

November 3, 2010

Ms. Inger Andersen
Vice-President, Sustainable Development Network
MC4-409
1818 H Street, N.W.
Washington DC, 20433
iandersen@worldbank.org

Dear Ms. Andersen,

As you may know, the External Advisory Group (EAG) on the Implementation of the World Bank's Forest Strategy has been meeting periodically since its establishment in 2003 to provide independent advice on major issues of implementation of the Bank's forest sector strategy. The Background and Terms of Reference of the EAG and the list of current EAG members are attached for your reference. On behalf of the EAG, I am writing to officially inform you of the conclusions and recommendations from the 10th EAG meeting held on January 11-12, 2010 in Washington DC.

The agenda for the 10th EAG meeting included: Bank staff updates and clarifications on certain issues arising from the 9th EAG meeting which focused on operational aspects of the Bank's forestry strategy implementation; progress reports on selected strategic initiatives; and discussion on possible implications for the Bank's role and modes of operation in the forest sector post-Copenhagen. The presentations were generally very informative and the discussions open and productive. We would like to express our appreciation to the presenters and to the SDN Forests Team for the effort that evidently went into the preparation for the meeting. The EAG especially appreciated the candor with which staff articulated issues and dilemmas they grapple with both conceptually and operationally.

The EAG is pleased to note the steps the Bank has taken since our previous meeting to address some issues regarding coordination and synergy among the Bank's various forest-related activities. The EAG welcomes the creation of the Informal Working Group on Forests (IWGF) and shares its concerns and many of its recommendations. We hope the IWGF will become a regular mechanism which brings together forest-related work in different parts of the Bank to foster synergies and realize better strategic outcomes.

As the EAG had previously commented on operational aspects of the Bank's work, in this letter, we focus our comments on a few broad themes that, in our view, require further thought and attention. We also seek clarification on the mandate and role of the EAG going forward.

Integrated Landscape Paradigm and Approaches

Growing evidence of significant regional climatic disruptions and the urgent need for action to stabilize green house gas concentrations have attracted renewed interest in forests as drivers of deforestation and forest degradation continue to intensify. Competing demands for food and fuel, in particular, continue to exert enormous pressure on forests in their unrelenting expansion of the agricultural frontier. The unprecedented levels of funding and political support for forest-related work in recent

years have been driven in large part by the realization that land-based strategies for achieving green house gas emissions reductions through reduced emissions from deforestation and forest degradation (REDD) are a cost-effective option for climate change mitigation.

The fact that the major drivers of deforestation and forest degradation emanate from outside forests makes it necessary to frame paradigms and approaches to forest-related work within dynamic landscapes, recognizing the effects and interactions other land uses are bound to have on forests and on the very landscape itself. National low carbon development strategies that take into account both climate change adaptation and mitigation offer an opportunity to advance a new paradigm and a lens through which to view forests and how they relate to other land uses.

The EAG is aware that the Bank has been exploring a broader framework for its own work on forests with a view to forging better synergies between its agriculture and forest-related activities. The EAG reiterates its support and encouragement for the Bank's efforts in this direction. At the same time, the EAG sees real risks that a broadened paradigm could lead to loss of momentum and divert attention and resources away from critical issues of poverty reduction, biodiversity, water, rights and tenure. These deep rooted issues will remain important, and the imperative to deal with them is clearer now more than ever. The EAG believes that while the Bank is strategically positioned to realize the potential offered by the new paradigm, the Bank needs to carefully manage the risk of losing focus on these long-standing issues.

In previous letters, the EAG pointed to a need to develop integrated approaches to landscape management that take into account competing demands for land and all terrestrial carbon. Likewise, there is a need for approaches that integrate landscape and livelihood considerations. Indeed, there is need for such integrated approaches that enable local interests to be expressed, and competing demands on the landscape and their associated trade-offs to become manifest. A broader focus on landscapes, not just forests, through REDD++ can potentially serve as an instrument for reconciling competing demands on the ground and for balancing local and global needs.

The Bank can play an important role in fostering the development and testing of these integrated approaches. However, the Bank's sectoral organization presents an internal challenge. Beyond the Bank, the absence of a shared global strategy for addressing trade-offs between competing demands for land is a major constraint. Such integrated approaches require a much greater degree of coherence in policies, programs and activities and much more effective coordination across sectors than currently prevail.

The EAG recommends that the Bank consider the extent to which climate and low carbon development strategies will be the new overarching framework for its future work on forests, what this will mean for the Bank's focus and engagement with long-standing issues, and the associated conceptual and operational challenges of cross-sectoral integration this will imply.

The EAG further recommends that the Bank explicitly take into account the three central pillars of the 2002 forest strategy as it orients its activities towards a broadened, more integrated paradigm.

Governance and Capacity Issues in Performance – Based Finance

Increasingly, financing for REDD/REDD+ is being structured to mirror its underlying core concept, i.e., payment for results measured in terms of reductions in carbon emissions from forests and enhancement in forest carbon stocks. This focus on performance and delivery of results will mean an entirely new way of doing business.

It will require more robust governance processes and institutions and adequate capacity not only in the forest sector but across sectors involved in REDD/REDD+ implementation in participating countries. In addition to the capacity to monitor, verify and report on forest carbon, a country's institutional and governance structures must have the capacity to manage payments and information and to link local payment schemes to national and global financing systems.

Performance-based funding through a flexible, phased approach could create incentives for countries to incrementally develop and strengthen their governance and technical capacities from REDD readiness to REDD+ implementation. Moving to a performance-based funding will require clarifying tenure and forest rights, including rights to carbon, and putting in place policies, laws, regulations and multi-stakeholder processes and institutions to underpin national REDD+ strategy development and implementation. REDD+ could spur the adoption of sustainable forest management (SFM) practices and provide added impetus for more effective forest law enforcement and far-ranging governance reforms. This will mean heightened necessity and expanded opportunities for the Bank's work through FLEG. SFM remains valid and highly relevant as a conceptual starting point and as a means for achieving REDD+ outcomes.

At the same time, performance-based funding and the REDD process itself will require a high degree of central government involvement. With performance-based finance, there will be greater emphasis on national rather than on individual project or company performance. This could reinforce tendencies towards recentralization and derail or negate progress already achieved in decentralization reforms. It will be important to understand how and to what extent these counter-currents of centralization and decentralization affect the capacity for REDD governance and the delivery of REDD results. It will also be important to ascertain the extent to which the gains of decentralization over the last 30 years can be maintained through nested REDD+ frameworks that integrate national, state, and project-level REDD+ activities. In this regard, REDD+ raises an important question: could the performance-based funding that is at the core of REDD+ induce rapid increases in the capacity of central government to defend public interests in forests more effectively?

Most of the REDD-related discussions seem to assume that adequate capacities exist or tend to overestimate existing capacities. The reality is that countries are already challenged by major capacity constraints on many fronts. This will become more evident as the requirements for performance-based finance stretch limited capacities even further at all levels. This capacity gap poses a major stumbling block for successful REDD implementation and a significant risk for climate trust funds. With the range of instruments at its disposal, the Bank is potentially well positioned to address these capacity gaps.

The EAG encourages the Bank to prioritize support for governance, institutional and technical capacity building to facilitate the progression of participating

countries through the different phases toward REDD+ and full performance-based financing.

Bridging Lending and Non-lending Operations

The EAG recognizes the tension between the Bank's traditional forest-related lending operations which cater to country needs and interests, and its rapidly growing, externally governed, non-lending global partnership programs and trust funds which respond to global priorities. In many ways, this reflects inherent tension between global public goods and country-specific demands. The EAG appreciates the challenges this poses for the Bank and understands that there are on-going internal discussions on whether and how to link the Bank's lending and non-lending activities, and what the Bank's portfolio in the future might consist of. The results from these discussions can have wide ranging implications for the Bank's future mode of operation.

Despite the challenges, these global partnership programs and trust funds have evidently served as avenues for learning and innovation within the Bank. With total capital of US800 million, more than the Bank's cumulative forestry lending over the past eight years, they are a sizable resource for experimentation and learning. Experience and innovation from global partnerships and trust funds can enrich Bank staff expertise forged through traditional lending.

Up-front analytical work can help define and characterize the evolving context for the Bank's strategic lending and may provide useful guidance for harnessing partnership programs and for the allocation of trust fund money.

The EAG suggests that the Bank support analytical work to probe the limits of traditional lending and to more fully explore the potential of partnership programs and trust funds for advancing its forest strategy.

PROFOR

The EAG is pleased by the strategic focus of PROFOR and by the progress already made in aligning the work of PROFOR and FLEG. The EAG welcomes the new study on forests, conflict and fragile states. With 75 percent of the world's forests located in fragile states, insights from the study can potentially have wide relevance.

The EAG also finds the PROFOR-supported study on large-scale land acquisitions for agro-investment to be very useful and to have potential broader applications, including for forests and REDD.

The EAG supports plans to follow through on the implications of the study at national and sub-national levels, including plans for testing principles to guide responsible agricultural investment, demonstration and technical assistance.

The PROFOR-supported study to assess and map the potential for landscape restoration globally has generated valuable information that provides a coarse-scale perspective on possibilities for integrated management of terrestrial landscapes. Restoring degraded terrestrial ecosystems and enhancing their productivity can take REDD+ beyond just forests. Landscape restoration has not received much attention, but should be a major element of REDD++. However, identifying opportunities for this

requires a finer-grained assessment. Since successful interventions at the landscape scale depend on strong institutional capacities for multi-stakeholder governance, conflict resolution and decision-making, this should also be part of the assessment.

The EAG encourages PROFOR to support follow-up study on landscape restoration potential at national and sub-national scales, including assessment of governance and institutional capacities for REDD++ interventions at the landscape level.

In view of the massive amount of funding flowing into forest and REDD-related programs and activities, there will be even more need for solid analytical work to support conceptual development all the way through to implementation.

The EAG recommends continued investment in analytical work through PROFOR and increased funding to support it.

Forest Investment Program (FIP)

The EAG feels that the FIP has made considerable progress and that the process has gone forward very well so far. We are particularly pleased that there is a dedicated fund for local communities and indigenous peoples, and that along with civil society and the private sector indigenous peoples have a voice in the FIP's governance mechanism.

However, with the significant level of investment to be committed through the FIP there is reputational risk for the Bank if it fails to deliver expected transformational changes and REDD results. Translating the FIP's lofty aspirations and positive design elements into effective action and results on the ground will require commensurate investments in governance capacity and special attention to issues of equity and benefit sharing. Issues raised in previous EAG letters, including the rights of forest dwelling peoples, application of appropriate safeguards, and support for community and small-scale forestry are bound to be prominent issues in implementation and should receive due focus.

The choice of processes and mechanisms related to funds flow needs urgent and critical consideration. These will strongly influence who gains and who loses and ultimately affect results. As the FIP prepares to move into its pilot phase, it is especially important to focus on the distributional implications of its funding and to put in place mechanisms to address them.

REDD is currently at risk because of the lack of regulatory clarity. The long-term private investments that will be needed for REDD to go to scale could be facilitated through innovative financing structures that reduce risks to private investors. The FIP could help to support these innovative financing structures.

The EAG would like to see particular focus on ensuring that FIP funds flow through appropriate, effective channels and reach the actors whose behaviors FIP funding is supposed to influence. The EAG would also like to see attention given to FIP's potential role in fostering innovative finance structures.

International Finance Corporation (IFC)

The EAG notes the IFC's move to engage with agribusiness, taking the palm oil sector as a starting point. The EAG is encouraged by the systematic process of consultation adopted by the IFC in developing its framework for engagement in the palm oil sector.

In several previous letters, the EAG has urged the IFC to address supply chain issues more broadly. Recent problems related to the oil palm sector underscore the importance of these issues and the need for IFC to address them.

Role of EAG

The context for the Bank's work on forests has changed markedly since the EAG's establishment. It is time to re-examine the role and mandate of the EAG and to modify these if necessary to better respond to the current context and needs of the Bank for independent external input.

The EAG suggests creating a task group within the Bank to review and clarify the EAG's terms of reference.

Among others, it will be helpful to clarify the role of the EAG, if any, in relation to trust funds and the Bank's new environmental strategy. It will also be helpful to agree on norms and practices going forward.

The EAG would like to retain the practice of making public EAG letters and Bank management responses and would expect full, detailed Bank responses on issues raised. With respect to the Bank's response to the letter from the 9th EAG meeting, the EAG understands the reason for the Bank's short reply. Including a follow-up discussion on issues raised in that letter in the agenda of the 10th meeting has been very useful.

The EAG suggests including this feature of reviewing and providing updates on issues from the previous meeting in the agenda of future EAG meetings.

The next meeting of the EAG is scheduled for January 13-14, 2011 in Washington DC. We look forward to meeting with you then and to continued fruitful interactions with the Forests Team and others involved in the Bank's work on forests.

Sincerely,



Doris Capistrano
Chair, External Advisory Group on Implementation of the World Bank's Forest Strategy
7 Roosevelt Avenue
Parkwood Greens
Pasig City, Metro-Manila, Philippines

Cc: Juergen Voegele, Director, ARD
Gerhard Dieterle, Advisor SDN Forests Team
Andrew Steer, Special Envoy, Climate Change