

March 9, 2008

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,

I am writing on behalf of the External Advisory Group (EAG) on the Implementation of the World Bank forest strategy to formally inform you of the main conclusions and recommendations emanating from our 6th meeting, held in Washington D.C. on January 14-15, 2008. I look forward to your reactions. Consistent with past practice of the EAG, we request the Bank make this letter available to the public.

This is a critical moment for the World Bank's engagement with forests. The recent global consensus about the urgent need to reduce carbon emissions resulting from deforestation and forest degradation and the Bank's decision to play a leading role in that effort have greatly raised the profile of forests within the Bank, and indeed globally. President Robert Zoellick's recognition that global public goods such as forests must be genuinely mainstreamed within the Bank's regular operations has re-enforced that. These shifts have opened up new opportunities for the World Bank and its partners to make progress on forest-related issues that heretofore appeared intractable. The EAG welcomes the Bank's renewed willingness to take on forest issues and is convinced that success in these efforts would boost the World Bank's image and credibility.

At the same time, the recent critical report by the Inspection Panel about the World Bank's work on forests in the Democratic Republic of Congo (DRC) and the controversies surrounding International Finance Corporation (IFC) loans to forest processing facilities and other investments that might affect forests highlight the risks to the Bank's reputation of engaging in activities that impact forested areas if these do not meet the basic standards of best practice outlined in the Bank's safeguard policies. Clearly the Bank's increased attention to forest-related issues has made the stakes higher than ever.

Follow-up on previous evaluations and recommendations:

The main measures required to improve the World Bank's performance related to forests and the implementation of its 2002 forest strategy have been repeatedly noted by previous evaluations, consultations, and statements by the EAG. These include: 1) Investing more in World Bank staff focused on forests, 2) Doing more forest-related Economic and Sector Work (ESW) linked to Bank operations, 3) Focusing more on livelihood and poverty issues in Bank forest operations, 4) Improving the way forest issues are addressed when preparing and implementing Development Policy Loans (DPLs), 5) Applying appropriate safeguards for IFC loans to forest processing facilities, 6) Improving the quantity and quality of attention to forests in the Bank's regular planning instruments such as Country Assistance Strategies (CAS), and 7) Creating new incentives for Bank regional Vice Presidents, Country Directors, and Task Managers to implement the Bank's 2002 forest strategy.

Nevertheless, the Bank has made disappointingly little progress on most of these points, despite having committed itself to do so several times over the last decade. As a result many organizations and individuals have begun to question senior management's commitment to addressing these issues.

The most recent exercise that raised these issues was the independent Mid-Term Review (MTR) of the implementation of the World Bank's forest strategy. The EAG is satisfied with the quality of that review and generally supports the review's recommendations. We note that the Bank's initial response to the MTR focuses almost exclusively on the central Forest Team and hardly refers to any steps to be taken by senior Bank management or other staff at headquarters and in the regions. That is unfortunate, since those other groups' full participation is essential for the review's recommendations to be fully implemented. It is our hope that the Bank's senior management will prepare a more complete and comprehensive response to the MTR's recommendations before the Independent Evaluation Group (IEG) completes its own evaluation.

- *The EAG encourages the World Bank's senior management to adequately implement the recommendations of the MTR and previous evaluations and EAG letters and to prepare a fuller response to the MTR's recommendations before the IEG completes its evaluation.*

The Global Forest Partnership:

The conclusions and recommendations in the EAG's previous letter to you mostly focused on the Global Forest Partnership (GFP). However, much has happened since then and it seems appropriate to comment on these recent events.

We congratulate the World Bank and the International Institute for Environment and Development (IIED) for carrying out a comprehensive and inclusive consultation focused on the GFP and we are encouraged by the Bank management's commitment to moving forward with the overall initiative. These steps are improving the Bank's credibility with the broader forest community.

The EAG takes note of the independent consultation's preliminary findings and endorses the consultation's recommendation that the Bank should take a phased approach to creating the GFP; the first phase of which would consist largely of rationalizing the Bank's current trust funds and partnerships into a single more coherent mechanism.

Moving beyond such a first phase to a more inclusive GFP that involves tasks and partners not necessarily focused on the Bank's operations will require much more complex negotiations, a more programmatic approach involving various donors, and more balanced governance mechanisms, in which developing countries play a major role. We agree with the consultation's conclusion that in these later stages of the partnership's development the Bank's role should be to facilitate, rather than to drive, the efforts.

Full implementation of the GFP will be difficult, if not impossible unless the Bank invests more funds into staff resources. Most regular Bank staff working on forest issues are already over-committed and would not be able to take on major new activities.

One specific point that concerns the EAG related to the initial process of rationalizing the Bank's current partnerships into one single mechanism is the Bank's recent decision to commit additional funds to the Critical Ecosystems Partnership Fund (CEPF) outside the proposed new partnership framework. While we are not questioning the role of the CEPF we are concerned this decision threatens to undermine the credibility of the broader effort and will inevitably provoke requests for similar special treatment by other partners.

- *The EAG supports the idea of a phased approach to creating the GFP, beginning with the rationalization of the Bank's current trust funds and partnerships. The Bank should facilitate but not drive the later phases of the GFP.*

The Forest Carbon Partnership Fund (FCPF) and the Forest Investment Fund:

Global warming is shaping up to be one of the key issues, if not *the* key issue, of this generation. Considering that deforestation and forest degradation account for about one fifth of carbon emissions and that many activities responsible for forest loss provide little income per hectare, Reduced Emissions from Deforestation and Degradation (REDD) must be part of the solution. REDD activities present a major opportunity to promote sustainable forest management more generally and can contribute to all three pillars of the Bank's forest strategy: reducing poverty, contributing to sustainable economic development, and protecting environmental services.

However, REDD initiatives will only succeed if they are fully integrated into a broader approach to forests that addresses governance and livelihood issues on the ground. In most countries there are major conflicts over who owns and controls forests and how to use them. As the Bank's own work on law enforcement and governance has highlighted, many governments lack the capacity to implement and enforce their official policies throughout the forested regions. Under such circumstances most governments will find it hard if not impossible to deliver on binding commitments about how forests will be used. Similarly, unless major efforts are made to recognize the rights of indigenous people and other forest dwellers and increase the incomes of families in forested regions it will be hard for governments and the World Bank to defend the legitimacy of the REDD activities they undertake.

This implies that efforts to improve forest tenure, reform and enforce forest laws and regulations, strengthen government and non-governmental forest agencies, promote sustainable use of forests, and improve the well-being of families in forested regions must be integral parts of the World Bank's approach to REDD. Without these REDD efforts are unlikely to fare any better than previous failed attempts to reduce the rate of tropical deforestation.

In this regard, the EAG welcomes the Bank's initiative to create a large Forest Investment Fund that could address these related issues and complement the FCPF. It will be important for the Bank to ensure the new fund coordinates with and complements efforts to finance the implementation of the Non-Legally Binding Instrument on Forests agreed upon by the United Nations and that it doesn't compete with those efforts. It is also important that the Bank demonstrates its commitment to the new fund by investing some of its own Bank Budget in staff and analytical work to support the fund, rather than relying almost exclusively on short-term trust fund support as in the past.

To-date, there has not been sufficient coordination and communication between the FCPF team and other groups working on forests within the Bank. Unless measures are taken to address this, it is likely to get worse as the FCPF team faces increasingly pressing demands to deliver products in a short-time framework. It will be important to create an operational governance structure, which clearly defines tasks and procedures of collaboration between the Carbon Finance Group, the SDN Forests Team, and the operational units who are in charge of implementing the program on the ground.

The FCPF has yet to make sufficiently clear how it expects to achieve reductions in deforestation on the ground. That is largely what the REDD strategies are expected to explain. However, it is by no means self-evident that the countries will be able to come up with effective strategies and the Bank will have to give serious consideration to the implications of that.

The Bank cannot afford to fail in this area. The high profile launch of the FCPF at the Conference of the Parties (COP) in Bali greatly raised expectations about what the Bank will achieve and the Bank faces huge potential reputational risks if it fails to deliver.

- *The World Bank should use the Forest Investment Fund, improved coordination between the FCPF and others working on forest in the Bank, and other mechanisms to address governance and livelihood issues that are key to the success of the FCPF.*

The DRC Inspection Panel:

The EAG found the materials the Bank provided on the DRC Inspection Panel and the presentation by Bank staff on the topic useful. We are aware some stakeholders would like us to comment directly on the Panel's findings and the management response. However we do not believe it is our role to second guess the Inspection Panel, which was able to examine this case in much greater detail than the EAG could possibly do. That being said, the case does point to some general lessons that do fall squarely within the EAG's mandate.

First of all, we can not help but feel that had the Bank adequately addressed a number of issues raised by previous evaluations, consultations, and EAG communications there probably never would have been a DRC inspection panel. We are referring to the need for greater staffing, more emphasis on livelihoods and poverty in the Bank's forestry activities, and better mechanisms for addressing safe-guard type issues in Development Policy Loans (DPLs.)

Secondly, the DRC is only one of a number of forest rich countries in post – conflict situations, and all countries in such situations face particularly great environmental and social risks. Given that these countries face similar issues it would be important for the Bank to develop a general approach to working on forestry issues in such situations. That approach needs to simultaneously involve solid analytical work and development activities on the ground and those activities must complement, rather than substitute, one another. As a general rule, experience suggests that support for reactivating industrial logging in these countries is usually not the best entry point for engaging there.

Third, the EAG fully supports greater Bank engagement in forest issues in the DRC in the future and feels it would be a mistake for the Bank to reduce its activities there as a result of the Inspection Panel report. Future Bank activities will need to emphasize livelihoods, governance, and the rights of forest-dwelling people, irrespective of whether they focus on timber production, protected areas, or carbon. There is no reason to believe work on protected areas and environmental services will necessarily raise fewer issues when it comes to the rights and livelihoods of forest dwellers, particularly indigenous people, than work related to managing forests for timber production.

- *The World Bank should increase its engagement in forestry issues in the DRC and other post-conflict countries but needs to develop an approach for such engagement that incorporates the recommendations of previous evaluations and that adequately addresses the rights and livelihoods of forest dwellers.*

Middle – Income Countries:

Most of the World Bank's main forest rich client countries in Latin America, Asia, and Eastern Europe are middle income countries that are not eligible for IDA funding (e.g. Brazil, Colombia, Mexico, Peru, Venezuela, China, and Russia). Increasingly these countries are signaling to the Bank they are only interested in support for forest activities if the Bank can demonstrate it adds real value. The fact the Bank is finding it increasingly

difficult to use Global Environment Facility (GEF) funds to make its loans more attractive is likely to re-enforce that trend.

At the same time if the World Bank is serious about addressing Global Public Goods issues related to forests it cannot afford to disengage from work with these major forest rich middle income countries, nor can it afford to take a strictly demand-driven approach whereby it waits for the countries to request a loan before seriously engaging.

Instead the World Bank must take a much more proactive approach and demonstrate to these countries that it has something useful to offer. Potentially, the World Bank has a unique ability to provide world-class technical assistance, analysis, information, and contacts and convene policy dialogues, among other things. Many middle – income countries still look to the World Bank for this sort of support and some would be willing to take out loans as part of a larger package. However, that will require the Bank to invest up-front in high quality staff and analytical work and in building alliances with key partner organizations and to actively market what it has to offer.

- *The World Bank needs to proactively engage on forest issues with middle-income forest rich countries, but will only be able to do that if it demonstrates it can provide world-class technical assistance and analysis.*

In summary, this is a watershed moment for the World Bank with regards to forests. Never before have both the opportunities and risks of working in this area been so great. The demands on the Bank to engage with forest issues, particularly as they pertain to climate change, are growing rapidly, but the Bank does not yet have the staff, tools, and policies to meet the challenge. The Bank also faces major challenges in demonstrating to middle-income countries that it can add value to their efforts when it comes to forests.

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 External Advisory Group (EAG) remains committed to working with the World Bank to help it meet these challenges. We are extremely grateful to the Forest Team and other Bank staff for the presentations and appreciated the opportunity to discuss with you and other Bank staff our preliminary conclusions and recommendations. The next meeting of the EAG has been tentatively scheduled for June 16 and 17th, 2008. We look forward to having the opportunity to meet with you and your team on that occasion.

Sincerely,

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