

March 26, 2009

**Ms. Katherine Sierra**

Vice President, Sustainable Development  
The World Bank  
MC-4-409  
1818 H Street, N.W.  
Washington D.C. 20433



Dear Ms Sierra,

As you know, the External Advisory Group (EAG) on the Implementation of the World Bank forest strategy held its 8<sup>th</sup> meeting in Washington D.C. on January 12-13, 2009; and we very much appreciated the opportunity to brief you personally on the results during our final session.

Now I am writing to formally inform you of our findings and request reactions. We understand the Bank will make this letter and the response publicly available as in the past.

Overall, we came from the meeting with the sense that the Bank's forest work is progressing and management has taken seriously some concerns we expressed previously. Still, there is no cause for complacency, as Bank's expanding forest work continues to face formidable challenges, to say the least.

In this context, the EAG would like to take this opportunity to recognize the leadership Gerhard Dieterle has shown since becoming Senior Forest Advisor, as well as the high quality of his team's work. Going forward it will be important to ensure continuity in the forest work and build on what has been done so far.

After hearing all the presentations, the EAG wishes to reaffirm that the Bank's 2002 forest strategy has stood the test of time and remains valid and does not require major change. While we fully recognize the urgency and importance of addressing global climate change, it is essential the climate change efforts related to forests form part of a more holistic approach to forests that takes into account all three of the strategy's central pillars.

*The EAG recommends the World Bank does not modify its 2002 forestry strategy at this time.*

**Forests and Climate Change:**

We got the impression that communications and coordination between the forest team and the Forest Carbon Partnership Facility (FCPF) has improved markedly since the last EAG meeting. We welcome that and encourage them to continue to move ahead in that direction.

At present Bank forest and climate change efforts seem to be particularly focused on Reduced Emissions from Deforestation and Degradation (REDD), as a means to mitigate climate change. REDD is very important, but it must not be the only significant component of the Bank's forest and climate change strategy, nor the only component of the Bank's approach to working with natural forests. Forest restoration and adaptation to climate change also deserve major attention, and it will be important for the Bank to find an appropriate balance between these different aspects

We understand there is a proposal that the Forest Investment Program adopt a typology that divides countries into different groups based on their deforestation rates, the relative importance of deforestation vs. degradation, and their governance situation. The EAG was pleased to see that the FIP will not necessarily concentrate entirely on countries that currently have high deforestation rates and feels that some typology of this sort could be useful for the FIP and the Bank's work more generally. That being said, we note that deforestation and degradation rates and governance may vary significantly between regions within countries, as well as between countries.

In previous letters to Bank management the EAG stressed the need for the Forest Carbon Partnership Facility (FCPF) and Forest Investment Program (FIP) to give attention to social aspects, including the rights of forest dwelling peoples, appropriate safeguards, consultation with all relevant stakeholders, and support for community and small-scaled forestry. These issues remain as relevant as ever.

There is a real risk that promoting Reduced Emissions from Deforestation and Degradation (REDD) will inadvertently favor overly centralized approaches and undermine the rights of forest peoples. That would not only negatively affect those groups, but could undermine the entire effort. Hence the Bank must be proactive to ensure REDD policies reinforce, rather than weaken, forest peoples' rights.

*The EAG recommends the FCPF, PROFOR, the Social Development Department or some other Bank unit should sponsor analytical work on how to ensure that REDD policies favor low-income people living in or near forests.*

The EAG was happy to see the Bank recognizes the need to consult with Indigenous Peoples representatives and is working to clarify the implications for Bank policy of the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP), approved by the UN General Assembly. The Bank's decisions regarding how to respond to the UNDRIP could significantly effect its relations with Indigenous Peoples. The EAG understands that Bank Executive Directors, not management, will make the final decision on this, but management should be proactive.

*The EAG recommends the Bank take steps to ensure consultations with Indigenous Peoples are followed up by concrete actions and financial support. The group also suggests that management recommend that the Bank formally recognizes the relevance of the UNDRIP for its work and agrees to respect UNDRIP's provisions in all Bank operations.*

The Bank recognizes the need to consult with other groups that live in or near forests, in addition to Indigenous Peoples. So far though, it has made few concrete plans to do so.

*The EAG encourages the World Bank to consult other groups living in or near forests about its forest and climate activities, and not just Indigenous Peoples.*

With regards to consultation, the EAG was struck by the number of simultaneous parallel efforts, with little apparent coordination between them. Greater participation by the Social Development unit in those efforts is welcome, but needs to be fully integrated with other initiatives.

*The EAG would like to see greater coordination between different Bank-sponsored efforts to consult with forest peoples.*

Needless to say for consultation to be meaningful, those consulted must have a basic understanding of the issues they are being consulted on. That will require greater efforts by the Bank and others to educate the various stakeholders involved in these issues, including Indigenous and non-Indigenous forest dwelling groups on these topics.

To successfully address the forest-related aspects of climate change it is essential to take into account the interests and concerns of a range of stakeholders. That is more likely to occur if these groups are represented in the governance mechanisms of the funds and can directly participate in the implementation of the proposed activities.

*Hence, the EAG supports the participation of forest peoples, private sector, and NGO representatives in the governance mechanism of the Forest Investment Program and the establishment of a separate funding window for non-government initiatives. We request that the World Bank convey our view on this to those responsible for the FIP design process.*

All of the Bank's forest and climate change work are still in their early days. There will undoubtedly be major failures and mistakes, as well as successes, and it will be essential that the Bank actively monitors and learns from those experiences and adjusts. That will require a great deal of flexibility in Bank activities. The EAG was pleased to see that the Bank recognizes that, and hopes that it manages to remain flexible in its approaches as it puts them into practice.

### **Growing Forest Partnerships (GFP)**

The Growing Forest Partnerships (GFP) was among the topics that received greatest attention during this last EAG meeting. Nonetheless, some aspects of the GFP remained unclear to us. That is partly because we lacked sufficient time to discuss the issue with Bank staff, but it also reflects some lack of clarity in the initiative itself. While the EAG was pleased to see the Global Forest Partnership are now Growing Forest Partnerships, we believe more work is still required.

*Over the next few months the Growing Forest Partnerships (GFP) will need to clarify much more exactly what it will and will not do. In addition, it will be important to clarify what value-added the GFP might be able to provide compared to the existing National Forest Program (NFP) facility.*

### **Land Acquisition Study**

The EAG was pleased to see the World Bank take the initiative to conduct a rigorous study of the recent proliferation of attempts by governments, companies, and other wealthy groups to gain control over land, forests, and mineral resources, and we strongly supports that initiative. We were glad the Bank recognizes that many of these efforts are speculative and may never materialize, yet they can significantly affect local people and landscapes nonetheless.

### **Conflict and Post-Conflict Countries**

The world has experienced notable progress in the last few years towards reducing the level of violence in forested regions in Aceh, Angola, Casamance, Colombia, Cote D'Ivoire, DRC, Liberia, Mindanao, Nepal, Sierra Leone, Southern Sudan, and Uganda, among others. It would be terrible if that progress was reverted due to competition over natural resources.

The last two EAG letters to Bank management highlighted the large portion of the world's tropical forest regions that have experienced armed conflict in recent years and the need for the Bank's forest work to address the special needs of conflict and post-conflict situations. Bank management and staff apparently agree with that, but there has been little concrete progress and the Bank response to the last EAG letter did not touch on the issue.

*The EAG proposes PROFOR commission analytical work on this topic, it be a specific focus of the up-coming land acquisition study, and the Bank conduct a*

*review of its forest-related operations in conflict and post-conflict countries from a conflict perspective, including its forest-related climate change work.*

### **Financial Crisis and Food and Fuel Prices**

When the EAG sent its 7<sup>th</sup> letter in September 2008, food and fuel prices were rising at alarming rates and many experts expected they would remain high for at least several years. Within that context the EAG speculated on how such price changes might affect livelihoods and land use and urged the bank to do analytical work on these issues and support forestry approaches that were more likely to be able to compete in the new context

Now world petroleum prices are back down to where they were in 2005 and food prices have been declining, although they remain high. Nonetheless, the basic points the group made in its previous letter remain valid. Extreme price volatility resulting from the financial crisis, speculation in commodity markets, biofuel policies, and other factors make it more important than ever for the Bank to track the impacts of these changes on rural people and natural resources and think through their implications. Even though food prices have come down some demand for land remains high in various regions and government subsidies have helped to sustain the demand for biofuels, despite declining energy prices.

### **Economic and Sector Work (ESW) and Other Analytical Work**

On several previous occasions the EAG has expressed the need for the Bank to invest more in ESW and other analytical work. Those concerns remain, particularly with regards to the regions, where funds for ESW apparently continue to decline. That being said, however, the group was struck by the increasing amount of high quality ESW commissioned by the central forest team, and we would like to congratulate them for those efforts.

With the anticipated increases in Development Policy Loans (DPLs) and similar instruments and in potentially controversial forest carbon activities ESW and up-front analytical work is more important than ever. Without such work, given the great complexity and often controversial nature of these issues, the World Bank runs a real risk of facing a growing number of high-profile failures and Inspection Panels.

### **Forest Law Enforcement and Governance (FLEG)**

The Bank continues to do good work related to FLEG and to work with a wide range of stakeholders. However, some of that work has not been sufficiently integrated into the Bank's overall forest efforts. The decision to fold the analytical work on FLEG into PROFOR appears to be a step in the right direction in that regard. Additional synergies could be gained by increased collaboration between the FLEG group and the FCPF.

*The EAG suggests the FLEG and FCPF teams develop a joint strategy for addressing governance issues related to REDD, including work on indicators.*

The current FLEG work should focus more on critical forest governance issues such as conflict, property rights, and promoting more participatory mechanisms for formulating and implementing policies, with an appropriate balance between analytical and implementation activities.

*The EAG recommends PROFOR increase the analytical work it supports focused on governance issues.*

## **International Finance Corporation (IFC)**

Several previous EAG meetings have examined coordination between the World Bank and the IFC and this time we were happy to find coordination seems to have improved.

*To further improve World Bank / IFC coordination, the EAG recommends the two institutions conduct some joint analytical work and identify a few pilot countries where they could focus their collaboration. Given the safeguard issues related to IFC forestry work in the tropics, this collaboration could be at least partially focused on non-tropical countries. The IFC also needs to work harder to find ways to support forest-related small and medium enterprises (SMEs) in rural areas.*

## **Critical Ecosystem Partnership Fund (CEPF)**

The EAG remains concerned there is little if any interaction between the World Bank's participation in the CEPF and its other forest-related activities. While we have observed progress in coordination with those responsible for the different trusts managed by the forest team and between the forest team, the FCPF, GFP, IFC, and the Social Development Department that is not the case as far as the CEPF is concerned.

*The EAG suggests the World Bank re-examine how Bank participation in the CEPF relates to other forest-related Bank activities and makes greater efforts to establish suitable synergies.*

## **World Bank Staffing Issues**

As you are well aware, staffing issues have been a recurrent theme in previous EAG letters to the Bank. On various occasions we expressed concern that the Bank lacks the quantity and appropriate mix of staff to adequately implement the ambitious goals it has set in its forest work.

In preparation for the latest meeting the Bank made a significant effort to identify and document that staff resources focused on forest issues, which shows a notable recent increase in forest-related staff. The EAG commends the Bank for these efforts and encourages it to continue making progress on this and to seek a balance between staff focused on forest carbon and other forest issues.

A second staffing issue that caught the EAG's attention during this last meeting was the unusually large number of senior staff that is moving from one position and/or region to another. While rotating staff has major advantages it is also important to find ways to maintain continuity and institutional memory and to realize that staff that transfer from one region to another will often face steep learning curves. And while it is certainly beyond the EAG's mandate to comment on specific staff decisions, we do feel it is express to emphasize that given the high profile and level of activity of the Bank's current forest work, the Bank should not allow the senior forest specialist position to become vacant or to be temporarily filled on an interim basis.

*Similarly, it is important for the Bank's forest work that Bank management hires a full-time senior coordinator of PROFOR soon*

## **Summary**

In summary, despite all the recent changes in the global context, the World Bank's 2002 forest strategy has largely stood the test of time and does not require major changes. The key continues to be finding ways to effectively implement that strategy.

The EAG was pleased to observe signs of progress in a number of the areas where the group has expressed concerns in the past, including staff and coordination between the

central bank forestry team and the IFC and the FCPF. It is also evident the Bank has made progress in several of its key initiatives. Nonetheless, much remains to be done and most of issues the EAG has raised in the past continue to be relevant.

Generally speaking, the EAG is quite satisfied with its recent interactions with Bank staff and management. We greatly appreciate the high quality of the management response to the letter we sent summarizing the conclusions and recommendations of our seventh meeting, and we feel comfortable with the forest team's proposals regarding how the group's membership should evolve going forward. Although time did not permit a real discussion of this issue, we are aware that the Bank now has several advisory groups assessing its forest initiatives and it will be important to figure out how these groups should relate to each other. Two things the EAG would like to recommend to improve the group's functioning are the following:

New EAG members should receive background briefings about the group and World Bank forest operations prior to their first EAG meeting so they can participate more fully. Given the expected rapid advances in the Bank's forest initiatives during 2009 the Bank should send EAG members the conclusions of major initiative meetings so the members can keep up to speed.

The EAG is extremely grateful to the Forest Team and other Bank staff for the presentations and appreciated the opportunity to discuss our preliminary conclusions and recommendations with several of your colleagues. The next meeting of the EAG has been tentatively scheduled for \*\* and \*\*, 2009, and will focus more on bank operations at the regional and country level. As always, we look forward to a very fruitful interaction with you and your team on that occasion.

Sincerely,

David Kaimowitz (Chair),  
External Advisory Group (EAG) on Implementation of the World Bank Forest Strategy

Emilio Castelar 131  
Colonia Polanco  
11560 Mexico D.F.  
Mexico