

November 1, 2008

**Ms. Katherine Sierra**

Vice President, Sustainable Development  
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Dear Ms Sierra,

The External Advisory Group (EAG) on the Implementation of the World Bank forest strategy held its 7<sup>th</sup> meeting in Washington D.C. on June 16-17, 2008. As in the past, I am writing to formally inform you of the main conclusions and recommendations and request your reactions. It is our sincere hope that given the importance of the issues covered and the fact that EAG members volunteer considerable time and effort to assist the Bank in its efforts that this letter will get the well considered response it deserves. As with previous exchanges, we understand the Bank will make this letter and the response publicly available.

The meeting took place in a notably different context than previous encounters. The phenomenal rise in food and energy prices has generated renewed interest in agriculture and rural issues. These price increases threaten to revert decades of progress in poverty reduction and food security and ratchet up pressure on forests. Meanwhile concern about global warming continues to grow and with it recognition that forests are central to any comprehensive strategy for addressing climate change.

The growing concern for the role of forests in climate change has sparked a proliferation of international initiatives. On balance, that is positive, but has worrisome aspects. The initiatives bring a welcome increase in resources and attention. On the other hand, they are highly fragmented, often duplicate efforts, and have exacerbated competition between international organizations. Some initiatives are creating unrealistic and conflicting expectations, which could lead to major disappointments down the road. For the initiatives to truly fulfill their promise they will need to respect the principles of the Paris Declaration, be more responsive to national concerns and contexts, and work closely with one another.

For the World Bank it will be important not to lose sight of fundamentals in this process. Forests are more than stored carbon. The basic pillars of the Bank's 2002 forest strategy are still totally relevant, particularly those aspects that concern forests' potential for reducing poverty and providing sustainable livelihoods. The same applies to the key recommendations from the last evaluation of the strategy's implementation. Economic and Sector Work (ESW) continues to be one of the Bank's main comparative advantages in its work with forests. Improved governance and more equitable and secure forest tenure remain essential pre-conditions for any forest – related initiative to succeed. That is especially true when it comes to Reduced Emissions from Deforestation and Degradation (REDD). Small scale and community based forestry must be seen as part of the solution to forest loss and degradation, not part of the problem. Since notable climate changes are already underway and more are inevitable, adaptation need serious attention, even as we work towards mitigation.

The EAG was pleased to note that the Bank has made progress in several key areas between our January and June meetings, including steps towards creating a Forest Investment Program (FIP), the allocation of \$15 million to the Growing Forest Partnerships (GFP) initiative, and improved coordination between the anchor forest team, the Forest Carbon Partnership Facility (FCPF), and the regions. It was also clear from the meeting that the Bank has recently done some excellent forest – related ESW, although there were also worrisome reports that some regions remain reluctant to invest in such activities.

#### **The Forest Carbon Partnership Facility and the Forest Investment Program:**

As implied by several earlier comments, the EAG feels strongly that the Bank should frame its REDD initiatives as part of a broader effort to promote sustainable forest management. Such initiatives should include activities to promote sustainable use, forest restoration, afforestation/reforestation as well as strict conservation. The Bank needs to recognize that REDD activities are likely to pose a number of important safeguard issues and to think through how to address them. It should also provide countries that participate in the FCPF with guidelines for what is expected in terms of stakeholder consultation in the preparation and piloting of REDD strategies and projects. Recent Bank consultations with Indigenous Peoples organizations were a positive first step in terms of the Bank's own consultations with civil society organizations, but more remains to be done.

The EAG strongly supports the creation of a Forest Investment Program within the Strategic Climate Fund. That being said, the current proposal remains general and there is an urgent need to define how the fund's governance and resource allocation mechanisms will work. Hopefully some way will be found for the fund to support both government and civil society activities.

It will be important to have clear criteria for what types of activities the Forest Investment Program will support. The EAG understands that the rationale for the fund's existence is directly linked to climate change; however, it will be important to that the fund does not take too narrow an approach and that addresses some of the broader enabling conditions that will be required for any forest-related mitigation and adaptation effort to succeed. Among the key aspects in that regard are: work on forest governance; efforts to build the forest sector's institutional and human resource capacity, particularly in Sub-Saharan Africa; and work related to small-scale artisanal forestry activities.

- *The World Bank should view its forests and climate change work in a broader framework of sustainable forest management, define clear mechanisms and criteria for the Forest Investment Program, and define safeguard and consultation policies for its REDD initiatives.*

#### **The Growing Forest Partnerships Initiative:**

The EAG applauds the World Bank for its well-organized and pioneering consultation on the creation of the Global Forest Partnership (GFP), as well as its decision to provide initial funding for this effort. Moving forward, much still remains to be done to clearly define how the GFP should differentiate itself from and relate to existing processes and institutional mechanisms such as the Collaborative Partnership on Forests (CPF), the National Forest Program (NFP) Facility, the activities promoted by the United Nations Forum on Forests (UNFF), and similar initiatives. It is essential the GFP does not become simply a mechanism to create proposals to present at donor round tables, and that the strategy adopted fully takes into account previous experiences with the Tropical Forest Action Plan (TFAP) and National Forest Programs (NFPs).

The EAG discussed extensively the role of the *Development* and *Catalytic* Groups, which have been proposed as two of the GFP's key governance and operating mechanisms. The EAG believes the *Development Group* should serve as the GFP's *de facto* steering committee, although we recognize that it cannot formally have that role, since the governing bodies of the institutions that actually administer GFP funds have fiduciary responsibility for how those funds are utilized. Given the importance of the *Development Group* within the GFP it is essential that there be transparent criteria and mechanisms for selecting which countries will participate and which individuals will serve as members. Within that context, it will be necessary to find ways to ensure that indigenous and other forest-dependent peoples are represented within the *Development Group*.

The EAG has some concerns about the process of selecting the organizations that serve as members of the *Catalytic Group*. To avoid any possible misconceptions, it will be important for the Bank to explain the role of this group and the rationale for the process used to create it. It will also be important to reassess the role and members of the *Catalytic Group* after the GFP has been operating for three years or so. Given that IIED is a non-governmental think tank and not an international organization, the EAG recommends that it should be considered a consultant to the *Catalytic Group*, rather than a full member.

- *The EAG suggests that the GFP makes further efforts to define its role, taking into account past experience; the Development Group should serve as the GFP's de facto steering committee; and clear roles and selection mechanisms be defined for the Development and Catalytic Groups.*

#### **Food and Fuel Prices and Biofuels:**

Rapidly growing demand for agricultural goods to produce biofuels and the rising incidence of fuel prices in the cost of food production has linked food and energy issues in ways that were hardly imaginable just a short while ago. Large increases in food, fertilizer, and fuel prices greatly increase the opportunity costs of land that could potentially be used for agriculture. That, in turn, is likely to greatly increase pressure on forests and the costs of most REDD initiatives. Higher agricultural prices encourage both commercial farmers and small-scale subsistence producers to expand their production, and higher energy costs make it more likely that any supply increase will come from devoting more land to agriculture, rather than from higher yields. Higher food and fuel prices will probably also induce more illegal and informal production of timber and non-timber forest products and illegal land clearing for agriculture, and that may hinder efforts to promote Forest Law Enforcement and Governance (FLEG).

Given the greater demand for land and pressure on forests it will probably be much more difficult in the future to justify large-scale expansions of strictly protected areas. That makes it all the more important for the World Bank to strengthen its efforts to support multiple use and sustainable use approaches to forest management, as well as afforestation, reforestation, and land restoration.

To make sensible policy decisions about agriculture, forestry, and land use in the next context will require much more information than currently available. The EAG congratulates the World Bank and the FAO for its recent analytical work on biofuels. Going forward, there is also a urgent need to improve our understanding of how the changes in food, fuel, fertilizer, and forestry prices are likely to affect forests, forest dependent people and poor people more generally, land use, tenure, and the demand for solid biomass, and the magnitude of those effects.

- *The World Bank should emphasize more sustainable use and multiple use of forests and forest restoration and invest in additional analytical work focused on how changes in commodity prices will affect forest-related issues.*

#### **Conflict and Post-Conflict in Forested Regions:**

The various presentations given to the EAG during the meeting provided stark reminders of how prevalent conflict and post-conflict situations are in forested regions among countries where the World Bank currently engages in related activities. This includes Colombia, the DRC, India, Indonesia, Liberia, Mexico, Nicaragua, Republic of Congo, and may include Angola, Bosnia Herzegovina, Cote D'Ivoire, Guatemala, Pakistan, Philippines, Solomon Islands, Sri Lanka, Sierra Leone, Sudan, Surinam, in the future.

Conflict and post-conflict situations present quite distinct threats and opportunities for work related to forests. Government forestry and conservation institutions are typically either absent from the areas affected or extremely weak. While armed conflicts have mixed effects on forest resources, threats to forest resources typically increase in post-conflict situations. Poorly designed and managed forestry and conservation initiatives can fuel future conflict, while attempts to accelerate economic recovery and settle former combatants and displaced people often have extremely negative effects on forests.

- *The World Bank should conduct comparative analysis that allows it to identify best practices for addressing forest-related issues in conflict and post-conflict situations and apply those best practices in its operations.*

#### **Human Resource Development:**

In recent years the World Bank has done relatively little to support professional and technical education in topics related to forests and forestry. It has largely assumed that other donors, national governments using other funding sources, private companies, or individual families make the necessary investments.

To some extent this has occurred in Middle Income Countries and a small number of countries that receive particularly high levels of donor assistance. However, this has not been the case in many poorer countries. High mortality rates among professionals as a result of HIV-AIDs, rapid out-migration, and political instability and armed conflict have further aggravated this problem. As a result, there are now many countries, particularly in Sub-Saharan Africa, that have fewer well-trained professionals and technicians in fields related to forests than they did fifteen or twenty years ago, and that lack the critical mass of foresters, ecologists, social scientists, and other professionals they need to seriously address the major forest-related challenges their countries face.

The problem is especially acute when it comes to forest-related topics that have emerged recently or where global thinking has evolved quite rapidly. Key examples of this include topics such as community forestry, forests and climate change, forest law enforcement and governance, forest tenure, and ecosystem management, among others. There is an urgent need for training on these topics at the professional, technical, and community levels.

The EAG does not expect the World Bank to single-handedly solve these human resource problems, but nor can it afford to completely ignore them. Without improvements in this area, in many countries World Bank operations will not be able to meet their objectives. Thus, it is in the Bank's own interest to assess the human resource situation related to forests in countries where it operates where this is likely to be a major issue and to provide leadership within the donor community in mobilizing funding and technical resources to address the issue.

- *The EAG encourages the World Bank to give greater attention to forest-related training and education, particularly in Low-Income and post-conflict countries, and to do analytical work and provide leadership within the donor community on the topic.*

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

During this meeting the EAG had greater opportunity than in past meetings to interact with colleagues from the IFC and learn about their activities. Their commitment and willingness to engage in open dialogue were impressive, as were some activities they presented.

Based on these discussions, the EAG remains convinced that large untapped opportunities remain for the IFC to do more analytical work and loans jointly with their IBRD colleagues and to focus more on Small and Medium – Sized Enterprises (SMEs), and is still concerned that the IFC has failed to adequately address safeguards issues related to third party suppliers of raw materials. The IFC also urgently needs to support serious efforts to evaluate the impact of its forest-related loans on poverty and employment as well as the impact on forests of their loans to extractive industries.

- *The IFC would be well advised to conduct more joint forestry activities with the IBRD, provide greater support to Small and Medium-Sized Enterprises, address safeguard issues related to third party supplier, and sponsor rigorous evaluation of the impacts of its activities.*

#### **World Bank Staffing Issues:**

On multiple previous occasions the EAG has brought to the attention of Bank management its concern that the Bank lacks sufficient staff with appropriate profiles to address the large forest-related challenges the Bank has taken on without exposing itself to excessive reputational risks. This is no exception. To-date the EAG has yet to see real progress on this issue, and there can be little doubt that the growth of the FCPF and the establishment of the GFP and FIF will put new demands on Bank staff that the institutional is currently not able to meet.

- *The EAG strongly urges the World Bank to hire ten new professionals in the central teams and regional divisions over the next year to work on forest related issues, using a mixture of Bank Budget and trust funds.*

#### **Summary:**

In summary, while the World Bank has made progress on several topics since January 2008, the EAG is still concerned that it in some aspects remains behind the curve, given the rapid increase in interest in forests and climate change and other forest – related topics both within and outside the Bank. The following comment from our previous letter remains as true today as it was eight months ago... *"With regards to staff in particular, the Bank continues to lack the critical mass and mix of expertise that are required to meet the demands and the growing focus on public goods. Secondments and short-term trust fund appointments will not suffice to fill the gap."*

The meeting also highlighted some relatively new topics or topics that have only begun to gain the attention they deserve that the Bank would be well-advised to give greater attention to. These include the implications of rapid changes in food, fuel, and fertilizer prices, the growing demand for biofuels, the special needs of conflict and post-conflict countries, and the growing deficit of well-trained professionals and technicians in many poor and post-conflict countries.

As always, the External Advisory Group (EAG) remains committed to working with the World Bank to help it meet these challenges. We understand it is time for several members to rotate off the group and believe the Bank should have full leeway in determining how and when that happens. Hopefully the future composition of the EAG will have a better gender balance and will continue to have a good balance in terms of regions, professional backgrounds, and the types of stakeholders the members work with.

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 January 12 and 13<sup>th</sup>, 2009. We look forward to having the opportunity to meet with you and your team on that occasion.

Sincerely,

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