

**Ms. Katherine Sierra**  
Vice President, Sustainable Development  
The World Bank  
MC-4-409  
1818 H Street, N.W.  
Washington D.C. 20433

10 September 2007

Dear Ms Sierra,

When the Executive Board of Directors approved the current Forest Strategy in October 2002, it mandated the formation of an *ad hoc* External Advisory Group (EAG) to provide independent advice on major issues pertaining to the implementation of the Bank's Forest Strategy. The EAG held its 5<sup>th</sup> meeting on the 18<sup>th</sup> and 19<sup>th</sup> June in Washington and the following are the main recommendations which we, the Group members, would like to bring to your attention. On behalf of the EAG, I would like to thank Mr Dieterle and his team for organizing a full and focused agenda and for ensuring that many Bank staff from Sustainable Development were available to meet with us. As is the usual procedure we would hope that this letter and any reply that you would care to make are publicly disclosed in due course via the Bank's website.

**a) The review of the implementation of the World Bank Forest Strategy**

The EAG believes that the review carried out by Arnaldo Contreras Hermosilla and Markku Simula is both thorough and accurate. We concur with many of the recommendations and would encourage Bank senior management to now prioritize their full implementation. In particular, we are somewhat worried to note that a number of the major concerns highlighted by the recent review are almost exactly the same as those identified in earlier assessments, most notably the 1999 Operational Evaluation Department's evaluation of the Bank's 1991 forest policy. These include:

- Limited provision of Bank resources for forest-related economic and sector work
- Failure to provide sufficient internal incentives to encourage Country Directors to comprehensively address forests in Country Assistance Strategies
- Failure to mainstream forests into macroeconomic support instruments such as Policy Lending and Poverty Reduction Strategy Papers (despite the clear provision for this in OP8.60)
- Limited emphasis on the Bank's central mission of poverty reduction in many of the forest loans and GEF grants

We would like to be very clear that the limited progress made on these fronts over the past decade should in no way detract from the excellent work that the Forest Team has undertaken, both internally and externally, to champion a comprehensive implementation of the Forest Strategy. In this respect, the shortcomings listed above are more systemic in nature falling beyond the purview of the Forest Team and individual operational task managers, and can only be resolved by a high-level management response. We would respectfully caution that failure to address these recommendations will leave the Bank's reputation continuously exposed, not only in terms of immediate forest sector operations but also with respect to macro-economic interventions and many of the promising initiatives that the Bank is now championing to address climate change, such as biofuels, land-use based emissions reduction and carbon sequestration.

## **b) The Global Forest Alliance (GFA)**

The EAG reviewed the proposal for a Global Forest Alliance and welcomed the spirit and intent of this initiative. We believe it could help streamline the coherence and management of the Bank's various trust funds and partnerships on forests, improve the profile of forests both internally and externally and provide the necessary environmental and social context for the Forest Carbon Partnership Facility (FCPF) to succeed. In this respect, we view the GFA as a potentially effective mechanism for the implementation of the Bank's Forest Strategy and a solid basis on which to follow through on the recommendations of the recent external review.

That said, we have several observations and recommendations for your consideration:

- There is a compelling case to be made that the GFA must be explicitly linked to, and sequenced to coincide with, the FCPF. Failure to do so would mean, at best, that the promised synergies between improved forest management, forest-related poverty reduction and emerging carbon markets could well be missed or, at worse, that the emerging forest carbon market would inadvertently undo recent positive developments in forest sector reform. While we recognize that there are many complex and operational issues that need to be resolved in order to achieve this, we also stress the importance of harmonizing the definition of the governance arrangements for the two initiatives. In order to help expedite such a process, we see little value in a GFA stakeholder consultation process aimed at developing a range of governance options for the Bank to consider. Rather, we believe that the scope of the consultants work should be limited to testing and refining, via multi-stakeholder consultations, a single governance model suggested by the Forest Team.
- We also discussed at length the potential to deploy the GFA as a financial instrument in support of the Non-Legally Binding Instrument (NLBI) agreed at the seventh session of the United Nations Forum on Forests - UNFF. While such an eventuality should not be discounted we believe it is premature to make detailed provisions for this option in the current GFA planning process. To do so would inevitably predicate against optimizing GFA and FCPF synergies which we believe is currently of the utmost importance with respect to the implementation of the Bank's Forest Strategy.
- With respect to the substance of the GFA proposal, we suggest that the key message of the initiative should go beyond simply "reducing deforestation" and more broadly reflect the three pillars of the Bank's Forest Strategy. Furthermore, while we welcome the ambition embodied in the proposed GFA targets we suggest that the Bank might wish to reconsider whether this initiative ought to be predicated solely on a "narrow" target-driven basis. While centrally-imposed, global targets facilitate communication of a "big idea", we are concerned that they are not in keeping with the spirit of the Paris Declaration on Aid Effectiveness and could make attainment of country ownership and support for implementation all the more difficult. They also raise unrealistic expectations on what the Bank could be expected to deliver, given current available human and financial resources. We therefore recommend that:
  - i. The targets are reformulated as a global vision which explicitly aligns with the three pillars of the Forest Strategy and acts principally as a

framework to accommodate the definition of nationally-owned outcomes.

- ii. These reformulated targets (or vision) clearly articulate “ends” and not “means”. The current targets tend to mix “means” (certification and protected areas) with “ends” (improved livelihoods and GHG emissions avoidance).
- iii. It is made clear that the GFA will contribute to the achievement of this “vision” via certain strategic interventions but that the initiative in general, and the Bank in particular, is not held solely responsible for its ultimate success.
- iv. That the GFA’s expected contribution to the “vision” is a series of clearly articulated results presented in a style consistent with the Bank’s results framework.
- v. The Forest Team continues to develop the GFA in an open and transparent manner with particular emphasis on the involvement of southern civil society and the Collaborative Partnership on Forests.

### **c) Other forest-related issues**

The Forest Strategy Sourcebook: The EAG welcomes the completion of the Sourcebook and congratulates the Forest Anchor team on compiling such a comprehensive document. We have identified a small number of gaps which we suggest be addressed in subsequent versions of the sourcebook. These include:

- Forests and gender (especially gender-related poverty)
- Forests within the context of broader rural development
- Inclusion of a discussion of OP8.60 in Section 3 (Safeguards in forest activities). Although OP8.60 is covered in Chapter 6 and while we recognize that it is not a formal safeguard, we do believe that it is critical to proactively foster due diligence, from a safeguard perspective, with respect to minimising unintended negative impacts of development policy loans on forest ecosystems and associated livelihoods.
- Following on from the previous point and consistent with the findings of the external review, we suggest that consideration of “mainstreaming” in the Sourcebook be further expanded to provide clear guidance on how forest-related issues can be better incorporated into macro-economic support instruments such as Poverty Reduction Strategy Papers, Country Assistance Strategies and DPLs.
- Finally, given the comprehensive and authoritative nature of the Sourcebook, we suggest that provision is made for its wide distribution beyond immediate World Bank staff and partners.

Forest Team activities: The EAG recognizes the key role played by World Bank staff in supporting regional Forest Law Enforcement and Governance processes. We welcome the recent developments in Central America and East Africa and acknowledge the critical role played by the Bank in supporting follow-up activities in Europe-North Asia, Africa and East Asia.

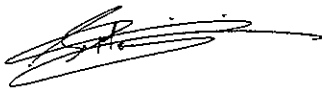
We believe that the Programme on Forests (PROFOR) is now starting to evolve into a well-focused instrument and in particular we note the critical contribution of the PROFOR- commissioned “Means of Implementation” paper in helping to resolve a difficult issue at the last United Nations Forum on Forests dialogue. We generally agree with the External Review’s observations and recommendations about PROFOR and welcome both the timeliness and direction of the Bank’s management response,

including refocusing future PROFOR activities around a limited number of key strategic themes. That said, we are a little concerned that a broad and open call for proposals, which is in many ways the centre-piece of this new *modus operandi*, will have high transaction costs and, by obliging Bank staff to review and comment on each proposal, may well inadvertently detract from PROFOR's overall strategic ambitions. A means needs to be found that permits a more directive thematic approach while fostering broad and inclusive collaboration in implementation of PROFOR activities.

The contribution of the IFC to the implementation of the Forest Strategy: Following on from issues that we raised with your predecessor, and despite the best efforts of the Forest Anchor team to enhance cooperation with their IFC colleagues, we remain concerned about several aspects of IFC operations and how these contribute to the implementation of the Forest Strategy. Since we first raised the issue in March 2005, we have seen little to convince us that IFC forest-related loans are explicitly and strategically contributing to rural poverty reduction. In the past we have been assured that the safeguard policy adopted by the IFC board in early 2006 would be as water-tight as the equivalent that governs IDA and IBRD lending. Yet, as illustrated by a high profile case late last year, interpretation of where IFC responsibility for due diligence ends is so narrow that the social and environmental impacts of sourcing raw material feedstock for forest industries is virtually ignored. We reiterate our opinion that the failure of IFC to coordinate the provision of private loans with IDA/IBRD's public sector interventions not only misses opportunities for a comprehensive approach to rural poverty reduction but risks undermining the Bank's central mission.

In conclusion, we would like to thank you and your colleagues for the time and attention given to the EAG. We have made a number of requests to the Forest Team that we hope would help us improve the collective guidance we provide to you, not least through regular and timely communication and sufficient advanced planning for future meetings. We have also stressed the importance of beginning to systematically replace individual members of the group. Given recent developments with the GFA and the FCPF, we are suggesting that the Bank might wish to convene the next face to face meeting no later than January 2008. More generally, we would like to encourage you and your staff to consider whether the EAG is meeting your specific needs and how you would like to see it proceed in the future.

Sincerely,



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External Advisory Group (EAG) on Implementation of the World Bank Forest Strategy

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