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Deputy Vice President
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December 22, 2008

Mr. David Kaimowitz
Chair
External Advisory Group on the Implementation of the
World Bank Forest Strategy
Emilio Castelar 131, Colonia Polanco
11560 Mexico D.F.
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Dear Mr. Kaimowitz,

Thank you for your letter of November 1, 2008, providing the conclusions of the External Advisory Group's 7th Meeting of June 16-17, 2008. We appreciate the time and thought you and the eight other members of the External Advisory Group invest in meeting regularly with the World Bank and in providing feedback and guidance on topics of relevance to the implementation of its Forests Strategy.

In step with the changing external climate you describe in your letter—an increased international focus on global warming and climate change—the World Bank's forestry - and climate change-related work has progressed very rapidly over the last ten months. This includes the finalization of the World Bank Group's Strategic Framework for Development and Climate Change, the operationalization of the Forest Carbon Partnership Facility (FCPF), and the launch of the design process of the Forest Investment Program (FIP).

With respect to consultations on the FCPF, specific guidelines have been issued to help countries prepare their Readiness Plan. Countries are requested to submit a Consultation and Outreach Plan as part of the Readiness Plan, which details the type and extent of the consultations to be carried out through the preparation and implementation phases of national REDD activities, giving special attention to forest-dependent peoples.

When the EAG last met, the World Bank had just been given a mandate to develop the Forest Investment Program by December 2008, within the framework of the Strategic Climate Fund. We share the sense of urgency in defining the program's scope but feel the success of the FIP will depend on a design that benefits from the inputs of a wide variety of experienced stakeholder groups. It was clear in preliminary consultations, and then in the FIP's First Design Meeting (held in Washington, D.C. on October 16-17, 2008—see Annex 1 for Chairman's summary), that the complexity of the issues to be tackled

requires that more time be allotted to the design process. Indigenous peoples' representatives, conservation groups, private sector operators, donor governments, and developing country representatives all stressed the importance of including forestry communities in the design and implementation of the FIP if it is to have lasting impact. Ensuring this inclusiveness will necessarily take time.

Although the FIP is still in a formative stage, the Design Meeting emphasized a holistic, programmatic approach to be developed at the country level, in close consultation with all stakeholders and taking into account national circumstances. The Meeting participants felt the FIP should focus on pilot activities that build upon, and complement, the Forest Carbon Partnership Facility (FCPF), UN-REDD, and similar initiatives to ensure synergies and avoid unnecessary duplication. The Meeting also concluded that the FIP should look at a broad range of investments in sustainable forest management, capacity building, and governance and activities outside the forest sector that impact forests.

In terms of process, it was agreed that, in moving forward on the design of the FIP, it is important to have a fully consultative process. The Meeting agreed that the next step would be to invite a working group comprising invited experts of governments, NGOs, indigenous peoples, the private sector, and UN agencies, to prepare a preliminary design document for consideration by the Second Design Meeting. The working group will have its first meeting in Washington, DC on January 8 and 9, 2009.

The World Bank welcomed the constructive discussions with, and important recommendations from, the EAG regarding the Growing Forest Partnerships (GFP) initiative. The recommendations were also well received by the other institutions active in the GFP. The Catalytic Group is comprised of IUCN, FAO, and the World Bank. In line with the EAG's recommendation, IIED supports the Catalytic Group with communications, capturing lessons learnt, process enhancement, and quality assurance. The Catalytic Group is looking forward to further guidance from, and close collaboration with, the EAG for GFP implementation over the next years.

In light of growing crises in food and fuel supply and the growing debate over biofuels, the Advisory Group raised the need for the World Bank Group to emphasize the multiple uses of forests and forest restoration as well as invest in additional analytical work focused on how changes in commodity prices affect forest-related issues.

The World Bank Group is working through the Program on Forests (PROFOR) to support analytical work on forest restoration in collaboration with IUCN and WRI. The first phase of the analytical work will involve conducting worldwide map-based and analytical assessments of the location, size, and characteristics of forest areas that are available and suitable for landscape restoration. The subsequent phases will involve developing and piloting forest restoration approaches in select countries. PROFOR is also collaborating with the World Bank's Land Working Group to explore how to consolidate information on the impact of changes in agricultural commodity and energy prices on land globally (especially forest land).

IFC values the input from the EAG and particularly appreciates having had the opportunity to engage in a more direct and participatory manner at the last meeting in June. Since that meeting, the ramp-up in efforts across the World Bank Group to mitigate climate change has given further definition to IFC's strategic priorities in the sector which now include: afforestation/plantations; sustainable management of natural forests, resource efficient downstream processing/manufacturing; bio-mass generation/co-generation; recycling and waste management; and increased utilization of waste wood and low-value standing timber. Notwithstanding the current global financial difficulties, long term trends in favor of greater reliance on renewables, and increased regulation to ensure sustainable sourcing of wood, only serve to underline the validity of continuing our investment and advisory service focus on these priorities. Most importantly, investments in these priority areas also directly serve the poverty alleviation objectives of the Bank Group.

With specific reference to the EAG's comments with respect to IFC in its recent letter:

- *Application of safeguards (performance standards) for third party suppliers.* Enterprises growing wood via plantations or harvesting from natural forest must comply with IFC environmental and social safeguards which require FSC or equivalent certified operations. This includes the supply chains that either the raw material supplier or a downstream user of the wood purchases from. In cases where third party suppliers have not yet achieved certified status, IFC works with the primary project sponsor to develop a time-defined plan for achieving certification of its suppliers. If necessary, additional financial and technical support is provided to enable implementation of the plan which is then monitored over time.
- *Impact of IFC investments on poverty and employment.* IFC agrees that better tracking/measurement of poverty, employment and other measures of the development impact of IFC investments in the forest sector are necessary. We are taking steps to improve through more rigorous implementation of a system known as "Development Outcomes Tracking System" (DOTS). This will not only enable us to more thoroughly report on successful employment and income-raising outcomes such as the 180,000 poor farmers involved in "farm forestry" in India and China who are supplying IFC clients but also to track environmental and other impacts more rigorously and reliably.
- *Greater support to small and medium-sized enterprises.* There is no question that many private operators in the forest sector are small and medium-sized businesses which, as such, fall below IFC's threshold for mainstream investment. Local financial intermediaries are therefore the more likely means of directly supporting forest-based SMEs. In addition, larger wood products-based enterprises rely on SME suppliers for both raw material and services. IFC works via its advisory services and the anchor company to support the capacity and sustainable operations of these SME suppliers.

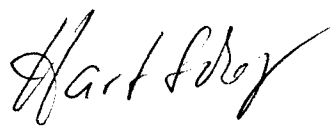
- *Joint forestry activities with the World Bank.* IFC is participating in the design efforts associated with the FIP to identify possible use of those resources to potentially support climate change/sustainability-friendly private sector actions. These might include but are not limited to: chain of custody verification; certification support for smaller SFM operators; capacity building for contractors in sustainable harvesting methods; mapping of co-generation opportunities; improving access to the voluntary carbon market; and, development and replication of markets for eco-system services.

In addition, the most obvious linkage opportunity for greater explicit collaboration involves working more closely with the World Bank to identify countries which require improvements in their regulatory environment and enforcement capacities (a unique strength of Bank country-level engagement) which then enable follow-on investments by IFC in sustainable private sector operators in the forest sector. The World Bank and IFC are discussing how to strengthen this complementary engagement in a more explicit way, possibly targeting a few pilot countries.

With regard to the EAG's concern over World Bank's staffing for forest issues, different regions tackle the issue in different ways, and there have been some movements over the last two years. As a result, we felt it would be more accurate to provide an updated detailed table mapping staff who work on forestry. This will be ready for discussion at the next External Advisory Group meeting on January 12 and 13, 2009, but initial calculations show an increase of all staff of 28% from FY07 to FY09 in person-days allotted to forestry (see Annex 2). The increase in staff holding fixed-, co-term, or open-ended contracts (versus consultancies) is 37% (representing 87% of all staff).

We look forward to updating you further at the next meeting in January, and to receiving your continued guidance and ideas.

Sincerely,



Hartwig Schafer
Acting Vice President
Sustainable Development

Annex 1

CLIMATE INVESTMENT FUNDS

November 03, 2008

Chair's Summary
First Design Meeting for the Forest Investment Program
Washington, DC,
October 16-17, 2008

Chair: James Warren Evans
Director, Environment Department

Annex 1

1. The first Design Meeting for the Forest Investment Program (FIP) was held in Washington, D.C., on October 16-17, 2008. The meeting was chaired by Mr. Warren Evans, Director, Environment Department, World Bank. Participants attending included representatives from governments, UN agencies, NGOs, indigenous peoples, private sector, and other civil society groups. A list of participants is annexed to this summary.

Highlights of the Discussion

2. It was recognized that a principal objective of the FIP, as a program under the Strategic Climate Fund, is to pilot and demonstrate new approaches to forest management that lead to major impacts in reducing greenhouse gas emissions from forests.

3. The FIP should lead to reductions in deforestation and forest degradation and should promote policies and measures for improved sustainable forest management that lead to emissions reductions and protection and maintenance of carbon reservoirs, biodiversity benefits and ecosystem services, working with both public and private sector. It was recognized that FIP activities should be designed to address comprehensively the drivers of deforestation and degradation if it is to demonstrate how to capture the climate change mitigation potential of forests and lead to sustainable reductions of greenhouse gases and of the threats to deforestation along with other benefits of healthy forest ecosystems.

4. The goal of the FIP should be to pilot and demonstrate what can be achieved through scaling up of resources and activities so as to achieve transformational change at national level. The FIP should leverage other resources, including from the private sector.

5. In designing programs under the FIP, there is a need to build on the rich experience and lessons in forest management and biodiversity conservation regarding how to achieve sustainable forest benefits. This includes lessons concerning the importance of:

- (a) inclusiveness of stakeholders,
- (b) addressing the drivers of deforestation, including illegal logging and extra-sectoral developments,
- (c) adoption of a multi-sectoral approach, and
- (d) flexibility to ensure process for learning and sharing of lessons.

6. It should be recognized that reducing emissions from deforestation and forest degradation can promote co-benefits, including enhancement of resilience to adapt to the impacts of climate change. Forest activities financed under the FIP may serve to complement the aims and objectives of other relevant conventions, including the Convention on Biological Diversity and the UN Convention to Combat Desertification. The FIP should seek to demonstrate how forest investments to reduce emissions from deforestation and degradation and to maintain high forested areas in countries with low deforestation can also contribute to protecting biodiversity and the broad range of ecosystem services derived from forests.

Annex 1

7. The needs of local and indigenous communities should be addressed when designing and implementing actions at the country level, building on existing mechanisms for collaboration and consultation.

8. The FIP should take into account country-led priority strategies for forests and build upon complementarities with existing forest initiatives. Close cooperation with GEF, FCPF, UN-REDD, UNFF, CPF and bilateral programs is encouraged.

9. There was agreement that the FIP should be designed as a pilot program. The number of countries that would be included in the pilot program would need to be determined once there is a clear idea of the resources to be made available. In designing the pilot program, there should be scope to include sub-regional or regional pilots.

10. A holistic, programmatic approach should be developed at country level, in consultation with all stakeholders and taking into account national circumstances. The formulation of the program should be led by the government, and the country process should include sectoral ministries, other development partners, bilateral development agencies, NGOs, indigenous peoples, forest dwellers, the private sector and other stakeholders. Country programs should build on national forest programs, national development strategies, action plans for climate change and biodiversity, PRSPs, and assistance programs of the MDBs and bilateral agencies.

11. Consideration should be given to financing work on developing the technology necessary to ensure that the benefits from the management of forests can be measured and verified at the country level.

12. In designing a pilot program, it will be necessary to consider the criteria and procedures for selecting pilot countries. Procedures should be clear, transparent and inclusive. It was proposed that the pilot should seek to address different forest situations, including:

- 13.
- (a) demonstration of how to curb deforestation over the medium term (REDD),
 - (b) demonstration of how to lay foundations for sustainable management of forests in countries with extensive forested areas,
 - (c) demonstration of incentives to maintain existing carbon stocks and protect against triggering deforestation processes,
 - (d) systematic halt and reversal of degradation.

13. The FIP should build upon, and complement, the FCPF, UN-REDD and similar initiatives.

14. The design of the FIP should also describe the process and outline guidance for the development of pilot country programmatic plans. It is essential to ensure that the FIP includes results indicators and measurement.

Annex 1

Steps for moving forward

14. It was agreed that in moving forward on the design of the FIP, it is important to have a fully consultative process. It was agreed that the next step would be to invite a working group, comprising invited representatives of governments, NGOs, indigenous peoples, private sector and UN agencies, to prepare a preliminary design document for consideration by the Second Design Meeting. The working group should be convened, if possible, before the end of the calendar year, and the second design meeting should be convened during the first quarter of 2009
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Annex 2

Survey on Bank Staff working on Forest related Projects			
All Regions+FCPF, PROFOR, FLEG			
Sectors: ARD, ENV			
Category of Employment	FY07	FY08	FY09
Forestry Specialists - open ended	12.35	12.35	15.05
Natural Resources Specialists working on forests - open ended	11.38	13.01	14.56
Fixed Term Contracts	3.00	3.00	4.00
Co-terminus Contracts - renewable	3.5	3.95	5.2
ETC Contracts		1	1
STC Contracts	4.49	6.18	4.72
Total	34.715	39.49	44.53
Comment:	The table includes staff working on forest related projects or projects with a forest component, but not forestry-related work in the energy sector nor GEF. Part time assignments are expressed in fractions of a full-time job.		