<i>Bank:</i> Higher cost: 2% plus on lending amount, due to continued up-front dialogue/ESW costs.  <i>Client:</i> Limited exposure to lending in relatively poor implementation environment; opportunity to build a strategic approach and a strong constituency for reform.
<b>Category 4:</b> Government commitment and awareness on major sector issues weak or not present; other stakeholders poorly organized or in major conflict; major economic and social difficulties present.	ESW and other inputs to support initiation of dialogue and basic sector analyses; outreach and consultation to build sector constituency groups in-country.	<i>Bank:</i> No lending at this stage; limited inputs into basic sector analysis, dialogue/watching brief activities.  <i>Client:</i> Basic awareness building, initial stakeholder contacts.

**Protection and Conservation**

- Bringing 50 million hectares of forests into protected areas;
- Improving the management of 50 million hectares of currently protected areas;

**Sustainable Forest Management**

- Bringing 200 million hectares of global forests under sustainable forest management independently verified and certified.

The reduction of poverty through mechanisms that simultaneously improve the global environmental commons is beneficial to all stakeholders. But to achieve these goals would require the concerted and coordinated efforts of all stakeholders. This proposed strategy indicates one possible path to achieving them through building of knowledge and increased blended financial flows to developing countries.

### ***Monitoring the Bank's Role***

A major difficulty will be in ensuring and monitoring internal incentives so that a decentralized Bank is able to come together to achieve common goals. This has not proven to be easy in the past, but it is essential to succeed in the forest sector and other sectors, where effective engagement of the Bank and other partners is indispensable to achieving the International Development Goals. It is even more difficult when global priorities are involved. The incentives and incremental budget built into the implementation of the Forest Strategy is one measure for achieving this engagement. Only through monitoring of progress will it be known if these incentives need to be supplemented.

Monitoring of implementation of the strategies for increased engagement proposed for the Bank could be based on the following performance indicators:

- *Developing demand.* The effectiveness of incremental analytical and consultative activities would be monitored in the focus countries. Criteria would include: the alignment of these activities with the major pillars of engagement put forward in this strategy and with national forest program activities and objectives; the establishment of working partnerships at country level with other donors and major local stakeholders; and the degree of ownership and consensus on major elements of reform in the sector, including the development of interest and participation by major agencies of government in the agenda;
- *Building engagement.* The test of this component would come later in the program, in the form of initiation of preparation of investments which have resulted from the ESW activities supported. In addition to normal Bank quality-at-entry and performance indicators, an important additional criterion would be assessment of the degree of parallel or co-financing by donor partners and the private sector, which emerges as a result of collaborative activities. Baselineing at the beginning of the program will be an important measure to allow assessment of this factor;
- *Impact on forest outcomes of broader involvement.* It would also be necessary to evaluate the impact of the knowledge and analysis generated through this strategy on Bank activities originating outside the forests sector: the identification and incorporation of critical forests issues into cross sectoral, adjustment and broad programmatic lending; the inclusion of forest topics into broader ESW and CAS development work programs;
- *Selectivity and sequencing.* Effective disbursement and implementation of the incremental activities proposed, in the time frame outlined, will be a major factor here. The balance of activity types and progress towards the lowering of overall costs of doing business in the sector, through a movement of country situations being addressed up through the hierarchy of engagement as illustrated in Table 4.2, would be a major factor for evaluation.

### ***Risks***

Two major risks are inherent in the proposed forest strategy. The first is non-performance – the Bank may not be able to engage effectively in the sector. OED in its review of Bank effectiveness in the sector observed that the Bank had in its 1991 approach permitted substantial errors of omission – that is, it had not engaged in countries where forests are an important and substantial resource for development and environmental services. Even though the Bank has publicly recognized the forests importance, the risk is that the Bank would still be unable to effectively assist countries in managing sustainably their forest resources. The necessary resources and partnerships may not be able to be

brought to bear on forest issues, in which case commitment and ownership both internally and externally would not materialize.

Second, the Bank's intentions in the sector could be misconstrued. By modifying the Operational Policy to include the possibility of more proactive support to sustainable forest operations in tropical moist forests, the Bank could be accused of contributing to fostering destructive deforestation.

These risks, however, are already present. By supporting policy changes and investments in non-forest operations which potentially could indirectly impact forests, the Bank is risking inadvertently contributing to deforestation. It is widely recognized that policies and investments influencing cross-sectoral programs potentially impact forests more strongly than direct forest operations. This risk is best managed by the proposed approach to forest strategy, which would generate analysis and knowledge to allow such impacts to be anticipated and mitigated. In addition, by supporting sustainable forest management, independently certified and verified, the Bank could be instrumental in bringing together the means for partnerships to monitor performance.

In addition, support to the already on-going country-driven national forest programs would allow effective planning and coordination by all actors in forest management. The strategy would also encourage the Bank to effectively participate in existing partnerships and to reach out to the private sector in bringing investments to improved forest management and conservation. The Bank is demonstrating that such partnerships can be effective through its participation in the WWF/WB Alliance, the CEO Forum, the Critical Eco-system Partnership and through working with other Multilateral Banks and UN agencies. Finally the Bank has been strengthening its compliance responsibilities through providing increased budget resources and staff training.

Lastly, while there are clear political risks in adopting a proactive policy which enables the Bank to become more proactively involved in the sustainable management of forests under production, there are also major reputational risks for the Bank in retaining the existing policy, which does not address the issue of the temperate forests at all and which is criticized by the majority of stakeholders and interested parties outside the Bank as being a major factor in the Bank's perceived withdrawal from major areas of the sector in recent years. The best approach to managing this risk is not to adhere to the status quo, in this case, but to develop a proactive policy which engages critical stakeholders with the Bank in defining acceptable forest outcomes and then monitoring activities to ensure these are achieved.

The Bank's contribution is achievable. But it would involve some risks and increased costs. The risks are manageable but require increased attention to quality and compliance not just of forest operations but of all programs that could indirectly impact upon forest resources. The costs are equally manageable, even under tight budget constraints. The increased budgets envisioned for this program in forests above in total is expected to be less than 0.1 percent of the Bank's overall budget.