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RIGHTS AND PERMISSIONS

TABLE OF CONTENTS

List of Boxes

List of Figures

List of Tables

PREFACE

In October 2002, the Executive Board of Directors of the World Bank approved a new Forest Strategy and Forest Policy to guide Bank interventions on forests. The Forest Strategy sets out three related objectives: capitalizing on the potential of forests to alleviate poverty, to contribute to economic development, and to safeguard key local and global environmental values.

Working towards these objectives simultaneously is daunting, both in its conceptual and in its practical complexity, and particularly in developing countries. The ultimate success of the Strategy will depend on how well the World Bank and its partners approach forest-related issues across sectors, addressing the needs and concerns of stakeholders who have different economic and political interests in forests. Its success will also rely on taking into account the impacts of policies and activities in other sectors on forests and forest-dependent livelihoods, and in coordinating operations between the institutions responsible for those policies.

When the Board approved the Strategy in 2002 it recommended that an external evaluation of the Strategyís progress be undertaken midway through its implementation. This report documents the findings and recommendations of that Mid Term Review.

The Review examines how the Bank has organized its interventions to support countries in their efforts to improve the management of their forest resources. It examines the ways in which the Bank has redeployed and redirected its resources to support programs and projects that subscribe to the principles of the Forest Strategy, and the lessons learned during its first five years. It also considers changes in the global, regional, and national policy environments which have taken place since 2002.

The Review was carried out by external consultants and covers the period between the Strategyís inception in 2002 and mid 2006. The reviewers based their work on extensive documentary evidence available in Bank files and databases and on wide-ranging consultations with both Bank staff and numerous experts from the private sector, civil society, non-governmental groups, and multilateral and bilateral international assistance agencies. An early version of the Review was circulated both inside and outside the Bank and many of the comments received were incorporated into this report.

Acknowledgments

This review benefited considerably from insights provided by a large number of people. In particular we would like to thank Paola Agostini, Christian Albert Peter, Christiana Amoaka-Nuama, Mary Barton-Dock, Per Björkman, Juergen Blaser, Jill Blockhus, Mario Boccucci, Benoit Bosquet, Adolfo Brizzi, Marjory-Anne Bromhead, Karen Brooks, John Buckrell, Yati Bun, Bruce Cabarle, Mark Cackler, Kerstin Canby, David Cassells, Diji Chandrasekharan, Ken Chomitz, Kevin M. Cleaver, Marcus Colchester, Mark A. Constantine, Mary Coulombe, Ken Crichton, Csaba Csaki, Richard Damania, Laurent Debroux, Peter A. Dewees, Gerhard Dieterle, Jim Douglas, Michael Davis, Robert Davis, Antoine de la Rochefordière, Maria Ana de Rijk, Marian Delos Angeles, Charles di Leva, Gary Dunning, Hosny El Lakany, James Warren Evans, Erick Fernandes, Sushma Ganguly, Kristalina I. Georgieva, James Griffiths, Hans Gregersen, Olli Haltia, Jan Heino, Harvey Himberg, Laura Ivers, Michael Jenkins, Peter Jipp, Mahendra Joshi, David Kaimowitz, Marko Katila, Saran Kebet-Koulibaly, Kari Keipi, Arvid Khare, Hoonae Kim, Robert Kirmse, Nalin Kishor, Andrey V. Kushlin, Andrea Kutter, Lars Laestadius, Gunnar Larson, Petri Lehtonen, Joseph Leitmann, Jonathan Lindsay, Stephen Lintner, Jussi Lounasvuori, Steward Maginnis, William Magrath, Yam Malla, Edgardo Maravi, Abel Mejia, Robert McDonough, Grant Milne, Augusta Molnar, Jessica Mott, Peter A. Neame, Eleanor Nichol, Hanna Nikinmaa, Clotilde Ngomba, Dwight OíDonnell, Tapani Oksanen, Pekka Patosaari, Gunars Platais, Duncan Pollard, Teresa Presas, Esa Puustjärvi, Dirk Reinemann, Robin Ruth Ritterhoff, Ralph Roberts, Ole C. Sand, Klas Sander, Jyrki Salmi, Gerardo Segura, Susan S. Shen, Animesh Shrivastava, Anna-Leena Simula, Jim Smyle, John Spears, Jukka Tissari, Giuseppe Topa, Laura Tuck, Laurent Valiergue, Harvey D. van Veldhuizen, Evy von Pfeil, Konrad von Ritter, Martin Walter, François Wencelius, Andy White, and Gregor V. Wolf. Gunnar Larson was editor. Their valuable contributions to this review are gratefully acknowledged. Any errors of fact or analysis remain our own.

Foreword

In October 2002, the Executive Board of Directors of the World Bank Group endorsed a new Forest Strategy titled *Sustaining Forests: A Development Strategy.* A forestry policy review published by the World Bankís Operations Evaluation Department in 2000 had identified or confirmed a number of serious limitations of the Bankís 1991 Forest Strategy, and had offered a series of recommendations for overcoming them.[1] The 2002 Strategy sought to address these limitations, and in particular the earlier Strategyís overwhelming concentration on conservation and protected areas, its weak focus on poverty and livelihoods, and its limited attention to partnerships and cross-sectoral issues.

Anchoring the forestry and forest-related work of the World Bank Group more firmly into the institutionís broader mission of sustainable economic development and poverty reduction would entail incorporating both production and conservation considerations into that work. Poverty reduction was now embraced as a fundamental objective of forest policy and reform. Expanding the institutionís strategic focus from *forestry* to *forests* would enable it to more thoroughly recognize and address the impacts of other sectors on the forest sector. The new Strategy would also expand its scope to cover temperate as well as tropical forests. The Strategy set forth three related and interdependent pillars:

- harnessing the potential of forests to reduce poverty
- integrating forests into sustainable economic development
- protecting vital local and global environmental services and values

More specifically, the Strategy called for phasing out the unsustainable logging of tropical forests and for promoting the sustainable management and use of production forests. It also emphasized the need to improve governance and control corruption within the forest sector, particularly in combating illegal logging and the trade associated with it. Partnerships would be needed to facilitate active collaboration between the World Bank Group, other donors, government institutions, and civil society and private sector organizations active in the forest sector.

Monitoring implementation and reviewing progress is an important component of the Strategy. The World Bank commissioned a number of analyses toward this purpose, including the Mid Term Review (MTR) by Arnoldo Contreras and

[1] *The World Bank Forest Strategy: Striking the Right Balance.* OED 2000

Markku Simula that is presented here. It provides an external, independent perspective on the progress seen thus far and on areas in which further work is needed in implementing the Strategy.[2] The MTR and other analytical work were used in the preparation of the progress report covering the implementation of the Strategy between 2002 and 2006. That progress report was presented to the Board of Executive Directors in October 2007.[3]

There was substantial progress to report to the Board. Since 2002 World Bank engagement had expanded not only in tropical forests, but in all types of forests. World Bank forest projects featured a greater focus on poverty, and forest concerns were better and more completely integrated into other sector programs and development planning. The period had also seen improved synergies between the constituent institutions of the World Bank Group itself. Strategic partnerships with other international agencies, NGOs, and private sector actors had expanded.

Managing forest resources sustainably to reduce poverty and protect ecosystem services is a complex task. In a few countries, achievements have exceeded expectations. In others, significant challenges need to be resolved before an enabling environment can be established for sound forest management and governance. Traditional tools of development assistance need to be complemented by innovative sources of financing such as carbon markets and by other arrangements that facilitate payment for environmental services, and that tap into private investment.

The complexity of forest development issues requires leverage and coordinated action, and points to the need for more effective partnerships with other donors, government agencies, non-governmental and civil society organizations, private sector actors, and other stakeholders. Promoting the recognition of land tenure, ownership, and local and indigenous groupsí rights to access forest resources is essential for realizing the important role of forests in reducing poverty. This requires stakeholder participation in the formulation and implementation of policies, strategies, and programs that foster community ownership.

The goals and principles that guided the 2002 Forest Strategy remain valid five years into that Strategyís implementation, and the World Bank Groupís own

[2] The 2002 strategy also provisioned for a mid-term review to be carried out by OED/IEG. This review is expected to be released over the next three months.

[3] See *Sector Strategy Implementation Update – Third Review* (forthcoming).

commitment to the forest sector remains intact. The MTR that follows offers a number of suggestions on how the Bank might maximize its effectiveness in the sector a number of which have already been taken into account. Because the Review was an independent exercise that represents the views of its authors, Bank management does not necessarily concur with all of its recommendations. Yet the experience of implementing the first five years of the Forest Strategy suggests a number of broader directions for the future:

Increase financing from the Bank and other donors for sustainable forest management, including integrating community and smallholder forests into global markets, developing public-private partnerships, and promoting sustainably-produced products in the marketplace. Further developing the proposed Global Forest Partnership will promote a coordinated approach among all stakeholders, integrate public goods aspects into forest operations, and draw on innovative and market-based funding sources.

Expand the ongoing work on Forest Law Enforcement and Governance (FLEG) under the Bank s Governance and Anti-Corruption Strategy. Addressing law enforcement and governance issues will be a key factor for the success of emerging programs on Reducing Emissions from Deforestation and Degradation (REDD) under the United Nations Framework Convention on Climate Change (UNFCCC).

Implement the Forest Carbon Partnership Facility (FCPF) to pilot activities that reduce emissions from deforestation and degradation (REDD) using a system of policy-based approaches and financial incentives.

Assist countries in integrating the global forest agenda and related development opportunities into their own national strategies and policies. This seeks to capitalize on emerging economic and environmental opportunities to integrate forest linkages into the design of agriculture, rural development, and natural resource management projects.

Strengthen attention to forests in the Bankís agenda through greater inclusion of forest sector issues in Poverty Reduction Support Programs (PRSPs) and Country Assistance Strategies (CASs). Improve the alignment between the forest-related assistance of the IBRD, IDA, IFC, and GEF to address poverty and livelihood issues. Improve the communication of information on the World Bank forest portfolio, and in particular information on high-profile and controversial projects.

Ensure the efficient application of World Bank safeguard policies, with particular attention to social safeguards in traditional forest lending projects. Strengthen due diligence for forest concerns in development policy lending through participation of indigenous and other forest-dependent peoples, better knowledge-sharing and communication, and staff training. The forthcoming *Forest Sourcebook* will be an important resource to this end.

We believe that the worldís forest resources will have to play an increasing role in addressing climate change, delivering vital global, regional and local goods and services and, in reducing poverty. As part of its overall mission, the World Bank is committed to their sustainable management and conservation.

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic advisory assistance
AFR	Africa region
ARPA	Amazon Region Protected Areas
ASEAN	Association of Southeast Asian Nations
AT	Forestry (WB code)
BioCF	BioCarbon Fund
CAS	Country Assistance Strategy
CBD	Convention on Biological Diversity
CDM	Clean Development Mechanism
CEA	Country Environmental Analysis
CEO	Chief Executive Officer
CEPF	Critical Ecosystem Partnership Fund
CERFLOR	Brazilian Forest Certification System
CIFOR	Center for International Forestry Research
COMIFAC	Central African Forest Commission
CPF	Collaborative Partnership on Forests
DPL	Development Policy Lending
EAG	External Advisory Group
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ECOSOC	Economic and Social Council of the United Nations
EPFI	Equator Principles Financing Institution
ESSD	Environmentally and Socially Sustainable Development (Sustainable Development Network as of late 2006)
ESW	Economic and Sector Work
FAO	Food and Agriculture Organization
FCAG	Forest Certification Assessment Guide
FCPF	Forest Carbon Partnership Facility
FLEG	Forest Law Enforcement and Governance
FSC	Forest Stewardship Council
FY	fiscal year
G8	Group of Eight
GEF	Global Environment Facility
GFA	Global Forest Alliance
GN	Guidance Note
GFTN	Global Forest Trade Network
ha	Hectare
HCVF	High Conservation Value Forest
IBRD	International Bank for Reconstruction and

	Development
ICFPA	International Council of Forest & Paper Associations
IFC	International Finance Corporation
IEG	Independent Evaluation Group
IDA	International Development Association; international development assistance
IMF	International Monetary Fund
IPF/IFF	Intergovernmental Panel on Forests/Intergovernmental Forum on Forests
ITTO	International Tropical Timber Organization
IUCN	The World Conservation Union
LAC	Latin America and the Caribbean region
LCB	learning and capacity-building
LFI	Liberia Forest Initiative
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
MOU	Memorandum of Understanding
MTR	midterm review
NFP	National Forest Program
NGO	Nongovernmental organization
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department
OP	Operational Policy (WB); Operational Program (GEF)
OTCA	Organization of Amazon Cooperation Treaty
PES	Payment for environmental services
PDR	Peopleís Democratic Republic (Lao)
PROFOR	Program on Forests
PRSP	Poverty Reduction Strategy Paper
PS	Performance Standard
QACC	Questionnaire for Assessing the Comprehensiveness of Certification Systems/Schemes
RAF	Resource Allocation Framework
RECOFTC	Regional Community Forestry Training Center
REDD	Reducing Emissions from Deforestation and Degradation
SAR	South Asia Region
SDN	Sustainable Development Network (New World Bank VP established in late 2006)
SEA	Strategic Environmental Assessment

SFM	Sustainable Forest Management
TTL	Task Team Leader
UNFCCC	United Nations Framework Convention on Climate Change
UNFF	United Nations Forum on Forests
WB	World Bank
WWF	World Wide Fund for Nature

Executive Summary

The 2002 Forest Strategy *Sustaining Forests* was written in response to the shortcomings of the previous (1992) Forest Policy, which had restricted the World Bankís engagement in the sector to tropical forests, and given overwhelming priority to supporting forest conservation. The 2002 Strategy adopted a holistic approach to all types of forests, emphasizing mutually supportive interventions to achieve the broad objectives of poverty alleviation, economic development, and environmental sustainability. The Strategy also called for Bank engagement in phasing out the unsustainable logging of tropical forests, and in promoting the sustainable management and utilization of production forests. It emphasized the integration of forests into programs in other sectors, and in development planning and policy making in the larger macro-economy. It encouraged more effective collaboration between World Bank units, and between the World Bank and government, civil society, and private sector partners on forest-related issues. It also stressed the importance of improved governance, particularly with respect to controlling corruption and to combating illegal logging and the trade associated with it.

The Bank has made substantial progress on all these fronts. Yet, the Strategy has been only partially implemented since 2002.

First, in **mainstreaming the** Strategy, the Bank has sought to manage the impacts of macroeconomic policy and sector programs on forest resources. Some countries have incorporated forest sector reforms into their Poverty Reduction Strategy Papers (PRSP). The Bank has supported these within the framework of Country Assistance Strategies (CAS) in countries like Cameroon, and through forest investment projects in countries like Albania, Croatia, Romania, and Russia. The Bank has also supported policy changes through Development Policy Lending (DPL), again for example in Cameroon. In many other countries however, forests have not been properly considered in the CAS or DPL, even in cases where doing so was clearly warranted by the size of the sector or its potential to alleviate poverty, contribute to economic development, and preserve environmental values. Governments do not always make forestry a policy priority or seek Bank support, and in some instances analytical work that might have provided a framework for integrating forest issues into planning and policy making has been lacking or insufficient.

Evaluating the potential of a countryís forest resources to impact poverty or growth or to provide environmental services requires systematic economic and sector work. This work is likely to lead to the identification of appropriate interventions called for in the forest sector and elsewhere. Quality economic and sector work requires significant financial resources. While forests are a priority area of World Bank sector work, the sector competes for funding with a range of other development priorities. Mobilizing additional resources is therefore a challenging priority. Moreover the resources allocated to forest sector work must also be used selectively and targeted purposefully on a limited number of priority countries.

Second, in its **lending program**, the Bank has extended its engagement to non-tropical forests, including those in China, Georgia, Romania, the Russian Federation, and Turkey. It has also supported timber production activities in tropical moist forests in countries such as Cambodia, Cameroon, and Mexico. The integration of forest components into natural-resource and rural development programs has intensified in countries like Albania, Gabon, and Guatemala. The Bank has also broadened its focus on forestry with new instruments like independent certification. It has also expanded the scope of its interventions to account for the impacts on forests of policies in other sectors, such as trade.

Despite these accomplishments, the World Bankís overall level of engagement has thus far remained insufficient for achieving the targets set in the Forest Strategy. International Bank for Reconstruction and Development and International Development Association (IBRD/IDA) lending volumes increased only slowly, regaining and then stabilizing at levels comparable to volumes before the adoption of the Strategy. Overall Bank involvement in natural tropical forests operations remains modest and is often surrounded by intense controversy. In many cases the relative dearth of self-standing forest projects reflects the lack of priority that clients assign to investing in forests or to introducing forest sector reforms. But risk aversion and a lack of internal incentives within the Bank itself also constitute significant impediments, and are largely attributable for the failure to increase lending to the levels required by the Strategyís objectives.

Third, objectives relating to **poverty reduction**, a key pillar of the Strategy as well as of the Bankís overall mission, have been appropriately included in forest investments in a number of countries, including Albania, Gabon, and Nicaragua. In many other countries however poverty and the impacts of forest interventions on forest-dependent people have not received adequate attention, either in the Bankís analytical work or in its lending program.

Fourth, **collaboration between the International Finance Corporation (IFC) and other institutions of the World Bank Group** has improved since 2002, with some promising results. There is considerable potential to expand the IFCís role in the forest sector, including in support of projects that contribute to poverty reduction and the provision of global public goods. However, more systematic collaboration is required to improve governance within the sector, to create enabling conditions for responsible private investment, and to reduce illegal operations. The present approach to collaboration relies mainly on personal contacts and informal consultations, and does not allow systematic harnessing of synergies between the respective institutions.

Fifth, the Bankís **global forest programs** have contributed to expanding and managing protected areas, improved forest certification, strengthened forest governance, and generated new knowledge and innovative approaches to sustainable forest management. These global programs include the World Bank/World Wide Fund for Nature (WB/WWF) Alliance for Forest Conservation and Sustainable Use, the Forest Law Enforcement and Governance (FLEG) program, and the Program on Forests (PROFOR). Their responsiveness and quickness to capitalize on windows of opportunity have led to significant individual achievements. Yet their overall impact has been limited by their small size and by the fragmentation of initiatives between them. Developing a more collaborative approach may enable the programs to systematically capitalize on the relative comparative strengths of the partners.

Sixth, a number of World Bank safeguard policies relate to forests. In addition to Operational Policy (OP) 4.36 on Forests, OP 4.01 on Environmental Assessment, OP 4.04 on Natural Habitats, OP 4.10 on Indigenous Peoples, and OP 4.12 on Involuntary Resettlement, all relate strongly to forest issues. Inspection Panel investigations of forest-related investment projects have identified incomplete compliance to them in the Bankís lending program, and inconsistent triggering of the policies in a number of Bank projects. The investigations have also found deficiencies in due diligence and supervision that resulted in overlooking the impacts of some projects on local communities and the environment. Operational guidance on the application of safeguards in projects that impact forests remains inadequate. There is also indication that task team leaders tend to consider safeguards more a complication than as a tool for achieving the objectives of the Forest Strategy or for managing risks and seizing emerging opportunities.

The Review issued the following key recommendations to improve the effectiveness of the implementation of the Bankís Forest Strategy:

1. **Mainstream the Strategy in related programs and projects.** Encourage countries to address forest issues during Bank-country dialogue. Support sound forest-related analytical work in the preparation of poverty reduction strategies. Link poverty reduction strategies to national forest programs and development programs in other sectors. Mainstream Forest Strategy principals more effectively into country assistance strategies in line with their incorporation into poverty reduction strategies, particularly in countries where forest resources are important for poverty reduction, economic growth, and environmental values. Systematically manage the potential impacts of development policy lending operations on forests early in the planning process, when these impacts are likely to be significant. Finalize as a matter of priority the *Development Policy Lending Due Diligence Rapid Assessment Toolkit* which will complement the

Operations Policy and Country Services (OPCS) Good Practice Notes for Development Policy Lending. (In particular Note 4: Environment and Natural Resource Aspects of Development Policy Lending.)

2. **Expand lending and enhance the quality of interventions and activities in all types of forests**. Mobilize human and financial resources from sources outside as well as within the World Bank, capitalizing on the Bankís unique convening power to leverage resources. Devote greater resources to creating awareness among Bank regional and technical managers of the importance of forests in alleviating poverty and in providing environmental services globally, regionally, and locally. Strengthen knowledge management to capture and disseminate the lessons learned from experience in designing and implementing forest-related projects. Improving the empirical information available to economic and sector work (ESW) and other analytic and advisory activities (AAA) will encourage more effective monitoring and evaluation of project impacts and results. This in turn will lead to a greater understanding of the determinants and causal relationships at play in bringing these impacts and results to pass.

3. **Increase focus on poverty alleviation and broadly shared growth**. Expand recognition of the impacts of World Bank forest interventions on the poor and disadvantaged, and seek opportunities to relate forest management and the utilization of forest resources to poverty alleviation. Help small-scale forest owners and communities to participate and invest in sustainable forest management and in processing to add value downstream, developing markets for their products and securing their access to those markets. This entails providing support to grassroots organizations and to governments in building their capacity to create an enabling policy framework. During project design, introducing a sound logical framework with a clear set of core objectives and effective mechanisms for monitoring and evaluation promises to improve the integration of poverty and forest issues. Promote the use of the *Poverty-Forest Linkages Toolkit.*

4. Within the World Bank Group, **strengthen cooperation between the IFC and IBRD/IDA and MIGA.** The institutions that make up the World Bank Group can collaborate in a number of activities. These include promoting investment in forest-based small-scale and community enterprises and enhancing the role of markets to reduce illegal logging and to promote sustainable forest practices for instance through the Global Forest and Trade Network. Supporting partnerships between local stakeholders and private companies can serve to foster the involvement of smallholders and local communities in harvesting and manufacturing, not only as out-growers but as true partners of the companies they supply. World Bank institutions can also collaborate to encourage private investment in payment mechanisms for the environmental services provided by forests. Joint planning may lead to the development of proposals and strategies in which IBRD/IDA support to policy reforms purposefully cultivate an enabling climate for IFC-supported private investment. Promoting staff exchange and produce instructional material on how to comply with the different institutionsí safeguards is another means of strengthening coordination between World Bank institutions.

5. **Enhance the role of the market to promote improved forest governance and sustainability.** Provide support to community forests and small scale private forest owners in participating in forest certification programs while assisting governments that currently lack the capacity to implement and oversee such programs. Continue to develop enforceable legal definitions and instruments for verifying compliance such as chain-of-custody schemes.. Organize an independent, transparent, and participatory review of existing certification schemes for compliance with OP 4.36 to inform practitioners about the requirements of the Policy and to assist task managers in preparing projects that involve certification. In IFC downstream projects, require chain-of-custody certification to ensure that the raw materials used come from legal and sustainably managed sources. Carefully analyze the political economy of forest reforms in order to form consensus, and to build constituencies that will support

the reforms over time an important step in bringing improvement to forest governance that is not always recognized as such.

6. **Strengthen and expand the World Bank Group s approach to forest partnerships.** Bring together the global forest programs into an integrated strategy under the planned Global Forest Alliance (GFA), which should focus on the global public goods generated by forests like carbon sequestration, and on innovative financial arrangements such as those which tap capital markets. (The International Financing Facility for Immunization provides a promising example of one such arrangement.) Mainstreaming the global dimensions of forests into existing investment vehicles should be a principal aim of the GFA. The Alliance should also seek to facilitate the integration of parallel sources of finance and technical assistance, including the Global Environment Facility (GEF), bilateral donors, international and nongovernmental organizations, and private sector investors. Linking GFA interventions to the Bankís country dialogues and lending programs may scale up the impacts of those interventions, while the GFA should seek to mobilize funding for forest-related World Bank economic and sector work. GFA initiatives should be inclusive in their participation, transparent in their decision making, and effective in the communication of their purposes.

7. **Improve due diligence and the application of safeguards.** Provide additional guidance and training on the application of World Bank safeguards to development policy lending and infrastructure and other forest-related projects. The instruction should cover both the due diligence process and project implementation, and show how safeguards can be used to manage risk and how the objectives of the Forest Strategy can be made an integral part of project design. Training should also be extended to the staff of client counterparts to increase their understanding of the purposes of World Bank safeguard policies, and to foster ownership of the safeguards among those clients. Assign a forest safeguard specialist to the Anchor to provide backstopping to the regions. Finally, complete the *Forest Sourcebook*, the *Forest Law Manual*, and the *DPL Due Diligence Toolkit.*

8. **Improve risk management in forest operations.** Policies that mitigate the risks and constraints facing different stakeholders when they invest in sustainable forest management are a natural focus of communications efforts at the World Bank. While further analytical work is needed on the costs and benefits of action and inaction in promoting sustainable forest management, the results of that work must be communicated effectively if they are to have important impacts on policy formulation. Organizing high-level policy forums on investment risk management and on the financing of commercial forestry is an effective way to forge consensus on important issues among different stakeholders. Such policy dialogue and consultation on the productive use of natural tropical forests can also lead to very large increases in the financial resources available for their sustainable management. These fora should be organized in cooperation with the Food and Agriculture Organization (FAO), International Tropical Timber Organization (ITTO), NGOs, and private sector actors, and within the World Bank Group should include the IFC.

9. **Strengthen the Bank staff and resources.** Addressing the challenges identified in the Review will require an increase in the number of technical staff in the Sustainable Development Network and in some regional vice presidencies of the Bank. Possible options for employing forestry staff more effectively should also be explored, such as encouraging greater staff mobility between the Network and the regions. The characteristics of forest projects naturally serve to increase their transaction costs, and revising staff incentive structures to account for this reality is a measure that is now long overdue, having been called for by various reviews and evaluations since the 1990s. In forest projects where problems with implementation are anticipated it is particularly important to allocate sufficient resources for supervision.

1. INTRODUCTION

Background

After an intensive consultative process, the Executive Board of Directors approved the current Bank Forest Strategy in October 2002. The consultative process followed a comprehensive evaluation of the previous Bank policy in the sector, which had been in place since 1991.[4] That evaluation provided valuable lessons and insights to increase the relevance of the Bankís interventions in a development context that had substantially changed during the intervening period (Lele et al. 2000). The 2002 Strategy was formulated to address and resolve the shortcomings of the previous Forest Policy.

The 2002 Forest Strategy aims to slow down deforestation and the degradation of forest resources as well as to enhance the contribution of forests to sustainable and equitable economic development. The Strategy seeks to focus the Bankís action on three closely interrelated thrusts or pillars:

(i) *Harnessing the potential of forests to reduce poverty.* Forests are essential to the livelihoods of the rural poor and to vulnerable populations that depend on them for employment, income, nutrition, medicines, housing, farming implements and other needs. The Forest Strategy is designed to empower and create economic opportunities for rural people, securing their rights of access, use, and ownership with particular focus on poor and indigenous forest-dependent communities. It seeks to bring about this change through policy and legal reforms, and by strengthening and increasing the capacity of the institutions responsible for carrying out those reforms. The Strategy also seeks to promote greater participation by marginalized groups in formulating and implementing forest policies and programs, and to nurture self-reliant community programs. Integrating forest-based activities into rural development strategies also promises to wield positive effects on poor forest-dependent people.

(ii) *Integrating forests in sustainable economic development.* Forest resources are extensively mismanaged because markets fail to account for the social, environmental, and economic values they provide. Inappropriate government interventions often compound these market failures. This

4 As articulated in *The Forest Sector: A World Bank Policy Report* (World Bank 1991), Operational Policy 4.36 (1993), and Good Practice 4.36 (1993).

pillar of the Forest Strategy concentrates on actions that help governments improve their policies, economic management, and governance in the sector, and also addresses the links with other sectors and with economy-wide policy reforms that impact forests.

(iii) *Protecting vital local and global environmental services and values.* The establishment of protected areas is an essential element in protecting the continuous production of forest environmental services. The Strategy recognized that improving forest management practices in production forests located outside of protected areas is also essential. This pillar of the Strategy addresses market failures that hinder protection of environmental services and values by building markets both for international public goods, such as biodiversity and carbon sequestration, and for national and local environmental services provided by forests.

This pillar also seeks to ensure that Bank investments in other sectors adequately take into account intersectoral linkages that could harm protected areas and natural habitats, and that appropriate safeguards are employed to mitigate the threats.[5] The key elements of each pillar of the Strategy are summarized in Box 1.

The 2002 Strategy departed from the earlier Bank Strategy in various ways. First, poverty reduction and the use of forest resources to improve the livelihoods of forest-dependent people replaced previous emphases on conservation and combating deforestation. The new Strategy is targeted at improving the livelihoods of 500 million people, mostly very poor, who depend on forest resources. Second, the new Strategy applies to all types of forests and forest-rich as well as forest-poor countries, in contrast with the former focus on tropical forests and forest-rich countries. Third, the 2002 Strategy recognized that improving forest management in production forests outside of protected areas is an important element of protecting environmental services. Thus, the prior ban on Bank participation in forest operations that involved logging in primary tropical moist forest was lifted to allow greater Bank engagement in managing production forests sustainably, and in fostering conditions that would assure the protection of their environmental services. Fourth, the new Strategy focuses on ways to enhance the quality of governance, particularly in combating corruption, illegal logging, and associated trade. Fifth, the focus of the new Strategy is on

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5 Poverty alleviation, sustainable economic growth, and protection of local, national, and global public goods and the environment are all major objectives under the Millennium Development Goals.

forests instead of forestry, and explicitly calls for adequate consideration of intersectoral linkages and for the integration of forest issues in macro-economic and sector planning exercises, such as in Country Assistance Strategies (CASs). Sixth, to achieve its objectives, the 2002 Strategy relies on action through partnerships at the global as well as regional and country levels.

Box 1. Pillars of the Forest Strategy

Harness the Potential of Forests to Reduce Poverty	Integrate Forests into Sustainable Development	Enhance Global Environmental Services
• Strengthen policy, institutional, and legal frameworks to ensure the rights of people living in forest areas • Scale up community forest management so that local people can manage their own resources, market forest products, and benefit from security of tenure • Work with local groups, NGOs, and others to integrate forest, agroforestry, and small enterprise activities in development strategies	• Support improved governance through reform of inappropriate timber concession, fiscal, trade, and subsidy policies • Assist governments in containing illegal activities and corruption through improved forest laws, regulations, and enforcement • Address finance, fiscal, and trade issues to enable governments to capture a higher portion of forest revenues • Promote sustainable timber harvesting and management based on independent verification	• Support critical forest conservation areas in all forest types • Build markets and finance for international public goods such as biodiversity and carbon • Develop measures to mitigate and adapt to the anticipated impacts of climate change • Strengthen forest policy and institutions to analyze and redress potential impacts of infrastructure development on forests

The Forest Strategy like all World Bank sector strategies is a document intended to provide general guidance. The practical application of its principles takes place within the framework of the Bankís global programs, and according to the priorities of client countries. While the Strategy is general in scope, it must be implemented through an appropriate forest portfolio. Any failure to do so will result in serious consequences for rural employment and income, for the livelihoods of poor forest-dependent people, and for balances of trade. More generally, such failure will significantly impact progress toward achieving the

Millennium Development Goals (MDGs). Monitoring the effectiveness of the Strategyís implementation is therefore critically important.

The Changing Global Context

The design and implementation of the Forest Strategy responds to a continuously evolving global environment and development context. The change simultaneously poses new challenges and opportunities, and is transforming the demand for World Bank work in the forest sector.

Fifteen years after the United Nations Conference on Environment and Development, and the launch of various international initiatives to protect the global environment, the persistent loss and degradation of tropical forests remains an international concern. The global deforestation rate is about 13 million hectares (ha) per year, with few signs that the trend is diminishing (FAO 2005). Pressures on tropical forests are likely to intensify with continued large-scale conversion of forests into croplands and pastures. International financial and technical assistance institutions will have to respond more effectively to growing demands from developing countries for help in containing their loss of forest resources.

The need to use forest resources for poverty alleviation, which was one of the pillars of the Strategy in 2002, will probably continue to intensify in client countries. In addition to generating income and employment, poverty reduction based on Bank-supported forest initiatives will have to address the formal recognition of traditional rights, culture, and other values that are important to poor indigenous peoples and forest-dependent communities. Governments are increasingly recognizing traditional land tenure and usufruct rights to forest resources by communities and forest-dependent people, a development that is already leading to major reforms in forest tenure and access rights in many countries, such as Bolivia, Brazil, Colombia, the Mozambique, Philippines, and Tanzania. Building the capacity of communities and forest-dependent people to manage and conserve forest resources will continue to be a major challenge, one difficult for many governments to address without substantive support from the Bank.

Improving the management of forest resources and maximizing their contribution to poverty alleviation, economic development, and the health of the environment are much more complex challenges than once thought. Actions that generate coherent and lasting impacts are generally based on a detailed understanding of the prevailing institutional and governance issues at play in a countryís forest sector. In the past, objectives relating to poverty, development, and environment were pursued separately, with little or no consideration given to the practical, operational synergies between forest conservation, poverty reduction, and economic growth. Over time, these synergies became more widely recognized, and the advantages of devising coherent strategies that capitalized on them became increasingly clear. This poses new governance challenges and is leading to experimentation with schemes that rely less on government direct action and place greater responsibility in the hands of various stakeholders in civil society and the private sector. The management responsibility of the natural forests is increasingly being shifted to the private sector and forest communities (for example, in the Russian Federation, the Congo Basin, Brazil, Peru, Bolivia, and many Asia-Pacific countries).

Forest-sector regulatory frameworks that in the past relied on heavy-handed command and control government measures are incrementally giving way to regulations that make greater use of market forces, a trend that is likely to continue. These regulations emphasize greater participation in decision-making and in the implementation of forest policies and programs by the private sector, civil society, and other stakeholders. The global drive toward decentralization will continue to transfer decision-making powers and responsibilities to local levels of government.

The level of general awareness of the devastating effects of illegal logging, the trade of illegal products, and the spread of corrupt practices in the forest sector has increased substantially in recent years. Removing policy distortions and reforming legal and institutional frameworks have been introduced to improve forest governance and new methods have been developed to ensure greater transparency in decision-making processes that effect forest resources. Joint trade initiatives now involve both importing and exporting countries, and foster greater use of tracking technologies in monitoring financial and product flows. These innovations and developments will all likely gain strength in coming years, and will require greater sophistication.

The future growth of demand for forest products and services will require further investment in industrial processing and in the development and management of forest resources in Bank client countries. Planted forests, established by industrial companies, farmers, private investors, and local communities, will become increasingly important as sources of raw material and industrial wood. Plantations will be subject to more careful design requirements to adequately take into account their environmental and social impacts.

Continuously increasing standards of Sustainable Forest Management (SFM) are likely to raise production costs in natural forests. Natural forest management will increasingly be targeted at the production of multiple outputs and services, including wood, nontimber forest products, and various environmental and social services of forests. At present, less than 5 percent of natural tropical forest is being managed sustainably. Increasing this area will be a key challenge for the international community (ITTO 2006).

Environmental services are often much more valuable than the production of timber and nontimber forest products. Yet they have no established markets as global or local public goods. In order to maintain these services, there is a growing need to put in place mechanisms to secure appropriate compensation for forest owners and managers who generate these services. Forests play an important role in a number of global efforts to mitigate climate change. As growing stock and stock of wood products in use, they serve as carbon sinks. Deforestation that is avoided serves to reduce carbon emissions. As a source of bioenergy they serve as a substitute for fossil fuels. Their role in protecting watersheds will become increasingly important. A variety of innovative mechanisms will be employed to mobilize financial resources to compensate the producers of these services.

The Forest Strategyís objectives are consistent with a number of the Millennium Development Goals, two of them in particular. When the Strategy was completed in 2002, nearly half of the 2.8 billion people in the world living on less than US$ 2 a day were supported by forests. This has made the role of forests vital in fulfilling the first MDG, eradicating extreme poverty and hunger by reducing by half the proportion of people living on less than a dollar a day. Improved forest management also relates directly to the seventh MDG, ensuring environmental sustainability by integrating the principles of sustainable development into country policies and programs and reversing the loss of environmental resources.[6]

The growing awareness of the effects of macroeconomic policies and developments in other sectors on forests will increase demand for innovative ways to mitigate negative impacts and enhance synergies across sectors and throughout the larger economy. Clear environmental policies and detailed economic analyses will be required to determine the impacts and to inform the

6 Improved forest management can also contribute to other MDG but in a less direct manner, for example, through the provision of medicinal plants and sources of energy for the poor.

design of compensation mechanisms. Large-scale, multi-sectoral interventions in natural resources management will become more common.

Substantial changes in the way that international aid is delivered are expected, and these will carry considerable consequence for the Forest Strategyís implementation. The changes are epitomized by the Paris Declaration, which was signed in 2005. By endorsing the Declaration, more than 100 countries and organizations, including the World Bank, have committed themselves not only to increasing the volume of aid, but more important, to following new approaches to increase its effectiveness. The new methods of delivering aid rely on a practical and action-oriented road map and five key principles: ownership, alignment, harmonization, managing for results, and accountability (Box 2). The shift from project-based interventions to sector-wide and other policy- and program-based financing is expected to continue. Resource allocation will be increasingly driven by host country priorities. International financial aid will be used more selectively, often to fill strategic gaps that cannot be effectively addressed by domestic resource allocation in developing countries.

Box 2. The Paris Declaration of Aid Effectiveness

Five Key Principles: (i) *Ownership*: Developing countries will exercise effective leadership over their development policies, strategies, and coordinate development efforts. Donors are responsible for supporting and enabling developing countriesí ownership by respecting their policies and helping strengthen their capacity to implement them; (ii) *Alignment*: Donors will base their overall support on partner countriesí national development strategies, institutions and procedures. For example, this means that donors will draw conditions from a developing country governmentís development strategy instead of imposing multiple conditions based on other agendas; (iii) *Harmonization*: Donors will aim to be more harmonized, collectively effective, and less burdensome especially on those countries, such as fragile states, that have weak administrative capacities; (iv) *Managing for results*: Both donors and partner countries will manage resources and improve decision-making for results. Donors should fully support developing countriesí efforts in implementing performance assessment frameworks that measure progress against key elements of national development strategies; (v) *Mutual Accountability*: Donors and developing countries pledge that they will hold each mutually accountable for development results.

Twelve indicators of aid effectiveness. Twelve indicators will track progress against the broader set of partnership commitments by donors and partner countries. Specific targets to be achieved by 2010 are set for eleven of these indicators.

Strong accountability mechanisms. The Declaration creates solid mechanisms for transparency and accountability at different levels. Donors and recipients are mutually accountable in achieving goals and using resources, and compliance with agreed actions is publicly monitored. At the country level, the Declaration encourages donors and partners to jointly assess progress by making intensive use of local mechanisms.

Source: OECD 2006.

Objectives and Methodology of the Review

The Review examines progress achieved as well as the factors that have favored or hindered the environment for implementing the World Bank Forest Sector Strategy (the Strategy).[7] Specifically, the Review focuses on (i) the relevance of Bank-supported activities related to forests in relation to the objectives of its Forest Strategy; (ii) efficacy of these activities; (iii) obstacles faced in implementation; and (iv) lessons from experience that could be used in planning

7 Mid-Term Review, Terms of Reference, May 2, 2006. The Bankís Forest Team commissioned the Review.

and implementing future activities (see the terms of reference in appendix 1). The period of the Review is from the Forest Strategyís inception in late 2002 until mid-2006. The Review focuses on examining those experiences acquired in its implementation that can enhance future Bank operations in achieving the goals set.

To carry out its work, the Review team[8] made extensive use of documentary evidence contained in Bank databases and relevant files. The team also interviewed experts from inside and outside the Bank (appendix 2). To obtain inputs and perspectives from outside the Bank, the Review team requested written comments from about 300 specialists from various stakeholder groups, including nongovernmental and civil society organizations, private sector actors, and multilateral and bilateral international agencies. Thirty-nine written contributions were received.[9] In addition, a dedicated Internet Web site was established for other interested parties to provide comments. A draft report was sent to 40 selected stakeholder representatives who were known to have knowledge of the Bankís forestry operations. Comments received were considered in the final version of the Review. The reviewers relied on a substantive effort by the Bankís Forest team to gather relevant documentary materials, and for assembling and analyzing data.[10]

It should be emphasized that the Review does not attempt to evaluate the relevance or the content of the Strategy, which are still considered largely appropriate. Only four years have passed since the Strategy was adopted and it is too early to assess impacts of implementation on the ground. It is therefore not attempted in this Review.

The Review is organized as follows. Section 2 examines how the Bank has integrated the principles of the Forest Strategy into its comprehensive planning to support client countries. Section 3 looks at the Bankís implementation of its investment lending program. Section 4 evaluates the partnerships that the Bank has established with other institutions that are relevant to the implementation of the Strategy. Section 5 presents an analysis of selected implementation instruments.

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8 The Review team consisted of Arnoldo Contreras-Hermosilla and Markku Simula.

9 The submitters are included in Appendix 1.

10 At the time of the Review, the Forest Team was carrying out a Sector Strategy Implementation Update (SSIU), which had many common areas of analysis. Provisional findings of the Review were used as inputs during the preparation of the SSIU.

2. TOWARD MAINSTREAMING THE FORESTS STRATEGY

The Bank can employ several mechanisms to mainstream the Forest Strategy. First, it can foster the inclusion of forest sector considerations in countriesí Poverty Reduction Strategy Papers (PRSPs). Second, it can ensure similar integration in the design of its own Country Assistance Strategies (CASs) and Development Policy Loans (DPLs). Third, mainstreaming can also be promoted through the effective application of safeguards, and through the integration of forest components into broader investment projects. This section examines the mainstreaming of the Forest Strategy in PRSPs, CASs, and DPLs. Section 3 analyzes the investment lending program and the integration of forest components in other investment projects. Safeguards are discussed in Section 5.

Factoring of Forests into Poverty Reduction Strategy Papers Needs Improvement

Poverty Reduction Strategy Papers describe a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. PRSPs are a requirement for concessional assistance from the Bank through the International Development Association (IDA), and from the IMF through the Poverty Reduction and Growth Facility. PRSPs are prepared by the governments of low-income countries and focus on outcomes that benefit the poor, employing a comprehensive, long-term perspective for reducing poverty. (Box 3). They involve broad participation by civil society and the private sector. PRSPs also engage the coordinated participation of bilateral, multilateral, and nongovernmental development partners, including the IMF and the World Bank.[11]

Bank and IMF staff analyzes the strengths and weaknesses of the PRSPs submitted by countries in Joint Staff Advisory Notes, in which priority areas for strengthening the Poverty Reduction Strategy are identified. Many countries that do not rate as low-income have also prepared PRSPs as practical planning frameworks to guide their development and poverty reduction efforts.

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11 PRSPs are a tangible expression of the Bankís Comprehensive Development Framework, which guides the design of Bank interventions toward poverty-reduction objectives. They are also fully consistent with the principles of the Paris Declaration.

Box 3. Elements of Poverty Reduction Strategy Papers

The World Bank established five core principles for the design and implementation of PRSPs:

- *Country-driven and country-owned*: A PRSP should be produced by the government with the broad participation of civil society and private sector at all stages, from design to implementation.
- *Results-oriented*: PRSPs should focus on specific results that would benefit the poor.
- *Comprehensive*: to include the multidimensional characteristics of actions to reduce poverty.
- *Partnership-oriented*: involving the coordinated participation of development partners.
- *Based on medium- and long-term perspectives*: recognizing the long-term nature of actions to reduce poverty.

The Mid Term Review examined PRSPs in a sample of 43 countries to determine how they addressed issues relevant to the Forest Strategy. (A matrix of these projects and findings is presented in appendix 3). The Review examined whether these PRSPs contained (i) a treatment of forest issues, including a significant analysis of the role of forests; (ii) an analysis of the main challenges encountered in the forest sector; (iii) a design of policy and institutional responses to address these challenges; and (iv) a coherent strategy of policy and institutional reforms. In addition, the Review also assessed the quality of analysis of forest issues and planning for future actions.

Of the 43 countries, two-thirds (28) had treated forest issues in their PRSPs, including a significant description of the various linkages between forest resources and their role in supporting the livelihoods of the poor, in contributing to the economy, and in maintaining environmental quality (Table 2.1). Remarkably, some of the 15 countries that did not have a discussion of forests in their PRSP were forest countries, with a substantial proportion of their land area under forest cover (for example Bhutan, Côte dÍIvoire, Indonesia, and Vietnam). A detailed analysis of forest impacts would clearly have seemed relevant in these countries. The lack of analysis meant very poor or altogether nonexistent treatment of the important linkages between forests and developments in related sectors such as those in agriculture and mining linkages which are well known to strongly influence how forest resources are managed. Macroeconomic policies, such as those relating to taxes and trade, are also known to affect forest management, and these too were ignored or inadequately treated. In other countries, such as Ethiopia, Kenya, and Nigeria, forests are clearly important for livelihoods and the environment despite the relatively small forest area within the country, yet forest issues were not addressed in their PRSPs

The review also revealed that with some exceptions such as Cambodia and the Lao Peopleís Democratic Republic, Joint Staff Advisory Notes rarely recommended the integration of forest issues in PRSPs.

Table 2.1. Inclusion of Forests in 43 PRSPs

	Description of linkages between forests and poverty growth	**Description of forest sector challenges and opportunities**	**Response policies and program exist**	**Coherent forest strategy exists**
Number of countries	28	24	23	12

24 of the 43 PRSPs contained some discussion of the main challenges facing the sustainable management of forest resources and of opportunities for interventions within the country. Only 12 however translated these responses into a coherent strategy of policy and institutional reforms to improve forest management within the context of the larger poverty reduction strategy itself.

The quality of analysis was rather poor in practically all cases. Forest management challenges identified in the PRSPs for example were not tied to any appropriate remedial actions. Other challenges did not have remedial actions included in the Action Matrix, and some proposed actions were unrelated to the problems or opportunities identified in the analysis.

In conclusion, the themes and issues relating to the Forest Strategy have yet to be satisfactorily integrated in PRSPs. They are totally absent in a third of the PRSPs, and are treated partially or inadequately in a majority of them. *The Forest Strategy has not been adequately factored into the countries broader strategies for poverty reduction and development.* This not only reduces opportunities for the Bank to engage in forests, but also creates barriers to the management of interactions caused by changes in macroeconomic policies and policies in other sectors that affect forests. Countriesí efforts to reduce poverty are also constrained by their not taking advantage of opportunities that forest programs can provide.

The above results correspond with those of an earlier review of forest issues in PRSPs in Sub-Saharan Africa (Oksanen, Pajari, and Tuomasjukka 2003) and analyses carried out by the Forest Team (World Bank 2005c) and a Bank internal report on the rural sector (World Bank 2004a). Thus, not much appears to have changed in this respect since the adoption of Strategy.

The absence or neglect of forest issues in PRSPs may be the result of a lack of political support for the sector. It may also be the result of insufficient capacity on the part of country governments to properly integrate forests into their PRSPs. Because countries design their own PRSPs, governments are expected to have a high level of ownership, and to orient their actions to be consistent with the objectives and priorities of their poverty reduction strategies. However, since Bank support to low income countries is conditional on the preparation of a PRSP, some governments may see the process merely as an externally imposed requirement for eligibility. If the principal incentive to prepare a PRSP is to accommodate the wishes of donors rather than to commit the country to the actions required to alleviate poverty, then analytical quality may be difficult to achieve in the strategy.

Limited awareness of the role that forests can play in poverty reduction may be a main cause of the inadequate integration of forest sector issues in PRSPs. In addition, sufficient data and information to design forest-based interventions are generally not available. The World Bank Program on Forests (PROFOR) recently created an instrument to fill this gap. The Poverty-Forests Linkages Toolkit contains a methodology that allows rapid collection of data and production of key information for national planning and decision-making on the poverty alleviation opportunities provided by forests. Wide use of this instrument should contribute to securing better integration of forests in PRSPs and other macroeconomic planning instruments,[12] as well as in sector planning initiatives such as national forest programs (NFPs). Promoting greater integration of forest issues in PRSPs would also be consistent with attaining the Millennium Development Goals (MDGs) and the Paris Declaration Principles.

Recommendation. *The Bank should encourage countries to further integrate forest issues in their country dialogues and to support sound forest-related analytical work in the preparation of PRSPs for tapping the poverty reduction potential offered by forest as well as for addressing cross-sectoral linkages within economy-wide strategies. The Bank should also*

12 For example, CAS.

promote and support the preparation of NFPs in view of their potential poverty reduction role as sectoral interventions under PRSPs.

Weak Consideration of the Potential of Forests in Country Assistance Strategies

The CAS is the Bank Groupís business plan in support of a countryís development strategy and poverty reduction goals. In line with the Bankís country-based business model, the CAS is aligned with the countryís development objectives and priorities, and responds to the countryís requests for financial and knowledge-based support in different areas of engagement. In addition to framing the Bankís support to the implementation of the countryís development and poverty reduction programs during the period covered by the CAS, it also sets out a program of analytical work, knowledge transfer, and advisory services to improve understanding of the challenges facing development and poverty reduction. This better understanding of prevailing challenges informs the formulation and implementation of policy options, including sector policies.

Since 2002, the CASs for low-income countries are expected to use PRSPs as a basis and therefore to be closely aligned with poverty reduction programs. This, however, does not always mean a one-to-one relationship between the CAS and the PRSP. A degree of difference is natural because the design of the CAS program reflects a number of considerations such as availability of resources, the type and area of support sought by the country, the Bankís comparative advantages, and the support being provided by other development partners.

This Review examined the treatment of forest issues in a sample of 53 CASs (a list of projects and matrix of findings is provided in appendix 3). The survey looked at whether i) the CAS made significant reference to forest issues, ii) there was an action plan for the sector and iii) there were forestry components in the CAS investment plan and/or priority matrix (Table 2.2).

Table 2.2. Forests in 53 Country Assistance Strategies

	Presence of a significant reference to forest issues	**Presence of Action Plan**	**Forest sector in CAS identified investments and priority matrix**
Number of countries	34	23	17

Two-thirds (34) of the CASs included analysis of the interactions between forest resources and poverty alleviation, the quality of the environment, and sustainable economic development. However, these analyses resulted in only 23 CASs having any discussion of possible activities to improve the contribution of the sector to these strategic goals. Only 17 CASs considered specific actions in their investment program or CAS matrix. Thus, fewer than half of the CASs contemplated forest-specific actions, and less than one-third considered these actions important enough to include as part of the CAS Matrix.

As in the case of PRSPs, the depth, scope, and quality of the CASs handling of forest issues varied widely. While the CAS is expected to be generally aligned with PRSPs, there were seven cases in which forest issues were attributed a level of importance in the PRSP but were given either insufficient or no treatment at all in the CAS. In six other countries the opposite was the case, and forest issues were included in the CAS but not mentioned or treated superficially in the PRSP.While PRSPs and CASs do not need to be fully consistent with each other, the discrepancies observed call into question the degree of country ownership of Bank-supported activities in the forest sector.

Furthermore, the Review found a wide variation in the quality of analytical work. In a number of cases, the actions proposed were not coherently related to the analysis of problems and opportunities. In others, sector programs did not address thoroughly diagnosed problems and opportunities in the sector.

In conclusion, and despite Strategyís intentions, ***mainstreaming of the Forest Strategy in CASs appears to be limited to a relatively small number of countries and the quality of the analyses needs significant improvement.*** Failure to integrate forest issues in the development and poverty reduction agenda will likely lead to serious long-term consequences that impede the attainment of the MDGs, undermine the livelihoods of forest dependent peoples, and threaten economic opportunities - particularly in countries where forest resources are key to maintaining environmental quality.

Better integration of forest sector considerations into CASs could be achieved by initially focusing on a number of priority countries. There, analytical work can lead to the identification of important gaps in existing information and knowledge, as well as to recognition of opportunities for strategic action. It may also broaden consensus within the Bank over the scope of potential work, responsibilities, and allocation of resources. This would also require an analysis of the countryís political economy of sector reforms that may be supported by the Bank to assess their feasibility, government ownership, and sustainability.

Given competing demands, a better and timelier case for the inclusion of forest concerns in the CAS needs to be made in various countries. In some cases, such as that of Bulgaria, overcomplicated and lengthy Bank procedures have led to missed opportunities to include forest issues in the CAS. Achieving better integration of forests into CASs will also require the Bankís regional vice presidencies to expand their capacity with additional expertise on forest and natural resources issues. Furthermore, additional economic and sector work is needed to quantify the potential contribution of forest resources to poverty alleviation, sustainable economic growth, and protection of environmental services. This would ensure the proper integration of forest issues into CASs, but the financial resources to carry out this work remain inadequate.

Recommendation. *The Bank should strive for more effective mainstreaming of the Forest Strategy in CASs, particularly in those countries where forest resources are of key importance for poverty alleviation, conservation of environmental values, and economic growth. This requires solid analytical work where significant information gaps still remain. The Bank s regions should have adequate expertise on forests and natural resources, and should improve their capacity to carry out analytical work. The Bank therefore needs to allocate sufficient resources for this purpose.*

Development Policy Lending and Forest Impacts

Development Policy Lending (DPL) is aimed at supporting implementation of policy reforms either at the macroeconomic or sector level by rapidly disbursing financing. DPL also provides assistance to specific sector or sub-sector policy and institutional reform. Funds are quickly disbursed to a countryís treasury (budget support) in one or more tranches that are released after the borrowing country complies with specific policy and institutional actions, implements the program in a manner satisfactory to the Bank, and has an adequate macroeconomic policy framework.

DPLs offer several potential advantages. Because they involve central ministries, rather than just the public forest administration, they engage high-level decision-makers in supporting policy and institutional reforms. The emphasis on targeted results requires a clear definition of achievements and an appropriate mechanism to measure progress using measurable indicators while preparing a DPL. Bank policies require that policy and institutional actions be achieved in order for funds to be disbursed. Where feasible, these actions for DPLs in the forest sector could be selected based on their closeness to targeted outputs, such as the zoning of a forestry area. This would link operations more closely to outcomes.

Policy lending can have significant effects on forests and therefore needs to be examined in accordance with Bank Operational Policy 8.60. This Operational Policy directs the Bank to determine whether specific country policies supported by the DPL operation are likely to cause significant effects on the countryís environment, forests, and other natural resources. For country policies that are likely to have significant effects, the Bank assesses in the Program Document the borroweris systems for reducing adverse effects and enhancing positive effects, drawing upon relevant country-level or sectoral environmental analysis. OP 8.60 states that where significant effects may be present, the Bank should analyze ways to enhance positive outcomes and reduce negative ones. If there are significant gaps in the analysis or limitations in the borrower systems, OP 8.60 prescribes that the Bank should analyze how to address those gaps either before or during the implementation of the DPL, as appropriate.[13]

The review of inter-sectoral linkages in DPLs also offers significant opportunities for identifying the contribution of forests to economic growth, environmental quality and poverty alleviation. DPLs may also offer opportunities, beyond policy compliance, to strengthen institutional and policy arrangements for the forestry sector.

Since 2002 the Bank has approved 258 DPLs. 11 of these loans support policy and institutional reforms in the forestry sector with IBRD/IDA commitments totaling some US$94 million or 9 percent of the total IBRD/IDA commitment for these 11 projects. DPLs have been employed more frequently in Africa. There were 50 other operations with activities that included forest-related actions under a broader agriculture/ forestry/fisheries classification. The other loans could also have had effects on forests but this information was not available in the DPL documents.

The consideration of forest issues in DPLs appears to be variable depending on the country context in which DPLs have been employed. For example, forest issues have been covered in DPLs in Gabon and Cameroon but not considered in others with a potential for it (Box 4).

13 Development Policy Lending, OP 8.60, August 2004.

Box 4. Development Policy Lending to Support of Natural Resources Management in Gabon and Cameroon

In Gabon and Cameroon, forest, biodiversity, and other natural resources are critical to rural livelihoods where large proportions of the population live in extreme poverty. Natural resources are also central to economic development and stability. They are unique for the global environment. These sectors were traditionally dominated by political patronage and vested interests, and were often managed in an unsustainable manner, with little or no impact on poverty alleviation.

In 2005 the Bank approved a US$15 million Natural Resources Development Policy Loan to support Gabon in designing and implementing policy reforms in the forest, fisheries, mining, biodiversity and environment, and oil sectors. In 2006 the Bank also approved a US$35 million Forest and Development Policy Grant to help Cameroon consolidate and scale up recent sector reforms. Both operations focus on reforming incentive structures, enhancing transparency and public participation, enforcing laws in the field, promoting community-based management, and protecting the natural resource base.

Full social and environmental assessments were conducted by the government as part of the policy framework, and implementation of the respective plans is included in the DPL policy matrix as a trigger for disbursement.

Owing to the complexity of the inter sector linkages that have impacts on forests (often of an indirect nature and therefore difficult to trace), a critical element in supporting country analysis is the availability of current and sound analytical work. This is particularly the case among countries that are affected by deep market, policy, and institutional failures. Sound upstream analytical work is clearly necessary to ensure the quality of policy advice. In cases where the Bank determines that the effects of a specific policy are likely and likely to be significant such analytic work is helpful in identifying how to reduce or enhance those effects. When such work is not yet in place, Bank policy requires it to be undertaken over time in order to strengthen policies that reduce negative effects or enhance positive ones. Considerations about the timing of such analytic work must also take into account the possibly irreversible nature of the negative effects on forests. When these are suspected, they must be reviewed to determine whether they are serious enough to justify a delay of DPL support.

Because DPLs are in many cases implemented on a programmatic basis, it is often argued that there are always opportunities to both research the nature of their negative impacts on forests, and to design corrective action while implementing the DPL. The effects of DPLs on forests are complex and often difficult to gauge. As a result essential corrective actions may be overlooked.[14] Particularly in large DPL operations, financial and other concerns sometimes detract from the priority assigned to mitigation measures. As a result, these may be neglected even though they are very important in avoiding large-scale negative impacts on forests.

Besides these limitations, there are constraints related to internal Bank procedures. Some staff expressed concern that the internal review procedures need to allow for substantive comments early enough in the loan preparation process to adequately address the aforementioned risks.

The Bank is developing a quick method for identifying conditions in which the forests may be impacted by DPLs and which therefore may require further action. This method would complement the use of other instruments, including Country Environmental Analysis (CEA) and Strategic Environmental Assessments (SEA).[15] The method developed by the Forest Team should be completed and tested in representative cases as soon as possible. The potential use of existing tools, particularly rapid CEAs, that would allow the integration of forest sector issues prior to or early in the DPL design also merits consideration to enhance due diligence in the application of OP 8.60.

Due diligence is complicated by the lack of practical guidelines to interpret possibly ambiguous terms in the OP 8.60 such as significant impacts. This is therefore mainly left to discretionary and variable interpretation.[16] The Bankís publication the *Forest Sourcebook* will assist Bank staff, borrowers and others in planning and implementing DPLs, and should reduce this type of problem.

In summary, relatively few DPLs include assessments of the potential effects of policy reforms on forests beyond the statement that there are no likely significant effects. However, there is no evidence that such effects are widespread since the bulk of DPLs support public sector reform. Internal Bank review procedures pose obstacles for forest staff to contribute to the DPL

14 Based on staff interviews.

15 CEAs focus on economy wide policies and institutions to evaluate the environmental priorities of a country, the environmental effects of key government policies and the countryís capacity to address its environmental objectives. SEAs are focused on individual sectors and on the implications of the policies and programs in other sectors. Both tools are relatively new and not yet extensively applied to DPLs. Both have limitations in their application to DPLs (World Bank, 2005a).

16 Based on staff interviews

design because opportunities to suggest adjustments to the operation are mainly limited to the final stages of design. The significant momentum for action generated by DPLs makes it unlikely that larger operations and reforms supported will suffer substantial delays or alteration during implementation because of forest sector concerns.

For all these reasons, the Bankís ongoing initiative to design analytical tools for fast identification of DPLs that may have a substantial impact on forest is particularly valuable. The analytical tools should also include guidance for designing corrective actions during implementation.

Recommendation. *The Bank should assist borrowers in identifying the potential forest impacts of DPL operations early in the planning process. This is particularly important in countries where the lending pipeline includes DPLs that are likely to have a significant impact on forests. Analytical work requirements should be assessed in the CAS or early in the project cycle in cooperation with project preparation teams. Design should include procedures for swiftly adjusting operations in cases where unexpected impacts materialize during DPL implementation. These may include subsidiary operations implemented in parallel with DPLs. As a priority, the Bank should finalize the design of methodologies, such as the DPL Due Diligence Rapid Assessment Toolkit which complements Good Practice Notes for DPLs on Environment and Natural Resource Aspects, to identify the likely and significant effects of DPLs on forests.*

3. THE INVESTMENT LENDING PROGRAM

The International Bank for Reconstruction and Development/International Development Association

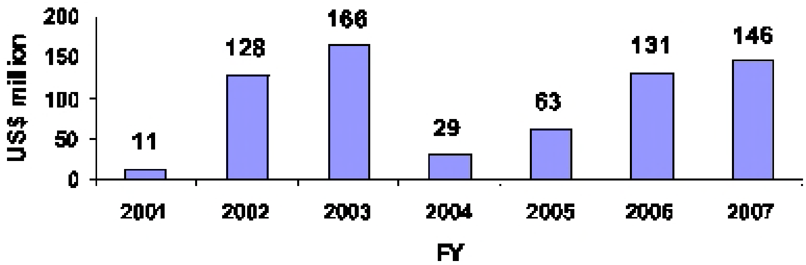
Pending Reengagement in Forests

Since 2002, the World Bank has approved 12 self-standing forestry projects, and 39 others that include forest investments as components of broader loans (the projects are listed in appendix 4). There are a further 13 projects in the pipeline, four of which are stand-alone forestry projects and the rest of which have substantial forest components.

Aggregate forest investment can be taken as a proxy, albeit imperfect, to estimate the extent of the Bankís involvement in forests.[17] Total sector lending tends to fluctuate widely because one or two large projects can change the overall picture in a year. A longer-term analysis reveals that the volume of lending has been similar before and after the adoption of the Forest Strategy: US$568 million for the period 1997 2001 as compared to US$517 million for 2002 2006. These numbers suggest that the International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) loans have just regained the volume levels of the period before the Strategy was approved. This, however, should be qualified, as the volume of lending during the period following the adoption of the Strategy depends on a couple of large projects in China and India. If only one of these large projects had not materialized, the overall picture would be substantially different.

17 Investment volumes say little about the quality of interventions and, furthermore, some countries may prefer larger national financial contributions and less Bank lending volumes to develop forest projects.

Chart 1. IBRD/IDA Forest Lending Commitments

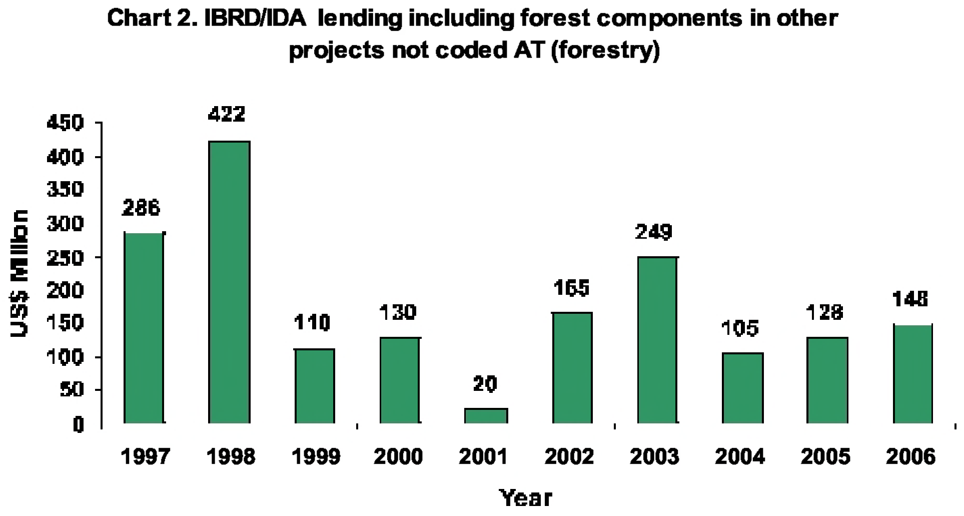


However, the above figures do not include forest investments embodied in other projects that have not been coded AT (Forestry). When these investments are included, the aggregate IBRD/IDA commitment in the forest sector is substantially larger, as seen in Chart 2. However, these aggregate values do not show a discernible trend. In fact measured this way, the Bankís total forest investments fell from nearly US$1 billion during the period 1997 2001 to some US$770 million during 2002 2006.

IBRD/IDA has not been successful in expanding forest lending, and no substantial re-engagement in the sector has taken place since the Forest Strategy was approved in 2002. On the other hand, there has been a substantial integration of forest lending into natural resource management, agriculture, environment, and rural development projects, as intended by the Strategy.[18]

18 Deducted based on the difference between charts 1 and 2.

Chart 2. IBRD/IDA Lending Including Forest Components in Other Projects Not Coded AT (Forestry)

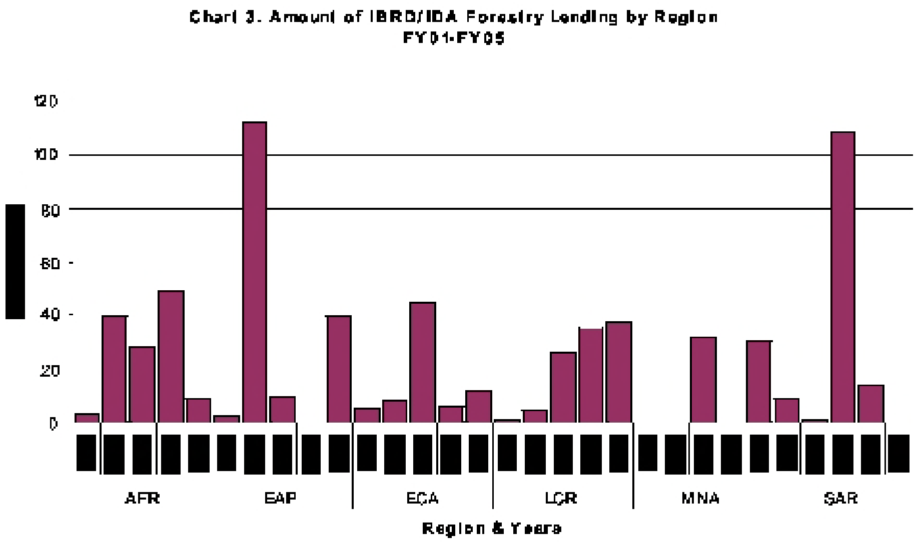


The Bank expanded its action beyond tropical forests to include all types of forests. Since 2002, nine Bank projects totaling US$204 million, with nearly 40 percent of the total forest lending, were in non-tropical countries, mainly in Eastern Europe and the Mediterranean. Bank involvement in natural tropical forest operations remains slight and in some cases surrounded by intense controversy.

Diverse Regional Lending Profiles

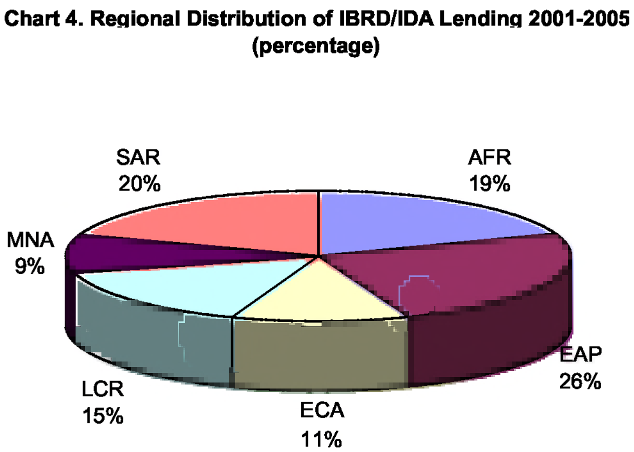
Chart 3 and Chart 4 show marked variations in the volume of lending, both between regions and within a region over time. The South Asia region (SAR) dominated the forest lending program in 2001 (45 percent of the total) but had no activity left in 2005, when the East Asia and Pacific (EAP) region became the largest region in forest lending (29 percent).

Chart 3. Amount of IBRD/IDA Forestry Lending by Region FY01 FY05



Note: AFR = Africa region; EAP = East Asia and Pacific region; ECA = Europe and Central Asia region; LAC = Latin America and the Caribbean region; MNA = Middle East and North Africa region; SAR = South Asia region.

Chart 4. Regional Distribution of IBRD/IDA Lending 2001 2005



Forest lending in Africa recovered after a decade-long decline that reached its lowest point in 2001. Forestry investments in this region are almost exclusively components of projects[19] oriented toward redefining policy and institutional frameworks, community-based development, household energy access, natural resources management, environmental management, poverty reduction, trans-frontier conservation, and tourism development. The bulk of IBRD/IDA forest-related lending has been in three countries of the Congo Basin: Cameroon, Gabon, and the Democratic Republic of Congo, but a relatively large project component started in Mozambique in 2006 and another one is planned for a project in Kenya that would start in 2007. Project components in Africa have tackled the politically difficult issue of concession management of public forests and the employment of independent observers to monitor legal compliance (Box 5).

19 The Forest Management and Conservation project in Tanzania is an exception.

Box 5. Support of Forest Governance in Gabon

In Gabon, the forest sector is the second largest employer and earner of foreign exchange, but lax enforcement of laws and contracts in the sector has resulted in significant foregone government revenue. The government recognizes that improving governance in the sector is key to attracting more responsible investors. A Development Policy Loan from the World Bank seeks to increase the contribution of renewable natural resources to national income to help reduce the countryís dependence on declining oil resources while protecting the natural resource base. The project focuses on strengthening the policy and institutional framework for the management of natural resources through greater transparency and accountability, and better enforcement of laws and regulations.

The project covers forests, fisheries, biodiversity, and mining. The Forest Reform Program is the most comprehensive undertaking supported by the project. The government intends to reorganize the commercial forestry sector, reconfigure Gabonís forest landscape, and set the stage for more socially, economically, and environmentally coherent land use. It has committed to review all logging permits, revoke those that are in the hands of noncompliant companies and individuals, and to strengthen forest controls in the field, change the mode of access to permits from discretionary to transparent and competitive. The government has also committed to stepping up the enforcement of fiscal measures and to require sustainable management plans, maintaining a moratorium on the allocation of new permits until the new allocation procedures are in place. It will eliminate pricing distortions and bottlenecks to industry development coming from the monopolistic marketing board, and introduce procedures on forest use that protect the rights of indigenous people and other forest-dependent rural poor.

Source: World Bank 2006d.

Forest-sector issues remain absent in the great majority of countriesí national planning schemes and in the Bankís own analytical work in Africa. While Bank involvement has recovered from the very low levels in the past, it remains disproportionately small considering the magnitude of problems and opportunities in the forest sector. Since forest interventions are particularly problematic in Africa, it may be advisable to continue focusing efforts on integrating forest components into broader loans that aim to improve policy and institutional frameworks and that target poverty in those countries in which favorable conditions exist.

In the East Asia and Pacific region, lending has been dominated by a few relatively large standalone projects and project components in China, and to a lesser extent in Vietnam. In Cambodia, the Lao Peopleís Democratic Republic, and Vietnam, governance issues and weak institutional capacity have been paramount in importance. Standalone forest projects have focused on resource expansion through plantations and the sustainable management of natural forests, as well as on support to rural development and policy and institutional reforms (Box 6). Forest components have been integrated in poverty reduction, watershed rehabilitation, and agricultural intensification projects. The Bank is presently reengaging in Indonesia through analytical work, and by facilitating stakeholder participation and constituency building.

Box 6. Forest Plantations for Poverty Alleviation, Economic Development, and Environmental Protection in Vietnam

Taking into account the weak performance of state-owned plantations in the past, the Bankís Forest Strategy emphasizes private and community investment as a more effective and efficient way to create and manage these assets. The Vietnam Forest Sector Development Project is targeted at improving the environment for sustainable forestry development through such an approach, while enhancing the conservation of biodiversity and alleviating poverty. The project offers an attractive incentive to poor farming households and poor rural communities to plant trees to generate income and employment based on assets, which can be renewed on a sustainable basis. The project promotes different cropping systems, including fast-growing plantations, mixed forestry-agriculture crops, and fruit trees to accommodate varying local conditions and smallholder and community management objectives. It aims to establish 66,000 hectares of plantations on bare or poorly stocked forest land, benefiting an estimated 19,000 poor or medium-income households in 120 communes in 21 districts that are among the poorer in the project area. Rather than creating new organizational structures, the Project operates through the existing institutional framework to avoid the inefficiencies that are often associated with new institutions created by public sector projects.

The project is a good example of the Bankís performance in implementing Sector Wide Approaches in this case through the national Forest Sector Support Program. It is sponsored by 22 other signatories comprising government agencies, donors, and NGOs. Because none of these other development partners provide significant support to plantations, the Bankís role is strategically crucial. The rapidly rising import needs for wood and wood products in Vietnam make the plantation sector a high priority of the government.

The Europe and Central Asia region has experienced a recent decline in lending to middle-income countries. Bank activities are increasingly geared toward supporting policy and institutional dialogue and reforms, staff training, and knowledge systems. These activities have been supported by a regional assessment of 17 forest organizations in transition economies and in several forest-rich economies. The assessment identified key challenges and options for improving institutional performance in delivering sustainable forest management (PROFOR 2005). Since 2002, standalone forest projects in Bosnia and Herzegovina, Georgia, and Romania have aimed at improving management of natural resources for poverty reduction, recovery of the forest resource base, and forest conservation. Forest components of broader projects in Albania, Armenia, Azerbaijan, Kazakhstan, Tajikistan, and Turkey have targeted community-based development, improved watershed management, expansion of the forest resource base, and rural development (Box 7). An Environment Management project in the Russian Federation has provided US$25 million lending to reduce pollution in Russian pulp and paper enterprises.

Box 7 Community Forestry in Albania

Natural resources management in poor rural areas is a particular challenge in implementing the Forest Strategy. In these areas the local population urgently needs improved economic benefits at the same time that rampant environmental degradation requires investment in restoration. The investment in restoration is needed in order to reverse the declining capacity of natural resources to generate products and services to meet the peoplesí needs.

A number of Bank-financed projects have employed innovative approaches that have been able to successfully break the vicious circle of degradation and poverty. In Albania, the Forestry Project adopted participatory approaches and combined them with measures to restore the productivity of the land. This resulted in quick and demonstrable benefits. Three location-specific pilot projects transferred user rights and management of 30 percent of the countryís forest and pastures (330,000 hectares) from the state to 140 local communities. This resulted in a dramatic change in the forest cover and reduction of erosion. Forest and pasture user associations have developed management plans and invested membership dues in resource management. The ex post economic rate of return (ERR) of the Communal Management Component of the project was 32 percent a figure that does not capture the significant benefits of reduced soil erosion to the countryís irrigation system. The project was so well received by the local communities that they undertook a special campaign to persuade the government to borrow for a follow-up Natural Resources Development Project. That project will spread the experience country-wide, pursue legal reforms to convert user rights to secured tenure, and increase and diversify income generation from natural resource products and services.

In the Latin America and Caribbean Region the Bank has been involved in standalone forest projects in Honduras and El Salvador since 2002. Recently, the Board also approved a project for mainstreaming payments for environmental services in Costa Rica. These projects focused on developing innovative methods to capture payments for environmental services and increase rural productivity. The Bank has also lent support to an innovative program focused on protected areas in Brazil (Box 8). Forest components in Brazil, Guatemala, Mexico, and Nicaragua have been integrated in policy loans, natural resources management, environmental management, rural communities and ecosystem management, and restoration projects. In Mexico, the Bank has supported community forestry investments.

Box 8. Protected Areas in Brazil

Despite the serious losses being sustained in the Amazon, vast and remote expanses of the Brazilian Amazon remain intact. Making the most of this opportunity, the Bank, through its Alliance with WWF, provided seed funding and technical assistance to partners to create a system of well-managed parks and other protected areas encompassing some 50 million hectares what is known as the Amazon Region Protected Areas (ARPA) program. The network will be based on rigorous scientific planning and careful public consultation and will include representative samples from all 23 Amazonian eco-regions. With a total cost of US$370 million over a 10-year timeframe, the program will spread out over an area larger than Western Europe. ARPA's design and operation require a new conservation approach and the financial and organizational tools and controls to back it up.

The objectives of the first phase of ARPA (under a Global Environment Facility project) included creating 18 million hectares of protected areas (9 million hectares of strict protected areas and another 9 million hectares of extractive reserves); consolidating 20 existing protected areas, and bringing 7 million hectares of these existing areas under effective management. In 2004, ARPA added 8 million hectares to the system of protected areas, including two extractive reserves totaling 2 million hectares benefiting 2,600 families. The Brazilian government has declared some 13 million hectares of new protected areas in highly threatened areas and identified ARPA as the mechanism for creating and funding these areas. ARPA is the largest conservation program in the world, and its success in gaining political acceptance derives from an appropriate combination of strictly protected areas with areas reserved for sustainable use by indigenous populations.

Forests in the Middle East and North Africa region are scarce but important for watershed protection and rural development. Bank activities in this region do not include standalone forest projects. They are components in investments in watershed management and natural resource management in mountainous areas in the Islamic Republic of Iran and Tunisia, and in rural development projects in Algeria and Morocco.

Box 9. Forestry and Rural Development in Algeria

As many as 70 percent of the poor in Algeria live in rural areas. Studies indicate that there is a strong correlation between poverty and unemployment. Rural areas are disproportionately affected by unemployment owing to the seasonal nature of agricultural activities.

The Bankís Second Rural Development Project, approved in 2003 introduced a holistic approach, which proved to be the best option to address food security, improvement of production systems, and resource management and conservation. The forestry component (35 percent) provided support for reforestation of watersheds and mountain areas through a two-pronged approach: (i) reforestation on public lands; and (ii) expansion of fruit trees on private lands through labor-intensive methods. Both approaches are capable of addressing soil erosion. While nurseries, terracing, planting, and maintenance of reforested areas provided immediate rural employment, longer-term benefits are expected from asset creation in trees and other natural resources, from production and processing of fruit and fruit products. Instead of focusing on timber species in private lands, the project promoted fruit trees as multi-purpose crops that meet farmersí needs. Silvo-pastoral systems combining forest and forage species in planting systems also proved to be viable options, particularly in riparian areas. The project demonstrated the critical role of decentralized operation and participatory approaches in providing employment and reducing poverty, and in mobilizing the rural poor to adopt sustainable natural resource management practices. Launched with World Bank support, the project became government-funded in 2006, as result of substantial increases in oil revenues.

All Bank forest investments in the South Asia region since 2002 have been in India. There, the last standalone forest intervention was the Andhra Pradesh Community Forest Management project, which was launched in 2003 and was completed in 2007. The portfolio also includes forest components in watershed management projects in two Indian states. The Bank is currently engaged in a policy dialogue with the national government to determine areas for future collaboration. Analytical work indicates that there are opportunities for rural growth, poverty reduction, and improving the condition of forest-dependent people (World Bank 2005b).

Box 10. Community Forestry in Andhra Pradesh

Andhra Pradesh is Indiaís fifth largest state, with a population of more than 66 million. Forest lands extend over 23 percent of the state. A large poor population is directly dependent on forests, and increasing pressure has led to forest resources degradation.

Policy distortions have negatively affected incentives for sound forest management. This project was designed with the objective of reducing poverty through improved forest management. It supports the creation of enabling conditions, including policy and institutional changes and increased efficiency in forest management and community development with increased participation by forest-dependent communities in the management of resources. As communities assume forest management responsibilities under the system of Forest Community Management, the project supports legal entitlements to income from timber and nontimber products that are produced in better managed forests.

Alignment with Strategy Objectives: Sharper Focus on Poverty is Needed

Explicit reference to the three pillars of the Strategy in World Bank project documents provides an indication of the project designersí core intentions, and of the weight attached to the pillars in the investment. The Review examined 40 active and pipeline projects, standalone and forest-component projects to assess their stated objectives and activities, and the alignment of these with the objectives of the Strategy.[20]

Poverty alleviation activities in the project portfolio included strengthening land tenure rights, reforming policies that discriminate against poor and indigenous peoples, developing community fuelwood plantations, increasing the productivity of pastures and forest lands, controlling erosion, promoting fuel efficient technologies among households, and training for ecotourism. Interventions to foster the integration of *forests in sustainable economic development* included support to planted forests, sustainable management of natural forests, small-scale forest enterprises, and institutional and policy reforms to reduce corruption and improve the management and administration of forest concessions. Actions related to *protecting environmental values and services* included establishing and managing protected areas, developing markets and arrangements for the payment for global and local environmental services provided by forests, and conserving soil and water resources.

Sixteen of the 40 projects had purposes and activities that were highly relevant to *poverty alleviation*; in 12 they were of substantial relevance to this objective.[21] In eight projects, consideration of poverty alleviation was moderate, and in 3 it was

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20 Examination was based on the available project documentation, including Project Identification Documents, Project Appraisal Documents, Quality Assurance reports, supervision mission reports, evaluation reports, and so forth.

21 The relevance scale to categorize project objectives and activities was High, Substantial, Modest, and Negligible.

negligible (Table 3.1). Although lacking earlier data for comparison, it may be concluded that the objectives of forest project are moderately aligned with the broader goal of reducing poverty.

Table 3.1 **Degree of Relevance of Project Objectives**
(Number of projects = 40)

Elements of the Forest Strategy	High	Substantial	Moderate	Negligible
Harnessing the potential of forests to reduce poverty	17	12	8	3
Integrating forests in sustainable economic development	27	6	5	2
Protecting vital local and global environmental values	26	7	6	1

There was significantly more relevance to the other two pillars of the Forest Strategy *integration of forests in sustainable economic development* and *protecting vital environmental values.* In 19 of the 40 projects reviewed, project objectives related strongly to all three pillars of the Strategy, and all three were assigned roughly the same importance high or substantial. In the others, project objectives were more focused on only one or two pillars of the Strategy. The small number of projects that lacked objectives relating to any of the pillars suggests that the three objectives are not being pursued independently as separate avenues of action, but rather as inter-related parts of more comprehensive and coherent interventions.

That said, there is no reason why all forest projects should pursue all the objectives of the strategy with equal intensity.[22] Forest activities cannot always contribute to substantial poverty alleviation. There is often more demand for projects that mainly target environmental protection or economic growth. The portfolioís emphasis on economic development and environmental conservation moreover affects levels of poverty, for instance in Algeria (Box 9). However, in countries where rural poverty is widespread and acute, the relatively lower emphasis on explicit poverty-related targets indicates that this strategic priority has probably lagged behind the others in Bank forest investments. The challenge for the Bank is to apply satisfactory methods to communicate with and engage poor and disadvantaged communities through government agencies.

22 In fact, doing so could lead to undesirable impacts in various cases.

The Review used the same sample of 40 projects to examine the degree of sustainability, and the integration of participation and social issues in the forest portfolio (Table 3.2). More than 80 percent of forest projects appear to have introduced interventions that were likely or very likely to be sustained after project completion. Among the factors that threatened the sustainability of the other 20 percent were (i) an excessive reliance on project-paid employment to carry out project activities, which ceases once the project closes and financing is no longer available; (ii) activities that contribute little or nothing to local income; and (iii) poor local ownership of the activities supported by the project.[23]

Objectives relating to social development appear to have been carefully considered in 19 of the 40 projects, and taken into account with some importance in another 13. However, in 5 projects, social development-related goals were only marginally integrated in project design and implementation plans. This finding is consistent with and supports the earlier observation that Bank forest investment projects tend to give relatively low priority to the linkages between forests and poverty alleviation objectives.

Participatory procedures were included in the preparation and in the implementation plans of all but three of the projects reviewed. In general, the interest in securing participation seems to be strong at the design stage but tends to decline during the implementation stage.

Recommendation. *The Bank should increase the importance attached to the impacts of its forest interventions on the poor and disadvantaged, and to capturing opportunities for gearing forest management and utilization to poverty alleviation. More emphasis should be attached to helping small forest holders and communities to participate in investing in sustainable forest management and downstream value-added processing, as well as in developing and accessing markets. This should involve support of grass-roots organizations and governmental capacities in creating an enabling policy framework. The quality of integration of poverty issues should be improved by including a sound logical framework with a focus on a core set of clear objectives and effective mechanisms for monitoring and evaluation. Use of the Poverty-Forest Linkages Toolkit should be promoted.*

23 One project was cancelled because of the reluctance of the country to implement better governance measures that threatened powerful vested interests that profited from illegal uses of forests.

Table 3.2. Project Sustainability, Social Considerations, and Participation

Sustainability	Numbers of projects
• Highly likely	9
• Likely	23
• Unlikely	7
• Highly unlikely	1
Social consideration	
• High	19
• Modest	13
• Low	5
• No data	3
Participation	
• High	18
• Modest	15
• Low	3
• No data	3

Lessons Learned Need to Be Applied

The Review also attempted to capture the main lessons learned during the implementation of projects.[24] Annex 1 contains a detailed description of these lessons of experience from Bank forest projects, which are also summarized below. Many of the areas needing improvement were already identified in the evaluation of the previous Forest Strategy carried out in 2000 (Lele et al. 2000). It is therefore apparent that project design and implementation still need to properly integrate this knowledge.

Projects with substantial activities related to *poverty alleviation* are complex and actions often tend to be diluted because of a tendency to include a multitude of activities without a clear focus in their design. Strong local leadership is essential, but it is even more critical to secure the full participation of local people and to create immediate benefits for the poor.

Natural resource management interventions are also often complex and suffer from lack of clarity and appropriate balance between a holistic approach and targeted, sector-specific interventions. Simple technologies should be preferred, tailored

24 Examination was based on the available project documentation, including Project Identification Documents, Project Appraisal Documents, Quality Assurance reports, supervision mission reports, evaluation reports, and so forth.

to farmersí needs and their ability to apply them. As in the case of projects with a focus on biodiversity conservation, individual area-based interventions are likely to have a limited impact unless they are part of broader landscape-based programs.

Strengthening *forest governance* requires a sound regulatory and institutional framework, effective enforcement mechanisms, and adequate incentives for operators and public agencies to comply with legal requirements. Vested interests have to be unambiguously addressed, and resistance from groups that are negatively affected by improved governance must be overcome. Experience also shows that in designing and implementing corrective actions, there should be a clear division of responsibilities between government, communities, the private sector, and civil society. Institutional reforms can be conceived as part of broader policy frameworks, but they take time to consolidate and therefore need long-term commitment. Transparency, participation, and decentralization are the other key ingredients of success.

Community forestry development should take place within a sound economic framework that provides incentives and means to avoid continuous dependency on external support. Rights to resource tenure and other rights of access are common preconditions for achieving sustainable forest management. Collective identification of forestry goals and benefit-sharing rules has often been necessary for achieving true commitment to sustainable forest management. Clear mechanisms for conflict resolution can be used to avoid or negotiate disputes that might otherwise stall progress. While improvements can be introduced to traditional forest management systems, new and more productive technologies are often needed. Because many community forestry interventions tend to lack sufficient commercial orientation, instruction in marketing should be included in capacity-building efforts. Financing of community investments should be addressed through ensuring better access to available sources. Projects should have an explicit exit strategy.

Concessions can be an appropriate means of transferring forest management responsibility to the private sector. Awarding contracts, monitoring activities, and enforcing compliance have proved to be complex undertakings in environments tainted by corruption and opaque public sector decision-making. Adequate concession management needs strict application of safeguards both during design and implementation; more than regular supervision is required as a condition for success. There are often significant obstacles to achieving economic profitability. Forest management plans tend not to properly address the livelihoods, traditions, needs and priorities of local people. Doing so requires definite measures and real commitment on the part of concession holders. Independent auditing and certification are necessary to make concession projects work as expected.

Planted forests are for many countries the only option to meet the need for forest products and to restore ecological balance. Establishment of planted forests must be based on clear objectives, sound technical concepts, adequate social and environmental safeguards, and economic viability. They offer a particular opportunity for small-scale landholdings and communities that are effectively linked with efficient markets for forest products. Corporate partnerships with smallholders and communities have proved to be highly successful in upgrading technology, reducing investor risk through secured markets, and generating on-farm and off-farm income and employment for rural people. Continuous technical development is necessary to ensure the long-term viability of these programs. This in turn requires research and development, extension programs, and the effective organization of producers.

Biodiversity conservation should form an integral part of productive forestry projects. Interventions should be designed as part of broadly based programs at the landscape level. Biodiversity projects combining conservation and sustainable use of forests tend to be excessively complex, with too many discrete activities that often result in lack of clarity and focus. Securing participation and integration of people living in and around protected areas is a key issue in project design. Alternatives for protected area administration could include community management and a broader range of options for poverty alleviation than park employment and casual labor in ecotourism. The economic viability and financial sustainability of these investments are typically uncertain and imperfectly researched in project design.

Experience with *payments for environmental services* is still incipient, but holds promise in various situations where the necessary preconditions are satisfied. Putting payment mechanisms for environmental services into place can entail high transaction costs, and care must be exercised that these do not outweigh benefits. Preferably, payments should be linked to conservation-related activities rather than to simply setting aside specific areas. Quantifying the environmental services provided, monitoring, auditing, and payment schemes should be based on clear and transparent principles and rules. Private-public partnerships are useful instruments for capturing funding, especially for flagship projects.

A number of *cross-cutting lessons* tend to be valid for most types of forest projects. Ensuring the effective participation of relevant stakeholders is an important requirement for success and particularly during stages of implementation when participation tends to wane. The Bank and other development partners should work not only with the executive branch of the government, but with a broader range of partners, including the legislature, the public at large, nongovernmental organizations (NGOs), and the private sector. Achieving adequate integration of various project components is often difficult (including the GEF component in blended projects). Even for a process-oriented project, it is vital that a logical framework, with clear objectives and indicators, be included in the formulation of the project. Focusing on a core set of objectives and activities with results-oriented indicators and targets is advisable. Maintaining the flexibility to adjust objectives and activities in response to changing circumstances, and based on the experience accumulated at successive stages of the project cycle. Country-driven, sector-wide programs that are supported by multiple donors, such as national forest plans, are more likely to wield enduring impacts than isolated projects, and are therefore generally preferred when possible.

Recommendation. *The Bank should strengthen its knowledge management practices to ensure adequate integration of the lessons learned from experience in project design and implementation.*

Enhancing the Lending Program

The Bank appears not to have been successful in re-engaging in the forest sector, and it remains uncertain whether the recent expansion in forest-related lending volume is in fact an indication of a long-term trend. On the other hand, the Bank has succeeded in expanding the scope of its interventions to all types of forests. There is a pronounced regional concentration of lending, which is explained by the weight of large projects in some East Asian countries. The concentration of investment in a few African countries is a cause for concern. Even though investment projects must always be tailored to country conditions, poverty reduction objectives appear to receive relatively less importance in forest project design than economic development or environmental conservation. In terms of sustainability, project quality seems to have improved over time, but social issues and stakeholder participation in project design and implementation require further improvement. Since many of the same issues identified during the evaluation of the previous Forest Policy have yet to be adequately addressed, the significant experience that has been accumulated during the Strategyís implementation is not effectively capitalized on.

Recommendation. *Taking advantage of its unique convening power, the Bank should expand its involvement in all types of forests and ensure greater mobilization of human and* *financial resources, including those from international sources outside the Bank. More efforts and resources should be devoted to creating awareness of the importance of forests to poverty alleviation and to global, regional, and local services among the Bank s regional and technical management. This would facilitate improvement of project design quality through better analytical advisory assistance and economic and sector work, and would ensure more effective monitoring and evaluation of results, impacts, and associated causal relationships.*

GEF s Important Role in Forest Strategy Implementation

The Bank is one of the three implementing agencies of the Global Environment Facility (GEF). The GEF finances on concessional terms the incremental costs of achieving global environmental benefits in agreed areas of action. It is an important partner in the implementation of the Forest Strategy, and is particularly relevant to its third pillar, concerning environmental services and values.

The Strategy states that the Bankís primary role in implementing the third pillar should be, among other actions, to develop options to build markets and finance for international public goods such as biodiversity and carbon.

From 2003 to 2005, the GEF funded US$186 million in 38 forest-related projects implemented by the World Bank. The total value of these projects was US$952 million, with Bank contributions amounting to US$766 million.[25] Since 2000, the number of Bank-implemented GEF projects has averaged 13 a year. The average total size of these projects doubled during the same period. Since the Strategy was adopted, the share of GEF funding in forest-related projects has progressively declined from about 28 percent to 19.5 percent.[26] These figures demonstrate how effective grant funding can be in leveraging the Bankís lending to forestry, for without the GEF partnership the Bankís forest portfolio would be significantly smaller than it now is.

In GEF forest-related projects, activities are divided into three categories: (i) forest conservation, including management of protected areas and buffer zones;

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25 These data are based on GEF records and include 41 projects which GEF has classified as forest-related. They have been implemented under the following Operational Programs: OPs 1 4 covering the Biodiversity Focal Area OPs (27 cofinanced projects); OP12 Integrated Ecosystem Management (10 projects); OP 13 Agricultural Biodiversity (2 projects); OP15 Sustainable Land Management (4 projects) (GEF, 2005).

26 According to the GEF classification (GEF 2005).

(ii) sustainable use of forests in production landscapes; and (iii) mixed land use, including sustainable forest management. Since 2002, 51 percent of total funding has gone to mixed land use, while 26 percent has gone to forest conservation. From 2000 to 2002 there were six sustainable-use projects; from 2003 to 2005 there were nine.[27] This change in emphasis toward more sustainable-use projects has taken place at the expense of the number of forest conservation projects, while the number of mixed land-use projects has remained unchanged. The evolution of the composition of GEF projects could be interpreted as a sign of a better balance between forest protection and sustainable use, which is compatible with the integrated approach of the Bankís Forest Strategy.

In biodiversity projects, more clarity is needed on a number of key issues such as (i) treatment of the rights of indigenous people; (ii) adequate compensation for displacement and loss of livelihood for people who have been removed from newly established protected areas; (iii) access to planning and implementation, and the capacity of affected people to effectively participate in them; (iv) community-managed protected areas where subsistence agriculture may be practiced (see, for example, Griffiths 2005). The people and parks issue is still far from being resolved in many countries because of different stakeholder perceptions of how protected areas should be managed.

The downside of GEF contributions to blended projects has been that they raise transaction costs. On average, it takes almost five years to process a full-sized GEF biodiversity project from its entry into the pipeline to implementation.[28] Even in the case of medium projects, this period has been up to two years. The long gestation process carries various risks as external factors may change dramatically in the intervening period. The high transaction costs have been present both in the GEF project-cycle management and in the preparation of projects by country administrations (GEF 2002). Nonetheless, and from the point of view of the client countries, the significant contribution of the grant component may more than compensate for the higher transaction costs of GEF blended projects. GEFís new Resource Allocation Framework (RAF) is aimed at improving the allocation of resources on a strategic basis, and at increasing the transparency of operations and results. The downside of this

27 However, it is not clear from GEF (2005) how the projects were classified between their primary focus areas; therefore the results may have to be interpreted with caution.

28 GEF has recently set a target to reduce the time required for project preparation and processing to 22 months in all projects.

change is that many countries with substantial needs for GEF support may be left with marginal allocations, and countries that do receive major allocations may not give due priority to forest-related projects. The crosscutting program on sustainable forest management now under preparation would open substantial new opportunities for joint Bank-GEF operations.

Recommendation. *The Bank should make use of RAF s greater potential predictability for GEF blended funding in the preparation of Country Assistance Strategies. It should also explore options to reduce the costs of designing projects with GEF blended funding, including ways to speed up project preparation processes. Both procedural and country issues should be considered in exploring these options. The Bank should also take specific measures to meet the needs of countries that in the new situation can receive only marginal GEF allocations, to maintain their capacity to produce global public goods. The planned Global Forest Alliance of the Bank should integrate GEF s new approach to maximize leverage in raising financing and in increasing effectiveness on the ground.*

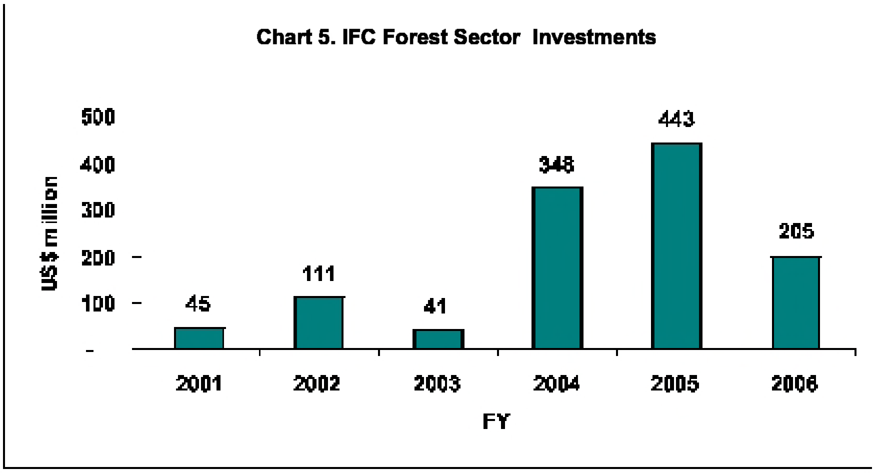
Harnessing Synergies with the International Finance Corporation and the Multilateral Investment Guarantee Agency as Partners in Forest Strategy Implementation

The International Finance Corporation

IFC, the private sector arm of the World Bank Group, promotes sustainable private sector investment to foster economic development and reduce poverty. IFC finances investments with its own resources and by mobilizing capital in the international financial markets. In addition to equity and loan financing, IFC also provides technical assistance to its clients, funded either by grants or by the clients themselves.

Between FY2003 and FY2006, IFC invested more than US$1 billion to help finance 25 forest sector projects with a total cost of about US$4 billion (Chart 5). The size of projects ranged from a US$2.9 million packaging project in the Kyrgyz Republic to a US$500 million paper mill project in China. The pulp and paper industry accounted for 56 percent of the total, while 33 percent was directed at the wood-based panel and engineered wood product industries. Some small investments were made in sawmilling and furniture production. The share of forestry projects in total sector financing is 11 percent but it is increasing. IFC has not invested in projects requiring raw material procured from natural tropical moist forests in the same country, even though there have been no institutional constraints on this since 2002.[29] About half of IFC projects included an integrated forestry component. IFC technical assistance was mostly targeted at specific projects, but some sector work was also carried out.[30]

Chart 5. IFC Forest Sector Investment



Geographically, Europe and Central Asia attracted the most IFC financing from 2003 to 2006, followed by East Asia and the Pacific, Latin America and the Caribbean, South Asia, and the Middle East and North Africa (Chart 6).
Only one African country appears in the IFC portfolio during the period.[31] IFC projects concentrated in 16 countries. The Bank had forestry lending activities in 10 of them, indicating a considerable geographic overlap.[32]

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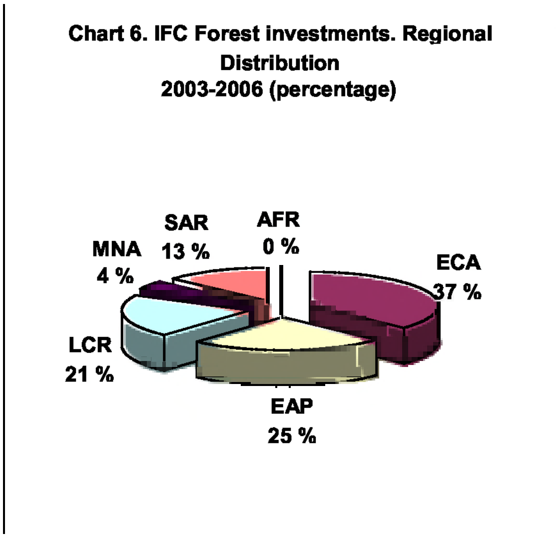
29 Some IFC investments in timber processing in China have been made in companies that import tropical timber from other countries from the region. In at least one company, IFC has provided technical assistance to build up a certifiable environmental management system to control the origin of raw material and promote forest certification among suppliers.

30 As an example, there is ongoing work to prepare a strategic plan for the pulp and paper industry in Ukraine.

31 This may be because of the scarcity of companies that meet IFC criteria for support. Another possible reason is that most of the wood industry enterprises in Africa are based on timber originating in natural forests, and projects in this sector have not been funded by IFC.

Chart 6. IFC Forest Investments. Regional Distribution 2003 2006



The principal drivers of the increase in IFCís forest portfolio have been strong growth in demand for forest products in emerging markets, competitive cost advantages in production of plantation wood in developing countries, and the associated relocation of industrial capacity from developed countries. The relocations have benefited a number of countries in the EAP, ECA, and LAC regions. The legitimization of commercial forestry in investments of the Bank Group can also be assumed to have contributed to the increase in the IFC sectoral portfolio since 2002. An additional factor in forestry investments has been transfer of resource management responsibility from the state to the private sector in many Bank client countries.[33]

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32 The regional analysis is based on projects with a total value of US$800 million. In two countries without the Bankís forest lending there are practically no production forests.

33 This partially explains the lack of growth in the Bankís portfolio of self-standing forest projects (see section 3.1.1).

Leveraging private investment

Private investment in the forestry sector in developing countries and countries in transition is probably running on the order of US$15 billion per year, or up to nine times more than current flows of official development assistance.[34] IFC-leveraged investments have averaged in excess of US$1 billion per year.[35] The influence of IFC in forest sector investments is therefore significant. The crucial question for the implementation of the Forest Strategy is how the large amount of private financial flows in the forest sector can be made to maximize their contribution to the Strategyís three pillars.

The IFC and the Pillars of the Forest Strategy

Sustainable economic development is the main orientation of IFC investments. The link with the two other pillars of the Strategy is considerable but less direct. With regard to ***poverty alleviation***, the available information did not allow a consolidated quantitative or qualitative assessment of the income and employment impacts of IFC projects in the forestry sector.[36] However, the project companies often generate considerable employment, ranging from a few hundred to tens of thousands of new jobs. Indirect employment impacts can be up to ten times higher than direct industrial employment, particularly when considering associated forestry activities.[37]

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34 In 2002 the Bank estimated that total forest-sector private investment in developing countries and countries in transition was in the range of US$8 to 10 billion per year. In the opinion of the Review Team, the present figure is substantially higher. According to FAO (2005), the plantation area in developing countries is increasing at about 1.8 million ha per year. This represents investments in the order of US$3 to 4 billion per year. Improvements in the management of existing forest management should be added to this but reliable estimates do not exist. In plantation-based projects, industrial investments represent 80-90 percent of the total. Applying this coefficient with plantation investments being 20 percent of the total total forest investment in developing countries should be at least US$15 billion.

35 IFCís annual commitments averaged about US$250 million per year (FY03 06). As the leverage factor is reported by IFC to be about five, the total investment of these projects would be in the range of US$1 to 1.5 billion.

36 Summary descriptions of IFCís projects.

37 Upstream forestry activities have a significant potential for rural poverty reduction. As an example, IFC projects in India have engaged 135,000 farmers or families in cooperative arrangements with pulp and paper companies, covering a total area of 128,000 ha. Each family typically allocates 1 to 2 ha to forest plantation to increase their income, demonstrating that primarily poor households are involved in these schemes. Similar arrangements are also being supported by IFC-financed projects in

While almost all the investments to date relate to large-scale industrial projects, the IFC has a particular interest in supporting the expansion and sustainable management of upstream fiber sources. Greater IFC involvement in forestry can enhance the positive impacts of industrial development in environmental conservation, economic development, and poverty alleviation, while also mitigating possible negative impacts.

In production-oriented projects, environmental values are managed through safeguards, which the IFC ensures through its performance standards.[38] With respect to environmental safeguards, 19 projects of the 20 analyzed by the Review were classified as Category B, while only one project fell into Category A.[39] In two projects with forest components, the forests have already been certified and in six projects an action plan has been prepared to achieve certification of all the wood supplies. Considering the competitive environment of IFC operations, these can be considered substantial achievements. Certification presently appears to be the only practical tool to unlock opportunities in financing sustainable management of natural tropical forests.[40]

The 41 Equator Principles Financial Institutions (EPFIs) have adopted the IFC performance standards for project financing in investments above US$50 million (Box 11). Though relatively few forest or forest industry projects make use of project financing of this magnitude, this is the first important step in

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Brazil. IFC has also provided technical assistance to small-scale forest-based operations in Central America through the LAC Project Development Facility in collaboration with WWFís Global Forest Trade Network. The future impact of these investments can be significant in terms of employment and local income if such efforts move beyond technical assistance.

38 IFC Performance Standard 6 and Guidance Note 6 on Biodiversity and Sustainable Natural Resource Management.

39 Category A projects imply potentially significant environmental or social impacts or both, requiring full environmental impact assessment and customized mitigation. Category B projects also require an environmental assessment, but the due diligence is less extensive than in Category A.

40 One reason for IFCís low level of investment in the management and utilization of natural forest has been NGOís strong criticism of some specific aspects of Bank investments in Cambodia, the Democratic Republic of Congo, and Papua New Guinea. These experiences have made it clear that there can be substantial reputational risks for IFCís investments in this subsector. Still, the lack of sound projects (for example, reputable sponsor, project viability, enabling environment, and IFC role) continues to be the main constraint.

leveraging the implementation of Bank Group safeguards in project investment by the private sector that relates to sustainable forest management. Further mainstreaming can be expected.[41]

Box 11. The Equator Principles Financial Institutions

> The Equator Principles Financial Institutions (EPFIs) have adopted their Principles in order to ensure that the projects they finance are developed in a socially responsible manner and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities can be avoided where possible, and if these impacts are unavoidable, they can be reduced, mitigated, and/or appropriately compensated for. Adopting and adhering to these Principles offers significant benefits to the EPFIs, their borrowers, and local stakeholders through the borrowersí engagement with locally affected communities. The Principles are intended to serve as a common baseline and framework for how each EPFIís implements the internal social and environmental policies, procedures, and standards that relate to its project financing. The Institutions will not provide loans to projects where the borrower can not or will not comply with the respective social and environmental policies and procedures that implement the Equator Principles.

In addition, the forest industry globally and in many countries has been working on common policies that address sustainability issues. The recent CEO Leadership Statement of the International Council of Forest and Paper Associations (ICFPA) for example shows that the same issues are also being addressed at the company level (ICFPA 2006).

41 There are ongoing discussions among the EPFI members about reducing the size of eligible projects to US$10 million, which, together with expanding EPFI membership, will considerably broaden the applicability of the Principles in project financing of forest-based investments.

Harnessing Synergies between World Bank Group Institutions

There are compelling reasons and substantial scope for the IFC and the other institutions that comprise the World Bank Group to collaborate more closely in the forest sector.[42] The institutions share the ultimate objective of poverty alleviation and there is consistency of policy, given that the new IFC Performance Standard on Biodiversity and Sustainable Natural Resource Management (PS6) has taken into account the key principles of Operational Policy 4.36 used in IBRD and IDA lending operations. The client base of IBRD and IDA is the public sector in developing countries. The client base of the IFC is the private sector in developing countries. The IBRD/IDA focus on supporting establishment of environmentally sound legal standards and regulatory capacity is essential to creating enabling environments for the predominantly downstream private operators that are served by IFC investments and contributes to project risk mitigation for IFC investors. These enabling conditions also afford the IFC an opportunity to be proactive in promoting responsible private investment in countries where this has not been possible before. On the other hand, the complementarity of IFC and IBRD/IDA lending improves the attractiveness of the IBRD/IDA lending for the governments in client countries. The combined roles of the institutions in the country provide an additional comfort factor for investors vis-à-vis eventual policy changes. Because forest-based investments are by definition generally made with a long time horizon, all means to mitigate risks are particularly important for private investors.

IBRD/IDA analytical advisory assistance (AAA), and economic and sector work (ESW) particularly those that relate to governance issues also serve to create enabling conditions for IFC investment projects.[43] Of particular importance is work related to the establishment and clarification of tenure and usufruct rights of forest resources, which can remove key bottlenecks for private investment in many countries. On the other hand, IFC participation in an environmentally sustainable private company can demonstrate profitable success within the

42 The International Bank for Reconstruction and Development and the International Development Association are in commonly referred to as the World Bank. Together with the IFC, the Multilateral Investment Guarantee Association, and the International Center for Settlement of Investment Disputes, the five institutions comprise the World Bank Group.

43 Several ESW/AAA products developed under the Bankís forest partnerships are directly related to this issue (see Appendix 6 for the list of products).

framework of a Bank-supported regulatory structure (supply response). It is at this intersection that the benefits of collaboration are strongest.

The shortage of sustainable private operations in tropical forests and the apparently inevitable criticism of any timber production investment in natural tropical forests by some advocacy NGOs together represent substantial reputational risk that in large measure accounts for the lack of IFC investment in this type of forest. Concerns surround the possible takeover of indigenous peoplesí lands and the displacement of peasant farmers. They also include inappropriately capital-intensive land use innovations that may displace or fail to create employment. Lack of participation and the political marginalization of smallholders in land use planning, and the possibility of inadequate impact assessments are very important concerns. The sensitivities related to these concerns are well known based on the experience of World Bank investments in natural forests in Cambodia, the Democratic Republic of Congo, and Papua New Guinea, as well as in some projects involving the development of plantations. *The proper triggering of World Bank safeguard policies can effectively offset adverse impacts related to any of these concerns.*

The IFC and other institutions of the World Bank Group together have significant impacts in promoting responsible business practices. The IBRD and IDA can help address many of the policy issues that relate to IFC investments and that are at the heart of NGO concerns. In Africa, where the IFCís role in the forestry sector is still marginal, this may be particularly valuable. The IFCís partnerships and its interface with NGOs can be strengthened and expanded in order to achieve goals set out in the World Bank Forest Strategy. Joint World Bank Group-NGO initiatives may demonstrate that internationally financed production operations that are based on natural tropical forests can be certifiably-sustainably managed, that they can generate important social and environmental benefits, and that they can reduce pressure to convert these areas to uses other than forestry. The financial resources available for sustainably-managed operations by responsible private operators such as those provided by the IFC and the continued greening of the demand side among both public and private buyers, may make a major contribution to reducing illegal logging. Promoting responsible forest management by the private sector is a shared challenge for the IFC and IBRD/IDA, and requires joint action. In plantation development, the issues are somewhat different, but joint action would also be highly desirable to mainstream investments which are financially profitable, environmentally sustainable, and socially responsible.

A useful example of synergistic potential between the IFC and IBRD/IDA is the World Bankís Sustainable Forestry Pilot Project in the Russian Federation. The project has been instrumental in building up preconditions for IFC investment in the wood-processing industries. It helped to revise the legal framework,[44] promote forest certification, and strengthen human resources, while the IFC provided technical assistance to selected forest management units to achieve certification status. As a result, significant progress towards sustainable forest management can now be expected in the country. Long-term commitment and cooperation between the World Bank institutions helped to maintain the momentum for policy reform in a complex political situation.

There are many areas of potentially beneficial collaboration. The IFC has extensive experience in providing technical assistance to small and medium enterprises (SMEs), which are a major potential source of off-farm employment in rural areas (Molnar et al. 2006).[45] This experience could be drawn on in Bank lending to build up entrepreneurial capacity among forest-based SMEs. In many Bank client countries, such SMEs account for 80 90 percent of all forest enterprises and over 50 percent of forest-related employment (Macqueen and Mayers, forthcoming). IFC investments in this sector are still marginal and would benefit from an enabling environment. The IFC could enhance the use of the Global Forest Trade Network (GFTN) of the World Bank/World Wide Fund for Nature (WB/WWF) Alliance for Forest Conservation and Sustainable Use in linking its investments with responsible buyers. This would mitigate both reputational and business risks.

The Environmental Finance Division and Regional Development Facilities of the IFC could work collaboratively with PROFOR and with the WB/WWF Alliance. For instance they might work together in identifying local commercial banks and other institutions that may serve as intermediaries to channel IFC funding and donor-supported technical assistance to forest-based SMEs.

The Bankís unique experience in developing mechanisms for payment for environmental services could be drawn on in developing IFC-supported private investments in client countries. Furthermore, the poverty- reduction impacts of the investments of these two institutions in the same geographical region could be strengthened through cooperation and coordination. Company-community

44 The new Forest Code was approved in December 2006.

45 IFCís Small Medium Scale Enterprise Department and its Regional Development Facilities have had more than a decade of experience implementing technical assistance programs.

partnerships and contractual arrangements with tree farmers are a particularly attractive opportunity in this context.[46] Coordination between the institutions could increase demand for the services offered by the IFC and IBRD/IDA, and reduce the possibility of unnecessary or overlapping investments.[47] Harmonizing the safeguard policies of the institutions could eliminate any confusion and unnecessary duplication of work by clients and stakeholders.

During the last four years, cooperation has increased as a result of efforts by both the IBRD/IDA and the IFC. The centralization of IFC Global Forest Products Sector investment activities within the Manufacturing and Services Department has facilitated operational links, knowledge sharing, and a more collaborative approach to Bank Group activities in the forest sector.[48] Given the dramatic shift of fiber sourcing and demand to emerging markets, these developments within the World Bank Group are particularly opportune. The IFC benefits from the accumulated experience and knowledge of the IBRD/IDA in countries where it has not previously invested in the forest sector.

While there is good potential to strengthen and expand cooperation to harness synergies between the IFC and other institutions of the World Bank Group, there are also inherent limitations. For example, the IFCís private sector clients typically demand strict confidentiality, and the time-sensitive nature of project financing often does not lend itself to in-depth consultations across organizational lines. While there are good reasons to increase collaboration between the institutions both at central and country levels, there are also constraints to such cooperation given their different cultures, operational procedures, and most importantly, the nature of their business and client concerns.

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46 Examples include the three companies in India and two in China.

47 For example, in the Guangxhi Province in China, where the Bank supported increased coordination between private and public investment.

48 These include (i) Bank-supported ESW and FLEG initiatives (including Forest Investment Forums) that have contributed to an enabling environment for private investment into forestry; (ii) participation of Bank forestry staff in IFC Appraisal Missions and vice versa; (iii) using catalytic funding provided by PROFOR and by WWF to facilitate IFC's Regional Development Facilities in supporting forest and wood based SMEs to contribute to poverty alleviation; and (iv) involvement of the Global Forest and Trade Network of the WB/WWF Alliance to assist IFC in mitigating risks of their investments.

Recommendation. *The present approach to IFC-Bank cooperation is based on informal consultations and personal relations should be complemented by institutional coordination, for example through IFC engagement in Global Forest Alliance activities, joint periodic review of project pipelines, mutual participation in project preparation and appraisal missions, and staff exchange. Both incremental and organic integration of forestry investment should be promoted on a case-by-case basis. Cooperation should cover (i) promoting investment in forest-based small-scale and community enterprises; (ii) enhancing the role of markets to reduce illegal logging and promote sustainable forest practices (for example, through the Global Forest and Trade Network); (iii) supporting company-community/smallholder partnerships that foster involvement of smallholders and local communities, not only as outgrowers but also as true partners of the harvesting and manufacturing companies they supply; (iv) encouraging private investment in payment mechanisms for environmental services; (v) producing guidance material for the application of the institutions safeguards; (vi) jointly developing IFC and Bank proposals to put in place strategic frameworks for private sector/IFC investment and to identify areas where the Bank should be supporting policy reforms to create an enabling climate for responsible private sector/IFC investment; and (vii) ensuring staff exchange.*

Furthermore, the IFC and other Bank Group institutions should organize policy dialogues to remove constraints and to mitigate risks related to investments in sustainable management of natural tropical forests and planted forests in cooperation with the Food and Agriculture Organization, the International Tropical Timber Organization, NGOs, and the private sector. This should include analytical work on costs and benefits of action and inaction in promoting sustainable forest management. Organizing high-level policy forums on the financing of sustainable commercial forestry may serve to forge shared views on important issues among stakeholder groups. Such a forum on natural tropical forests would be a priority, and could lead to a quantum leap in financing for their sustainable management.

The Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) promotes foreign direct investment by offering political risk insurance to investors and lenders. It also provides technical assistance to help countries attract and retain this investment. In the forestry sector, MIGAís political risk guarantees have been applied only in two pulp and paper mill projects in the Europe and Central Asia region in the late 1990s.[49] Owing to the long time horizon characteristic of forestry investments, these guarantee instruments could be usefully applied much more extensively. Credit financing in forestry investments in many client countries is

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49 MIGA has recently considered participation in a pulp mill project in Kalimantan, Indonesia, but because of risks related to the raw material supply, an agreement was not reached.

constrained by the lack of nationally available insurance services for forests. MIGA used IFC safeguards in the past and cooperated in the due diligence process. The Agency now has its own safeguards, which are being revised to align with the new IFC performance standard. It has also started an SME investment program that is relevant for forestry enterprises. MIGA has substantial potential to provide guarantee services related to Clean Development Mechanism (CDM) afforestation and reforestation projects, as well as to avoided deforestation projects, which would improve the quality of carbon credits.

Recommendation. *The Bank should explore opportunities to enhance MIGA s role in the implementation of the Forest Strategy. This could include, for example, MIGA s new SME guarantee facilities which could be applied in the forestry sector, as well as provision of guarantees for insurance schemes against forest fires and other natural catastrophes.*

The BioCarbon Fund: A Promising Pioneer for Mobilizing Forest Carbon Finance

One third of global greenhouse emissions result from land-use changes, mainly from deforestation. The BioCarbon Fund (BioCF) was created in 2004 as a private sector trust managed by the Bank. It helps finance pilot forest and agro-ecosystems projects that sequester carbon in developing countries and in countries in transition. Projects that promote land-use changes to reduce greenhouse gas emissions may offer poor countries with undeveloped industrial and energy sectors the only possibility to benefit from the carbon-offset trade. The BioCF therefore has an important role to play with respect to equity, in addition to its central objective of reducing emissions. Community groups, private companies, public agencies, and NGOs propose projects, implement them, and receive funds in exchange for emission reduction credits. The activities supported by the Fund emphasize environmental conservation, and are consistent with all three pillars of the Forest Strategy the third pillar on global environmental services and values in particular. Fund activities are also consistent with the objectives of the United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD), and the United Nations Convention to Combat Desertification.

The Fundís first tranche mobilized about US$54 million.[50] The second tranche became operational in 2007 when the preset minimum of US$10 million in new contributions was achieved. Based on 150 project proposals, the first tranche

50 As of August 31, 2005.

has developed a diversified portfolio of 18 projects worth US$25 million. To date, the Fund has signed seven emission reduction agreements.

The types of projects financed include (i) restoration of forest ecosystems by connecting forest fragments with corridors; (ii) agroforestry and silvopastoral projects and establishment of tree cover for degraded grazing lands; (iii) planting of trees for erosion control, timber, biofuel, and other forest products; and (iv) improved forest management to enhance carbon storage in countries in transition. In addition to these projects generating tradable carbon offset, the BioCF is experimenting with restoration of degraded forests through improved forest management; rehabilitation of dryland grazing land by establishing shrubs and increasing soil carbon; protection of forest fragments; and avoidance of loss of carbon stock caused by frequent wild fires. These activities may become eligible during the second commitment period of the Kyoto Protocol. Their piloting is therefore strategically important, as the BioCFís financial contribution to the projects is often limited to what is required to trigger private investment (for example, for reforestation through planting).

The BioCF portfolio has a strong presence in the Africa (39 percent of the total) and LAC regions (34 percent of the total). The relatively large Sub-Saharan Africa share of the portfolio is the result of a BioCF promotional effort and demonstrates the potential of poor rural communities to access the international carbon market through biocarbon trade. These communities are located in large areas with degraded land that are in need of rehabilitation through afforestation and reforestation. As regards asset class, commercial plantations account for 33 percent of the total, followed by environmental restoration (25 percent), community reforestation (22 percent), fuelwood plantations (8 percent), assisted regeneration (5 percent). The rest is shared between avoided deforestation (3 percent), and agroforestry and silvopastoral systems (2 percent). Only one project is fully dedicated to commercial plantations.[51]

The first biocarbon project registered by the CDM Executive Board was developed by the BioCF (China). The CDM Executive Board has adopted five methodologies developed by the BioCF (Brazil, China, Moldova, Albania, and Honduras) which are now being mainstreamed by other project developers.

There are important potential synergies between World Bank forest investment lending and BioCF projects. The Bank has forest or forest component lending projects in several countries where BioCF is financing carbon sequestration

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51 Many BioCF projects include commercial plantation components.

(Albania, Brazil, China, Colombia, Costa Rica, Honduras, India, Madagascar, Mexico, Nicaragua, and Uganda). Furthermore, in many countries, Bank projects are fostering payments for environmental services (Colombia, Costa Rica, Ghana, Kenya, Mexico, Nicaragua, Nigeria, South Africa, and Venezuela). However, the link between Bank and BioCF interventions appears to be ad hoc at most, with no coordinated effort to manage synergies.

While a deliberate joining of efforts has yet to take place and the second tranche is small, the BioCF is a promising piloting instrument for the future implementation of the Forest Strategy. BioCF activities have a significant potential for mainstreaming biocarbon in the international carbon offset market. It offers an extra benefit for the buyer of the carbon offset which is guaranteed until the end of 2017, covering the second commitment period of the Kyoto Protocol. Beginning in 2018, the seller is free to resell the stored carbon or to liquidate the growing stock in the timber market. Some civil society stakeholders have expressed concern that carbon investments could pose potential risks for the rural poor if the lands they use for their livelihoods are assigned for carbon schemes. Environmental and social issues are considered by the BioCF when the sustainability and impacts of biocarbon projects are assessed.[52] Valuable pilot experience has already been gained, for example, in the preparation of community biocarbon projects in Niger and Mali, where social, environmental, and economic objectives have been successfully combined.

The potential for biocarbon investment will significantly increase if avoided deforestation becomes an eligible activity during the second commitment period of the Kyoto Protocol. The Bank is planning a major avoided deforestation initiative to complement BioCFís valuable pioneering work. This is expected to result in new seed capital to scale up forest carbon-finance resources for avoided deforestation in the future.

Recommendation. *The Bank should take specific actions to link BioCF projects (i) to the Bank CAS and lending program, particularly in those countries where both initiatives are expected to coincide, particularly in community-targeted projects, and where there is potential for including PES components in lending projects, and (ii) to GEF funding. This would maximize synergies, enhance effectiveness, and avoid parallel initiatives that could confuse clients.*

52 The BioCF Carbon Finance Document includes as separate annexes checklists on environmental benefits and risks, community benefits and risks, and carbon ownership. These have benefited from the standards of the Climate, Community and Biodiversity Alliance.

4. ENHANCING PARTNERSHIPS AND LINKAGES

The Need to Integrate Global Programs

The Strategy acknowledged that the global challenge of managing forests sustainably is daunting, and that the Bankís existing human and financial resources would enable it to play only a limited role. Therefore it was necessary to establish partnerships with institutions with complementary comparative advantages. Currently, the Bank is engaged in three key global forest programs with institutions outside the Bank Group: the World Bank/World Wide Fund for Nature (WB/WWF) Alliance for Forest Conservation and Sustainable Use (the Alliance), the Forest Law Enforcement and Governance partnership (FLEG), and the Program on Forests (PROFOR). All three partnerships complement and reinforce Bank action. The three programs are consistent with a strong international consensus, as expressed in various international forums and agreements. Annexes 2, 3, and 4 present a detailed description and analysis of the three programs.

The WB/WWF Alliance for Forest Conservation and Sustainable Use was formed in 1998 to build on the comparative strengths of the two organizations in addressing their shared concern about global deforestation and forest degradation. The Alliance addresses challenges to forest conservation and to the livelihoods of the poor that result from global deforestation and forest degradation. Its objective is to achieve a 10 percent reduction in the rate of global deforestation by 2010 as the first step toward aiming at zero net deforestation by 2020. It also seeks to establish 25 million hectares of new protected areas, to improve the management of protected areas in 75 million hectares, and to put 300 million hectares of forest under improved forest management. Initiatives promote independent forest certification, improved forest governance and management, community-based forest management, and restoration of degraded forest lands.

The FLEG partnership is based on a broad coalition of international assistance institutions, governments, nongovernmental and civil society organizations, and private sector actors that are interested in pooling resources and joining efforts to combat illegal activities and improve the quality of governance in the forest sector. The World Bank plays a central organizing and coordinating role in this coalition, capitalizing on its convening power and capacity to mobilize financial resources. It discharges this role through its own FLEG Program.

PROFOR is a multidonor partnership program that was formed to enhance the contribution of forests to poverty reduction, sustainable development, and the protection of environmental services. It does so by carrying out analytical work to improve information and create knowledge about livelihoods, governance, finance, and a number of issues that are inter-sectoral. The work is organized into four related thematic areas.
(i) A livelihoods approach to poverty reduction concentrates on the contribution that forests can make to the livelihoods of the rural poor by providing employment and income, with particular attention to farm and household level activities. (ii) Forest governance focuses on how forests are managed by governments and other stakeholders, and on how to improve decision-making processes as well as regulatory and institutional frameworks, including better enforcement of regulations, improved incentives, and enhanced transparency and accountability. (iii) Innovative approaches to financing and improving incentives to manage forests sustainably by increasing the profitability of sustainable practices relative to unsustainable ones; reforming forest revenue-collection systems, and developing markets and compensation mechanisms for forest environmental services. (iv) Analysis of cross-sector impacts that affect forests and devising ways to manage the links between forests, other sectors, and macroeconomic policy.

The three programs were all established before 2002 and each is recognized in the 2002 Forest Strategy, which assigns them important roles in pursuing the Strategyís objectives. Optimally, a programmatic approach to partnerships would have been in place to systematically capitalize on the comparative strengths of the World Bank and its potential partners, and between the three programs themselves. Unfortunately, no such framework existed when the three programs were established.

Relevance to the Forest Strategy

The three programs have diverse origins, though all are consistent with the Forest Strategy. Activities supported by the Alliance relate principally to the Strategyís pillars of protecting environmental services and values, and to integrating forests into sustainable development. More recently the Alliance has also turned increasing attention to the interactions between conservation and poverty. FLEG Program objectives are likewise directly aligned with the same pillars on environmental services and values and on sustainable development. Given a sound legislative system that recognizes the import effects of strengthened law enforcement on traditional rights, local employment, and income generation for the poor, the Programís relevance to poverty reduction are apparent. (Empirical work on this subject published the same year as this Review includes Colchester et al., 2006.) The PROFOR statement of objectives closely parallels the objectives of the Strategy, and as such is directly relevant to the implementation of the Strategy.

Main Achievements

There is no practical way to accurately assess the output and impact of partnership programs. They are, by their very nature, catalytic undertakings aimed at inducing coordinated action by a range of stakeholders, some of whom might have taken such action in the absence of the partnership. Attributing outcomes on the ground to the programsí activities is therefore often uncertain.

Even considering this caveat however, the three partnership programs provide considerable support to the implementation of the Forest Strategy. In line with the program of the Alliance, the area of forest under protection globally has expanded substantially, as have the protected areas that were brought under improved management. The area of certified forests has also grown and the quality of certification has globally improved, in part owing to the work of the Alliance, which has influenced the existing certification systems to adjust their rules toward meeting the Bankís requirements. The FLEG Program has raised awareness of forest governance issues globally, influencing public opinion and mobilizing political commitment to improve governance and curb corruption, illegal logging, and the trade of wood products that are of suspect origin. This increased commitment is evident in ministerial declarations and plans of action in three regions. Analysis and applied research undertaken by PROFOR has generated a substantial body of highly relevant material that is for the most part driven by demand and targeted to fill gaps in the existing knowledge base.

The Bank has asserted its global mandate and used its convening power to engage governments, the private sector, and civil society in the activities of the three global programs, though much of its potential remains untapped. The Bank has also been effective in mobilizing financial resources to fund these programs.

Major Challenges and Opportunities

The assessments of the three global programs (which are presented in annexes 2 4) indicate that a more programmatic approach to planning their future evolution and implementation would be highly desirable. It would serve to maximize synergies, avoid overlapping initiatives, and establish priorities, not least, to facilitate the mobilization of future financing to sustain the programs. This would mean striking an appropriate balance between the programsí strategic approaches and the opportunistic character of the programs; the latter should be maintained as one of their unique assets.

The programs must assign greater importance to poverty reduction. Until very recently, the integration of poverty-related activities was relatively weak in all three programs. From the perspective of the Bank Forest Strategy, this was clearly not satisfactory. The reduction of deforestation, the increase in protected areas, and the combat of illegal logging are all endeavors that have considerable implications for the poor. Those activities may in some cases be in conflict with the quality of livelihoods of the poor and forest-dependent people. In many cases there is no conflict between managing forests sustainably and alleviating poverty and the two objectives can be effectively pursued simultaneously. This however requires deliberate and well thought-out interventions. The three programs are currently revising their interventions to give greater importance to poverty-alleviation.

Examining the potential for closer and more organized collaboration, both within the World Bank Group, and between the Bank and non-Bank programs, is likely to reveal a number of important opportunities. Within the World Bank Group, coordination between its constituent institutions is addressed above in sections 3.3 and 3.4. It is clear that linking the three forest programs discussed in this section more closely to World Bank regional and country operations would increase the effectiveness and impact of the Forest Strategy. Closer contacts with the partnerships could provide World Bank staff with a better understanding of how the partnerships work, and of the possibilities for linking this collaboration with their own day-to-day responsibilities. Current communication initiatives designed to disseminate the knowledge generated by Alliance activities are useful in cultivating collaboration.[53] Like the Forest Strategy more generally however, the three forest programs need to be mainstreamed in the design of World Bank Poverty Reduction Strategy Papers (PRSPs) and Country Assistance Strategies (CASs). Important opportunities for productive collaboration are also likely to be found with other global programs, such as the Critical Ecosystem Partnership Fund (CEPF) and the Bankís Governance and Anti-Corruption (GAC) Program. Public Sector Governance Program, among others. There is also a strong case for harmonizing the FLEG Program with the European Union Forest Law Enforcement, Governance and Trade Program.

53 For example, World Bank undated a.

The World Bank Forest Team is currently elaborating a new Global Forest Alliance (GFA) concept that would integrate the three forest programs within a common operational framework. The framework would provide an opening for a variety of new initiatives, for instance avoided deforestation to mitigate climate change. It would also provide more opportunities for scaling up the impacts of the forest Strategy through cooperation with partners in the public and private sectors and in civil society. The Review found this to be a positive prospective development, one that promises to improve effectiveness through enhanced synergies, reduce the transaction costs associated with program management, and make for more rational coordination between initiatives. It could also focus activities and resources on a select number of key global targets, capitalizing on the Bankís convening power, its capacity to mobilize finance, and its role as a leader in developing innovative ways to support sustainable forest management in client countries.

Recommendation. *The Bank should integrate its global forest programs within a coherent, all-embracing strategy for implementation under the planned GFA concept. As a global initiative, the new overarching forest alliance should focus on the integration of global public goods generated by forests (particularly carbon sequestration) and other innovative investment and financing approaches, including the capital markets (for example, along the lines of the International Financing Facility for Immunization). As it is complementary, GFA should target mainstreaming the global dimensions of forests into present investment vehicles and local action, and should contribute to the integration of parallel sources of financing and technical assistance (including the Global Environment Facility, bilateral donors, international organizations, nongovernmental organizations, and the private sector). GFA interventions and outputs should be effectively linked to Bank country dialogues and lending programs, thereby scaling up the impacts. GFA should facilitate the mobilization of funding for forest-related economic and sector work. GFA should be inclusive in participation, transparent in decision making, and effective in communication.*

Leveraging Impacts through International Processes

The Strategy gives importance to the Bankís participation in global processes to facilitate collaboration with other organizations with global reach and within a framework of global consensus.

United Nations Forum on Forests, the Collaborative Partnership on Forests, and Other Processes

The United Nations Forum on Forests (UNFF) was created by the UN Economic and Social Council (ECOSOC) in 2000 to provide a platform for high-level policy discussions and global cooperation to promote improved management, conservation, and sustainable development of forest resources. The Collaborative Partnership on Forests (CPF) was subsequently created as a partnership of 14 intergovernmental and other international organizations, including the World Bank. The purpose of the CPF was to support the UNFF and member countries, and facilitate coordination in implementing the agreed upon Proposals for Action.

In February 2006 the UNFF agreed on four Global Objectives on Forests, all of which are consistent with the objectives of the Bankís Forest Strategy.[54] The corresponding ECOSOC Resolution of July 2006 contains a number of recommendations, ranging from strengthening aid flows and developing innovative funding mechanisms to enhancing contributions from existing forest-related funds, including PROFOR, for sustainable forest management. The Resolution also reaffirms UNFFís commitment to forest law enforcement and governance, and is therefore consistent with FLEG objectives. Negotiations are currently under way to reach a consensus on a non-legally binding instrument on all types of forests. Such a consensus would provide a common framework for all countries in advancing the global objectives of reducing forest loss and degradation and of managing forests sustainably. There is now a major opportunity for closer collaboration between the Bankís own forest program and the future Program of Work of the UNFF.

Participation in the CPF has presented the Bank with opportunities to promote actions that are consistent with the objectives of the Strategy by facilitating cooperation with other international organizations working in the field of forest development. For example, the Bank and the International Tropical Timber Organization (ITTO) have collaborated in the implementation of Forest Investment Forums. The Bank, ITTO, Food and Agriculture Organization (FAO), and the World Conservation Union (IUCN) have collaborated in FLEG

54 Reverse the loss of forest cover worldwide through sustainable forest management; enhance forest-based economic, social, and environmental benefits; increase significantly the area of sustainably managed forests; and reverse the decline in official development assistance for SFM and mobilize significantly increased new and additional financial resources from all sources for the implementation of SFM.

processes. The Bank, the Convention on Biodiversity (CBD), and IUCN have worked together developing conceptual foundations for ecosystems approaches to forests. With IUCN, the Center for International Forestry Research (CIFOR), Forest Trends, and the Colombian Ministry of Environment, the Bank has explored economic incentives for land restoration and sustainable forest management.

The World Bank is the lead agency within the CPF on matters relating to the economics and finance of sustainable forest management, and has contributed to a number of technical papers and arranged a number of thematic workshops and other meetings.[55] PROFORís analytical work on important policy issues has brought together a variety of actors who are active in the international dialogue on forest management and governance. The Bankís leadership in promoting forest law enforcement and governance through regional processes facilitated the decisions by UNFF/ECOSOC to expand action on these matters. The Bankís continuing facilitation of the next phase of intergovernmental forest policy deliberations will be crucial owing to its unique position to contribute to issues relating to means of implementation - and in particular, financial mechanisms and capacity building for sustainable forest management.

The Bank has actively participated in the work of UNFF and CPF, and its inputs have contributed in many ways to the work of the two forums. The Bankís role in helping to influence the international policy forums cannot be understood in a narrow sense. It is clear that this influence has gone beyond lending and has extended to broader issues of the international forest policy environment, where the Bank can help create enabling conditions for its own long term involvement in client countries.

Increased collaboration between the World Bank and NGOs such as the IUCN, the World Business Council on Sustainable Development, Forest Trends, and the Forests Dialogue has encouraged wider participation in the quest for international consensus on contentious forest issues.

The Bank has also sought arrangements with regional development institutions such as the Association of Southeast Asian Nations (ASEAN), the Organization of Amazon Cooperation Treaty, and the Central American Commission of Environment and Development. A number of these regional bodies specialize in

55 Forest fiscal systems, forest investment, ecosystem approach, FLEG processes, poverty alleviation and forests, PROFOR as a financing mechanism, and so on (Salmi 2006).

forest issues, such as the Central Africa Forest Commission (COMIFAC) and Regional Community Forestry Training Center (RECOFTC). These, together with a large number of national bodies and organizations in client countries can contribute to achieving the goals of the Strategy.

The Bank has established a large number of partnerships with stakeholder organizations in client countries. These have often included other international participants. The Liberia Forest Initiative is an example of an effective partnership that mobilized the various parties supporting the countryís forestry transition process in a post-conflict situation. Liberiaís need to rebuild institutions and establish acceptable governance coincided with the donor communityís keen interest in these forest sector issues, and its willingness to support institution building. The political conditions for effective forest reform were therefore present, creating a favorable environment for introducing donor-supported reform. (Box 12). Another important example of country-level partnerships is the work carried out in Brazil under the Bank-managed Rain Forest Program. The Program is building constituencies among the NGO community for the conservation of the Amazon and Atlantic rain forests.

The Bank engaged a large number of international, regional, and national stakeholders, particularly NGOs, in preparing the Forest Strategy. Its interaction with many of these organizations has continued since 2002, though more on a country or project level. However, there is probably a need to revive consultations on critical issues related to the implementation of the Strategy, to reduce ongoing conflicting views, and to enhance cooperation (see section 5.3).

Box 12. The Liberia Forest Initiative

The Liberia Forest Initiative (LFI) is a coalition of donor governments, lending agencies, NGOs, and civil society participants committed to the long-term sustainable management of Liberiaís forest estate through a shared multi-donor program sponsored by parallel financing mechanisms. In addition to the World Bank, members of the LFI include CIFOR, Conservation International, the European Commission, the Environmental Law Institute, the FAO, Fauna and Flora International, the International Monetary Fund, the IUCN, the US Forest Service, and the US Department of State, as well as Liberian government agencies and civil society organizations. The LFIís primary aim is to ensure Liberiaís forests contribute to the long-term well-being of Liberiaís people, while maintaining and enhancing its rich biological diversity. The Initiative was important in assisting the Government to cancel all forest concessions in 2002 and in launching the sectoral reform process. In October 2006, Liberia passed a new forestry law, opening a new era for the sector after a long period of mismanagement and exploitation of forest resources to fuel conflict.

LFI was a rapid response to the critical transition phase in a country where the policy and governance framework had to be built up from scratch. Such a task is always complex, not least because both fiscal revenue and community livelihoods have to be addressed at the same time. There is also the danger that this kind of initiative easily becomes a top down exercise and therefore, special efforts are needed to ensure stakeholder participation and ownership.

Recommendation. *The Bank should continue to contribute to the UNFF s future work through its ongoing participation in the CPF as the lead agency for the economics and financing of sustainable forest management, where the Bank has a clear comparative advantage. Because of the Bank s comprehensive Forest Strategy and its convening power, there is also a need for a broader leadership role to mainstream its targets in the work of the other CPF members as appropriate. Selective participation is needed in other international forums when they make policy decisions that have significant impacts on forests (for example, UNFCCC/Kyoto Protocol (KP), World Trade Organization, ITTO, CBD, and so forth). Cooperation with other international bodies and initiatives should focus on those (i) would further the objectives of the proposed GFA; (ii) that are directly linked with the lending program; and (iii) that can have a catalytic impact to mobilize other actors to make long-term commitments to achieving the Forest Strategy s goals, both at country and international levels.*

National Forest Programs

The Strategy singled out the National Forest Programs (NFPs) as important counterparts in developing policy and collaborating on macroeconomic and environmental issues that are important in improving the management of forests. The NFP Facility, a multidonor initiative housed at FAO, manages activities in support of NFPs. The World Bank is a member of the steering committee that governs the Facility. Collaboration is potentially very productive, with, for example, the NFP Facility possibly identifying key issues on the ground and PROFOR providing the expertise and capacity to analyze them and test possible solutions through a national NFP process. NFP preparation also provides an opportunity to establish partnerships among the donor community, thereby enhancing aid effectiveness.

The Mid Term Review found a lack of available information with which to analyze the World Bankís links to NFPs an indication in itself that these links are not particularly strong. In specific cases, for instance Georgia and Tanzania, the Bank has acknowledged the advantages of the NFPs as strategic frameworks for its forest interventions, and has taken a major role in facilitating their design and implementation. However, documented information on the extent and nature of cooperation is scarce. Interviews with staff in both the Bank and the NFP Facility confirm the absence of any extensive productive links. Contacts are limited to sporadic, generally isolated activities often joint communications and dissemination efforts and meetings of governing bodies. NFPs can potentially complement and contribute to the Bankís analytical work, and to the design of its lending projects. NFPs also provide a country-level forum for joint policy dialogue beyond the narrower, project-related discussion typical of dialogue between the Bank and client country governments. NFPs therefore provide an untapped opportunity to design and carry out more programmatic interventions.

The Bank also has an operational partnership with FAOís Investment Center. The Center promotes improved forest management by assisting countries in streamlining forest policy frameworks and designing programs and projects. When an investment opportunity is identified, the Investment Center can draw from its own technical staff or from other FAO units to carry out the analytical work required to design forest projects and programs that are eligible to receive support from the Bank or other institution. This collaboration between the two institutions has been taking place since 1968, when a project in the then-Rhodesia on industrial forestry was approved.

Recommendation. *NFPs and similar national planning processes should be part of PRSPs, and the outcomes should be considered in CASs. The Bank should support national NFP processes through global programs, or as part of lending projects. There is a need to sensitize Task Team Leaders on these benefits to enhance the Bank s contributions to NFPs* *as valuable, but still underestimated, national policy processes. At the international level, the Bank should strengthen linkages to the NFP Facility through closer exchange of information. In addition, countries could be identified where the potential for synergies or joint operations through support from the Bank and the NFP Facility could be significant.*

5. OTHER INSTRUMENTS AND ORGANIZATIONAL MATTERS

A variety of instruments, procedures, and resources have been used in implementing the Forest Strategy in addition to those discussed in the preceding chapters. This chapter examines the World Bankís use of four important instruments: safeguards, certification, the External Advisory Group, and analytical and sector work. It ends with a discussion of selected organizational issues.

The Need to Improve the Application of Safeguards and Due Diligence

The Bank has developed a set of Operational Policies (OPs) to ensure that potentially adverse environmental and social impacts of projects are properly identified and mitigated.[56] Development Policy Lending (DPL) projects are subject to OP 8.60, which exempts DPLs from safeguards, but which contains other requirements if the Bank determines that the policy supported by the loan is likely to have impacts on forests and other natural resources.

The Review examined the application of various safeguards in 34 forest projects and projects with forest-related components. Five of the projects were assigned Environmental Assessment Category A, which identifies them as likely to have significant adverse impacts that extend to a broader area than the project area itself. These were either very large undertakings or projects that involved road construction in temperate natural forests with potentially substantial and irreversible damage. A large majority of forest projects (83 percent) were classified as Category B, with generally less adverse, site-specific impacts that are unlikely to be irreversible, and that are more readily addressed by mitigation measures. Only one project, which dealt with institutional sector reform, was classified as Category C, which identified it as having minimal or no likely adverse environmental impacts.

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56 Environmental Assessment (OP 4.01), Natural Habitats (OP 4.04), Forests (OP 4.36), Pest Management (OP 4.09), Physical Cultural Resources (OP 4.11), Involuntary Resettlement (OP 4.12), Indigenous Peoples OP 410), Safety of Dams (OP 4.37), International Waterways (OP 7.50), Disputed Areas (OP 7.60). In addition, the Development Policy Lending Operational Policy (OP 8.60) governs the design of Development Policy operations.

Determining which safeguard policies are to be triggered by a project, and how those policies are to be applied, is as important as the category assigned to the project by its environmental assessment. As an umbrella policy, OP 4.01 Environmental Assessment was triggered in all 34 projects examined by the Review.

OP 4.10 Indigenous Peoples was triggered in 50 percent of the cases. Indigenous groups frequently live in forest areas or in areas impacted by forest projects. OP 4.12 Involuntary Resettlement and OP 4.09 Pest Management were applied in 38 percent of the cases reviewed. Involuntary Resettlement applied to a broad range of projects that included community and participatory forest management, watershed management, environmental and natural resource management, protected areas, and plantations among other types of projects. Pest Management was an issue in the same type of projects, and was sometimes also triggered by agricultural and agroforestry activities. In a few cases (10 percent), forest projects also triggered OP 4.11 Cultural Property and OP 4.37 Safety of Dams.

Surprisingly, only four-fifths (79 percent) of the projects triggered OP 4.36 on Forests. Among the projects that did not trigger this safeguard, two (in Morocco and Tunisia) focused on forestry development and one (in El Salvador) dealt with payments for the environmental services provided by the reforestation of degraded lands. Given the language of OP 4.36, the Review finds it appropriate to ask why OP 4.36 was not triggered in all of the forest-related projects.

OP 4.36 requires an assessment of the current policy, legal, and institutional framework and how they address the environmental, social, economic, and poverty dimensions of forests. If needed, the borrower is expected to strengthen this framework by including appropriate measures in project design. Through training and Bank designated safeguard advisors, the Bank has provided practical guidance on how to carry out such assessments, but further work is needed. The Bankís development of a forest law manual is a good step in providing such practical guidance.[57]

The Forest Strategy and OP 4.36 opened the opportunity for the Bank to finance production activities in tropical natural forests. When these activities were part of community forestry types of projects (for example in the Lao

57 The full title of the forest law manual is Forest Law and Sustainable Development: Addressing Contemporary Challenges through Legal Reform by L. Christy, C. di Leva, J. Lindsay, and P.Talla. World Bank, Washington DC 2007.

Peopleís Democratic Republic and Mexico), they have not represented major problems from the viewpoint of safeguards. However, in some projects that have included concession management components carried out by the private sector, acute conflicts between stakeholders have materialized, leading to two requests for Inspection Panel investigations (in Cambodia and Papua New Guinea).[58]

The Inspection Panel reports revealed serious problems, mostly related to poor quality project design that disregarded impacts of the project on local communities and environment.[59] In the case of Cambodia, the problems were also attributed to managerial deficiencies, including those related to due diligence. The Panel did not raise issue with regard to the substance of the safeguard policies per se. In addition to the due diligence process, the investigation covered the Bankís supervision of the projects more broadly.

Another important issue in applying OP 4.36 relates to the Bankís requirements for certification standards and systems contained in this safeguard. The issue of compatibility between International Finance Corporation (IFC) performance standards (PSs) and Bank safeguards is discussed in more detail in Section 5.2.

OP 4.04 on Natural Habitats is commonly triggered together with OP 4.36, and applied to 62 percent of the projects reviewed. OP 4.04 applied to just two projects in which OP 4.36 was not triggered. OP 4.36 contains a number of references to OP 4.04.

Some safeguard issues that commonly apply in forest projects would benefit from further guidance. For example, paragraph 12 of OP 4.10 requires that indigenous peoples affected by the project receive culturally appropriate social and economic benefit from the project. A forthcoming Indigenous Peoples Guidebook can be expected to help address this issue. Similarly, how benefit sharing should be addressed in project design is a complex issue that would benefit from practical guidance.[60] Furthermore, safeguards do not explicitly address the vast number of forest-dependent people beyond those covered by the indigenous peoples safeguard. Addressing customary rights that are not legally recognized has proved problematic as well.

58 In the case of the Democratic Republic of Congo, the OP 4.10 Indigenous Peoples was triggered and the related NGO complaint has been accepted as an inspection panel case.

59 The Inspection Panel 2002, 2006.

60 This is also a central issue to the implementation of CBD.

OP 4.36 makes reference to critical forests and prohibits financing of activities that may lead to their degradation. However, the policy defines such forests only in general terms, and no adequate procedure has been laid out for determining which forests are critical. The ongoing work under the High Conservation Value Network in which the Bank is a founding member can be expected to address this lacuna, and the issue is also in the *Forests Sourcebook*.

Project preparation teams face a number of obstacles in applying OP 8.60 on Development Policy Lending to manage the forest-related risks inherent in some DPLs, including the definition of concepts such as likely significant effects.

Staff interviews revealed that task team leaders (TTLs), and government officials sometimes consider safeguards more as a barrier during project design than a tool to assist in managing risks. Although systematic information is lacking, there is no doubt that complying with safeguards tends to increase the costs of project preparation. These costs vary significantly depending on the type of projects, the safeguards triggered, and the country context. The benefits of applying the safeguards appear to be poorly known, both for the Bank and the beneficiaries of lending projects. Adhering to safeguards clearly reduces risks and improves quality in spite of their contribution to the costs of project preparation. It also contributes to ensuring that sustainable forest management is achieved in practice on the ground while contributing to the three pillars of the Forest Strategy. Additional training and guidance could help change the perception that safeguards are mainly requirements to be satisfied and not instruments that increase the quality of projects. Both Bank staff and country agencies would benefit from such capacity building. A better understanding of the role of safeguards, with more emphasis on *doing good* than on *avoiding bad* is required.

The Review recognizes that due diligence and the supervision of forestry projects presents many challenges in terms of the timely availability of qualified in-house capability. Some due diligence tasks are so specialized that regions cannot be expected to have full capacity in all subject matters. For instance, assessing social issues and environmental impacts in forestry are tasks that require specialized knowledge. A cost-effective way to address the needs for such expertise would be to employ a social forestry expert and an expert in forestry-related environmental impact assessment in the Bankís Sustainable

Development Network (SDN).[61] One project in Argentina employed independent technical and financial auditors to address the lack of local expertise. Continued use of the Bankís forest law expertise can also help ensure that there is an adequate forest law and regulatory framework to underpin the likelihood of a projectís success. The forthcoming Forest Law Manual should also be of assistance in this regard.

In conclusion, the Review found that there are opportunities to improve the application of safeguards in forest project design, but capitalizing on these opportunities faces a number of obstacles. In some cases, the applicable safeguards were not identified. When the safeguards were identified, they were not always rigorously applied.[62] This has resulted in conflicts and in Inspection Panel investigations in some sensitive natural forest projects. Task team leaders need practical guidelines to refer to in applying and complying with safeguards and in reducing long term costs.

The analysis presented here must necessarily be considered within the larger context of the World Bankís lending activities. OP 4.36 on Forests was revised to selectively permit Bank lending to commercial forestry, but to date there has been no such lending. Five years into the new strategy, no projects involving commercial harvesting in tropical natural forests have been proposed, in part because of the privatization of forest operations in many client countries. The role of the IFC has also increased.

Recommendation. *The Bank should provide further guidance and training on the application of its forest-related safeguards (including DPLs, infrastructure projects, and other projects that impact forests) covering both the due diligence process and project implementation. Management and staff training should clarify how to apply safeguards not only to avoid risks but also to effectively contribute to the objectives of the Bank s Forest Strategy as an integral part of project design. Extending training to client counterpart staff can increase understanding of the purpose and foster ownership of safeguards. A forest safeguard specialist should be assigned to the Anchor to provide necessary backstopping for regions.*

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61 The Sustainable Development Network Vice Presidency was established in 2006 by merging the Environmentally and Socially Sustainable Development (ESSD) and Infrastructure Networks. At the time of the initiation of this MTR, the Forests Team was part of ESSD, and at the time of completion, part of SDN.

62 The Bank is carrying out a review of the application of safeguards in forest-related projects.

Certification: From Perfecting the Instrument to Promoting Implementation

Forest certification is a voluntary, market-based instrument that was introduced in 1993. Forest products labeled as certified assure consumers that what they are buying comes from sustainably managed sources. It is a powerful tool that seeks to promote both sustainable production and sustainable consumption. The Forest Strategy identified certification as a key instrument for integrating forests into sustainable economic development.

Most of the Bankís work in forest certification has been carried out under the World Bank/World Wide Fund for Nature (WB/WWF) Alliance. Some lending projects have also included specific support for certification, for example in the Lao PDR, Mexico, and the Russian Federation). The Alliance has supported the development of forest certification in a number of countries.[63] Since 2004, the WWF Global Forest and Trade Network (GFTN) has been involved in Alliance activities by building up enterprise-level capacity for certification and by linking responsible suppliers with buyers.[64] Studies have been carried out on timber tracking systems[65] and a major effort was made to develop the recently published Forest Certification Assessment Guide (FCAG).

Requirements for Certification Schemes and Standards in the Bank Group

The Bank has deliberately avoided endorsing any specific scheme and none is referred to in the Bankís OP 4.36. However, the WB/WWF Alliance has stated that on a global scale, the Forest Stewardship Council (FSC) is most consistent with the Alliance criteria, and therefore only FSC-certified areas have been monitored.[66] To operationalize the use of certification in the Bankís activities, the Strategy identified a set of requirements[67] that acceptable forest certification

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63 In Bulgaria, Bosnia and Herzegovina, Croatia, China, Colombia, Romania, Russia, and Ukraine. Certification of community forestry has been supported in Bolivia, Lao PDR, and Nicaragua.

64 In Ghana, Indonesia, Nicaragua, Peru, Russia, and Vietnam.

65 For example, Cambodia, Nicaragua, Peru, and in the Congo Basin countries.

66 This is to be expected, as WWF was one of the founding members of FSC and has remained its strong supporter since then. The Annual Reports of the Alliance report only FSC-certified areas as certified in the world.

67 These were based on the WB/WWF Alliance (1998).

systems should meet, which were further elaborated in OP 4.36.[68] The Review Team considered these to be for the most part appropriate.[69]

Certification is a particularly relevant instrument for the IFC, which finances private enterprises that manage forests and that procure raw material from forests that are managed by other parties. The IFC has used the Bankís requirements for certification as a basis for defining its performance standards that relate to the management of renewable natural resources.[70] There are however some minor differences, mostly in wording, between the two sets of requirements. (A comparison is presented in appendix 5.) Overall, the two institutionsí requirements for forest certification are consistent,. In addition, both OP 4.36 and the IFCís PS6 establish a set of minimum performance requirements for project operations involving conversion or degradation of critical forest areas or related critical natural habitats, legally protected areas, and so forth.

Because the Bankís clients are public sector agencies, the certification provision applies principally to the management of state-owned forests. However, in most Bank client countries, forests are managed and utilized by concession holders, communities, private industrial and non-industrial forest owners, and so forth. These actors may or may not be direct beneficiaries of a Bank investment project. The Bank uses certification as a strategic instrument to upgrade a countryís entire forest management system, promoting improved practices on the part of all operators, whether or not they are immediate beneficiaries of the project.[71] The role of certification as a promotional instrument is somewhat

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68 The Strategy, however, implied that certification would be additional to the Bankís safeguard provisions, not part of them.

69 See discussion below on community forests, smallholders, new plantations, and tree crops.

70 IFC Performance Standard 6 Biodiversity Conservation and Sustainable Natural Resource Management.

71 OP 4.36 para 1 requires borrowers to apply the OP. Borrowers include a private or public project sponsor receiving from another financial institution a loan guaranteed by the Bank (OP 4.36 footnote 1). Strictly interpreted, for example, community forests or small-scale tree farmers receiving grant support from a Bank investment project would not be required to apply OP 4.36. However, OP 4.36 para 3 on the scope of the policy covers natural forests or plantations, whether they are publicly, privately, or communally owned. Paragraph 12 specifically allows the Bank to finance smallscale landholders and local communities under community management.

different from its use as a safeguard or conditionality as part of OP 4.36. The dual roles of certification are not fully explicit and merit further clarification in future Bank guidance.

Assessment of Certification Schemes and Standards

In order to facilitate the application of certification in the Bankís lending projects, the WB/WWF Alliance developed a Forest Certification Assessment Guide, which explains the Bankís requirements.[72] Earlier pilot efforts to assess national forest certification systems and standards showed the task to be complex, time-consuming, and to require special skills.[73] In spite of the information provided by the Guide, evaluating a schemeís compliance with the individual criteria set out in OP 4.36 remains a subjective exercise, one that is open to the personal judgment and interpretation of the individual evaluator. The risk of inconsistent interpretations is therefore very real.[74]

The task team leader is responsible for establishing which scheme is acceptable under given circumstances in a lending operation, although they may not be fully trained to make such a determination. The Review is of the opinion that carrying out an assessment of compliance with the certification requirements of the OP 4.36 in Bank client countries would be a cost-effective way to address this complex issue. The need for further work in client countries would be then limited to assessing new schemes and standards. In view of the sensitivities involved, earlier experience suggests that such an assessment should be carried out in a transparent manner, by an independent team of experts involving relevant stakeholders. Further guidance is likely to be required on which schemes will be acceptable to the Bank. [75]

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72 WWF/World Bank Global Forest Alliance (2006a).

73 The earlier version of FCAG (QACC) was tested for FSC and a number of European Program for Endorsement of Forest Certification endorsed schemes. The Brazilian national scheme (CERFLOR) has also been assessed against the Bank requirements.

74 FCAGís guidance is limited on decision criteria, that is, how to judge each criterion, and what levels or practices are acceptable, or how to determine these. How to deal with partial compliance and how to establish the acceptability of the schemes is not yet clear. FCAG may be more suited to compare differences between schemes and standards than to establish compliance with the OP 4.36 requirements.

75 Further guidance may also be needed, inter alia, on how the FSC generic standards applied in the absence of agreed national standards should be assessed.

Enhancing the Role of Certification in Forest Strategy Implementation

Forest certification is a useful instrument for demonstrating and measuring the extent to which forest management practices meet the requirements defined for sustainable forest management. In the Bankís client countries, flexible approaches to forest certification are needed so that it does not become an obstacle to access to the Bankís financing or an unjustified barrier to market access. In many countries, bringing commercial harvesting operations into compliance with the law is in itself an important advance that is worth rewarding a reality which OP 4.36 does not take adequately into account. Achieving full-certified compliance with an SFM standard as defined in the Policy is a long and complex process. The process entails developing the applicable standard with the meaningful participation of all concerned stakeholders, and then applying that standard in practice in different types of forest management units. Because large-scale concessions and industrial plantations have fewer problems in implementing certification than community forests and small-scale private landholdings, the instrument may have some unintended negative impacts with respect to equity. It is therefore important that disadvantaged countries and groups receive adequate assistance in addressing their constraints.

Forest certification remains a key instrument for implementing the Forest Strategy. Its potential however may have been overrated, and its link to reducing poverty and forest loss is indirect. The capacity to manage forests sustainably needs to be developed among forest managers, enterprises, and stakeholders before large-scale application of certification becomes possible in a country. The Review sees great potential for the Bank and IFC to work together in increasing the area under responsible forest management by developing certification instruments and by linking suppliers and buyers through the GFTN. Introducing a requirement for chain-of-custody certification in IFC-financed downstream industrial projects would help ensure that illegal or unsustainably produced raw materials are not used. Implementing chain-of-custody certification would represent no significant additional direct costs for project sponsors.

Recommendation. *In forest certification, the Bank should focus on promotion of implementation, including provision of support to community forests, small-scale private forest owners, and countries that lack the capacity to implement certification. To complement certification, the Bank should continue to develop common approaches to defining legality and tools for verifying legal compliance (including monitoring and tracking of timber flows). An independent, transparent, and participatory review of existing certification schemes operating in Bank client countries against OP 4.36 requirements should be organized to provide guidance* *for these schemes to meet Bank requirements and for assisting task team leaders in preparing projects where certification is applied. The IFC should consider including a requirement for chain-of-custody certification for its downstream projects to ensure that the raw materials used come from legal and sustainably managed sources.*

Promoting Valuable Stakeholder Involvement

In 2003, the Bank established an External Advisory Group (EAG) to provide independent advice on major issues in implementing the Forest Strategy. The EAG meets once a year and reviews information provided by the Bank on future investment, economic and sector work (ESW), the Bankís global programs, and other initiatives. EAG reports are considered by Bank management, which also provides its feedback on the advice given.

The Groupís terms of reference imply that at least one member can claim familiarity with issues and concerns seen by (i) client governments; (ii) indigenous people; (iii) local communities; (iv) civil society; (v) the private sector; and (vi) the international forest community and bilateral agencies. The Group currently has nine members, none of which represent the private sector. Three members come from the North and six from the South. The Latin America and the Caribbean (LAC) and East Asia and Pacific (EAP) regions are represented by two members. The Africa (AFR) and Middle East and North Africa (MNA) regions are represented by one. With the exception of the private sector, the membership can be considered balanced. Five members come from organizations that cooperate more or less closely with the Bank, while four come from bodies that are not linked to the Bank.[76] The proportion of members identified with the Bank is considered by some interviewees to be inappropriate, and even possibly detrimental to genuinely independent advice. In future nominations, non-Bank-affiliated members could be given a preference to make the Group more independent.

The EAG has provided significant advisory contributions to the Bank on several key issues related to the implementation of the Forest Strategy. These issues include for example, due diligence of DPL projects, compatibility of Bank and IFC safeguards, forest tenure and rights, market-based approaches to community development, FLEG, and internal incentives. The Groupís advice significantly influenced, for example, the contents of OP 8.60 on DPL, and Bank management has also recognized the value of the Groupís other contributions.

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76 The EAG members work in the Group in their personal capacity.

The Review notes that working with the EAG has been a learning process for Bank management and for EAG members. Earlier, problems arose relating to the timeliness of management feedback on EAG recommendations, and making Group documents readily available for interested external parties. These were serious problems and resolving them was fundamental to the Groupís credibility and justification for existing. They have now been addressed.

The EAG is a highly useful instrument to improve the Bankís performance in Forest Strategy implementation. Its *modus operandi* appears to be appropriate, but a private sector representative should complement its membership. Rotation of membership ensures that the necessary dynamism within the Group is maintained. Interviews with EAG members revealed general satisfaction with the Groupís outputs and its impact on the Bank. The Groupís main challenge is that only three or four themes can be selected for each meeting, and meetings are infrequent. This can, however, be considered appropriate as long as the selection of themes is responsive to the Bankís strategic priorities.

The Review recognizes that there are many issues related to the implementation of the Forest Strategy where stakeholders have widely differing points of view. There is also some tendency to see differing opinions in a stereotypical manner, while not properly appreciating critique on specific issues. There is a need to consider measures for strengthening the Bankís interface with its stakeholders. One option could be to organize periodic consultations on selected thematic issues based on adequate background analytical work as a proactive measure to address legitimate stakeholder concerns.

Recommendation. *The EAG s role should be to focus on providing strategic guidance for the Bank s global forest-related programs. It obviously cannot replace the Bank s regular monitoring or evaluation function. The Bank should include a member with knowledge of the private sector and revisit the frequency of meetings as related to the expected demand for strategic advice. To broaden the Bank s interface with its key stakeholder groups, policy forums could be organized, in cooperation with EAG, to examine critical issues related to the lending program at country, regional, and international levels.*

Analytical Work: The Common Missing Link

Analytical and advisory assistance (AAA) and economic and sector work (ESW) are critical elements in creating demand for the Bankís lending services and improving their quality. Since mid-2002, the Bank has undertaken more than 30 AAA activities, covering a wide range of topics and geographical areas related to the three pillars of the Forest Strategy, mostly in partnership with other bodies. The studies on forest governance, combating illegal logging and trade, SFM financing mechanisms, fiscal reforms, concession management, and deforestation include several unique contributions which are also widely used outside the Bank (see annexes 2 to 4). The tools developed for assessing forest poverty linkages and forest certification standards and systems, as well as for tracking progress in protected area management, meet the Bankís own needs for applying safeguards and improving project design and implementation, and will be used by other actors (see annex 3). GEF for example is using the protected area management-tracking tool developed by the Alliance in its own projects. Many country studies (the Democratic Republic of Congo, India, and Russia) have already influenced the Bankís policy dialogue as well as its lending, and provided inputs into Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs). In Bosnia and Herzegovina and Indonesia, ESW has helped devise an illegal logging action plan.

In spite of these significant contributions, the Review is of the opinion that not enough is done, mainly because of limited human and financial resources, which have come mainly from the Bank/WWF Alliance, PROFOR, and FLEG. The Bankís budget-funded forest ESWs and technical assistance products coded to forestry fluctuated between two and four per year from FY2002 to 2006. Without the contribution of the three global programs through various AAA products, this would have been grossly insufficient to meet even the immediate needs of the Bankís own lending program. In order to address this weakness, the regions have also carried out their own AAA work to meet their own specific needs for analytical work.[77] As mentioned before, the proper integration of forest issues in CASs and in the design of DPL also need sound analytical work to engage staff in effective country dialogues and increase the quality of these interventions.

A significant effort was made to develop regional strategies for the implementation of the Bankís global Forest Strategy to address the specific problems and priorities of each region. These documents have served as useful general reference documents for designing country interventions. The Europe and Central Asia regional strategy in particular was able to provide guidance on the opportunities opened by the 2002 Forest Strategy and OP 4.36, and how they could be capitalized on in CASs and country programs in the region.

77 As an example, the EAP region reports to have prepared 16 AAA products on biodiversity, environmental management, and forest management related to the Forest Strategy.

However, no direct contribution of regional strategies in other regions was detected by the Review.

It will be a major challenge to generate new knowledge while translating more of the analytical work into practice and implementation. The Review has identified the following themes that require further work to fill immediate knowledge gaps:

1. innovative financing mechanisms for SFM and management of protected areas;
2. transfer processes for resource rights;
3. development of community-based and other SMEs in the forestry sector;
4. corporate community smallholder partnerships;
5. implementation procedures for decentralization
6. payment mechanisms for forest environmental services;
7. transparency and strengthening of forest governance;
8. simplified tools for monitoring and assessment of forest operations for community forests;[78]
9. organizational options for monitoring and control of forest operations;
10. poverty reduction among park people; and
11. community management of protected areas.

Recommendation. *The Bank should increase Bank-funded ESW and technical assistance work. There should be more clarity on the respective roles and responsibilities of the global programs as well as the Bank s human resources, budget, and other financing sources for AAA/ESW. Sharing of knowledge generated by the AAA/ESW products of the regions and the Anchor should be enhanced among the Bank s forestry staff and other stakeholders, including through* PROFOR.

Enhancing Bank Capacity

The Bankís specialist forest staff amounts to 22, of whom 13 work in the regions and 9 in the Anchor. The current *modus operandi* means that the technical specialists tend to spend a large proportion of their working time meeting the processing requirements of lending projects. At the same time, interaction between specialists is reduced, particularly between regions, while the potential for cross-learning is not fully realized. The Review questions whether this is the

78 As cost-effective options for formal certification procedures.

best way to use the limited human resources that the Bank employs in the forestry sector. An alternative model is to restructure the organization in such a way that forestry specialists would focus their inputs on the technical issues of multiple projects across countries and regions, leaving the processing work of projects to other staff. Such an approach is practiced in the IFC, where technical staff is partnered with processing and investment staff and therefore freed from the often changing processing tasks which require no technical expertise.

The Anchorís role is to service the regions through means that can be arranged through the global programs and other support functions.

The Review noted that in some regions there has been somewhat limited rotation of the forestry staff. Several staff members have been responsible for the same region or countries for long periods. This may create hidden or less visible built-in biases in the Bankís forestry work. Lack of mobility is also unlikely to promote innovation. At the country level, personal relations may also sometimes excessively influence institutional cooperation with beneficiary agencies. To address these concerns which the Review could not, however, confirm Bank management should look into opportunities to increase staff mobility for greater effectiveness. Mobility should be considered between the Anchor and the regions, and between regions.

The World Bank continues to revisit lessons learned that were already identified in earlier reviews and evaluations (for example, Lele et al. 2000). The institution apparently has a number of structural characteristics that may act as hidden barriers to implementing recommended changes. This can delay the process of project preparation or add to its costs. Forest projects are complex and almost always involve environmental and social issues that can be a source of conflict among stakeholders or that are otherwise difficult to deal with. These characteristics of forest projects make for a poor fit with the Bankís current incentive structure, which rewards fast, low-cost processing of projects. The Review is of the opinion that the incentive structure needs to be adjusted for forestry projects (and other natural resource projects with similar characteristics) if the Bank wishes to reduce stakeholder concerns related to its lending work. This is also likely to improve project quality.

Many forest projects have suffered from the quality of technical assistance. Qualification requirements of Chief Technical Advisors are highly demanding and the pool of available qualified experts willing to work in often difficult operational conditions is small. This underscores the critical role of supervision, for which adequate resources are not always allocated. The Inspection Panel cases have drawn attention to this bottleneck as well.

Recommendation. *Addressing the challenges identified in the Review would require an increase in the technical staff in the Anchor and some regions. The Bank should also consider options for employing its technical forestry staff more effectively than at present. Staff mobility between the Anchor and the regions, and between regions, should be encouraged. The Bank should revise staff incentive structures to account for the specific characteristics of forest projects, which inherently increase transaction costs. This change is already grossly overdue, having been called for by various reviews and evaluations since the 1990s. Adequate resources should be allocated for the supervision of forestry projects in cases where implementation problems can be expected.*

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ANNEX 1. LESSONS FROM THE EXPERIENCE OF BANK FOREST PROJECTS

Since 2002, the Bank has approved over 50 standalone forest projects and projects with a forestry component (appendix 3). Those projects yielded a variety of lessons about how to cope with challenges and capitalize on opportunities in the practical application of the Forest Strategy and its pillars. These experiences are of considerable value for improving future project design and operation. This annex is based on a review of documents and reports on World Bank forestry and forest-related projects and summarizes the principal lessons that relate to the objectives of the Forest Strategy. A number of these lessons were already singled out in the evaluation of Lele et al. (2000), and are reported here with the acknowledgement that further analysis is still warranted.

Poverty Alleviation and Social Issues

The design of poverty-reduction activities in forest projects tends to be difficult. It achieves mixed results because of the complexity of issues involved. These complexities have often been ignored by project preparation teams, resulting in targets that are unrealistic and too ambitious.

Activities that relate to poverty reduction call for exceptional local leadership and institutional capacity, and adequate human resources among implementing agencies. These are not always available on the sustained basis that is required for operations that typically span several years. Development of institutional capacity takes time. Thus, long-term technical assistance appears to be an indispensable part of future poverty-oriented interventions. Experiences in Brazil and Mexico suggest that plans for the delivery of technical assistance should consider training of rural producers and should carefully explore the tradeoffs involved in privatizing technical assistance.

Poverty-oriented projects must ensure intensive participation on the part of the populations they intend to affect. The chief stakeholders should be involved in every stage of the project cycle, from identification and design to monitoring and evaluation. By enhancing consensus on local needs and priorities, inclusive participation can effectively reduce project risks. Yet in practice, rural participation has often been difficult to achieve. Lessons from projects in Mozambique, Honduras, and Indonesia show that effective participation is more likely to occur if the analysis of equity and other impacts is able to demonstrate rewards for poor populations, either in money or in kind. Thus, for example, community development projects must demonstrate how participation can enhance outcomes such as growth, income generation, and employment. However, experience in Vietnam cautions against pro-poor participatory approaches that may foster dependency on external sources of financing and thus reduce responsiveness and undermine the capacity to adapt to local needs and priorities.

In those tribal forest areas that are characterized by migration, shifting cultivation, and insecure tenure, Bank projects are likely to trigger the involuntary resettlement safeguard. In these situations great care needs to be taken to address the adverse impacts on rural livelihoods associated with loss of access to forests and economic displacement, especially if the purpose is to retrieve encroached forest lands or reduce shifting cultivation in the area. Security of land tenure is one of the key factors for success.

Governance, Policy, and Institutional Reform

Poor forest governance imposes limits on the achievement of positive forest outcomes in client countries, damaging the image and credibility of the sector as well as that of Bank-supported interventions.

Experience in countries like Cameroon, Gabon, Madagascar, and the Lao Peopleís Democratic Republic suggests that creating a sound regulatory, institutional, and legal framework is critical for achieving governance goals. Establishing an effective rule of law requires a balance between incentives that reward legal compliance and the disincentives that deter illegal practices. The policy framework and institutions need to be thoroughly analyzed during project design. Clarity of expected outcomes, focus on fundamental objectives, and the capacity of institutions to change are important factors for success. Clarity should also be paramount in the division of responsibilities between government and other stakeholders, particularly forest communities, the private sector, and civil society.

Institutional, policy, and legal reforms are time-consuming and, once introduced, difficult to sustain over time. Experience in Gabon and the Russian Federation suggests that the Bank should remain engaged to support reformers until the completion of the reform process. But externally supported institutional reform is hard to introduce and maintain over time without a firm commitment on the part of government. Unresponsive bureaucracy, resistance from vested interests that may be hurt by the reforms, poor institutional coordination, and lack of capacity are typical problems to be resolved.

In some projects in Europe and Central Asia government interest in policy reforms was increased when the reforms were presented as part of a broader package of initiatives that also included non-controversial technical interventions designed to address the countryís forest problems. Wood-flow tracking systems, remote sensing tools, and monitoring and certification schemes are examples of such innovations. These types of technical innovations often help to raise awareness of forest issues and the importance of potential consequences and impacts of negative and positive forest outcomes. This awareness in turn can help to forge broader stakeholder support for forest reform and participation in policy dialogue. Broad participation in policy debates and implementation of governance measures is essential. Experience in Cameroon illustrates that to ensure success in sectoral reforms, the various development partners should not work only with the government institutions but with a wide range of stakeholders, including the private sector, civil society, and the public at large. The creation of a policy forum to foster participation of different sectors of society can be an effective vehicle to promote interactions between stakeholders.

Effective participation is hard to attain in cases where constituencies are not organized. In Brazil and various countries in Europe and Central Asia, building social capital by supporting the emergence and consolidation of legitimate constituencies has been a necessary early step to ensure meaningful participation in the policy process. While this takes time and demands long-term involvement by the Bank, it is critical for achieving sustainable reform processes and enhancing transparency in public decision making.

Many countries have embraced decentralization strategies as a way to ensure greater participation and to transfer decision making to the local level. In practice, the effective transfer of responsibility and authority has proven difficult, and the results have been mixed. In Indonesia and Tanzania, decentralization without clear rules of the game and effective monitoring systems has been risky. Government agencies tend to resist relinquishing authority, and this resistance must be addressed in decentralization exercises. Specific incentives for local officials are often needed to implement consultative and democratic mechanisms that would involve local people in decision making.

While command and control measures that emphasize monitoring and supervision are still prevalent in many countries, they are insufficient to induce sustainable forest practices. Experiences in Honduras, Hungary, Mexico, and Romania strongly point toward alternatives to replace or complement these measures with policies and interventions that emphasize incentives to private forest owners and communities, targeted awareness raising, and information and educational programs.

Often, policy reforms to achieve better forest governance trigger unexpected undesirable impacts (for example, inducing new forms of corruption). Prior analytical work is important to identify these impacts and to design appropriate corrective interventions.

Forests in Natural Resource Management

Forest investments must often be integrated into broader land use and natural resource management projects, which are complex and impose high design and implementation demands, precisely because of their multisectoral nature. A key issue is how to combine an integrated approach to natural resources management with relatively simple technologies. Although quite demanding, it is possible to design projects with interventions in various sectors if they constitute an integrated package of moderately simple technologies that emphasize the use of local knowledge and materials. Complex technological interventions usually do not work in rural areas with poor farmers. In addition, projects should allow for a substantial degree of flexibility to allow for adaptation to the specific social, economic, and cultural conditions.

Projects in Uruguay and India illustrate that in a country with extensive agricultural and livestock production, natural resource management projects should address issues related to soil and water management, pasture management, and conservation of biodiversity as a key to the adoption of sustainable production systems by small farmers. Such systems should be designed more to result in increases in production than simply increases in productivity, by including improved market information, product certification, integration with industrial processing, and organization of farmers and producers. In all regions, it has been found that the use of a geographical unit, such as a micro-catchment, contributes to the viability of conservation measures that may produce only limited impacts on individual farms.

Natural resource management interventions must be profitable for farmers and communities. Projects that are oriented to the conservation of natural resources are far more likely to be sustainable if they produce additional income for farmers. But the existence of potential income benefits is not enough. The timing of these benefits is also important. Many forest interventions are able to provide results only in the distant future. Furthermore, benefits must also be convincingly demonstrated to farmers. Communities and farmers will not accept the additional costs that natural resource management may impose on them if they do not clearly understand the benefits that improved management may bring to them.

Community Forestry

Community involvement in the management of public forests, or forests they hold either as traditional owners or custodians, is instrumental in improving management. Communities should also obtain adequate benefits to justify their involvement. In some cases (for example, in Tanzania) the full transfer of decision-making responsibilities to communities has considerably improved management practices and protection of forest resources.

Experiences in Lao PDR and Brazil show that intensive community participation in project design and implementation is associated with greater project success, while community exclusion or weak participation lead to low project performance. In Indonesia, community involvement has also been shown to increase the degree of community identification with sustainable forest management (SFM), to lead to a greater sense of ownership and mutual respect, and to greater trust in the government. Projects in Brazil, Mexico, and Morocco indicate that democratically agreed community interventions can result in a higher degree of local commitment and ownership.

An important element of success in community forestry projects is that both communities and government should benefit. Community benefits are more likely to accrue in situations where commercially viable forest resources are available. Non-timber forest products are often more economically important than timber products, and both should be considered in project design.

Experiences in Mexico and in the Africa and East Asia and Pacific regions reveal that other activities offering off-farm employment, increased fuel availability, ecotourism, and recreation can allow diversification of community benefits. Governments can also benefit from expanded collection of taxes and forest fees, and from cost savings because of reduction in enforcement efforts as exemplified in Lao PDR. With the transfer of responsibilities for forest management and production to communities or the private sector, the government can also divest itself of loss-generating operations.

Community enterprises in Mexico have been more likely to succeed when there were solid feasibility studies and business plans in place, when communities were familiar with market conditions, and when financial returns were quick to materialize. However, projects need to carefully balance the convenience of generating quick financial returns with the longer-term needs of investing in other SFM activities such as infrastructure and natural resource conservation. In Mexico, communities started their economic development with selling their wood on the stump, then progressed to harvesting operations and selling roundwood at the roadside. A number of communities have progressed further, carrying out primary and secondary processing of wood and marketing of end products. However, progress through the various stages tends to take many years to achieve.

Well organized communities tend to have a greater rate of success in operating community enterprises. Basic management capacity for community administration is often lacking, making capacity building an important area of project support. Joint training can be effective in helping government and project staff and communities understand their respective roles. In addition to technical skills, training and technical support should cover participatory planning, monitoring, and periodic updating of community development plans. In some cases in Latin America and the Caribbean and East Asia and the Pacific, successful operations have been carried out by small, homogeneous groups of community members not involving the whole community in forest operations. Particularly in these cases, the distribution of benefits from common forest resources has to be based on clearly established rules agreed to by the entire community.

Involving women in community forestry activities is often critical for success. Women are sensitive to alterations in their access to forest resources because they are usually responsible for the collection of fuelwood and non-timber forest products from the forest. Women can capture a significant amount of forest-generated income and employment. Women's thrift groups can create an unprecedented degree of financial independence, increase social confidence, and generate a solid base for womenís development in the community.

Strengthening traditional forms of forest and woodland management have high replication potential. As demonstrated in Tanzania, in addition to traditional management of highly stocked forests, secondary forests and low-density woodlands offer good opportunities for extensive community management. These resources are resilient after harvesting, offer profitable opportunities because they rely on natural regeneration with minimal silvicultural treatments, and carry few environmental risks. Extensive forest management can enhance the health and vitality of these ecosystems, but it needs to be carried out in a systematic, controlled manner.

Demarcating land for communities is usually necessary for establishing effective community rights over local natural resources. Clear rights ensure the flow of community benefits resulting not only from the direct use of their resources but also from other activities, for example, the collection of non-timber forest products and ecotourism. With clear land and usufruct rights, communities can better negotiate forest uses with the government and private investors. However, experience shows that in some cases progress in demarcation, clarification of competing overlapping rights, and resolution of conflicts can be time-consuming and may require sustained assistance for long periods.

Conflicts are an inherent feature of community forest projects. The benefits of bringing degraded, open-access resources under community management tend to be limited to a particular community, or to particular groups within that community. The impacts on livelihoods in neighboring communities can be negative and this can lead to conflict. Project support should be directed toward enhancing the capabilities of local institutions to adopt proactive measures that avoid conflict, where possible, and resolve or manage conflicts effectively when they occur. As experience in Lao PDR has suggested, conflicts can be minimized if all parties fully understand the responsibilities and benefit-sharing arrangements contained in forest management agreements. These documents should preferably have legal standing and specify the rights, roles, and responsibilities of all participants. They should be subject to change only by consensus. Agreements should also specify how the partners will undertake annual negotiations on the sharing of net benefits, and how eventual conflicts are resolved.

A clear and agreed exit strategy governing the eventual withdrawal of government support to communities can help define the timeline for institutional and financial development, and put appropriate pressure on community organizations to assume their responsibility for forest management.

Commercial Operations and Concession Management

Effective concession management relies heavily on the existence of a clearly defined and designated permanent forest area. An accurate inventory of the multiple forest resources in the area is needed to inform management planning. Management objectives need to be tailored to the conditions of specific sites. Technical management plans should consider particular social and economic conditions and the interests and needs of forest-dwelling peoples. The views of all relevant stakeholders should be taken into account. In particular, management plans should be based on effective community consultations and participation.

Concession-management plans should explicitly analyze the linkages and tradeoffs between conservation-related and development-related objectives and activities. In this respect, experiences in Indonesia and the Congo Basin show that due attention needs to be accorded to the management, harvesting, processing, and marketing of non-timber forest products. The economic returns of concession forest management often depend critically on the existence of adequate infrastructure to link forest areas with markets as is evident in the experiences in Mozambique and other African countries. Such infrastructure is scarce in many countries

In Cameroon, reformed procedures in awarding concession contracts, making use of open bidding procedures, with adequate information on forest resources, as well as transparency and objectivity, led to substantial improvements in concession management, and enhanced government revenue. This experience (as in Cambodia) demonstrated the benefits of employing independent monitors to report on legal compliance. Findings of the independent monitor are reported to the government and the public, increasing transparency and the degree of public scrutiny. Further experiences will be necessary to learn how best to organize independent monitoring and auditing functions in countries with different governance conditions.

Experience in Papua New Guinea shows the importance of including forest landowners and forest peoples in government decisions involving their natural resources. The limited capacity of landowners and forest- dwelling peoples to participate in decisions is a main obstacle that needs to be addressed by technical assistance and training initiatives. Communities must count with transparent mechanisms of community representation in the decisions that affect forest resources on which they depend.

In smallholder private forestry, there is often an unsatisfied local demand for credit. Local credit suppliers are few and have limited capital or human resources to promote and deliver forest credits. Lack of legal land-tenure rights prevents many applicants from using land and forest resources as collateral. Prospective applicants for credit often lack an understanding of legal conditions and requirements, or of the information solicited on credit applications. Technical assistance to help them in this process is rarely available. Although the repayment of forest credits is often satisfactory, in some cases such as Brazil, the existence of sizeable migratory populations can reduce the average repayment rate. In other cases such as Romania, financial institutions are frequently reluctant to assume the risks associated with forest enterprises because these may have limited financial history and low credit ratings.

Planted Forests

Planted forests allow intensive production of industrial wood at a reasonable cost. This is important in countries with high population densities. Planted forests also offer economic opportunities for countries that have a natural competitive advantage and lands available for planting, such as Argentina, Brazil, Chile, China, Indonesia, Mexico, South Africa, Uruguay, and Vietnam.

In countries and zones where public land ownership is dominant, it is important to place plantation development within the framework of a transparent, accountable, and consultative land use plan that specifies the extent of the permanent forest estate and locates land available for planted forests. Good governance and an enabling policy environment are necessary to encourage private investment in plantation development.

To make plantation forestry economically viable, it is often necessary to raise technical management standards. The adoption of new, innovative technologies that rely on high-performance species, high-quality seedlings, and efficient planting practices can substantially improve productivity and economic profitability. Experience in Chile demonstrates this principle. Production technologies that rely on natural regeneration can be cost-effective for both production forestry and afforestation to rehabilitate degraded lands. Furthermore, it has been observed, for example, in India and Vietnam, that plantations linked to industries tend to have higher levels of productivity. Site- and species-matching must receive due attention, to avoid adverse environmental and social impacts. Because policy and market failures can undermine an interventions viability more than technical considerations, projects require sound analyses of policy and market environments. Security of land tenure in particular is key in fostering investments in plantation forestry.

In smallholder forestry, extension programs need to introduce improved technologies that are compatible with the maintenance of environmental and social values in plantation areas. These programs should be considered as long-term undertakings, and should not be limited to the plantation establishment phase. Effective linkages between silvicultural research and extension institutions are critical for successful technology transfer.

Biodiversity Conservation

Projects need to address the root causes of biodiversity losses. Biodiversity conservation is frequently neglected in land use planning, and the consideration of biodiversity services in productive landscapes is not appropriately incorporated into project design. Biodiversity-related project activities should not be considered stand-alone; projects should adopt a holistic approach within broader landscapes. Individual area-based project interventions tend to be overly complex, with too many activities to manage. They are therefore less likely to have an enduring impact. Landscape-level national programs can provide more suitable complements for ***in situ*** conservation of globally important species than interventions exclusively targeted at conservation of individual species.

Biodiversity considerations should be included in the countryís economic development plans and strategies. The absence of such a strategy tends to lead to a constellation of isolated projects supported by different constituencies, with the risk of perpetuating the status quo instead of directing scarce resources towards the most promising activities.

Substantive local participation in the definition of objectives of protected area management is essential to biodiversity conservation. In particular, sensitive issues, such as those related to communities living in areas to be declared as national parks, need to be dealt with at an early stage. Care should be exercised to ensure opportunities for sustained participation, as interest in participation by project promoters and local populations tends to weaken over the course of a projectís life.

Adequate financing plans to meet the identified conservation needs are critical. Mobilizing external funding often requires the existence of a valuable, globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible. Innovative financing and support mechanisms are needed for the long-term conservation of biodiversity, especially outside of protected areas.

Strengthening public-private partnerships, including capacity-building within partner organizations to implement co-management arrangements, can be critical for ensuring the financial sustainability of protected area management. Creating mixed, public private-sector mechanisms that can function without direct government control can reduce dependence on public financing. The private sector should be incorporated into biodiversity management, especially outside of protected areas, and especially where conservation is largely in private hands. Experiences with big-game areas in South Africa, where private firms operate private conservancies, or in national parks where private enterprises manage tourism, demonstrate that the private sector will engage in biodiversity management if it proves to be financially attractive.

Capacity building at the local and regional level is essential to provide the necessary skills and knowledge to promote biodiversity conservation and ensure that an adequate legal and policy framework is in place.

Payment for Environmental Services

The value and costs of site-specific environmental services vary widely, and targeted payments are often more cost-effective than paying everyone the same amount   common practice in Mexico and other countries. Yet the transaction costs of targeted payments can be very high in areas with a large number of farmers with small individual plots, for instance in many parts of India. Care must be taken to ensure that high transaction costs do not outweigh efficiency gains, and to avoid creating perverse incentives. Furthermore, the public goods nature of forest environmental services should be fully recognized by different stakeholders to make the financial obligations acceptable. The costs of project interventions that generate benefits external to the area of the project should often be jointly borne by project farmers, other beneficiaries, and local and central governments.

The maintenance of long-term environmental benefits requires continuous financial compensation to ensure that land users have adequate incentives to keep providing them. This requires sustained long-term financing arrangements rather than ad hoc support provided by investment projects. Building capacity and setting up payment mechanisms are therefore critical for any project intervention.

The credibility of payment for environmental services (PES) programs relies on fiduciary monitoring and reliable quantification of the impacts of environmental services. Financing will be sustainable only if beneficiaries are satisfied with the services they are paying for. Monitoring and evaluation should be an integral part of project design and must include the establishment of a baseline to measure the environmental impacts of the project.

PES projects are not specifically designed to reduce poverty. Targeting them at explicitly poverty-oriented objectives may risk undermining the production of environmental services. However, as many of those providing environmental services are poor, PES projects can contribute to poverty reduction. Effective participation by the poor in PES schemes requires technical assistance, and often, special mechanisms such as collective contracts by which large numbers of small-scale landowners are grouped. Grouping can lead to efficiency gains in capacity building. Early involvement of local partners such as nongovernmental organizations and communities is important in promoting participation and strengthening ownership of PES schemes.

ANNEX 2. PROFOR, THE PROGRAM ON FORESTS

Context

PROFOR is a multidonor partnership program formed to enhance the contribution of forests to poverty reduction, sustainable development, and the protection of environmental services. The Program carries out analytical work to generate information and knowledge on issues relating to livelihoods, governance, finance, and cooperation across sectors. Its work is organized into four interrelated themes.

> *A livelihoods approach to poverty reduction.* This thematic area concentrates on the contribution that forests can make to the livelihoods of the rural poor through employment and income creation. The Program gives particular attention to small-scale activities performed at the farm and household levels.
>
> *Forest governance* centers on the ways in which forests are managed by governments and other stakeholders, and on how to improve decision-making processes and regulatory and institutional frameworks to ensure quality governance, including better enforcement of regulations, improved incentives, and greater transparency and accountability.
>
> *Innovative approaches to financing sustainable forest management* aims to increase the profitability of sustainable forest management over that of unsustainable practices. PROFOR also analyses options for altering market forces and incentives to promote SFM, reforming forest revenue collection systems, and developing markets and compensation mechanisms for forest environmental services.
>
> *Cross-sector impacts affecting forests* analyzes and devises ways to manage the interactions and linkages between forests and other sectors and macroeconomic policy.

PROFOR supports the creation of new knowledge by financing activities in these four areas, based on proposals submitted by applicants and developed by the Program itself. The activities it finances are contracted to qualified implementing agencies and consultancies. PROFOR is therefore essentially a financing vehicle that supports analytical work to foster the development of innovative approaches to sustainable forest management.

The Advisory Board of PROFOR provides strategic guidance to the Programís operations. Its members include representatives of the World Bank, the UN Food and Agriculture Organization (FAO) the National Forest Programs Facility, and six bilateral development agencies. Board members meet once a year and keep in contact through electronic means and telephone conferences.

Activities and Outputs

A diverse range of global, regional, and country level activities is carried out under PROFORís four themes. Outputs consist of publications, knowledge tools, seminars, and technical workshops. Since 2003, the Program has produced nine major publications and several minor ones.[79] 11 PROFOR activities relate to governance issues, 10 to the financing of sustainable forest management, 7 to poverty and livelihoods, and 4 to inter-sector impacts. 58 percent of the funds disbursed have supported global activities and 36 percent have supported country level activities. The balance has been allocated to regional activities.

Governance-related activities have included analyses of decentralization, corruption, illegal logging, forest concessions, and small-scale forestry. This thematic area has close linkages to the Forest Law Enforcement and Governance (FLEG) program. PROFORís livelihoods thematic area has included work on methodologies for enhancing the contribution of forests to poverty alleviation. PROFOR has also conducted country policy dialogues. Activities on SFM financing have focused on methods and institutional arrangements for introducing payments for environmental services of forests, identification of potential international sources of financing, assessment of economic incentives, and development of small and medium enterprises. PROFOR has also produced technical documentation for, and supported the organization of, SFM investment forums. Activities related to cross-sectoral impacts have concentrated on analysis to measure and manage forest-related impacts of policy-development lending, land-tenure issues, and forest impacts of macroeconomic reforms on landscape forest mosaics.

Overall Assessment

Relevance

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[79] One in 2002, one in 2003, three in 2004, three in 2005, and one so far in 2006.

The objectives and activities of PROFOR are fully consistent with the Bank s Forest Strategy. PROFORís statement of objectives fully coincides with the three pillars of the Strategy. As stated in PROFORís objectives, the link with poverty alleviation is pronounced, and the poverty alleviation dimension is also embodied in PROFORís other thematic areas that seek to improve governance and alter market signals to increase the profitability of sustainable forest management.

PROFOR objectives *reflect international consensus*, as they are in line with those expressed in the UN Intergovernmental Panel Forum on Forests in the past, and more recently in the United Nations Forum on Forests. PROFOR complements other partnership initiatives housed at the Bank, including the FLEG Program and the WB/WWF Alliance, as well as the National Forest Program Facility housed at FAO.

It is widely accepted that knowledge creation needs to be *problem-driven*, with users of the knowledge engaged in defining the questions that need to be answered, and in validating and testing new ideas. On this account, PROFOR-supported knowledge creation activities are highly relevant because they are largely demand-driven.

Demands for further knowledge should be met by adequate responses by the Program following explicit, clear, and transparent criteria. The midterm review of PROFOR undertaken in 2006 found that (with the exception of the donor group), stakeholders did not appear to have a clear understanding of how activities and projects were selected for funding (Salmi 2006). These criteria were not readily available, and therefore remained unknown to many potential applicants for PROFOR support. Guidelines with the explicit criteria used to approve applications were subsequently posted on the PROFOR web site. This can be expected to increase the relevance of applications and thus that of the Program itself. The midterm review of the Program also proposed procedures for proactive identification of activities.

Efficacy

The key achievements of the Program since its inception in the Bank include (i) the development of a methodology to identify and monitor the impacts of development policy lending on forests; (ii) the development of tools and methods for planning and implementing mechanisms for Payments for

Environmental Services, which were field tested in Africa; (iii) the analysis of opportunities to promote innovative private sector community partnerships; (iv) the development of a Citizens Report Card to analyze the interactions between local populations especially the poor and government institutions, enabling public agencies to identify strengths and weaknesses in their work. (The Report Card was developed and tested on a pilot scale in Jharkand, India, and offers good prospects for broad application in Bank client countries.) (v) the development of a methodology to improve the impact of forest management on poverty reduction. The methodology helps agencies and stakeholders identify and analyze, on one hand, obstacles that need to be resolved to address poverty issues and, on the other, options to monitor how regulations and extra-sector policies either promote or hinder the livelihoods of the rural poor. PROFOR also supported a study on the interactions between improved forest-law enforcement and rural livelihoods (Colchester et al. 2006); the development of a Toolkit for Rapid Assessment of the Multiple Relationships between Forests and Forestry and Poverty; and a study on how forest resources can be best managed to improve poverty alleviation.[80]

It should be noted that PROFOR has only recently dealt explicitly with issues related to the interactions between poverty and forests. This is a welcome change of emphasis, as previous PROFOR work since 2002 had accorded reduced importance to this pillar of the Strategy.

Effectiveness

Because PROFORís main output is in the form of publications and dissemination materials, an idea of its effectiveness can be obtained by examining global demand for such output. The frequency with which the PROFOR web site has been used and the number of downloads gives some indication of demand. The PROFOR web site was visited 542 times a month in 2002, and more than 8,000 times a month in 2007 (Salmi 2006). The median rate is 270 session-downloads per title (note that Elsevier tracks the frequency of downloads from its journal *Science Direct* and considers 50 a high number of downloads.

Table A2.1 PROFOR. Selected Publications Total Downloads and Requests for Hard Copies, 2005

80 Poverty-Forests Linkages Toolkit. The toolkit is in the final stages of design and testing.

Title	Down loads	Hard copies
Forests in Landscapes	151	
Forest Institutions in Transition: Experiences and Lessons from Eastern Europe	165	
Tools for Civil Society Action to Reduce Forest Corruption	472	30
Implementing Proposals for Action of the IPF/IFF (in three languages)	798	83
Forest Investment Forum	810	84
Institutional Changes in Forest Management (in two languages)	1,024	87
Reforming Forest Fiscal Systems to Promote Poverty Reduction and Sustainable Forest Management (in three languages)	1,539	94

Source: Salmi 2006.

Citation rates in scholarly journals and articles are another way to assess the usefulness of PROFORís outputs, in this case among the community of thinkers and opinion leaders. A search in Google Scholar revealed that the seven major publications produced by PROFOR have been cited in 21 scholarly papers. PROFORís median rate is one scholarly article citing each PROFOR publication per year. Citations of comparable reports produced by programs in the agriculture sector are around 1.2 to 1.3 per year.[81]

The Programís increased attention to poverty-related issues is very likely to generate additional interest and to increase its overall efficacy. The publication *Reforming Forest Fiscal Systems to Promote Poverty Reduction and Sustainable Forest Management* is the PROFOR web siteís top download (table A2.1)

The midterm review team concluded that the uptake of PROFOR products is substantial and comparable to, or greater than, that of programs of similar character related to natural resources management. However, the review of PROFORís dissemination list revealed that the Program could further improve its impact by increasing its dissemination coverage through international and

81 Outstanding articles published in top general circulation journals such as *Nature* are cited in 30 scholarly articles per year, or 2.5 articles per month. As another point of comparison, a top and very popular report by Forest Trends (Who Owns the Worldís Forests) is cited in an average of about 7 to 8 scholarly articles per year.

national forestry professional associations and forest-related information networks that have proven effective in transferring new knowledge.

Efficiency

The costs of operating the Program appear to be low, with overheads being about 4 to 5 percent of total Program volume (Salmi 2006).[82] This demonstrates a high level of efficiency, particularly considering that PROFOR mainly finances small catalytic activities which typically have high transaction costs.

The efficiency of the Program could however be further enhanced in a number of ways. The first one is by further exploiting the opportunities for synergies between PROFOR and other related programs. As a knowledge-creation and dissemination program PROFOR already has a close operational linkage with FLEG and the WB/WWF Alliance. These working relationships appear to be more opportunistic than programmatic, and developing a more systematic form of coordination and collaboration could very well harness a number of potential synergies. Outside the Bank, PROFORís connections with national forest programs (NFPs) could certainly be strengthened, both to identify issues of global importance that require additional research, and to learn from experiences of implementation. Closer involvement with World Bank forest operations in client countries may also serve to increase the Programís impacts, particularly if its work is extended beyond analytical work to directly support the design of Bank lending programs.

Rating the efficiency of PROFOR also raises the question of whether the work undertaken by the Program would be undertaken by the World Bank or a partner anyway. Clearly distinguishing between activities that are of an incremental nature and activities that may simply replace those that would take place in the absence of PROFOR is difficult. *Additionality* was the predominant principle applied in the midterm review to address this question. Interviews with Bank staff indicated that no similar facility in the World Bank could play the roles played by PROFOR. PROFOR is relatively unencumbered by the complex administrative structures of World Bank units, and it is uniquely positioned to respond quickly to applications for support. The management of the Program by the Sustainable Development Network Forest Team is well aware of the risk

82 It should be mentioned that the share of overheads in total expenditure is difficult to assess with precision because PROFORís core staff perform both administrative and technical work and it is not possible to separate the administrative component from the total.

of PROFOR undertaking work that could be carried out elsewhere within the Bank, and purposefully avoids activities that would not constitute true additionality. Given the considerable area that exists between incrementality and substitution, the midterm review found that the approach taken by management is appropriate, and perhaps the best that can be applied in practice.

World Bank Performance

The Bank s Global Mandate, Convening Power, and Capacity to Leverage Funds

The World Bank capitalizes fully on its global mandate and outreach to administer PROFOR. The Bankís convening power has been used to engage key partners, increasing the supply of globally relevant knowledge-related outputs that serve the objectives of the Forest Strategy. There may however be further opportunities to improve synergies with other partners, including those housed at the Bank, through an inclusive program to support the Forest Strategy.

The midterm review raised the issue of whether the Advisory Board, which provides the overall direction of the Program, should not include partners from the NGO community, the private sector, and client countries. Including these partners may contribute to the Programís efficacy. Should demand for PROFORís activities increase as expected, the inclusion of perspectives from those stakeholder groups may be increasingly necessary in refining the Boardís overall policy direction. This possibility needs to be studied, keeping in perspective the transaction costs that it may involve.

Bank participation as a partner has also been crucial in mobilizing financial resources for the operation of PROFOR, which has received some US$6.4 million in trust funds from a variety of donors since 2002.[83] The PROFOR midterm review estimated the total contribution of the Bank to the program in the neighborhood of US$1 million. Co-financing from other partners amounted to about US$1.3 million. Thus, by 2007 the total resources captured by the program added up to nearly US$9 million.

Oversight

Operational oversight is provided by the Forest Team of the World Bankís Sustainable Development Network. The Bankís participation in the Program is

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83 The UK is by far the largest contributor to the PROFOR Trust Fund. Finland, Switzerland, and Japan are other trust fund partners (Salmi 2006).

subject to normal World Bank financial management procedures. The Bankís participation in the ***Advisory*** Board provides it with an excellent perspective from which to monitor the Programís progress towards achieving its strategic objectives. However, the Bankís dual roles as a leading partner of PROFOR and as monitoring agent raise the potential for conflict of interest. An external and independent review was recently commissioned to address this problem.

PROFOR does not appear to have an exit strategy. Given that these types of services are not discrete, and will certainly continue in the future, none is necessary.

Strengths

- The objectives of PROFOR fully coincide with those of the World Bank Forest Strategy and follow an international consensus on the need to generate knowledge as a global public good in the thematic areas of the Program.
- The main comparative advantage of the Program derives from its capacity to engage and mobilize intellectual resources to improve global knowledge in key issues of relevance to the objectives of the Forest Strategy. The Program can draw on multidisciplinary knowledge resources and experience from within the Bank itself, as well as from external institutions and individuals, to carry out activities that are important in achieving the objectives expressed in the Forest Strategy.
- PROFOR is a flexible, rapid-response, demand-driven mechanism with low administrative costs and high efficiency. Within its strategic framework, the Program has the capacity to react to unexpected demands for knowledge that are related to the design of Bank projects and other operations.
- There is solid evidence that PROFOR supplies knowledge products that are in high demand and highly relevant.
- PROFOR has the capacity to leverage financial resources for the support of activities in each of its thematic areas that support the Forest Strategy.

Opportunities for improvement

- PROFOR would benefit from a long-term vision and strategy that would include an explicit treatment of interactions with other programs of the Forest Team and Bank regions, and with key related programs outside the Bank. An overall strategy for the partnerships housed in the Forest Team is highly desirable.

- Given PROFORís emphasis on the production and dissemination of knowledge as a global public good, the composition of the Advisory Board may be revisited to include perspectives from client countries, the private sector, and nongovernmental organizations, to provide guidance on broad direction and policies. In this case, the incremental transaction costs should be considered.
- The Programís priorities, procedures, and criteria for deciding on support for various activities do not appear to be widely known outside a limited circle. This arguably limits effectiveness. The recent initiatives adopted to increase the clarity of policies and priorities for project support, and to increase transparency of decisions, go a long way toward addressing this problem.
- Despite the stated goal of operating toward essentially the same objectives as those of the Forest Strategy, PROFOR appears to have given relatively less importance to knowledge of the relationships between forests and poverty alleviation and to knowledge of other dimensions that have a substantial impact on vulnerable forest-dependent populations (such as traditional rights and land tenure issues). Again, this limitation has been partially addressed with the recent work on this key thematic area.
- The Program would benefit from more rigorous ways to track implementation of ideas on the ground and to collect, analyze, and synthesize detailed feedback from practitioners. The MTR is of the opinion that additional knowledge has little value in terms of support for implementation of the Strategy if it is made available only in a piecemeal fashion. As the Program grows, the need also grows to synthesize results for application in various contexts, thus adding value to the generated knowledge as a global public good.
- Increased dissemination, drawing on potential channels to create awareness of the availability and contents of PROFOR-created analytical work, is advisable. This can be done, for example, by improving the coverage of the web site to include analytical work underway, and by producing more frequent updates. Linking with international and national professional associations, international forestry networks, specialized magazines and so forth could enhance current dissemination efforts without entailing any significant additional costs.

ANNEX 3. REVIEW OF WWF/WORLD BANK ALLIANCE FOR FOREST CONSERVATION AND SUSTAINABLE USE

Context

The WB/WWF Alliance for Forest Conservation and Sustainable Use was formed in 1998 to build on the competitive strengths of the two organizations to address their shared concern about global deforestation and forest degradation. The purpose was to integrate each partyís implementation approach in order to promote cooperation and maximize synergies. The first Alliance Agreement (Alliance I) ended in December 2005, after the parties signed a new agreement (Alliance II) on May 25, 2005.

The goals of Alliance I were to advance the conservation of protected areas and sustainable forest management (SFM). The public goods generated by the Program include biodiversity, mitigation of climate change, amenity values, watershed conservation (water quality and quantity), and others. The first goal of Alliance I was linked with the third pillar of the Forest Strategy (protecting vital local and global environmental services and values) while the second goal (sustainable forest management) is also contributing to the implementation of the second pillar (integrating forests in sustainable economic development). To measure progress, Alliance I had set the following targets by 2005: (i) 50 million hectares (ha) of new protected areas; (ii) 50 million ha of existing but highly threatened forest protected areas secured under effective management; and (iii) 200 million ha of production forests under independently certified sustainable management.[84]

In 2000, the partners agreed to focus on target-driven activities in key countries, integration of the broader missions of the WWF and the Bank, and activities seeking to capitalize on opportunities with expected high returns (WB/WWF 2000). A Mid-Term Evaluation was carried out in 2002 (Forbes Baldwin 2002) and subsequently a Business Plan for 2003 5 was agreed upon (WB/WWF 2003). The Plan clarified strategic objectives, putting increased emphasis on mainstreaming activities into the partnersí programs. It also identified target-driven activities, learning and capacity-building tasks, a communications strategy, and a mechanism for monitoring and evaluation.

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84 This target was originally supposed to refer to the Bank client countries, but it was later clarified that it was a global target.

Drawing on the stock-taking of achievements in 2005, Alliance II adopted an overarching goal to achieve a 10 percent reduction in the rate of global deforestation by 2010 as the first step toward aiming at zero net deforestation by 2020. This goal was aimed at focusing international attention on the continuing problem of deforestation. It was realized that no other organization had set such a time-bound target.

The specific targets of Alliance II are (i) establishment of 25 million ha of new protected areas; (ii) improvement of protected area management in 75 million ha; and (iii) 300 million ha of forest under improved forest management, to be achieved through a combination of independent forest certification, stepwise approaches to improved forest governance and management, community-based forest management, and restoration of degraded forest lands.[85] The third target represents a more nuanced approach to sustainable use than relying only on certification, as was the case in Alliance I.

In the typology of the Bankís global partnerships (World Bank/OED 2004), the Alliance follows a shareholder model where the governing and executive bodies are limited to organizations that sponsor or pay for the program. Partners make decisions on governance structure.[86] As it is obvious that the partners can make only a limited direct contribution to achievement of the broad goals, the Allianceís strategy is to act as a catalyst and a promoter of innovative tools. Therefore, the Alliance is working in cooperation with a broad range of stakeholders including governments, the private sector, other financial institutions, and civil society. However, the Program is not built on the stakeholder model where the membership would be extended to other groups, such as beneficiaries or other parties who are potentially affected by the program and who also participate in the governance of the partnership.[87] The partners have discussed the idea of broadening the range of participants in the Alliance, but the benefits (wider participation base, voice of the beneficiary countries formally expressed in the Programís consensus, and so forth) have been considered less important than the advantages of the current arrangement (agility of decision making, responsiveness to demands, focused action, close link with the Bankís core activities, and the like). The Alliance track record and the experience gained from other global programs and partnerships suggest that the shareholder model has probably been an appropriate choice in the past.

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85 Outside of strict protected areas.

86 Co-chairs, coordinators, and regional coordinators in both organizations.

87 The 2000 MTR recommended incorporation of a broader set of stakeholders to enhance impact (Forbes Baldwin 2002).

Overall Assessment

Relevance

The Alliance I goals and activities have been aligned with the second and third pillars of the Forest Strategy. There is therefore a clear link to the Bankís core institutional objectives and to its country operational work. The link with the first pillar (poverty reduction) has been less explicit, but Alliance II objectives represent an improvement in this respect as, for example, community forestry has been identified as one of the vehicles for sustainable use, which also supports poverty reduction.[88] The analytical work carried out on the interaction between poverty and conservation has revealed potential synergies and significant tradeoffs, which vary among particular local situations. There are no blanket solutions. Forest conservation and poverty reduction are not always compatible, but possible. Positive examples exist but win-win situations are rare (Arborvitae 2005).

The Alliance reflects an international consensus on the need for international action in biodiversity conservation and sustainable forest management. Its activities are directly linked with the objectives of the Convention on Biological Diversity but the Alliance itself is not formally pursuing Convention objectives. The objectives and the activities of the Alliance can also be interpreted as contributing to the Proposals of Action of the Intergovernmental Panel on Forests (IPF), the Intergovernmental Forum on Forests (IFF), and the outcomes of United Nations Forum on Forests. These emphasize collective action to advance conservation and sustainable use of forest resources both at country and international levels. The Alliance is unique in its focus and approach, though it attempts to complement other international initiatives. Because it does not compete with, or substitute for, regular Bank instruments it represents added value. It complements the Bankís economic and sector work and develops tools that can be used in lending operations. The Alliance facilitates the implementation of formal standards and approaches within internationally agreed frameworks. Its certification component in particular is instrumental in this regard.

The Program had a clear strategic focus until 2005. The scope of Alliance II is broader. Addressing the deforestation reduction goal would require a wider set

88 The Alliance started to explicitly analyze linkages between forest conservation and poverty alleviation in India only in 2005.

of activities than under Alliance I, covering other aspects than protected areas and sustainable use.

Efficacy

The impacts and outcomes of the Alliance are difficult to assess because it is not possible to establish a proper with-without analysis owing to the programís catalytic nature.

There has been a fair degree of mainstreaming of the Alliance in both partnersí activities, but there is still potential for improvement in this respect.

The influence of Alliance goals on the program partners and on mainstreaming takes various channels, which are difficult to track as both parties also carry out independent activities which are linked to the programís objectives, but which are not jointly decided even though they may be directly or indirectly influenced by the program. Furthermore, other stakeholdersí activities that have been induced or are otherwise linked with the program are often difficult to clearly attribute to Alliance impacts.

Without WWFís support of the Forest Strategy (the contents of which it also influenced), it would have been difficult for the Bank to mobilize sufficient support among the nongovernmental organization (NGO) community to get the Strategy approved.[89] The Alliance was instrumental in the development process of the Forest Strategy and its criteria for certification schemes were adopted in the Bank safeguards for forests (OP 4.36).[90]. The Bank has learned to better integrate financing of protected areas in lending activities. Cooperation with World Wide Fund for Nature (WWF) has helped the Bank to understand how large international conservation NGOs with entirely different cultures work helping identify and tap potential synergies that can be built upon.[91]

Through collaboration with the Bank, WWF has learned how the linkage between conservation and sustainable development can be addressed at the grassroots level.[92] There is a clear mutual understanding that sustainable

89 The interviews of the Review revealed a strong opinion among high-level Bank staff involved in the revision of the Forest Strategy.

90 WWF has also provided a substantive input for the elaboration of the IFC Performance Standards.

91 Based on interviews of the WB staff.

92 Based on interview of the WWF staff.

utilization of forest resources outside of protected areas is necessary for the maintenance of biodiversity and other global and local environmental values and services.

According to the Allianceís own interpretation, the targets set for 2005 were achieved and exceeded in the case of protected areas. In new protected areas, the achievement rate was 113 percent and in improved protected area management 166 percent.[93] The achievement rate of the third target 200 million ha of certified forest globally has been reported as only 16 percent.[94] Because of the complexities and constraints involved in implementing forest certification in the Bankís client countries, the Programís impact has been more on capacity building, which is expected to lead to acceleration of the area under certification in the next few years. Through its interaction with individual certification schemes and systems,[95] the Alliance has also contributed to the quality of their standards and implementation arrangements, which have been undergoing periodic revisions. This quality aspect of the Alliance contribution may be as important as the expansion of the certified area.

The key achievements in expanding the network of protected areas include two major undertakings.[96] (i) Continuous support has been given to the Brazilian government in the design and implementation of the Amazon Regional Protected Area Program (ARPA), which will protect 12 percent of the Brazilian Amazon (with already 17 million ha brought under legal protection). (ii) The Allianceís support for the Forest Summits of Heads of State of the Congo Basin in 1999, and in 2005, for the Second Summit of the Heads of State in Brazzaville. The latter resulted in entirely new cross-border cooperation in forest

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93 Based on WWF/World Bank Global Forest Alliance (2006a). Different figures have been used by the Alliance. In the Alliance news release of May 25, 2005 it was stated that Alliance I contributed to the establishment of 50 million ha of new protected areas and improved management for 70 million ha of protected areas.

94 Based on WWF/World Bank Global Forest Alliance 2006a. Calculated based on area under FSC certification, which was the only operational forest certification scheme in tropical countries for many years. Over the last six years, new national certification schemes have been started, but only one scheme has been assessed against the Alliance criteria for certification. The total area of certified forests in the world was about 241 million ha in mid-2005 (UNECE/FAO 2005).

95 Particularly in connection with the testing of Questionnaire for Assessing the Comprehensiveness of Certification Systems and Standards (QACC).

96 Alliance contribution is here interpreted as an activity in a country where an Alliance financed activity has been implemented which can be directly linked to the Alliance targets on PA establishment or improvement of PA management.

conservation and sustainable forest management, including the establishment of 3.5 million ha of new protected areas. Since 2002 the Alliance has also supported the establishment and management of protected areas in Argentina, Bolivia, China, Colombia, the Democratic Republic of Congo, Honduras, India, Indonesia, Mozambique, Nepal, Nicaragua, Peru, the Russian Federation, Tanzania, Zambia, and the Caucasus. It can be safely assumed that World Bank involvement in the 28 Global Environment Facility (GEF) co-financed biodiversity projects since 2002 would have been less pronounced without the Alliance.[97]

The Program has supported the development of forest certification in several Bank client countries in all regions, and has been especially helpful in standard setting in Bulgaria, Bosnia and Herzegovina, Croatia, China, Colombia, Romania, Russia, and Ukraine. Certification of community forestry has been supported in Bolivia, the Lao Peopleís Democratic Republic, and Nicaragua. Since 2004, the WWF Global Forest and Trade Network (GFTN) has been involved in Alliance activities by building up enterprise-level capacity for certification and linking responsible suppliers with buyers in Ghana, Indonesia, Nicaragua, Peru, Russia, and Vietnam. In Nicaragua, cooperation with the GFTN resulted in International Finance Corporation support for local companies to achieve certification. A financing mechanism for forest concessionaires developed in Peru may be replicated elsewhere. The Alliance has supported the development of timber tracking systems in Cambodia, Nicaragua, Peru, and in the Congo Basin countries. In order to promote responsible investment in forest management, the Alliance organized three Investment Forums (two in 2004 and one in 2006) which stimulated considerable attention to the development of the small and medium enterprise (SME) sector in forest-based activities within the framework of poverty reduction. Company-community and company-smallholder partnerships have a great win-win potential for increasing responsible wood raw material supply to industry and contributing to income generation among rural people.

The Alliance has supported analytical work and the development of learning and capacity building tools on several key issues related to the design and management of protected areas, biodiversity conservation in production forests, forest governance, and forest certification.[98] Many innovative ideas and

97 Based on interviews with Bank staff members.

98 These publications include: Rapid Assessment of Protected Area System (2002); Evaluating Effectiveness Framework for Assessing Management of Protected Areas; Reporting Progress in Protected Areas (2000); A Site Level Management

instruments called for by the Forest Strategy have been developed, field tested, and validated. In particular, the tools of protected-area management have had an impact beyond the partners.[99]

Despite these results, the Review team observes that fewer learning and capacity building products have been delivered during the last two years than before. The Forest Certification Assessment Guide (FCAG) is the principal recent output produced by the Alliance. The Guide is used to determine whether systems and standards for certifying the sustainable management of commercial forests meet the Allianceǿs criteria. These criteria also guide decisions by the Alliance partners in their support of sustainable forest management projects. Formerly known as the Questionnaire for Assessing the Comprehensiveness of Certification Systems/Schemes (QACC), FCAG is the culmination of three years of testing, refinement, and external consultation. The Guide is also intended for public agencies in countries which are developing procurement guidelines that reference sustainable forest management and legality as purchasing criteria.

The volume of learning and capacity building activities and outputs completed appears to have decreased.[100] The decrease has been attributed to reduced levels of funding. Most of the field activities have been responses to ad hoc opportunities. Despite the existence of the Business Plan for 2003 5, it is felt that the programmatic approach may not have been adequate.[101] The Review team recognizes that Alliance responses need to be demand-driven, but achievement of the objectives of Alliance II is unlikely if the key strategic interventions (for example, development of decision tools and other knowledge products, demand creation for Alliance activities in priority countries, fund raising, and so forth) are not addressed through a systematic programmatic

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Effectiveness Tracking Tool (2003); Running Pure: The Importance of Forest Protected Areas to Drinking Water (2003).Three toolkits on High Conservation Value Forests (2005). Legal Origin of Timber as a Step Toward sustainable Forest Management in Africa (2003); Technologies for Wood Tracking (2003); Restitution and Forest Certification in the ECA Region (2002); Software Program for Tracking of Wood in Nicaragua (2004); Database management program for Chain of Custody control (Panda Track) (2005). Forest Certification Assessment Guide. Note for the World Bank/WWF Global Forest Alliance (2006a). Most of these publications are available for download at www.forests-alliancel.org

99 For example, the Management Effectiveness Tracking Tool has been adopted by GEF to monitor progress in GEF-funded protected area projects.

100 Most Alliance publications in the Alliance Web site date 2003 earlier.

101 Based on the objectives and target definition of activities to be carried out by the Alliance and raising the necessary financial resources to carry them out.

approach, that is, a balance between targeted actions and responses to country demands. The Business Plan for 2003 5 was a useful document in this direction, but it needs to be updated and revised in view of the past accomplishments and the new targets of Alliance II.[102]

Efficiency

The transaction costs of the Alliance are considered to be on the high side. Between 2000 and 2005, the costs of technical supervision and coordination, administration, and other indirect costs averaged 26 percent of total costs. The Alliance funds relatively small undertakings, usually related to the development of intellectual products. Budgets typically range from US$20,000 to $100,000. However, project-based management costs are largely fixed, and therefore transaction costs tend to be inherently high in this kind of program. In view of the current practices in other international organizations, the Review believes the targeted share of transaction costs in the medium term should be less than 20 percent.[103]

Efficiency indicators could be improved by increasing the size of projects, but it would be a two-edged sword in this case. The total funding frame is rather limited and has to be spread among several themes and a large number of countries. Therefore, large projects could lead to an imbalance between regions and strategic issues addressed. Alliance management has spread the resources thinly rather than concentrating them, even though there has been a focus on large forest countries where the main problems lie. This can be considered justified in a program that is catalytic by nature and can only provide seed funding.

From the recipient perspective, seed funding also has downsides. For example, in some countries, the Alliance initiated the development process of national certification standards, but the work ceased when external support dried up for example in Bulgaria and Ukraine. This is a general risk when financing pioneering approaches such as introducing forest certification in a country for the first time. Alliance funding is partly comparable to venture capital-type investments. To manage the risk associated with seed funding, feasibility assessments could clarify how complementary downstream financing can be arranged from other sources, to avoid pioneering efforts becoming similarly

102 However, it was never formally articulated or agreed to by the Co-Chairs.

103 As a reference, PROFORís overhead costs are 4 to 5 percent of total expenditure (See annex 1).

dropped because of financial constraints. In situations where the participating stakeholders are uncertain as to future financing arrangements, the credibility and image of the Alliance my be unnecessarily undermined if follow-up funding fails to materialize.

A cost-benefit ratio cannot be calculated for the Alliance. The general perception among the partners is that benefits far exceed costs. This derives mainly from (i) the analytical work and the tools developed; (ii) major impacts of the catalytic action (for example, ARPA, the Congo Basin); (iii) many useful country-level interventions which are linked with the Bankís lending activities (Indonesia, Russia, and so forth); and (iv) engagement of the private sector to promote investment in sustainable forest management and related trade.[104]

Bank performance

Four aspects are considered in reviewing the performance of the World Bank in the Alliance: (i) comparative advantage; (ii) global-country links and impact on the Bankís country work; (iii) oversight; and (iv) exit strategy.[105]

Comparative advantage. The Bankís global mandate and reach have been essential elements of the Allianceís efficacy, which largely depends on political decision making. Examples are the critical contributions of the Alliance to initiate the ARPA and Yaoundé processes and to keep them on track. The Bankís convening power has been necessary to engage governments, private industry, NGOs, and other stakeholder groups to work toward Alliance targets. For example, without the Bankís role, high-level participation in the investment forums would not have materialized. The Bankís convening power has also been important in accessing high-level political decision making on the issue of land allocation for protected areas, which tends to be a low political priority in national agendas.

The Bankís leadership has also been crucial to mobilize funding for the Alliance. The Bankís share[106] of the total resources raised for Alliance activities since FY 2000 has been on average 69 percent, and the share has been increasing (75.8

104 GFTN involvement, Investment Forum meeting, and so on.
105 These are compatible with the OED evaluation of the Bankís global programs (World Bank/OED 2004).
106 Including funding from the WB Development Grant Facility (DGF).

percent of the total in 2005).[107] While half of the Bankís share of funding was raised from donor trust funds in 2000, this share was only 38.5 percent in 2005, the balance coming from the Bank budget and the Development Grant Facility. While the Bank has been only partially successful in raising external funds for the Alliance, the performance of WWF has been weaker.

The Bankís multi-sectoral capacity has enabled country-level assessments of tradeoffs between conservation and production in the context of establishing protected areas. This capacity will be increasingly important during Alliance II, when the focus is shifting more to poverty reduction and complex policy issues related to deforestation. The related Bank programs (FLEG and PROFOR) have enabled the Bank to draw on synergies with the Alliance, particularly in the area of improving forest governance. These three global programs, housed in the SDN Forest Team, should be seen as an integrated entity to address constraints in the implementation of the Forest Strategy.

The Bankís expertise in country and sector-level analysis has ensured the generally high quality of the Allianceís analytical work on local constraints to the conservation and sustainable use of forest resources. Most of the Allianceís interventions have been in individual countries, where the Bankís in-depth country-level knowledge has contributed to the relevance and quality of outputs.

Global-country links and impact of the Program on the Bank and WWF. Several country-level projects of the Alliance have been closely linked with the preparation or implementation of the Bankís lending operations. The Bank has forest portfolios in most countries where the Alliance has been operating.[108] The role of Alliance interventions has varied in these countries, from preparatory action which has led to lending operations, to strategic complementary actions which were not part of the Bankís investment programs, but proved necessary during implementation. For example, the Alliance has been involved in improving forest governance in Indonesia, which is creating enabling conditions for an eventual forest lending project. Such incubation impacts can also be identified, for example, in the Democratic Republic of Congo and Paraguay, which do not have Bank-financed forestry projects. In Bosnia and Herzegovina the Alliance introduced an action plan to combat illegal logging that was not part of the

107 The percentages include also funding from WB Development Grand Facility that was raised by the Bankís Alliance management, although accounted as WWF input.

108 For example, Argentina, Brazil, Bosnia and Herzegovina, Cambodia, Cameroon, Colombia, China, Croatia, Gabon, Georgia, Honduras, India, Lao PDR, Mexico, Mozambique, Nicaragua, Papua New Guinea, Peru, Russia, Vietnam, and Zambia.

lending project. In China, Croatia, Georgia, Nicaragua, Peru, and Vietnam the Alliance has facilitated the process of implementing certification, which was not part of the design of forestry projects.

There is evidence that the Bankís activities add value to and mainstream Alliance outputs through: (i) the adoption of critical elements of Alliance activities in the Forest Strategy; (ii) the adoption of the criteria for acceptable certification systems in OP 4.36;[109] (iii) the Bankís extensive portfolio in protected areas; and (iv) the Bankís portfolio in forest and forest component projects, which to a large extent overlap the country activities of the Alliance. The Review team sees further potential in enhancing the linkage between Alliance interventions and the Bankís lending operations. Country-level analytical work, awareness-raising at the political decision-making level, and building up constituencies to enable them to pursue the policy agenda could be targeted to accelerate progress towards the goals and targets of the Alliance. Linking these initiatives with follow-up investment programs or sectoral budgetary support through Development Policy Lending would avoid the limitations and risks related to seed funding, ensuring sustained impacts. For the Bank, this approach would add value from the Alliance, as it would address demand-creation for financing the conservation and sustainable management of forest resources.

The Alliance can be considered complementary to the Critical Ecosystem Partnership Fund (CEPF), which is financing country-level investments in biodiversity hotspots, while the Alliance is providing support to fostering country-level strategies and standards for biodiversity conservation and sustainable use. However, there is no operational link between the two global programs, as their origins and strategic approaches to biodiversity conservation are different. However, with regards to protected areas, their country level activities can be closely related or even overlapping. From the host-country perspective, it would be beneficial if the messages and approaches of the Bankís programs are internally consistent and complementary, rather than seeming to be separate initiatives under the Bank umbrella. The Alliance is also complementary to PROFOR and FLEG programs, but in their case a very close coordination exists, as these three programs are housed in the same unit as the Alliance the SDN Forest Team.

Oversight. According to the Memorandum of Understanding (MOU), parties organize coordination and review meetings twice a year. Management

109 These were also the basis for IFCís recently approved Performance Standard 6 Biodiversity Conservation and Sustainable Natural Resources Management.

procedures in preparing and recording meetings are relatively informal although decision-making follows the Bankís rules.[110] Each party has to exercise a degree of oversight consistent with the major roles that it plays in the program. The oversight function should cover fiduciary aspects, strategic direction, and monitoring (World Bank/OED 2004). In the Bank, the Program falls under the supervision of the Environment Department and the operational oversight is under the SDN Forest Team. The multiple roles of the Bank and WWF in the governance and execution of Alliance activities by definition influence the oversight function. As in many similar global programs, it is difficult to separate the roles of partners and participants in the Alliance (World Bank/OED 2004). There is a potential source of conflict of interest as oversight and implementation are vested within the same organizational unit.

Exit strategy. The Alliance does not appear to have an explicit exit strategy. There are however provisions for periodic review that should provide a vision of the long-term future of the Alliance.[111] Despite the long-term nature of the problems the Alliance is addressing, the Review team is of the opinion that the issue should be considered within the framework of all of the global, forest-related programs the Bank participates in, based on a comprehensive evaluation of the Alliance in 2009 at the latest.

Strengths

The following strengths of the Alliance are singled out:

- The main comparative advantage of the Alliance derives from the joint strengths of the partners: (i) the Bankís global reach and mandate, and related convening power to engage all the relevant stakeholder groups and to provide access to, and influence on, top executives in client countries which is coupled with the Bankís capacity to link protected-area needs to the sustainable development framework; and (ii) WWFís extensive field presence and in-depth knowledge of protected-area management issues. Global-level action has been effective in raising the issue of protected areas in the political agendas of several countries, resulting in decisions to extend the protected-area network in a significant manner. This is one of the main achievements of the Alliance. In addition, the Allianceís work on criteria and

110 Based on the review of the available minutes of the joint meetings.
111 MOU signed on April 14, 2005 does not make any reference to an exit except that the agreement is valid for the next six years and it may be terminated before that date.

requirements for certification systems has also influenced other actorsí policies in this field.

- For the Bank and other participants, the Alliance has been an agile instrument to make use of emerging opportunities, through flexible funding of rapid catalytic interventions to support lending operations without going through the time-consuming regular procedures. This has proved to be particularly important in situations where a window of opportunity has opened up and fast action has been required for political or other reasons (for example, initiation of the ARPA network and the Yaoundé Summit) at regional level and at country level (for example, in the Democratic Republic of Congo, Indonesia, and Paraguay).
- The value-added of the Alliance for the Bank derives from the catalytic nature of the Program, which develops new innovative ideas and pilots and validates them in country conditions, making the new approaches and tools broadly applicable. The second main dimension of added value is the complementary role of Alliance activities in demand-creation for the Bankís lending and in providing additional strategically important activities to help ensure the efficacy of the ongoing lending projects.
- The Allianceís strategic focus on protected areas and on certification as an instrument to promote sustainable use has contributed to its effectiveness, particularly in the establishment and management of protected areas.
- The learning and capacity building products developed by the Alliance are typical outputs that create multi-country benefits, provided they are effectively disseminated. For example, the Tracking Tool for Protected Area Management is reportedly used by GEF. The intention of the Alliance is also to promote the use of the Forest Certification Assessment Guide among other stakeholders (the IFC, national public procurement policies, GFTN members, and others).
- The Allianceís interventions in countries have paved the way for preparation of lending projects or removed obstacles in their implementation. These interventions have not substituted economic and sector work or analytical advisory assistance; they have complemented it by identifying innovative approaches and assessing their viability.
- WWFís close cooperation with the private sector through the GFTN is a particular asset for the Alliance. Its value in mitigating business risks is also recognized by the IFC. This cooperation will also be important for Alliance II continuing to influence the private sectorís investment and other

operations to contribute to the achievement of the Millennium Development Goals.

- Cooperation between the partners has led to joint actions at country level (or with IFC at enterprise level) which are not Alliance activities. This illustrates the positive indirect impact of the Alliance on further capitalizing synergies between the two organizations.
- Shared management with in-house secretariats in both organizations, and joint decision making, have effectively mitigated against reputational risks related to the Alliance.

Areas Needing Improvements

Governance. OED has established principles for corporate governance in global programs: (i) clear roles and responsibilities between partners; (ii) transparency; (iii) fairness; and (iv) clear accountability (exercise of power over resources to the programís stakeholders) (World Bank/OED 2004). The Alliance can be considered to largely adhere to these principles but further improvement would be desirable as discussed in the previous sections. Some civil society stakeholders have raised concerns that they may not be treated with full fairness as WWF implements several Alliance activities itself.

A more programmatic approach should be adopted in an updated business plan to facilitate fundraising, profiling the specific role of the Alliance among the Bankís forest-related partnerships (PROFOR, FLEG, CEPF, and others). It would also help add value through enhanced synergies. A programmatic approach maintaining the demand-driven character of the Alliance could also reduce transaction costs.

The forests-poverty linkage needs to be strengthened, particularly considering the new overarching goal of Alliance II, with a focus on reducing deforestation and forest degradation, which are usually poverty-associated. Addressing these two major problems would require broader solutions than protected areas and sustainable forest management can provide, including cross-sectoral policy impacts and more focus on valuation and compensation mechanisms for forest environmental services.

The conservation approach of the Alliance can be considered largely classical, focusing on the extension and effective management of protected areas. This has represented a partial strategy for biodiversity conservation at a national level. Moving toward a more holistic approach would be desirable to duly address biodiversity conservation in production forests.[112] Such a new approach is reflected in the Allianceís recent proposal to GEF which could provide a major boost in this area, where necessary methods and tools still need to be developed (GEF 2006).

There is a need to better link goals and activities with the needs and the priorities of the developing countries. A closer involvement of local stakeholders from the Bank client countries (government agencies, NGOs, the private sector, the academic community, and so forth) in the Program would be useful in strengthening the relevance of the interventions to country situations. It could also establish and develop a closer and more explicit linkage between poverty reduction and biodiversity conservation. This would be also useful in enhancing the Allianceís impact on the Bankís lending activities. The Allianceís targets could be better integrated at country level with the preparation of the Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs), which stand to benefit from the views of conservation NGOs like WWF.

There appears to be insufficient clarity among some stakeholders interviewed by the Review team on the roles of the Alliance and the other forest-related global programs (CEPF, FLEG, PROFOR, GEF). There is apparently full clarity in this respect inside the coordination team of the two partners, but for external parties and to some extent for regional coordinators and task team leaders in the Bank, the specific objectives and roles are apparently not fully clear. The results that beneficiaries expect from seed funding should be kept realistic to reduce risks of failure or delays in the implementation of new approaches.

Capitalizing on synergies between the Alliance and the Bankís activities and other global programs requires special efforts, particularly if institutional barriers must be overcome. The competing roles of the Bankís partners in different programs are likely to require coordination by Bank management to capitalize on potential synergies in investing in and promoting protected area management. In this case, particularly, synergies between the Alliance and CEPF could have been captured. Because the activities and approaches have been quite different, synergistic links have not developed. However, the larger overall goal of biodiversity conservation in protected areas is shared. Synergies could be realized between the two initiatives in the following ways: (i) linking the policy-level influence of the Alliance and the ground-level protected area investment by

112 Landscape level approaches, HCVF, certification, and other tools under development by the Alliance are part of such a strategy.

CEPF;[113] (ii) in planning of the networks of protected areas by the Alliance, the CEPF hotspots could play a strategic conservation and demonstrative role;[114] (iii) the Tracking Tools developed by the Alliance are applicable also in CEPF-supported protected areas; (iv) the Ecosystem Profile methodology developed by CEPF has potential application in the design of the Alliance protected area activities; (v) the application of the Alliance High Conservation Value Forest (HCVF) tools in identification of hotspots for CEPF investment; and (vi) strengthening of local NGOs by CEPF could be drawn on by the Alliance in identifying local partners for country operations.[115]

There has been an element of incoherence in the Allianceís development of innovative tools for conservation and sustainable use. The explicit purpose of protected area management has been to increase the impact of the tools by encouraging their adoption and use by other parties. Yet the FCAG was originally explicitly targeted for use by the Alliance partners themselves, and only recently has it been clarified that the tool is intended for use by other parties as well. Broad participatory processes should be involved from the outset in the preparation of these kinds of key policy documents to ensure their extensive use.

Work on learning and capacity building should not be limited to the development of learning products. The dissemination of these products also needs to be addressed to improve efficacy.

Communication was identified as a weakness in the 2002 midterm review of the Alliance. Even among many Bank staff, there appears to be a certain lack of clear understanding on how the Alliance works as an instrument for contributing to the Bank's lending activities. Two communication strategies have been prepared since then, in 2003 and 2006.[116] The 2006 strategy addresses the key success factors of the Alliance (fundraising, building policy partnerships, and supporting target-oriented field programs and learning and capacity building programs). The strategy identified internal and external target groups and the actions required to reach them. A range of communication tools will be used.

113 The 2006 independent evaluation of CEPF (Wells, Curran, and Qayum 2006) did not find evidence on policy changes.

114 Strategic focus was already identified as a weakness in the Mid-term Review of the CEPF in 2003.

115 The CEPF evaluation made no reference to the Alliance work, which further demonstrates the barriers between the two initiatives.

116 There is also an ongoing initiative on communication related to the Africa Strategy on Mainstreaming Forestry.

Improvement will be timely as, for example, the Alliance web site needs updating, and no regular newsletter has been available. A more comprehensive record of Alliance activities should be made more readily available than it has been in the past.

Management efficiency will be a challenge for Alliance II because of transaction costs, which are on the high side based on an inter-agency comparison.

There is a need to mobilize additional funding. The current funding mechanism is based on core funding from the partners[117] and to a smaller extent from donor pledges from the WB trust funds.[118] In the early years, the funding was at the level of US$2.5 million, but has been declining since 2000.[119] In 2005, total expenditure was US$1.3 million about half of the 2000 level. This is a cause for concern in that Alliance II has broader objectives and greater resource requirements than Alliance I did. Increased volume of activities would also improve efficiency, reducing relative transaction costs, as management costs appear to be fixed.

WWF has recently dismantled the regional level units of its organization.[120] It can no longer assign effective regional coordinators to the Alliance while the Bank continues operating the Alliance through regional coordinators. Such changes have a major impact on implementation and should be planned jointly and in advance in order to allow a timely transition to the new organizational setup.

As in-house programs with shared management (like the Alliance) tend to easily suffer from unclear oversight arrangement (World Bank/OED 2004), the Bank could consider an arrangement for independent assessment from outside the implementing management chain. The resources allocated for such oversight function should be commensurate with the size of the Alliance.

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117 The Bankís budget and trust funds, DGF, and WWF-US core operational trust funds.

118 The Netherlands, Germany, Norway, and Finland Trust Funds, and Multi-donor Trust Fund for ESSD in the Bank. In the early years, there was also some funding from the WWF trust funds.

119 With the exception of 2004.

120 This decision was based on broader organizational objectives; the Alliance activities were not considered in this connection.

Suggestions to the Task Team

1. Strategic planning is needed in view of the expanded scope and objectives of Alliance II. A new business plan needs to be prepared which should maintain its demand-driven approach. However, a more programmatic framework should be adopted, with targeted actions to address key bottlenecks in making progress towards the targets set. Potential areas for significant impact of catalytic action could be in knowledge generation and dissemination (including additional tools for stakeholders in client countries), capacity building, national policy development, institutional reforms, mobilization of incremental resources, and creation of demand for investment in sustainable forest management.[121] The overarching goal of reducing the deforestation rate by 10 percent implies a reputational risk and therefore, the Programís strategic approach should be clearly spelled out.

2. The Review team sees the greatest potential for Alliance II in increasing the area under responsible forest management through development of certification and linking buyers with suppliers through GFTN. The GFTN linkage has already been successfully explored in the East Asia and Pacific, Europe and Central Asia, South Asia, and Latin America and the Caribbean regions. This is one of the main opportunities for future Alliance work and should be systematically promoted. Stronger cooperation with GFTN could also open the possibility of formally engaging new partners in Alliance work, particularly IFC. The valuable role of co-opting GFTN in Alliance activities has already been recognized in IFCís investment projects (particularly in the SME sector). There is clearly scope for strong involvement by IFC (and other Equator Principles Financing Institutions) in Alliance activities which could bring win-win benefits. IFCís formal engagement in the Alliance would strengthen synergies with the Bank and WWF, particularly by facilitating WWFís access to private companies to assist them in their efforts to promote sustainable forest management.

3. There is a need to strengthen the management system of the Program to ensure adequate assessment of the effectiveness and efficiency of the Alliance. A monitoring database for the protected-area component exists, but systematic monitoring does not cover the other elements of the Program that remain to be addressed. The professionalism of the

121 The Bankís global programs have in general shown good results in these areas (World Bank/OED 2004). There is an element of overlap among the Alliance, FLEG, and PROFOR.

Programís business management could also be improved with better planning, preparation, and recording of joint coordination meetings.[122]

4. There is a need to better integrate the Alliance in the overall partnership structure of the Bank as related to forests. This would lead to improved coordination and cooperation between the Alliance and the other global programs of the Bank, and would also facilitate fund-raising, as the added value of the Alliance could be made more explicit in meeting the criteria of potential new funding sources.
5. There will be a need to carry out a detailed evaluation of Alliance II in 2008 9. The review should also address the issue of an exit strategy.

Summary Assessment Sheet

WWF/World Bank Alliance for Forest Conservation and Sustainable Use

Global Relevance

The Alliance is closely linked with the second and third pillars of the Forest Strategy and is in the process of strengthening its linkage with poverty reduction (the first pillar). It also contributes directly to the implementation of the Convention on Biological Diversity and other forest-related international commitments.

Outcomes to date, and initial and potential impacts

The Programís outcomes in the establishment and improved management of protected areas are significant and have exceeded the ambitious targets set. The other outcomes include expansion of certified sustainably managed forests, diagnostic, policy, and strategic studies at country and international levels, best practice tools for planning and monitoring protected area management, assessing forest governance, identifying high conservation-value forests, assessing forest certification systems/schemes, and fostering networks. The impact on the policies of large forest industry corporations has been significant in improving their dealing with social issues and implementation of forest certification. Potential future impacts are probably most significant in their contributions to policy design and in linking buyers with responsible forest producers implementing sustainable forest management.

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122 Some interviewees point out that meetings have been sometimes organized in a somewhat improvised manner, at short notice, tend to have little follow-up action, casting doubt on their efficiency.

Organization, management, financing, and risk assessment

The Alliance operates based on a shareholder model, with in-house shared secretariats, both in the Bank and WWF, led by co-chairs and managed by coordinators. The current financing frame is US$1.3 million (down from US$2.5 million in 2000). No resources have been allocated for oversight. The Bank raises 70 percent of the funding, the rest coming from WWF. Only 38 percent of Bank financing is from trust funds. Reputational risk is limited and the track record since 1998 shows that it has not materialized to any significant extent. It is mostly related to the new overarching goal of reducing the global net deforestation rate by 10 percent, as the Allianceís role can only be catalytic in achieving this.

The Bank s Performance as a Partner.

The Bank has effectively deployed its comparative advantages (global mandate and reach, and convening power) in promoting stakeholder action toward achieving its targets and mobilizing funding for the Alliance. There is a considerable degree of linkage between Alliance activities and the Bankís preparation and implementation of lending projects, but this link could be further strengthened. There is a need to adopt a more programmatic approach in planning Alliance activities while maintaining its demand-driven focus. The management system needs strengthening for efficiency improvement. Coordination and cooperation with the Bankís other relevant global programs is generally strong (for example, FLEG and PROFOR) but there are also areas which need strengthening (particularly CEPF). The Bankís oversight capacity is probably inadequate and specific resources should be allocated for this purpose. An exit strategy remains to be elaborated when the Alliance is undergoing a detailed evaluation, preferably some time in 2008 2009.

ANNEX 4. FOREST LAW ENFORCEMENT AND GOVERNANCE

Context

Many countries experience substantial economic losses, social inequities, and environmental damage as the result of illegal forest operations. Unauthorized logging, wildlife poaching, stealing of wood, and a variety of other crimes induce deforestation and forest degradation, and are often associated with disasters caused by uncontrollably large forest fires. The Bank Forest Strategy included various actions to combat illegal logging, corruption, and other illegal activities in the forest sector. Containing illegal activities and corruption through improved forest laws, regulations, and enforcement mechanisms is a key element in supporting the economic growth and environmental quality objectives of the Forest Strategy. The Strategy acknowledged that efforts to control illegal logging and trade are politically difficult undertakings because they represent a direct threat to powerful vested interests that profit from these illegal activities. These efforts have little chance of succeeding unless there is a strong commitment to reform on the part of the government and decisive support from other stakeholders in civil society, the private sector and, when necessary, the Bank.

The Forest Law Enforcement and Governance (FLEG) Program is a partnership based on a broad coalition of international assistance institutions, governments, nongovernmental organizations, institutions of civil society and the private sector interested in pooling resources and joining efforts to combat illegal activities and to improve the quality of governance in the forest sector. By virtue of the World Bankís global mandate, convening power, and capacity to mobilize financial resources, it plays a central role in organizing and coordinating the FLEG Program.

The FLEG Program organizes a sequence of three types of initiatives to achieve its objectives. The first stage concentrates on carrying out research required to establish a solid conceptual foundation for policy and institutional reform. Regional expert meetings discuss and perfect these research results. Ministerial level regional gatherings follow in order to raise awareness among government decision makers and secure political commitment to corrective action. The visible outcome of these meetings are Ministerial Declarations committing governments to combat illegal logging and other illegal activities and to support the implementation of an indicative list of actions at the regional and country levels. Another result of the regional Ministerial meetings is the creation of partnerships among trading partners, civil society institutions, and industry to improve forest governance and combat illegal logging and other forest crimes. The Program mainstreams FLEG processes into existing regional political organizations, contributing to increased ownership and sustainability while avoiding the creation of new institutions to carry out actions already agreed upon.

Overall Assessment

Any review of the participation of the Bank in a partnership faces the problems of separating Bank activities from those of the partnership as a whole. In the absence of a scenario *without* Bank participation, it is not possible to attribute results specifically to Bank activities, in an unambiguous casue and effect sense. With this caveat in place, this review focuses to the extent possible on reviewing the Bankís contribution to the partnership, and Bank activities that are carried out under the FLEG Program.

Relevance of Objectives

The objectives of the FLEG Program are consistent with the Forest Strategy objectives of integrating forests in sustainable economic development, and protecting vital local and global environmental services and values. The Program is not explicitly oriented toward alleviating poverty. However, it does support legislative reforms that protect the rights of forest-dependent populations and that include measures against the indiscriminate enforcement of laws. By actively promoting the equitable enforcement of forest-related laws, the FLEG Program is concerned with protecting rural communities against the negative impacts of corruption and poor law enforcement. Recent analytical work undertaken by the Program has moreover stressed the importance of engaging in poverty-related issues, and a thrust in this direction appears eminent.

The FLEG Program is also well aligned with the Forestry Strategy priority of harmonizing the activities of various interested parties in collaborative action and in partnerships with other donors, nongovernmental organization (NGOs), and the private sector.

The objectives of the FLEG Program reflect a growing international consensus that illegal logging and the trade associated with it is a priority in improving governance within the forest sector. This consensus is also evident in a number of international fora, including the Birmingham G8 Summit, the World Summit on Sustainable Development, the United Nations Forum on Forests, and in the International Tropical Timber Agreement

Efficacy

This review concludes that the FLEG Program has been effective in raising the level of public and political awareness of the magnitude, underlying causes, and deleterious effects of illegal forest acts. It has also contributed to the technical understanding of these issues and their consequences. In the past, low levels of public awareness of the magnitude and consequences of illegal forest activities very likely contributed to the proliferation of those activities. The existing knowledge base on the underlying causes and effects of illegal logging and trade was moreover insufficient to inform intelligent policy dialogue or discussion of institutional reforms that might address the issue. Illegal logging and trade and corruption in the forest sector were taboo subjects in intergovernmental and other policy debates. More recently, levels of awareness have clearly increased dramatically, both among the public and within the policy research community. During this decade the subject has become a central topic in international debate, in the media and in specialized literature.

One way to illustrate the impact of expanded analytical knowledge on illegal logging and trade is by measuring the variation in global number of scholarly articles that include references to illegal logging before and after 2002. This number is larger by far since 2002 (969) than the whole history prior to 2002 (563). To get an idea of the possible effect on public awareness, the reviewers also counted the number of hits on the web for illegal logging appearing anywhere in the world in any published materials. This search produced nearly a million references in a three month period in late 2006.

However, how much of this increased level of awareness can be plausibly attributed to the FLEG Program? An Internet search on Forest Law Enforcement and Governance, which is closely (if not exclusively) associated with the FLEG Program, produced 136 hits in the scholarly literature on the subject, and 34,400 hits anywhere on the Internet during the last three months. This review concludes that these numbers strongly suggest that the FLEG program has effectively contributed to increasing global awareness of the problems associated with poor law enforcement and governance in the forest sector.

Nevertheless, it is apparent that the Program could do still more to increase its impact on public awareness and make communication of research results and of FLEG initiatives easier. For example, some of the articles and studies produced in the course of organizing the regional FLEG initiatives remain unpublished or are not disseminated. The FLEG Program could make efforts to further disseminate knowledge among decision makers, the public, and scholars, to increase awareness of the magnitude and impacts of illegal activities in the forest sector. Further dissemination could be achieved by, for example, posting all FLEG-related studies and technical papers in the World Bankís Forest web site and making sure they are picked up by other popular reference sites, such as that on illegal logging hosted by the Royal Institute of International Affairs (RIIA) also known as Chatham House.

Mobilizing Political Support

To date, the FLEG program has organized three regional Ministerial processes. The review concludes that it has been effective in securing political commitment to policy and institutional reform in all three regions.

The first Ministerial Process took place in the East Asia and Pacific region in late 2001, engaging government officials, technical experts, nongovernmental institutions, and private sector representatives from East Asia, Europe, and North America. It culminated in the Bali Declaration in which participants pledged to adopt an indicative list of actions to control illegal logging and trade. The Declaration also created a Task Force of government representatives and an Advisory Group, including NGOs and the private sector, to help implement strategic objectives. A number of partners are seeking to integrate this process into the Association of Southeast Asian Nations (ASEAN).

FLEG Ministerial Regional Processes were then implemented in Africa (AFLEG 2003) and in Europe and North Asia (ENAFLEG 2005). Both initiatives produced a Ministerial Declaration. The African Ministerial Declaration led to the integration of FLEG actions within the Central African Forest Commission (COMIFAC) Plan of Convergence. In Europe and North Asia, strong stakeholder support to ENAFLEGís conclusions led quickly to an implementation meeting on follow-up, and national action plans are under preparation in several countries.

A regional process in Latin America is now in the initial stages of planning and dialogue between potential partners. In contrast to previous initiatives a regional organization, the *Organização do Tratado de Cooperação Amazônica* (OTCA), has taken the lead in organizing the regional process.

The Ministerial-level declarations and indicative action plans to combat illegal logging and trade reflect the success of the FLEG Program in creating initial political commitment in some 80 countries, which together with the European Union, have signed the three regional Ministerial Declarations.

By involving exporting as well as importing countries in the commitments of the Ministerial Declarations, the Program has achieved broadly based political commitment among both exporting and importing countries. Another manifestation of enhanced political commitment is the support accorded to participation in the process by a broad spectrum of stakeholders. The Europe and North Asia FLEG Ministerial Declaration, for example, committed countries to:

> Engage stakeholders, including indigenous people, local communities, private forest owners, NGOs and the industry, in formulation of forest laws and policies and in their implementation through an open and participatory process, thereby promoting transparency, reducing corruption, facilitating equity and minimizing undue influence of privileged groups.
>
> *Source:* St. Petersburg Declaration on FLEG, 2005

The Ministerial Declarations and the indicative regional action plans have also paved the way for bilateral agreements between importing and exporting countries to establish coordinated measures to discriminate against trade in illegally harvested wood and wood products. While the effectiveness of these trade agreements has been put in doubt because they leave open the possibility of trade diversion to less discriminating markets, these agreements do signal an enhanced political willingness in both importing and exporting countries to work jointly in restricting trade to legally sourced wood only.

Regional and Country Follow-Up Action

The regional Ministerial Declarations were followed by a number of regional initiatives. A number of regional meetings have been held to exchange information about recent experiences. The events were also used to plan activities such as collaboration over customs and training of prosecutors to instruct them on best practices and tools to address illegal forest activities.

There is no systematic information on actions taken by Bank partners to implement FLEG in various countries. However, it appears that programs at the country level have been slow to materialize at this level. This is likely indicative of the political complexity of the forest governance issues.

There is better information on the country actions undertaken by the Bank. The Bankís current forestry portfolio has about 55 active projects, with a total investment of some US$3 billion (Bank commitment is about US$2 billion). Thirty-seven of these projects include significant targeted activities for improving forest governance. These activities are varied, ranging from policy reforms to training, public awareness, development of resource monitoring tools, increasing transparency, and strengthening institutions. The governance components of these projects amount to some US$310 million, or more than 10 percent of all project costs. Bank projects in five countries are directly focused on initiatives for improved law compliance. In most of these cases, project activities have dealt with selected aspects of law enforcement, such as poaching control, on measures to expand transparency, or on contributing to the establishment of transport control posts.

World Bank Performance: Comparative Advantage at the Global Level

The review team concludes that the Bank has effectively used its global mandate, convening power, and power to catalyze financial resources in support of the FLEG Program.

The Bankís global mandate and global operations are keys to the success of the FLEG Program, which depends on actions in various countries. It is unlikely that any other institution maintains the convening power to bring together the large number of governments, private-sector and civil society institutions, and nongovernmental organizations to work toward the common objective of improving law enforcement in the forest sector. This convening power is needed both in the regional FLEG initiatives and in launching and implementing national programs. The review team does however suggest that the Bank, following its own strategic principles and considering the associated transactions costs, should establish closer working partnerships with selected other international institutions and donors with related programs to improve forest governance. The International Tropical Timber Organization and the Food and Agriculture Organization in particular warrant consideration in this regard. The Bank is already moving in this direction, particularly in the case of the support it is lending to the organization of the FLEG process in the Latin American region.

The Bank has been effective in catalyzing financial resources for the FLEG Program. It has mobilized funding for the tasks demanded by the regional initiatives, including applied research, technical documentation, stakeholder participation, and the operations of the regional task forces. Through its lending program, the Bank has also helped finance projects and project components that focus on improving law enforcement and governance, sometimes in partnership with other donor agencies.

World Bank Performance: Comparative Advantage at the Country Level

The review team concludes that the Bank has been less effective at the country level in inducing actions linked to the FLEG Program. The Bank should therefore investigate the constraints that limit its effectiveness in this regard, and develop strategies to address them. The Bank has a clear comparative advantage in fostering action at the country level that is linked to regional initiatives and their indicative action plans. Yet few country-level projects or programs have been undertaken to improve law enforcement in the forest sector. With a few exceptions, such as Indonesia and Cameroon, the Bank has not significantly contributed to creating national expertise, multisector analytical capacity, country-level knowledge, or substantive reforms to implement the indicative action plans. Those country level activities that are underway are often not linked to the regional or global FLEG program. This limits opportunities to enhance the effectiveness of the Program.

World Bank Advisory Services to Countries

The Bankís advisory services have contributed to and facilitated the implementation of actions to control illegal logging and trade. Further efforts in mainstreaming advisory services into country operations are needed.

The Bank has supported analytical work to improve law enforcement, albeit in only a few countries. In Indonesia, the Bank and other donor agencies have been supporting a three-year policy dialogue on forest governance. This initiative rests on the twin foundations of enhancing transparency and improving law enforcement. Transparency-related activities aim to provide general access to up-to-date information on illicit actions and to foster accountability. Public scrutiny of government management of forest resources has become possible through a comprehensive disclosure policy and effective disclosure mechanisms. A series of 10 detection, prevention, and suppression measures to improve law enforcement have been designed. A recently issued Presidential Instruction directs leaders of 18 key government agencies to take action to eradicate illegal logging, thus effectively securing political commitment at the highest level. Today the fight against illegal logging is one of the five top priorities of the Department of Forestry. Illegal logging in Indonesia has also been declared a predicate offense against anti-money laundering legislation, setting a precedent on this matter. Building systems to improve transparency, accountability, the rule of law, and governance are all actions that feature prominently in the Bankís draft Forestry Strategy for Indonesia.

The Bank is engaged in actions aligned with FLEG in a number of other countries as well. In Bosnia and Herzegovina for instance, the Bank supported the formulation of an action plan to improve law enforcement in state forests and in public industrial forest enterprises. The plan will be implemented in coordination with broader sector reforms. Bank support for the policy dialogue in Russia included an analysis of illegal logging and illegal trade. Russia was also the host of the Europe and North Asia Regional FLEG process, ENAFLEG. The ENAFLEG regional process and the Bank-supported national policy dialogue have contributed to a major breakthrough in improving the public sector management of Russiaís forestry through policy reforms, improving land use management, protecting and regenerating forested areas, and developing an enabling environment for private investment in the sector. In Cameroon, the Bank and IMF supported reforms that introduced major governance changes in the forest sector, including new legislation, a new forest concession system, the engagement of independent observers to ensure transparency in forest timber auctions, and adoption of an innovative forest revenue system. A follow-up Bank project is now helping consolidate reforms.

Links to Other Governance Initiatives within the Bank

The Bank has several programs that aim to improve governance in client countries (see box A4.1). The expertise and experience accumulated in these programs carry considerable relevance for the FLEG Program. Collaboration with the Bankís Financial Intelligence Unit is underway, and establishing closer operational links with other Bank programs would likely enhance the effectiveness of the FLEG initiative. The reviewers realize that while these avenues of potential collaboration may bring significant benefits, they may also carry substantial transaction costs. Therefore, this review recommends that the Bank should study opportunities to integrate forest law enforcement and governance topics with related Bank programs, including an analysis of the transaction costs involved.

The FLEG Program is in many respects complementary to the World Bank/World Wide Fund for Nature (WB/WWF) Alliance and the Program for Forests (PROFOR). Although there are no formal links to these partnerships, operational coordination takes place in practice because all these partnerships are housed within the same Bank entity, the SDN Forest Team. However, in view of the partially overlapping mandates and strategies of the partnership programs housed at the Bankís Forest Team, the FLEG program should be better integrated with others into a comprehensive partnership strategy.

Oversight

The trust funds that support the Bankís coordinating role in FLEG are subject to the Bankís normal procedures of financial management, oversight, and reporting. The Bank reports to the FLEG Donor Advisory Committee established under the Multi Donor Trust Fund.

The operational management of the FLEG program is under the Bankís Forest Team. An external, independent evaluation of the FLEG Program, covering its strategic directions and monitoring of progress, as included in the trust fund agreement, will be carried out shortly.

A4.1 Related Governace Initiatives at the World Bank

- The Public Sector Governance Program supports (public sector) institutional reforms by employing a combination of partnership and advocacy approaches tailored to specific contexts, and facilitating investment in institution building.
- The World Bank Institute carries out Governance and Anti Corruption Diagnostic Assessment Surveys as well as related training.
- IFC supports private sector investments in the forest sector following its social and environmental performance standards and promoting corporate social responsibility.
- The Foreign Investment Advisory Service promotes corporate social responsibility.
- The Environment and International Law Unit of the Bankís Legal Vice Presidency assesses compliance with national laws and international agreements in Bank-supported projects, and country needs for regulatory reform.

Exit Strategy

Politically difficult governance reforms typically take a long time to take hold. The FLEG Program does not have an exit strategy. Given the scarce prospect of illegal acts in the forest sector being brought under control anytime soon, and the continuously expanding demand for action and for scaling up the Bank FLEG program, none seems to be needed in the foreseeable future. Furthermore, the Program aims to share the effort to implement FLEG initiatives with regional partner institutions.

Strengths

- The FLEG Program is well aligned with the objectives of the Forest Strategy. It is fully consistent with the international consensus on the subject.

- The Program has elevated the level of scientific knowledge of forest governance issues, convincingly raised the level of public and political awareness, and has enriched the international and national debates on the magnitude, causes, and impacts of illegal activities affecting forests. The Program has effectively contributed to building consensus for international and national action.

- The Program has also effectively secured the participation of key stakeholders of government, international donors, civil society, and the private sector in analytical work, regional policy debates, and the design and implementation of action programs.

- The Bank has effectively used its global mandate, convening power, and capacity to raise financial resources to foster the regional initiatives and contribute to the implementation of difficult institutional and policy reforms for better governance. The flexible structure of the regional processes and follow-up action has allowed the program to support activities that are adaptable to regional and national conditions.

- The FLEG program has a unique opportunity to establish productive interactions with other related Bank programs that are relevant to the FLEG theme.

Areas Needing Improvement

- The link between FLEG activities and poverty alleviation needs strengthening. The implications of forest law enforcement for poor and vulnerable populations dependent on forests are not presently a fundamental matter in the FLEG program.

- No long-term strategy for Bank participation in the FLEG Partnership, or for how the Bank FLEG Program should be linked to related forest partnerships managed by the Forest Team, particularly PROFOR and the WB/WWF Alliance, is yet in place. Along the same lines, integration of the FLEG program with other related Bank initiatives that are aimed at improving governance in client countries and in country dialogue could be strengthened.

- The present de facto emphasis on illegal logging and trade may need to be revisited to address other key aspects of governance.

- While FLEG has had a significant role in raising awareness of the magnitude, causes, and consequences of illegal logging and trade, more effective dissemination is needed to further increase the Programís visibility and stakeholder commitment.

General Recommendations

- Increase the focus on poverty and rights issues. Poverty and insufficient recognition of traditional rights of forest-dependent communities are at the root of some of the causes of illegalities. The quality of the legal framework and the strength of enforcement have important consequences for the livelihoods of the poor. Legislative frameworks often favor politically and economically powerful groups, and tend to exclude less politically less potent and articulate poor populations. Addressing poverty and rights issues in law enforcement therefore requires purposeful actions in that direction. The Program could therefore strengthen its focus on poverty alleviation and rights by gearing its analytical work towards the inclusion of these themes and advocating their integration in FLEGís political endorsements, and in indicative plans of action generated by FLEG regional processes. This review noted that poverty issues and rights are increasingly being included in the analytical work recently carried out by the program and in the framework paper prepared for the ENAFLEG Ministerial process.

- Strengthen linkages with PROFOR and the WWF/World Bank Alliance. That governance is a broad subject means that these other initiatives managed by the Bank Forest Team have many areas in common with the FLEG program. In fact, the Alliance and PROFOR have supported several initiatives that fall squarely within the FLEG domain. While these initiatives are supportive of mutual objectives and appear to have been managed in a reasonably effective and informal manner, it is argued that as FLEG and other initiatives housed at the Forest Team expand their activities, a common strategy for systematically exploiting synergies in a more coherent framework would be advisable. Such an exercise should also be instrumental in the mobilization of financial resources to support the linked programs.

- Explore avenues for greater interaction with other programs within the Bank. There are various other initiatives within the Bank with which the Program could establish closer links for increased effectiveness. The reviewers are aware that the Forest Team is already beginning to establish some of these connections. Yet integrating activities between programs carries transaction costs that may be prohibitive given the limited human resources available to the Bank Forest Team. As in the case of integration with the PROFOR and Alliance initiatives, programmatic paths to greater coordination need to be thought out.

- Strive to secure greater inclusion of FLEG issues in country dialogues. This review has demonstrated that a substantial share of Bank commitments in its forest lending program is dedicated to governance issues. Much of this however, cannot be fairly attributed to the FLEG Program, as it is very likely that it would have taken place in its absence. The FLEG Program, with its emphasis on law enforcement and control of illegal logging and associated trade of forest products, seem to have limited success in mainstreaming FLEG issues in the country dialogue and the design of investment projects. As we have seen, this limitation is by no means exclusive to FLEG, and may reflect generally insufficient consideration of forest issues in larger Bank planning, including in CASs and DPLs. Addressing the problem may therefore need to be a part of a more general effort to mainstream the objectives of the Forest Strategy into the Bankís lending program.

ANNEX 5. ILLUSTRATIVE LIST OF AAA/ESW TYPE PUBLICATION SUPPORTED BY THE BANK

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APPENDIX 1 TERMS OF REFERENCE

Background and Purpose

In October 2002, the Executive Board of Directors of the World Bank approved Forest Strategy and Forest Policy. The Strategy sets out three equally important and interdependent objectives: harness the potential of forests to reduce poverty, integrate forests into sustainable economic development, and protect vital local and global environmental services and values.

Addressing these three aspects together makes the Forest Strategy complex and multifaceted. It is not only about growing or protecting trees, but also involves a complex interaction of policy, institutions, and incentives. A narrow perspective on forestry even sustainable forestry is insufficient to implement the strategy. To be effective, the Strategy demands a multisectoral approach that addresses cross-sectoral issues and takes into account the impact of activities, policies, and practices outside the forest sector on forests and people who depend on forests for their livelihoods.

In broad terms, the Bank focuses on economic policy and rural strategies that embrace both conservation of vital environmental services and sustainable use. It provides institutional and policy support for community and joint forest management, for governance, for control of illegal activities, building markets, and financial instruments in support of private investment in sustainable forest conservation and management. It emphasizes the development of new markets and marketing arrangements for the full range of goods and environmental services available from well-managed forests.

The implementation of the Forest Strategy occurs through Bank loans, grants and economic sector work, and through the activities of three partnership initiatives. The Program on Forests (PROFOR) is a multidonor trust fund that address four key thematic areas: measuring forestsí contribution to poverty alleviation; promoting community ownership; forest-sector reform (institutional and fiscal); innovative financing in the forest sector and cross-sectoral cooperation.

The World Wide Fund for Nature/World Bank Alliance is a strategic partnership designed to significantly reduce the rates of loss and degradation of the worldís forests. The partnership promotes innovative tools for sustainable forest management and conservation of biodiversity. The Bank plays a facilitative role in the third partnership initiative, the Forest Law Enforcement and Governance (FLEG) initiative, which is a coalition of governments, international organizations, NGOs, and private sector partners fostering collaboration among producer and consumer countries for action against illegal logging, associated trade, and forest corruption. FLEG is linked to broader governance programs in the Bank and other donors and has potential for impacts beyond the forest sector.

The Operational Policy on Forests (OP 4.36) emphasizes the management, conservation. and sustainable development of forest ecosystems as essential to lasting poverty reduction and sustainable development. OP 4.36 sets out the terms for Bank projects in the forest sector, including requirements for project design, prohibition of projects that would involve significant conversion or degradation of critical forest areas or related critical natural habitats, and requirements for forest certification for any project involving industrial forests.

All Bank-supported investments are required to conform to the provisions and safeguards in OP 4.36, as well as to the provisions of other existing Bank operational policies. Furthermore, OP 8.60 on development policy lending requires due diligence with regard to impacts on environment, forests, and other natural resources for all development policy lending activities. Together, these operational policies ensure that forest operations meet the high standards demanded by many stakeholders in the sector.

The Executive Board of Directors suggested a comprehensive midterm review of the 2002 Forest Strategy after three years of implementation. To fulfill this requirement, the ESSD[123] Forest Team will be undertaking a Sector Strategy Implementation Update (SSIU).[124]

Scope of Mid-Term Review

The Mid-Term Review is intended to be the basis for the SSIU and to provide additional information on partnership programs to assist with their implementation and approaches moving forward.

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123 Subsequently changed to SDN Forests Team after TOR written.

124 In November 2003, to streamline reporting on the implementation of sector strategies, the Committee on Development Effectiveness (CODE) endorsed Managementís recommendation to replace individual sector strategy progress reports with a single, annual Sector Strategy Implementation Update (SSIU). It also responds to the Executive Directorsí request for a report on the advancement of the result agenda from a sector-thematic angle.

For this review, the consultant will examine projects, products, and activities undertaken since the approval of the Forest Strategy, and activities that have undergone a midcourse modification to reflect the Bankís 2002 Forest Strategy.

The consultant will

- Review and assess the progress of World Bank activities in the forest sector, examine allocation of human resources and redeployment of resources by the Bank in response to its perceived changes in the Forest Strategy and forest policy, and detail challenges and opportunities faced by the center and regions for implementing the Forest Strategy. To do this, the consultant will, at a minimum:
    - examine the lending portfolio of the forest sector, using information from the portfolio review undertaken by the ESSD forest team;
    - review relevant investment project and policy loan project appraisal documents and documents on blended Global Environment Facility projects and grants;
    - review completed and ongoing economic and sector work, nonlending technical assistance, knowledge management and training activities, and research on the forest sector;
    - use existing reviews and program documents to assess how the partnership initiatives hosted in the ESSD forest team have contributed to implementation of the Forest Strategy (this will include PROFOR, FLEG, WB/WWF Alliance, the BioCarbon Fund, and partnership efforts with IFC);
    - review, where relevant, implementation completion reports on projects and back-to- the-office reports on missions monitoring ongoing projects;
    - examine the role of the External Advisory Group and interview one or two of its members;
    - interview regional forest specialists, key lead specialists, the Forest Advisor, coordinators of the partnership initiatives, and other key partners and individuals. The interviews will be conducted in person with Bank staff based in Washington, D.C. and via telephone for others; and
    - interview key persons in select client countries to assess the potential impact of Bank activities (including, if relevant, the activities of partnership initiatives) in achieving the objective of the Forest Strategy. The select client countries will be determined;

- Review recent Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs) for their content on the forest sector and alignment with the Forest Strategy;
- Examine the role of the Bank in guiding the international forest policy dialogue and how it complements implementation of the Forest Strategy;
- Share lessons learned regarding implementation of the Forest Strategy; and
- Work with, and where possible, contribute to the results framework developed for the SSIU which includes reporting on the status of final and intermediate outcome indicators, globally and in selected countries.

The consultant will contribute to and finalize the Mid-Term Review report.

APPENDIX 2 LIST OF PEOPLE CONSULTED

Organization	Name	Title[125]
The World Bank Group		
ARD	Kevin M. Cleaver	Director
	Sushma Ganguly	Sector Manager
	Erick Fernandes	Watershed Specialist
	Animesh Shrivastava	Senior Economist
	Csaba Csaki	Consultant
ESSD/SDN Forests Team		
	Gerhard Dieterle	Forests Advisor
	John Spears	Forest Policy Consultant
	Nalin Kishor	Technical Specialist of Forest Law Enforcement and Governance (FLEG)
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	Laura Ivers	Communications Officer
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125 Titles are those valid at the time this review was carried out.

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	Hans Gregersen	Professor Emeritus, University of Minnesota

APPENDIX 3. IMPORTANCE OF FORESTS IN POVERTY REDUCTION STRATEGY PAPERS AND COUNTRY ASSITANCE STRATEGIES

	PRSP				CAS		
Country	A description of the links between poverty and forests, and between forests and growth	A description of forest sector problems, challenges, and issues	Policy and program responses to address the challenges identified in the sector	A coherent strategy to implement policy reforms and programs, including finan-cing options	Significant mention of forests and links to rural develop-ment and poverty reduction	Discussion of an Action Plan for the sector	Mention of forest sector investments in CAS Program or Priority matrix
Benin	x	x	x	-	x	x	-
Burkina Faso	x	-	-	-	x	x	-
Cameroon	x	x	x	-	x	x	-
CAR (I-PRSP) (No CAS)	x	-	-	-			
Chad	x	x	x	-	x	-	-
Côte dÍIvoire	-	-	x	-	x	x	x
Ethiopia	-	-	-	-	x	-	-
Ghana	x	x	x	-	x	x	x
Guinea	x	x	x	-	x	-	-
Kenya (I-PRSP)	-	-	-	-	-	-	-
Madagascar	x	x	x	x	x	-	x
Malawi	-	-	-	-	-	-	-
Mali	x	x	x	x	x	x	-
Mauritania	x	-	-	-	x	-	-
Níger	x	x	-	-	-	-	-
Nigeria	-	-	--	-	-	-	-
Rwanda	x	x	-	-	x	x	-
Senegal	x	x	x	-	-	-	-

	PRSP				CAS		
Country	A description of the links between poverty and forests, and between forests and growth	A description of forest sector problems, challenges, and issues	Policy and program responses to address the challenges identified in the sector	A coherent strategy to implement policy reforms and programs, including financing options	Significant mention of forests and links to rural development and poverty reduction	Discussion of an Action Plan for the sector	Mention of forest sector investments in CAS Program or Priority matrix
Sierra Leone	-	-	-	-	-	-	-
South Africa (no PRSP)					x	-	-
Tanzania	x	x	x	x	-	-	-
Uganda	-	-	-	-	x	-	-
Zambia	x	x	x	x	-	-	-
Zimbabwe (no PRSP)					x	x	-
Armenia	x	x	x	x	x	x	x
Azerbaijan	x	x	-	-	x	-	-
Bosnia and Herzegovina	x	x	x	x	-	x	-
Bulgaria (no PRSP)					x	x	x
Georgia	x	-	-	-	x	x	x
Kazakhstan (no PRSP)					-	-	-
Kyrgyz Republic	x	-	-	-	-	-	-
Moldova	-	x	x	-	-	-	-
Romania (no PRSP)					*x*	*x*	*x*
Russian Federation (no PRSP)					*x*	*x*	*x*

	PRSP				CAS		
Country	A description of the links between poverty and forests, and between forests and growth	A description of forest sector problems, challenges, and issues	Policy and program responses to address the challenges identified in the sector	A coherent strategy to implement policy reforms and programs, including financing options	Significant mention of forests and links to rural development and poverty reduction	Discussion of an Action Plan for the sector	Mention of forest sector investments in CAS Program or Priority matrix
Tajikistan	-	-	-	-	x	-	-
Uzbekistan (I-PRSP)	-	-	-	-			
Cambodia	x	x	x	x	x	x	x
China (no PRSP)					x	x	x
Indonesia (I-PRSP)	-	-	-	-	x	x	x
Lao PDR	x	-	-	-	x	x	x
Mongolia	x	x	x	-	x	x	x
Timor Leste	-	x	x	x			
Vietnam	-	-	x	x	x	x	-
Bangladesh (CAS in 2001)	x	x	x	x	-	-	-
Bhutan	-	-	-	-	x	-	-
India (no PRSP)					-	-	-
Nepal	x	x	x	x	x	-	-
Pakistan	-	-	-	-	-	-	-
Sri Lanka	x	x	x	x	-	-	-
Argentina (no PRSP)					x	-	-

	PRSP				CAS		
Country	A description of the links between poverty and forests, and between forests and growth	A description of forest sector problems, challenges, and issues	Policy and program responses to address the challenges identified in the sector	A coherent strategy to implement policy reforms and programs, including financing options	Significant mention of forests and links to rural development and poverty reduction	Discussion of an Action Plan for the sector	Mention of forest sector investments in CAS Program or Priority matrix
Brazil (no PRSP)					x	x	x
Ecuador (no PRSP)					-	x	-
Guyana	x	x	x	-	-	-	x
Nicaragua	x	x	x	-	x	x	x
Peru (no PRSP)					-	-	-

X :Discussed; - :No Mention

APPENDIX 4 LIST OF FOREST PROJECTS

Year	Project ID	Country	Name	Project loan (IUS$ million)	Forest component (percent)	Forest component commitment (US$ million)
2002	P057293	Congo	Emergency Recovery Credit Project	450	2	8.3
2002	P058706	Tanzania	Forest Conservation and Management Project	31.1	100	31.1
2002	P064729	China	Sustainable Forestry Development Project	93.9	100	93.9
2002	P004398	Papua New Guinea	Forestry and Conservation Project	17.4	100	17.4
2002	P059936	Vietnam	Northern Mountains Poverty Reduction Project	110	1	0.8
2002	P057847	Armenia	Natural Resources Management and Poverty Reduction Project	8.3	100	8.3
2002	P043869	Brazil	Natural Resource Management and Rural Poverty Reduction Project - Santa Catarina	62.8	3	1.9
2002	P039437	Ecuador	Poverty Reduction and Local Rural Development Project	25.2	10	2.4
2002	P057859	Honduras	Sustainable Coastal Tourism Project	5	1	0.1
2002	P071033	India	Karnataka Community Based Tank Management Project	98.9	0	0.4
2003	P049395	Ethiopia	Energy Access Project	132.7	21	28.2
2003	P064886	Lao People's Democratic Republic	Sustainable Forestry for Rural Development Project	9.9	100	9.9
2003	P079161	Bosnia and Herzegovina	Forest Development and Conservation Project	3.8	100	3.8
2003	P044800	Georgia	Forests Development Project	15.7	100	15.7
2003	P067367	Romania	Forest Development Project	25	100	25
2003	P064883	Guatemala	Guatemala - Western Altiplano Natural Resources Management Project	32.8	17.5	5.7
2003	P074539	Mexico	Programmatic Environmental Structural Adjustment Loan Project	202	10	20.2
2003	P076784	Algeria	Rural Employment Project (02)	95	27.9	26.5
2003	P072317	Tunisia	Northwest Mountainous and Forestry Areas Development Project	34	16.9	5.7
2003	P073094	India	Andhra Pradesh Community Forest Management Project	108	100	108

Year	Project ID	Country	Name	Project loan (IUS$ million)	Forest component (percent)	Forest component commitment (US$ million)
2004	P072003	Benin	Poverty Reduction Strategy Credit - 1st PRSC	20	10	2
2004	P074235	Madagascar	Third Environment Program Support Project	40	79	31.5
2004	P073036	Mali	Household Energy and Universal Access Project	35.7	23	8.2
2004	P071817	Nigeria	Local Empowerment and Environmental Management Project	70	11	7.6
2004	P077454	Tajikistan	Community Agriculture and Watershed Management Project	10.8	20	2.1
2004	P070950	Turkey	Anatolia Watershed Rehabilitation Project	20	20	3.9
2004	P064914	Honduras	Forests and Rural Productivity	20	100	20
2004	P035751	Mexico	Community Forestry II (PROCYMAF II)	21.3	70	14.8
2004	P078550	India	Uttaranchal Decentralized Watershed Development Project	69.6	21	14.5
2005	P078138	Chad	Community Based Ecosystem Management	6	63	3.8
2005	P83453	Guinea-Bissau	Coastal and Biodiversity Management	3.5	9	0.3
2005	P071407	Zambia	Support for Economic Expansion (Seed)	28.2	16	4.6
2005	P066051	Vietnam	Forest Sector Development Project	39.5	100	39.5
2005	P082375	Albania	Natural Resources Development Project	7	49	3.4
2005	P066199	Azerbaijan	Rural Environment Project	8	20	1.6
2005	P075379	Brazil	Rio de Jaineiro Sustainable Integrated Ecosystem Management	6.76	79	5.4
2005	P076924	Brazil	Amapa Sustainable Communities	4.8	48	2.3
2005	P088009	Brazil	Ecosystem Restoration of Riparian Forests	7.75	54	4.2
2005	P064910	El Salvador	Environmental Services Project	5	100	5
2005	P070653	Uruguay	UY Integrated Natural Resources and Biodiversity Management Project	30	20	6
2005	P071170	Iran, Islamic Republic of	IRAN - Alborz Integrated Land and Water Management Project	120	2	2.4
2006	P070656	Cameroon	CAMEROON FORESTRY/ENVIRON.	15	50	7.5

Year	Project ID	Country	Name	Project loan (IUS$ million)	Forest component (percent)	Forest component commitment (US$ million)
2006	P070196	Gabon	NATURAL RESOURCES MANAGEMENT DEVELOPMENT POLICY LOAN	15.3	60	9.2
2006	P071465	Mozambique	Transfrontier Conservation Areas and Tourism Development Project	20	50	10
2006	P081255	China	Changjiang/Pearl River Watershed Rehabilitation Project	100	20	20
2006	P084742	China	Irrigated Agriculture Intensification Loan III	200	6	12
2006	P078301	Kazakhstan	Forest Protection and Reforestation Project	30	80	24
2006	P090041	Brazil	BR ENVIRONMENTAL SUSTAINABILITY AGENDA TAL	8	20	1.6
2006	P079748	Mexico	Second Programmatic Environment Development Policy Loan	200	10	20
2006	P087046	Nicaragua	Agricultural Technology Project supporting PRORURAL	7	30	2.1
2006	P075561	Morocco	INTEGRATED FORESTRY AND RURAL DEVELOPMENT PROJECT	10	80	8
2006	P093720	India	Himachal Pradesh Mid-Himalayan Watershed Development Project	60	25	15

APPENDIX 5 COMPARISON OF SAFEGUARD PROVISIONS ON FOREST CERTIFICATION OF THE WORLD BANK OPERATIONAL POLICY AND THE INTERNATIONAL FINANCE CORPORATION PERFORMANCE STANDARDS AND GUIDANCE NOTES

Aspect	**WB OP 4.36**	**IFC PS 6 and GN6**
Application area	Industrial-scale commercial harvesting operations; potentially also for small-scale landholders, local communities managing their communities	Management of renewable natural resources by the client
System requirements		
Independence	Independent	Independent
Cost-effectiveness	Cost-effective	Cost-effective
Type of standards	Based on objective and measurable performance standards	Based on objective and measurable performance standards
Level of standards	Defined at the national level	Defined at the national level
Compatibility with international requirements	Compatible with internationally accepted principles and criteria of sustainable forest management	Compatible with internationally accepted principles and criteria for responsible management and use
Standard setting process and participants	Meaningful participation of local people and communities; indigenous peoples; nongovernmental organizations representing consumer, producer, and conservation interests; and other members of civil society, including the private sector	Developed through consultation with relevant stakeholders such as local people and communities, indigenous peoples, civil society organizations representing consumer, producer, and conservation interests
Contents of the standard	Nine specific requirements	Ten specific requirements
Legal compliance	Compliance with relevant laws	Compliance with relevant law
Customary land tenure and other rights	Recognition of and respect for any legally documented or customary land tenure and use rights as well as the rights of indigenous peoples and workers	Respect for any customary land tenure and use rights of indigenous peoples; Respect for the rights of workers for the forest enterprise, including subcontracted workers, and compliance with occupational

Aspect	WB OP 4.36	IFC PS 6 and GN6
		health and safety measures
Community relations	Measures to maintain or enhance sound and effective community relations	Incorporation of measures to maintain or enhance sound and effective community engagement, including an appropriate level of engagement with relevant stakeholders
Biodiversity	Conservation of biological diversity and ecosystem functions	The conservation of biodiversity, including endangered species and ecosystem functions
Multiple benefits	Measures to maintain or enhance environmentally sound multiple benefits accruing from the forest	Inclusion of measures to maintain or enhance environmentally sound multiple benefits accruing from the forest
Environmental impacts	Prevention or minimization of the adverse environmental impacts from forest use	Prevention or minimization of the adverse environmental impacts from forest use
Management planning	Effective forest management planning	Effective forest management planning
Monitoring and assessment	Active monitoring and assessment of relevant forest management areas	Active monitoring and assessment of relevant forest management areas
Critical areas	The maintenance of critical forest areas and other critical natural habitats affected by the operation	Maintenance of critical habitat affected by the forestry operation
Certification process	Third-party assessment of forest management performance	Independent third-party assessment of management performance
Transparency	Transparent	Transparent
Decision-making procedures	Independent	Independent
Conflict of interest	Designed to avoid conflicts of interest	Avoid conflicts of interest

Sources: WB Operational Policy 4.36 and IFC Performance Standard 6/ IFC Guidance Note 6 Biodiversity Conservation and Sustainable Natural Resource Management.

Note: The Bank applies certification more broadly than IFC, as it covers small-scale landowners and forest communities, which are not typical direct beneficiaries of IFC.

There is a difference between the two sets regarding the quality of participation: the Bank requires meaningful participation by the identified stakeholder groups while the IFC avoids the interpretation of meaningfulness by specifying through consultation with the same groups of stakeholders. This difference may become significant if the participation and consultation process does not have clear rules for access to information and for taking stakeholder input into account in the standard-setting process.

As the IFCís PS6 and GN6 apply also to resources other than forests, somewhat different wordings have been used.