

Mr. Ian Johnson

Vice President
The World Bank
MC-4-409
1818 H Street, N.W.
Washington D.C. 20433
October 30, 2003

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Dear Vice President Johnson,

As the External Advisory Group for the implementation of the World Bank's new forest policy and strategy (EAG) we would like to share some thoughts with you on the Bank's environmental and social safeguard policies concerning structural adjustment and other policy-based lending. As you know, during consultations about the Bank's new forest policy a wide consensus emerged that unintended impacts of the Bank's policy-based lending often substantially overshadow, and sometimes undermine, the contribution that the Bank's forestry investment operations make to the equitable and sustainable management and conservation of the world's forests. Given the great magnitude of these effects and the fact that policy-based lending constitutes a large portion of the Bank's total operations we believe the Bank must find some way to adequately address this issue for its new forest policy and strategy to be credible.

The EAG believes the issue is not whether provision should be made to safeguard forest from the negative impacts of policy-based lending; President Wolfensohn has already given his assurance that the Bank would address this issue in the context of OP8.60, but rather the nature of such a safeguard. Our advice is aimed at helping the Bank identify a workable and flexible safeguard modality based on adaptive management that reinforces "due diligence" and avoids the need for onerous procedures that would increase administrative burdens and unnecessarily delay adjustment operations.

We recognize that policy-based lending can, and often does deliver both positive and negative forest-related impacts and that in many cases it is impossible to predict accurately how those impacts will manifest themselves. In real life, there are often unavoidable trade-offs between different policy objectives and the achievement of specific environmental objectives cannot always be assumed to be paramount in every case. Our starting point is that the above mentioned trade-offs need to be better understood and that the impact of adjustment lending on forests ought to be monitored adequately.

We acknowledge that there will be situations where the Bank has to proceed with adjustment loans even though this entails assuming some negative environmental impacts. However, with better knowledge of the likely nature and extent of the trade-offs involved, we would hope that in many cases the negative forest-related impacts of policy-based lending would lead the Bank to modify its lending program, either by changing specific provisions of the policy-based loans, complimenting them with investment projects that would mitigate some of their negative effects, or a combination of both.

The key thing is that the World Bank and its client countries must have the information and the capacity to assess the environmental and social impacts of policy-based lending and the potential trade-offs and to take appropriate actions. At present, both the information and the capacity is clearly lacking. While the Bank should be strongly commended for its recent efforts to pilot different approaches to assessing the forest-related impacts of its adjustment loans we are concerned that these efforts remain marginal compared with the magnitude of the problem and the complexity of the issues involved.

The EAG is fully cognizant that assessing the forest-related impacts of policy-based lending is more difficult and complex than doing environmental impact assessments for sector-specific

investments projects. However, initial efforts both within and outside the Bank show that these difficulties are not insurmountable, and we are confident that the Bank could make major progress in this direction if it was determined to do so.

In principle, we do not believe the best approach for this sort of problem is to add new checklists or bureaucratic requirements that all policy-based lending must comply with. We are also aware that policy-based lending often requires short preparation periods and involves rapid disbursements, which makes it more difficult to do in-depth analysis of their forest-related impacts.

The evidence suggests the best way to deal with both of these problems is for the Bank to invest up front in good analytical Economic and Sector Work in key forest countries and other countries where one might expect future adjustment policies to have large impacts on forests. This combined with a rapid assessment of potential social and environmental issues associated with specific loan operations, effective monitoring, and a political commitment to address problems when they arise should be sufficient. A safeguard built on adaptive management approaches that focus on learning, rather than command and control checklists, are preferable and will ultimately give better results. However, for the Bank to credibly argue it is taking a learning approach it will have to clearly commit itself to investing substantially more resources and institutional attention to these issues than it currently does. Otherwise the only real alternative for addressing the negative forest-related impacts and trade-offs involved in policy-based lending would be to extend the existing safeguards contained with OP4.36 to development policy support operations.

Until such time as an appropriate adaptive management approach is put in place to address these issues, it seems premature to remove any existing safeguards, particularly those contained within OP 4.01 on Environmental Impact Assessment, that cover policy based lending. Specifically, we see no justification for exempting Sector Adjustment Loans from existing safeguards, which they are currently subject to.

The EAG also believes that any discussion of the forest-related impacts of the World Bank's policy-based lending must inevitably take into account the close link between Bank operations and those of the International Monetary Fund. Since much of the World Bank's policy-based lending explicitly requires that countries comply with the conditions stipulated in their agreements with the IMF this directly associates the Bank with both the positive and negative consequences stemming from the targets and conditions in the IMF agreements. Substantial evidence has shown that the fiscal, monetary, trade, finance, and labor policies influenced by IMF agreements have major impacts on forests and forest-based activities, and these impacts should not be ignored.

People around the world are increasingly recognizing that good forest management that helps alleviate poverty requires an appropriate enabling environment, in which macroeconomic, agricultural, transportation, conservation and energy policies play a major role. The World Bank can and should be a world leader in managing the complex issues and trade-offs that reality implies. We look forward to working closely with the Bank to help meet this challenge. You should feel free to share this letter with whoever you feel is appropriate, and if you would like any further input or clarification of our thinking on these issues, please do not hesitate to ask.

Sincerely,
External Advisory Group