

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

Dear Mr. Kaimowitz,

Thank you very much for your letter of March 9, 2008, addressed to Ms. Sierra, summarizing the outcomes of the External Advisory Group's (EAG) 6<sup>th</sup> Meeting.

As always, your group's assessments provided valuable external feedback, and your recommendations are important contributions to the Bank as it continues to seek to improve the implementation of its forest strategy.

In your letter, you raise concerns over slow progress on measures the World Bank should take to improve its performance in forest-related work, such as doing more economic sector work and improving the way forest issues are addressed in development policy lending. Progress is continuous in nearly all the areas you mention, and we would like to dedicate time during your next meeting to the work being done across the Bank Group in these areas. Meanwhile, we have provided illustrations of some progress in an annex to this letter.

Allow me to provide some feedback and reactions to your other points and recommendations.

As you will hear more during your upcoming meeting, progress is being made on the Global Forest Partnership (GFP), very much in line with your recommendations. In April, \$15 million in Global Development Facility funds were granted to support a three-year development phase of the GFP, supporting a phased approach. Currently, a core group of partners, including the FAO, IUCN and IIED have coalesced to begin to design and test the GFP concept, including exploring what the governance arrangements could look like. They will also begin to negotiate comprehensive forest sector development strategies with a small number of pilot countries. The World Bank facilitates and attends their meetings.

Harmonizing forest partnerships remains a priority for the World Bank. The CEPF program, for which the decision to enter into a second phase was taken in 2005 pending an independent review (concluded by the Independent Evaluation Group with positive findings in December 2007), go even beyond forestry work since it addresses more than forest ecosystems, providing support for other ecosystem types within Earth's biodiversity hotspots. For instance, the new phase also provides exciting opportunities to support some marine ecosystem conservation and other types of biodiversity priority areas. The Bank will encourage collaboration between CEPF and GFP-supported activities as well as greater synergies with Bank regional operations.

I agree that for REDD to succeed, it needs to be an integral part of forest policy, and indeed development policy, as the drivers of deforestation and degradation originate outside of forests such as in agriculture, energy, transportation or urbanization. We believe this is not possible without addressing issues at the national level.

We recognize that REDD will require significant financial resources, well beyond the Readiness Fund and Carbon Fund of the FCPF. REDD programs will need to rely on traditional funding sources, including Official Development Assistance, but also GEF and private sector investments. An initiative such as the Forest Investment Fund could also play a critical role, and is currently being developed through a thorough analysis of all the needs and gaps, in consultation with other stakeholders.

As we approach the start of FCPF operations, mechanisms are being put in place that provide for the respective roles of the Carbon Finance Unit and the regional vice presidencies. The FCPF will be primarily deployed by the Forests Team and the regional vice presidencies, which is why the interaction between all relevant Bank units is critical.

We appreciate your call for continued WB engagement in DRC and we are pleased to inform you that three complementary operations are currently being prepared. These are: i) a US\$7 million GEF Grant to support capacity building with the National Conservation Nature Institute and rehabilitate three priority national parks; a US\$57 million blended IDA-GEF grant designed in the framework of the broader country-led Multidonor National Forest and Nature Conservation Program—GEF and Bank resources will focus on capacity building and forest livelihoods; and iii) a US\$8 million World Bank-implemented Trust Fund, financed by the EU, Belgium, Luxemburg, UK, the Netherlands, and France, to support governance and forest reform implementation.

Your concern over the need for the World Bank to take on proactive engagement in forest issues with middle-income forest rich countries is one we also share. While the situation is not uniform across all middle-income countries, we have begun to take steps towards proactive identification of analytical needs in these countries, with promising results. For example, the Program on Forests (PROFOR) has been coordinating meetings with World Bank natural resource management and forest colleagues, region by region, to identify analytical work they could support that would enhance regional operations, and generate lessons learned and guidance on good practice that PROFOR could share more broadly.

In this process, regional staff (especially in Eastern and Central Asia) have described a demand from middle income country governments for analytical and advisory activities, such as an assessment of best-practice standards for financing protected areas or a how-to guide for a state-of-the-art national forest inventory system, pieces that would be useful beyond individual countries.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Lovei', with a stylized flourish at the end.

Laszlo Lovei  
Acting Vice-President  
Sustainable Development Network

## **Annex 1**

### **Progress in Forestry-related work at the World Bank**

#### **Investing more World Bank staff focused on forests**

We are currently looking at our staff skills mix in order to reposition our team in a more effective way.

#### **Focusing on livelihood and poverty issues, and**

#### **Doing more economic and sector work linked to Bank operations**

PROFOR has, and is, supporting various studies that are informing Bank operations. Examples include a study on tenure of collective forest in China, land administration in the Brazilian Amazon, land rights and land administration in Honduras, and lessons learned from forest policy reform in Cameroon. It is also having meetings with World Bank natural resource management and forest colleagues, region by region, to identify analytical work they could support analytical work that would enhance regional operations, and generate lessons learned and guidance on good practice that PROFOR could share more broadly.

The Bank has also increasingly been using strategic environmental assessments (SEAs) to inform the design and implementation of Bank forestry investments. In the forest sector, in addition to one just completed in Kenya, there are three more SEAs. The Africa Region and the Agriculture and Rural Development department are preparing an SEA for the Liberia forest sector, which will be finalized by the end of 2008. Liberian forest policy is focusing on the commercial, conservation, and community (the 3 Cs) aspects of forest management. The SEA is examining strategic challenges posed by each of these three aspects—namely, a rapidly expanding commercial forestry industry, an expanding protected area system, and increased community forestry—but also the challenges posed by the interrelationship between the forest sector as a whole and other sectors, such as agriculture and mining. Over its course, the SEA is also informing the drafting of the community rights to forest lands law.

Terms of reference are also being prepared for an SEA in Yemen (the role of forests in adaptation of rural households to climate change, with a focus on the “fog” forests) and in Mozambique, which would inform the Bank’s re-engagement in the natural resources and adaptation to climate change (primarily through a DPL).

Please see Annex 2 for a full list of the economic and sector work and analytical activities completed in FY08 and planned for FY09.

**Improving the way forest issues are addressed in Development Policy Loans (DPLs)**

DPLs reviewed by the forest team fall within four categories:

- non-natural resources related DPLs that tend to have no direct nor indirect immediate and medium term impacts on forests;
- non-natural resources related DPLs that may have direct or indirect short to medium term impacts on forests;
- natural resources-based DPLs that are not directly related to forests but could have implications for forests
- forest-based DPLs

The forest team has identified three main avenues via which it is improving/plans to improve the way forest issues are addressed in DPLs.

First, the team has a dedicated staff person who stays engaged with PREM staff, regional task teams and Environmental Specialists responsible for preparing DPLs to ensure that recommendations from DPL reviews are incorporated in DPL concept notes and Regional Operational Committee reviews. She also reviews and provides substantive recommendations on forest-related Country Assistance Strategies and Poverty Reduction Strategy Papers, widening the base of forest issues coverage in the Bank. In her reviews, she identifies opportunities for DPL teams to take advantage of resources provided by the forest team including regional initiatives on forest law enforcement and governance (FLEG), and funds for forest analytical work provided by the PROFOR team.

Identifying and providing training sessions to DPL task teams is also another key point of intervention. The DPL contact person plans to coordinate more strongly with the ENV team preparing the DPL toolkit (Toolkit to Assess Environment, Forest , and other natural resource aspects of DPL) to ensure that forest concerns are well addressed in this educational material. When finalized, the toolkit will be circulated to all relevant offices in the Bank to serve as a guide for conceptualizing and designing DPLs. The forest team is in the process of circulating the Forests Sourcebook which is another vital knowledge guide to the Bank's forest agenda.

Finally, the forest team plans to promote a more proactive use of the DPL as an instrument in achieving the Bank's forest agenda. One such avenue is to coordinate a needs assessment to determine how the DPL instrument has been used and could be jointly used with other funding instruments in the Bank to address the climate change REDD readiness concept.

The team welcomes your ideas on how best to progress in these new and proactive steps going forward.

**Applying appropriate safeguards to IFC loans**

Currently, the IFC and the World Bank are part of a working group led by Forest Trends and ProForest that was commissioned by Equator Banks to develop a framework to

assess forest certification systems and schemes to identify whether a scheme adequately fulfills Bank policies and safeguards.

In the context of this work, the criteria against which a certification standard is assessed strongly builds on the IFC Performance Standards, and the WB-WWF Forest Alliance-developed Forest Certification Assessment Guide (FCAG). These criteria, however, will differ to some degree from the FCAG. As a result, this new assessment framework may provide some improvements to forest certification standards that could also inform World Bank task team leaders, and could provide improved guidance to IFC as regards certification.

**Creating new incentives for regional vice presidents, country directors and task managers to implement the forest strategy**

Countries are already showing great interest in the FCPF. This in turn has stimulated greater interest by country directors (for example the CD for the two Congos) in a holistic, cross-sectoral view of the role of forestry in development. It is expected that the Forest Investment Fund will only accentuate this trend.

Another example of work that is creating incentives for directors is a project called "Improving Forest Law Enforcement and Governance (FLEG) in the European Neighborhood Policy (ENP) East Countries and Russia".

The purpose of the project is to put in place improved forest governance arrangements through effective implementation of the main priorities set out in the ENA FLEG Ministerial Declaration, through selected pilot activities and with the active involvement of governments, civil society and the private sector.

Implementation of the program will be led by the World Bank, in partnership with the World Conservation Union (IUCN) and the World Wide Fund for Nature (WWF) and in close coordination with governmental and nongovernmental stakeholders of the 7 participating countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, and Ukraine). Within the Bank, it is proposed that the Sustainable Development staff of the Europe and Central Asia region would operationally lead the Program, while ARD would provide program oversight functions. The Trust Fund will cover 42 staff-weeks per year of Bank staff time and travel (for the 3-year program in 7 countries). This feature provides a strong incentive for Bank staff to contribute to the ownership, development, implementation, supervision and quality control of this program.