

economic
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Sustaining FORESTS



A World Bank Strategy

In many parts of the world, the remaining great natural forests—and the many natural Biodiversity treasures they harbor, are at risk, from agricultural and grazing expansion, excessive exploitation, uncontrolled wildfires, and a number of other well-known causes. People who depend on these forests for important elements of their livelihood—and these include many of the poorest and most marginalized communities in the world—are facing a grim future, if these forests continue to degrade and disappear. Sustainable national economic development, the viability of large natural land and water systems, and the stability of the global climate itself, are also directly connected to forest outcomes.

The World Bank, along with other members of the international community, is engaging comprehensively with partners from civil society, governments, the private sector and the donor and scientific communities to deal with this problem. We must acknowledge that protection and sustainable production must go hand-in-hand in forests, and that all legitimate interest groups must have a voice and a role in the use and protection of these forests, and in rebuilding and rehabilitating them. This booklet constitutes a major step in rethinking our strategy and developing an integrated and innovative approach to deal with the complex political and institutional issues involved, as well as the technical and investment priorities.

Maurice Strong

Chairman, Earth Council

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Responding to New Challenges: A Balanced Approach

The stakes for survival of the world's forests are dauntingly high. Millions of people depend upon forest resources for their survival. Forest resources directly contribute to the livelihoods of some 90 percent of the 1.2 billion people living in extreme poverty; indirectly support the natural environment that nourishes agriculture and the food supplies of nearly half the population of the developing world; and constitute a major source of national wealth. In addition, they provide immensely important environmental services, such as maintaining soil stability, protecting water flow and quality, regulating global climate through carbon sequestration, and serving as the repository of the bulk of terrestrial biodiversity. Yet, for the large part, forests continue to be poorly managed and indiscriminately felled at unsustainable rates. A major problem is that forests are consistently undervalued in both economic and social terms, with much of the environmental value of forest ecosystems falling outside of formal markets. These failings mean that the value of forests is not fully realized in the countries where they are situated, and, as a result, has little or no bearing on the land use decisions that drive forest change.

The forest sector presents both unique opportunities and unique challenges. It is key to poverty reduction, sustainable development, and the maintenance of environmental services. Indeed, a forest strategy that can make an effective contribution to poverty reduction and environmental conservation is central to achieving the Millennium Development Goals set by the United Nations. Achieving a sustainable path of development is a global strategic priority for the survival of our planet. Low income countries need to grow at per capita rates of 3.6 percent per year in order to meet the Millennium Development Goal to halve the number of people living on less than US\$1 a day (from 29



percent of the world population in 1990) by 2015. Furthermore, the benefits of this growth must be widely spread, and growth must be environmentally and socially sustainable.

The Plan of Implementation of the World Summit on Sustainable Development (WSSD) held in Johannesburg in 2002, reiterated this vision for responsible growth and recognized the vital role for the forest sector in realizing it:

“Sustainable forest management of both natural and planted forests and for timber and non-timber products is essential to achieving sustainable development and is a critical means to eradicate poverty, significantly reduce deforestation, halt the loss of forest biodiversity and land and resource degradation, and improve food security and access to safe drinking water and affordable energy...The achievement of sustainable forest management, nationally and globally, including through partnerships among interested Governments and stakeholders, including the private sector, indigenous and local communities and non-governmental organizations, is an essential goal of sustainable development...” (Paragraph 45, Plan of Implementation, Report of the World Summit on Sustainable Development).

Yet engagement in the forest sector inevitably entails setting a balance between production and conservation; the distribution of the benefits and responsibilities of forest use and protection among the various economic and social groups involved; and the longer term issues of forest sustainability and environmental health. The task of

managing these trade-offs is not only technically difficult, it is also politically complex. Consequently, involvement in the forest sector is often perceived as being high cost and risky.

Production and conservation in forests can in fact be mutually supportive. By re-engaging in the areas of forest outside of protected areas, the new strategy seeks to improve the livelihoods of 500 million people, most of whom are poor and dependent on forest and tree resources, primarily through community forest management and agro-forestry based on sustainable logging practices. These activities complement the continued protection of critical forests within protected areas.



Assessing the Bank's Performance in Forests

Beginning with the 1991 Forestry Strategy and 1993 Operational Policy, the Bank's activities in the forest sector were guided by a "do-no-harm" principle that focused largely on environmental issues and on pure protection options. 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.

The past decade has demonstrated that the Bank's 1991 Forestry Strategy and 1993 Operational Policy constrained the Bank from adequately engaging in the sector, and to a large extent also prevented us from participating in the international and national dialogues on this issue. Most importantly, the 1993 policy resulted in many missed opportunities for the Bank to harness the potential of well managed forests, open woodlands, and on-farm trees to make a very significant contribution to poverty reduction and to the protection of environmental services of global importance. Meanwhile, the loss of forests continued at historically high rates, and successful efforts to reduce destructive and unsustainable logging and unwarranted forest clearing activities were few and far between.

Accordingly, in 1998, the Bank's Board of Directors requested a review of the Bank's role in the forest sector. The first part of this task—a retrospective review of the Bank's overall performance in forests—was almost immediately launched by the Bank's independent Operations Evaluation Department (OED). The second task—looking forward to what would be needed to improve the Bank's performance in the forest sector—was launched in a Bank Group-wide program shortly thereafter.

The OED review was delivered to the Board's Committee on Development Effectiveness in 2000. The OED evaluation found the Bank's performance in the forest

The Consultative and Review Process

The two-year consultative process paved the way for the new Forest Policy and Strategy. It gathered input from development partners and stakeholders around the world, including governments, civil society in developing and developed countries, industry, forest-dependent peoples, partner donor agencies and United Nations bodies. The consultations were supported by extensive analytical, technical, and economic studies, some commissioned by the World Bank and others done by independent institutions and NGOs on a wide range of subjects.

In parallel, broad consultations were conducted internally with Bank task managers and other staff. Internal reviews of projects and of the former policy were conducted by the Bank's independent Operations Evaluation Department and Quality Assurance Group. Together with staff feedback, these internal exercises yielded lessons learned that also fed into the strategy development process.

sector over the last decade to be unsatisfactory, going so far as to conclude that we had been “irrelevant” in slowing deforestation despite our commitment to this objective. In addition, the review found that a “chilling effect” permeated forest-related operations in the World Bank Group, including the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Managers and staff

viewed the political and reputational risks of investing in the sector—and the transaction costs of mitigating them—too high.

Thus, our engagement in the forest sector as a whole declined significantly, and in parallel, the Bank’s knowledge of the sector and its contact with stakeholders were also diminished.

Developing a New Strategy and Operational Policy Through Multi-stakeholder Engagement

In order to align the World Bank’s actions with the emerging consensus on the conservation and use of forests, we needed to reexamine our policy and strategy, to apply them consistently to all forest types and all regions, and to focus our approach on poverty reduction, economic management, and good governance, in addition to environmental objectives.

It was equally clear that the key to this re-evaluation would be consultation with all affected stakeholders. Thus began an extensive, two-year process of analysis and consultation to gather information and viewpoints from development partners and other stakeholders around the world.

A number of key findings can be distilled from this internal and external review process, with important implications for effective Bank reengagement in the sector. These underpin the thinking behind the new policy and strategy:

- Focusing exclusively on protection misses opportunities for poverty reduction and improved management and conservation of production forests.



A combination of logging, plus harvesting and marketing of hundreds of other forest products such as forest fruits, fuelwood and medicinal products, constitutes an enormous economic activity. There is an inherent difficulty in protecting forests that are in high demand for a range of frequently exclusive uses by competing groups within society. Consequently, a dual approach covering both protection and productive use is needed. This is not to say that we should scale down our efforts in protection and conservation—rather, we must expand our efforts to help improve sustainable use and management in the productive sector.

- **In spite of their substantial economic value, forests are one of developing countries' most mismanaged resources.** This translates into enormous costs. For example, the estimated losses from failure to collect appropriate royalties and taxes from legal forest operations cost governments around US\$5 billion annually. Illegal logging results in additional losses of at least US\$10 billion to US\$15 billion per year of forest resources from public lands. To address these problems, we need to grapple with the complex and politically difficult issue of how to improve forest governance.
- **The spillover of poor policies in other sectors has also contributed to the rapid rates of deforestation seen in recent decades.** Pressures on forests from poorly aligned agriculture, transportation, energy, and industry sector strategies, as well as government macroeconomic policies, are a major cause of forest



What is the difference between the Forests Strategy and the Forests Operational Policy?

The Bank makes a clear distinction between the purposes of a Sector Strategy and an Operational Policy. The Sector Strategy outlines intent, discusses options and presents arguments for adopting particular approaches. It provides nuanced guidance on the different actions that should be considered in different circumstances.

An Operational Policy is intended as a more concise statement of the Bank's obligations to all Bank operational activities covered by the policy. It provides formal and accountable safeguard policies that are approved by the Board. The Operational Policy is accompanied by a Definitions Annex, and a Bank Procedures document, which elaborate upon some of the implementation requirements raised by the policy.

The new Operational Policy for Forests (OP 4.36), approved in October 2002, replaces the previous 1993 Operational Policy. All Bank-supported investments are required to conform to the provisions and safeguards in OP 4.36. In addition, such operations are also required to conform to other existing Bank Operational Policies—including the safeguard policies on environmental assessment, indigenous people, natural habitats, cultural property and involuntary resettlement. The Forests Policy clarifies how provisions in these other current Bank Operational Policies apply in the specific circumstances of forests, but in no way amends those provisions in other policies.

The full complement of Operational Policies provides the basis for ensuring that forest operations meet the high standards demanded by many stakeholders in the sector.

To learn more, visit www.worldbank.org/opmanual

loss and degradation. Addressing this will require a better understanding of cross-sector impacts and the incorporation of specific measures for forest protection into other sectoral policies. Through its analytical work, the Bank—which supports activities across the spectrum of sectors of the economy as well as broad policy and institutional reforms—is well placed to influence the design of both non-forest sector and national macroeconomic policies in ways that will benefit forests, forest dependent people, and the environment.

- **Forests have significant commercial value, so the private sector will often be the principal financial actor in forest production in most countries.** Altogether, the level of activity and influence of the private sector in forests dwarfs that of the international community—and sometimes of the national government. Any strategy of reform or change in the sector must deal effectively with this fact. The Bank needs to proactively engage with the private sector and to use its potential to create an enabling environment for both private companies and other investors who are committed to socially and environmentally sustainable forest management.
- **There is a need for creative mechanisms to pay for the protection of forest environmental services of**

both local and global importance. It is highly unlikely that governments will be able to significantly scale down log extraction, unless the costs in terms of foregone revenue can be offset in some way. Moreover, very few countries would be prepared to borrow funds—from the World Bank or other sources—to finance forest protection as a substitute for forest production. We must therefore help foster new markets and payment systems for environmental services from forest ecosystems, and to interest developing countries in activities that will improve forest management and conservation.

- **An inclusive approach to decision making is essential to resolving governance issues and for balancing environmental, social and economic objectives.** This will require proactive engagement with all relevant stakeholders, especially poorer and disadvantaged forest dependent communities. It also requires the Bank to establish strategic partnerships with a wide range of private and public sector actors, as well as national and international developmental agencies.
- **Many national governments, non-governmental organizations (NGOs), and private sector leaders have expressed strong interest in securing Bank reengagement in the forest sector.** The consultation process exposed broad concern that the Bank's withdrawal from the sector during the 1990's greatly diminished the potential for using the Bank's analytical capability and policy influence, including lending, as instruments to bring about essential reforms. In addition, there were many missed opportunities to channel increased investment into national forest-related poverty reduction and environmental protection programs.



The New Forests Operational Policy

In October 2002, the Executive Board of Directors of the World Bank approved a new Forests Operational Policy for the Bank and endorsed a new strategy that supports the policy. The new Forests Operational Policy and Strategy charts a path for proactive engagement to help attain the goal of poverty reduction without jeopardizing the environmental values that are so intrinsic to sustainability.

Revisions to the Bank's Operational Policy on Forests (OP 4.36) permit us to be more proactive in both identifying and protecting critical forest conservation areas and in supporting improved forest management in production forests outside these areas, in line with the new Forests Strategy. These revisions will retain many of the strengths of the former OP 4.36. However, they expand its effectiveness by using new initiatives in third-party certification and monitoring of progress towards sustainable forest management that have been developed since the 1993 operational policy took effect.

Key features in the new Operational Policy include:

- **A focus on forests instead of forestry.** The new policy applies to all Bank investment operations that potentially impact forests, whether or not they are specific forestry sector investments. It also explicitly encourages the incorporation of forest issues in Country Assistance Strategies, the World Bank's business plans for engagement with countries, and addresses cross-sectoral impacts on forests.
- **All forests are included.** The new policy covers all forest types, in place of the previous emphasis on tropical moist forests alone.
- **All aspects of forest activity are covered.** The policy includes specific requirements to address all aspects of forest management, conservation and sustainable development, not just forest conservation.
- **Replacing preconditions with analysis.** The policy replaces an explicit list of preconditions for forest investments that, in practice, few countries could meet in full. Instead the Bank will analyze the status of a country's forest policy and practices



and then determine the actions and sequence necessary to bring about lasting improvements in forest conservation and development outcomes.

- **Markets for the full range of goods and services.** The policy provides explicit recognition of the need to encourage the development of private sector markets and marketing arrangements for the full range of environmental goods and services provided by forests.
- **Targeted conservation.** Targeted and comprehensive provisions for conservation of critical natural habitats in all forest types replace the outright prohibition of Bank financing of commercial logging operations in primary tropical moist forests. These provisions also protect these critical forest areas from any investment that would lead to their significant degradation or conversion, and explicitly prohibit Bank financing of any commercial harvesting or plantation development in critical natural habitats.
- **Investment outside critical forest areas.** A provision for proactive investment support to improve forest management outside critical forest areas, with explicit safe-guards to ensure that such Bank financed operations comply with independent certification standards acceptable to the Bank, or operations with an agreed upon, time-bound action plan to establish compliance with these standards.
- **Distinction between large scale and small-scale activities.** Small scale landholders and communities will be held to the same high standards of forest management that is demanded of commercial systems. However, rather than monitoring this through formal certification requirements, it will instead be monitored by the borrower with meaningful local stakeholder participation.



Monitoring by government bodies, independent third parties, and through the Bank's own supervision will provide the necessary assurances that forest operations benefit people most dependent on them while contributing to economic growth and poverty reduction.



Forests and the fight against poverty

About 60 million people (mainly indigenous and tribal groups) are almost wholly dependent on forests, and 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 open woodlands or agro-forestry farming systems that help to sustain agricultural productivity and generate income. Some 1 billion people worldwide depend on drugs derived from forest plants for their medicinal needs.

A New Forests Strategy

The new Forests Strategy is built on three equally important and interdependent pillars:

- Harnessing the potential of forests to reduce poverty
- Integrating forests into sustainable economic development
- Protecting vital local and global environmental services and values

The First Pillar: Harnessing the potential of forests to reduce poverty

Forest outcomes are crucial for poverty reduction in many of the Bank's client countries. For both countries with large forest endowments, and for others that have limited forests, if forest issues are not fully incorporated into broad national government and assistance strategies then the overarching goals of poverty reduction will not be met. As such, implementation of the revised Forests Strategy will make a significant contribution to meeting the broad goals of the Bank's Rural Development Strategy, which was adopted in October 2002.

There are attendant risks to addressing the poverty issues related to forests, however, which must not be ignored.

Experience has shown that remedial strategies can themselves generate internal conflicts. For instance, developing markets for forest products can lead to increased competition between more affluent and poorer members of a community, or between different communities, sometimes resulting in restricted access by the poorest of the poor to essential forest products. Similarly, a market-based system can disrupt communal systems of management by groups that have traditionally

relied on common property forest resources for meeting essential fuel wood, grazing and other needs.

Accordingly, within this framework, our strategy will focus on creating economic opportunity, empowerment, and security for rural people, especially poor and indigenous groups. The main instrument will be through policy and institutional strengthening to ensure that the rural poor have sufficient access to, and are able to manage, forest resources for their own benefit. We will also help build the capacity of governments to support and regulate community use of forests, open woodlands, plantations, and on-farm woodlots. We will need to rely on our partners—particularly civil society—and on pilot operations supported by others, to demonstrate feasible approaches that can then be scaled up to make a significant contribution to social, environmental, and economic objectives. In collaboration with client countries and partners, our primary objectives will be to:

- work with client countries to strengthen policy, institutional, and legal frameworks to ensure the rights of people and communities living in and near forest areas;
- ensure that women, the poor, and other marginalized groups in society are able to take a more active role in formulating and implementing forest policies and programs;



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

Forests and sustainable economic development

At a global level, the potential that forest resources offer for development is clear. Production of wood and manufactured forest products contribute more than US\$450 billion to the world market economy. The annual value of internationally traded forest products has been running between US\$150 and US\$200 billion.

ILO estimates global forest-based employment (including both industrial and non industrial forest harvesting and industrialized forest products manufacture) to be approximately 47 million, and forest based employment in developing countries accounts for about 32 million: that is, more than 60 percent of the total.

FAO estimates that out of roughly 3.8 billion hectares of global forest area, 1.2 billion hectares are available for industrial wood supply. Well over one half of this total is located in Bank borrower countries.

The Second Pillar: Integrating forests in sustainable economic development

Forests continue to be seriously undervalued for the social, economic and environmental benefits they provide. This contributes to widespread mismanagement and poor governance leading to billions of dollars of lost revenue. The spillover of poor policies in other sectors has also contributed to the rapid rate of deforestation seen in recent decades. The second pillar of the strategy seeks to address these failings by integrating forests in sustainable economic development.

To achieve this, we will focus on helping governments improve policy, economic management, and governance in the forest sector, including forest concessions and other allocation policies, as well as addressing the potential impacts

of economy-wide adjustment operations upon forests. We will also support government efforts to bring about ecologically, economically, and socially sound management of production forests. To this end, in addition to the Bank's standard implementation and safeguard procedures, we will encourage independent monitoring and certification of forest operations. Such formal market-based certification systems verify compliance with nationally or internationally agreed standards for forest management by an independent third party. Certification is most useful in environmentally discriminating domestic or international markets, but less relevant in situations where the bulk of production will go to non-environmentally discriminating domestic markets. In these situations, we will work with borrowers to ensure independent

assessment of forest operations through an open process of review by the main participants and interest groups.

To support the second pillar, the Bank will:

- analyze and coordinate policies and projects to ensure a cross-sectoral approach to planning and implementation of sustainable forest management, conservation and development;
- support improved governance by reforming inappropriate policies on timber concessions and subsidies, and by encouraging multi-stakeholder involvement in the development and implementation of forest policy and practice;
- help governments contain corruption and other illegal activities through improved forest laws, regulations, and enforcement, and through consumer-driven demand for forest products from legal sources;
- address finance, fiscal, and trade issues related to the forest sector and forest products to enable governments to capture a higher portion of forest revenues for sustainable social and economic development; and
- promote catalytic investments in the full range of goods and environmental services available from well-managed forests—including sustainable timber harvesting and management, but only in areas outside critical forest conservation areas in situations that can be independently monitored through a system of verification or certification that meets nationally agreed and internationally acceptable standards.

The Third Pillar: Protecting vital local and global environmental services and values

Though biodiversity and key environmental services have traditionally been protected through the establish-



ment of protected areas, the wide range of competing uses of forests by diverse groups poses constraints on how much can be achieved by pure protection activities alone. As such, improving forest management practices in production forests outside strict protected areas is an essential component of any strategy to protect vital local environmental services and values, in addition to efforts aimed at bolstering the effectiveness of management within protected areas.

Recognizing this, the more inclusive, twin approach of protection and productive use, in all forest types, is embedded in the revised Forests Strategy. This is a major

Forests and global environmental values

Forests cover about 25–30 percent of the Earth's land surface; an area between 3.3 and 3.9 billion hectares (depending on the definitions and figures used). They are the repository of the great bulk of terrestrial biodiversity, with all the implications that carries for gene pools, pharmaceuticals and other unique and valuable goods and services. Forests also contain large amounts of sequestered carbon, and their destruction or degradation (especially by burning) is estimated to contribute between 10 and 30 percent of all carbon gas emissions into the atmosphere, making forests a major factor in the global warming issue. In addition, forests help maintain the fertility of agricultural land, protect water sources, and reduce the risks of natural disasters such as landslides and flooding.

Mismanagement of woodlands in humid tropical and sub-tropical countries significantly contributes to soil losses equivalent to 10 percent of agricultural GDP per year. In some countries in the Asia-Pacific region, forest destruction is responsible for 2 percent to 5 percent per decade of global biodiversity losses, with inestimable losses to ecosystem stability and human well-being.

reason why the previous ban on Bank participation in forest operations involving logging (in primary tropical moist forest) has been replaced in the new policy with a focus on managing production sustainably, and with due attention to protection. This shift allows the Bank to proactively engage with clients and partners to manage forests effectively for all uses. Our primary objectives in implementing the third pillar will be to:

- help governments to proactively identify and conserve critical forest conservation areas in all forest types in all client countries;
- help governments promote the wide-scale adoption of responsible forest management practices in production forests outside critical forest conservation areas;
- develop options to build markets and finance for international public goods such as biodiversity and carbon sequestration;
- help governments develop measures to mitigate and adapt to the anticipated impacts of climate change and reduce the vulnerability of the poorest people to its effects;

- help governments design, implement and finance national markets for local environmental services provided by forests;
- help governments to strengthen forest investments, policies, and institutions, to ensure that any adverse indirect and cross-sectoral impacts of policy and investments on high conservation and protected areas are minimized; and
- ensure that Bank investments and programs in both the forest sector and in other sectors that could potentially harm protected forests and natural habitats are implemented according to the Bank's operational policies and safeguards.

Just as this new approach to forests will contribute significantly to achieving the goals of the Bank's Rural Development Strategy, it will also make a significant contribution to meeting the goals of the Bank's Environment Strategy, which was adopted in July 2001. The three pillars of the Forests Strategy correspond closely to the main objectives of the Environment Strategy—improving quality of life, improving quality of growth, and improving the quality of the global commons. Like the new Forests Strategy, the Environmental Strategy stresses the importance of cross-sectional issues, mainstreaming policy dialogue, governance, and selectively designing interventions in close collaboration with development partners.



Poverty Reduction Strategies and Country Assistance Strategies

Poverty Reduction Strategy Papers (PRSPs) are analytical and planning documents that serve as the basis for the Bank and other donors to participate in financing agreed poverty reduction programs, through Poverty Reduction Support Credits. The governments of client countries prepare PRSPs through a participatory process involving civil society and development partners.

The Bank develops a Country Assistance Strategy (CAS) for each of its client countries. Based on an assessment of the country's own priorities, past portfolio performance and credit worthiness, the CAS sets the level and composition of financial and technical assistance that the Bank seeks to provide the country. While the country owns its development strategy as outlined in the PRSP, the Bank uses the CAS document specifically to account to its shareholders for its diagnosis and the programs it supports.

Implementing the New Approach

By adopting the new policy and strategy as outlined above, both the Board of Executive Directors and Bank management have committed to several key changes from past Bank forest-related operational practices.

Realigning Bank support

Management is committed to the cross-sectoral approach and is moving beyond stand-alone forest operations. This will integrate forest issues into the broad agenda of country dialogues and economic support. It is especially important to incorporate forest-related activities into both Poverty Reduction Strategies, the country's business plan for poverty reduction, and Country Assistance Strategies (see box). The Bank is investing in analytical work and engaging in proactive dialogue with client governments to catalyze opportunities in the forest sector.

Tools for practitioners

It will be essential to rapidly develop and apply improved tools for both assessing and monitoring the likely impact of Bank structural adjustment operations on forests and on forest dependent communities.

Partnerships

Also of fundamental importance will be our ability to foster partnerships to underpin our own efforts to raise engagement in forests and contribute to building coordination and consensus on priorities for investments and policy reform. We will build on existing relationships to strengthen partnerships in three areas in particular:

- with other donors and national stakeholders
- with NGOs
- with the private sector

Partnerships with other donors and national stakeholders. At the global



level, the Bank will continue to work in partnership with other organizations of global reach and within the framework of international agendas. The analytical work that will underlie national forest programs (nfps) is critical to the implementation of the proposed strategy. The Bank will work closely with the Program on Forests (PROFOR), a multi-donor partnership housed at the Bank, to enhance the impact of its analytical work. PROFOR provides support to participatory processes and generates knowledge in four thematic areas: forest governance; forests' contribution to livelihoods of the rural poor; mitigation of adverse cross-sectoral impacts on forests; and innovative approaches to financing sustainable forest management.

Another important global partner is the Global Environment Facility (GEF) which was launched in 1991 to provide a new financial mechanism to protect the environment. Since then, the GEF has invested more than US\$ 1 billion in protection of forest ecosystems in some 60 projects, many of which have been jointly financed with the Bank.

Partnerships with NGOs. Forging strong partnerships with NGOs is also paramount to building consensus and momentum for our agenda on forests. The World Bank/WWF Alliance for Forest Conservation and Sustainable Use has already demonstrated the merit of this approach, drawing on the strengths of each institution to mainstream dialogue on important issues, including independent certification and monitoring of forest operations.

The Alliance works with a diverse group of partners to achieve three targets by 2005: establishing 50 million hectares of new forest protected areas; securing 50



million hectares of existing but highly threatened protected areas under effective management; and establishing globally 200 million hectares of production forests under independently certified, sustainable management. Funds invested by the Bank in Alliance activities leverage considerable additional resources in support of innovative forest conservation and sustainable use projects around the world toward these targets.

Another major NGO partnership is the Critical Ecosystems Partnership Fund (CEPF). This joint initiative in which the Bank works with Conservation International and other donors (the GEF, the Government of Japan and the MacArthur Foundation) finances the protection and management of particularly important areas of biodiversity.

Building on these encouraging experiences, we intend to proactively seek opportunities for partnership with other national and international NGO's.

Partnerships with the Private Sector. The Bank first initiated a dialogue with leading forest companies and NGOs through a CEOs Forum, chaired by the World Bank President. This Forum debated major issues, such as managing forests sustainably and controlling illegal forest operations. The dialogue that began at this Forum continues and has expanded to include retailing and production firms, as well as some southern NGOs. The Bank has also developed a working relationship



with the Sustainable Forest Products Group of the World Business Council for Sustainable Development.

With the new Forests Strategy, we will build on these foundations to strengthen and widen our engagement with responsible investors in the private sector to foster corporate social responsibility. Both the IFC and MIGA are crucial to this engagement, and improving coordination with IFC and MIGA will be an important part of our effort to build a framework supportive of appropriate private sector investment.

Monitoring Bank Performance

Transparent implementation will be an essential ingredient of success for the overall strategy. This will involve external stakeholder and technical advisors working with both Bank staff and senior management. An External Advisory Group (EAG) will continue an approach used during the preparation of the Strategy Paper, with stakeholder consultation at every stage. The EAG will be formed from senior and eminent people in the forest sector, and will provide advice to the Bank on implementation matters related to the Operational Policy on Forests and the overall goals of the strategy. In addition, the EAG will advise the Bank regarding their view of the status of the forest program.



Putting it All Together: A Holistic Approach for Responsible Engagement

In sum, the Bank's new approach to forests is based on proactive re-engagement in the sector, in ways that deal effectively with the basic realities confronting forests and the people who depend upon them for livelihood. It explicitly recognizes the role that such communities with high levels of dependence on forests have to play in decision-making on forest use and conservation, as an essential ingredient in resolving problems of governance and mobilizing engagement in the sector.



The approach also recognizes that protection and productive use of forests must be pursued as complementary objectives, not conflicting ones. It accepts that forests of high commercial value should be used—in some cases intensively so—to alleviate poverty, and to contribute to sustainable economic growth. At the same time, it places very high standards on the sort of management in forests the Bank will support. The objective must be to ensure they are used in a manner that sustains significant economic, environmental and social benefits, rather than in ways which are destructive and wasteful of the potential of these forests.

A production forest that is harvested under this form of logging, though not pristine, will be a functioning forest.

Such a forest is capable of generating income, providing sustainable livelihoods for local communities, and protecting and regenerating a substantial part of the original biodiversity of the site, while continuing to protect upland watersheds, and the carbon sequestration function of forests.

The strategy requires that forests of critical value be placed under strict protection, and elaborates an approach to ensure that these too can be financed and effectively managed. Under this balanced approach, production forests will in many cases serve as a buffer for those forest sites that are reserved for complete protection: it is

increasingly recognized that in many situations, if this is not done, then these protected forest areas will rapidly be encroached upon, and eventually destroyed.

Addressing the three ‘pillars’ together makes for a Forests Strategy that is complex and multifaceted. A narrow perspective on forestry—even sustainable forestry—is insufficient. To be effective, the strategy demands a multisectoral approach that addresses cross cutting issues. It also deals more directly with the larger question of how forests issues and concerns should be integrated at all levels of Bank activity, recognizing that in many cases, what the Bank—and others—do outside the forest sector itself can have major impacts on forests, and those who depend most upon them.

Transforming currently destructive logging operations into more sustainable and environmentally responsible approaches will not be simple. The challenge includes complex matters of politics, entitlement and rights—in some cases involving awkward and sensitive conflicts between indigenous groups and neighboring communities who in many cases may be equally, or even more, impoverished. Some forest sectors are characterized by corruption emanating from powerful vested interests in the sector, and by high levels of illegal logging activities. A major consequence of this has been disenfranchisement of local communities from effective participation in the conservation and management of forests.

These challenges are not insurmountable. Much has already been achieved in recent years in the development of community management of forests, and we have also learned much about governance, in many sectors and situations.





Some major Bank-supported initiatives on forest law enforcement have been underway in recent years, with growing support from the international community and from governments in forested countries. Issues such as entitlement, rights, and participation, in the forests context, are now very much on the table.

We continue to believe that success hinges on garnering sufficient momentum to build a concerted and coordinated effort between civil society stakeholders, NGOs, the private sector, client country governments, and donors. If this can be realized through the collective effort of the international community and other major stakeholders, then in the course of the next five to ten years significant gains for forests and those that depend on them will be achieved. With this new approach, the Bank is well positioned to help chart this course to a sustainable future.

The tasks of responsible economic growth and poverty reduction go hand-in-hand with the protection of local, national and global environmental assets and values. Nowhere is this more important than in the places where most poor people live, the rural space of the developing world, where hundreds of millions of people depend directly upon the environmental goods and services that flow from natural resources. Forests still occupy about a third of the total land area of the planet. Great changes in the extent and nature of these forests are occurring, and we must do our best to understand and manage these towards the best outcomes possible. Whatever the controversies inherent to the achievement of this goal, we have no alternative but to address it in a responsible way: the risks of doing nothing, or too little, are far greater.

Ian Johnson

Vice President, Sustainable Development, The World Bank

Sustainable forest management...is a critical means to eradicate poverty, significantly reduce deforestation, halt the loss of forest biodiversity and land and resource degradation, and improve food security and access to safe drinking water and affordable energy...

Report of the World Summit on Sustainable Development

This booklet is based on **A Revised Forest Strategy for the World Bank Group** endorsed in 2002. The strategy contains references for any outside sources that are not cited separately here. The entire document is available at: www.worldbank.org/forests.



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