THE WORLD BANK

FOREST STRATEGY

Review of Implementation

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Contents

Abbreviations and Acronyms **xiii**

1. Introduction **1**

Background 1

The Changing Global Context 2

Objectives and Methodology of the Review 4

2 Toward Mainstreaming the Forests Strategy **7**

Factoring of Forests into PRSPs Needs Improvement 7

Weak Consideration of the Potential of Forests in CAS 9

Tapping the Potential of Development Policy Lending Needs Improved Management of Forest Impacts 10

3 The Investment Lending Program **13**

International Bank for Reconstruction and Development/International Development Association 13

Pending Reengagement in Forests *13*

Diverse Regional Lending Profiles 13

Alignment with Strategy Objectives: Sharper Focus on Poverty Alleviation is Needed 15

Lessons Learned Need to Be Applied 19

Enhancing the Lending Program 20

GEF's Important Role in Forest Strategy Implementation 20

Harnessing Synergies with the International Finance Corporation and the Multilateral Investment Guarantee Agency as Partners in Forest Strategy Implementation 21

The International Finance Corporation *21*

The Multilateral Investment Guarantee Agency's Role *25*

The BioCarbon Fund: a Promising Pioneer for Mobilizing Forest Carbon Finance: 26

4	**Enhancing Partnerships and Linkages to Other International Processes in Forest Strategy Implementation**	**29**
	Need for Integration of Global Programs	29
	Origins	*30*
	Relevance to the Forest Strategy	*30*
	Main Achievements	*30*
	Major Challenges and Opportunities	*30*
	Leveraging Impacts Through International Processes	31
	United Nations Forum on Forests, the Collaborative Partnership on Forests, and Other Processes	*31*
	National Forest Programs	*32*
5	**Other Instruments and Organizational Aspects**	**35**
	Certification: From Perfecting the Instrument to Promoting Implementation	37
	Requirements for Certification Schemes and Standards in the Bank Group	*37*
	Assessment of Certification Schemes and Standards	*38*
	Enhancing the Role of Certification in Strategy Implementation	*38*
	Promoting Valuable Stakeholder Involvement	39
	Analytical Work; The Common Missing Link	39
	Enhancing Bank Capacity	40
References and and Other Resources		**43**
Annex 1. Lessons of Experience from the Bank's Forest Projects		**47**
Annex 2. Program on Forests, PROFOR		**53**
Annex 3. Review of WWF/World Bank Alliance for Forest Conservation and Sustainable Use		**59**
Annex 4. Forest Law Enforcement and Governance (FLEG)		**69**
Appendix 1. Terms of Reference		**75**
Appendix 2. List of People Consulted		**77**
Appendix 3. Importance of Forests in Poverty Reduction Strategy Papers and Country Assitance Strategies		**81**
Appendix 4. List of Forest Projects		**83**
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		**85**

Boxes

1	Pillars of the Forest Strategy	2
2	The Paris Declaration of Aid Effectiveness	4
3	Key Elements of PRSPs	8
4	Development Policy Lending (DPL) to Support Natural Resources Management in Gabon and Cameroon	11
5	Support of Forest Governance in Gabon	16
6	Forest Plantations for Poverty Alleviation, Economic Development, and Environmental Protection in Vietnam	16
7	Community Forestry in Albania	17
8	Protected Areas in Brazil	17
9	Forestry and Rural Development in Algeria	18
10	Community Forestry in Andhra Pradesh	18
11	The Equator Principles Financial Institutions	24
12	The Liberia Forest Initiative	33
A4.1	Related Governance Initiatives at the Bank	72

Tables

2.1	Inclusion of Forests in PRSPs	9
2.2	Forests in CAS	9
3.2	Project Sustainability, Social Considerations, and Participation	19
3.1	Degree of Relevance of Project Objectives	19
A2.1	PROFOR. Selected Publications Total Downloads and Requests for Hard Copies, 2005	54

Figures

1	IBRD/IDA Forest Lending Commitments	14
2	IBRD/IDA Lending Including Forest Components in Other Projects Not Coded AT	14
3	Amount of IBRD/IDA Forestry Lending by Region FY01–FY05	15
4	Regional Distribution of IBRD/IDA Lending 2001–5	15
5	IFC Forest Sector Investment	22
6	IFC Forest Investments. Regional Distribution 2003–6	22

Executive Summary

The 2002 Forest Strategy was a response to the shortcomings of the previous (1992) Forest Policy, which constrained the Bank's forest-sector engagement to tropical forests only, and gave overwhelming importance 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, sustainable economic development, and environmental quality. The Strategy also called for engagement in phasing out unsustainable logging of tropical forests and in promoting sustainable management and utilization of production forests. The Strategy emphasized integration of forests into the macro- and sector programs, effective collaboration between World Bank Group members, and with government institutions, private sector, and civil society partners. Furthermore, it emphasized the improvement of governance, particularly in combating illegal logging and associated trade, as well as the control of corruption.

The Bank has made substantial progress on all these fronts. Yet, the Strategy has been only partially implemented in the four years since its adoption.

First, in **mainstreaming of the Strategy,** the Bank has made significant efforts to improve the management of impacts of macro- and sector-wide programs and projects on forest resources. In various countries, forest reforms have been supported within the framework of Poverty Reduction Strategy Papers (PRSPs) and Country Assistance Strategies (CASs) (for example, Cameroon) and through forest investment projects (for example, Albania, Croatia, the Russian Federation, Romania). In some countries, the impacts of Development Policy Lending (DPL) projects on forests have been appropriately managed (for example, Cameroon and the Democratic Republic of Congo). However,, in many other countries forests have not been properly considered in CAS and DPL, even in cases where this would have been warranted by the size of the sector or its considerable potential for poverty alleviation, economic development, and maintenance of environmental values. The failure to integrate forest issues in CAS and DPLs, particularly in countries where forest resources are key for the maintenance of environmental quality, is likely to have long-term serious consequences, impeding attainment of the Millennium Development Goals (MDGs), undermining livelihoods of forest-dependent peoples and threatening economic opportunities. In addition, related analytical work has been highly variable and in many cases, inadequate.

Financial resources allocated for in-country, forest-related economic and sector work (ESW) have been inadequate for quantifying the potential of forest resources to contribute to poverty alleviation, economic growth, and protection of environmental services, and there are limited prospects that this situation will change drastically, thus forcing a greater focus on key countries and interventions, and on mobilization of extra-budgetary funds to carry out these tasks.

Second, in its **lending program,** the Bank has successfully extended its engagement to nontropical forests (for example, the Russian Federation, Georgia, Romania, Turkey, and China). The Bank has also supported timber production activities in tropical moist forests (for example, Cambodia, Cameroon, and Mexico). The Bank has intensified the integration of forest components into natural-resource and rural development programs addressing intersectoral linkages related to forests (for example, Gabon, Guatemala, Albania). The Bank has also shifted focus on forestry to broader initiatives for the management of forest resources, planning its interventions taking into account impacts and policies in other sectors that affect forests, such as trade policies and independent certification. However, the overall engagement has remained insufficient for achieving targets set in the Forest Strategy, with International Bank for Reconstruction and Development and International Development Association (IBRD/IDA) lending volumes only slowly regaining and then stabilizing at levels comparable to those before the adoption of the Strategy. Overall Bank involvement in natural tropical forests operations remains modest and is often surrounded by intense controversy. While in many cases the relative dearth of self-standing forest projects is attributable to lack of priority given by the clients to investments in forests (especially to forest sector reforms), the Bank's risk aversion and the lack of internal incentives are also significant impediments for staff to engage in forest programs and projects.

Third, **poverty reduction** objectives, a key pillar of the Strategy as well as of the Bank's overall mission, have been appropriately included in forest investments in some countries (for example, Albania, Gabon, and Nicaragua), but in many others poverty concerns and the impacts of forest interventions on forest-dependent peoples have not received adequate attention, either in the Bank's analytical and economic and sector work or in its lending program.

Fourth, **collaboration between the Bank and International Finance Corporation (IFC)** has improved since 2002, with some promising results. There is significant potential to increase IFC's role in the forest sector, including in support for projects that contribute to poverty reduction and maintenance of global public goods. However, a more systematic collaboration is required to create enabling conditions and to reduce risks for responsible private investments in forest-based activities, to improve sector governance, and to reduce illegal operations. The present approach to collaboration, mainly relying on personal contacts and informal consultations, does not allow systematic harnessing of synergies between the two institutions.

Fifth, the Bank's **global forest programs**—World Bank and World Wildlife Fund (WB/WWF) Alliance for Forest Conservation and Sustainable Use, Forest Law Enforcement and Governance, and the Program on Forests (PROFOR)—have contributed to expanding and managing protected areas, improving and promoting forest certification, strengthening forest governance, and generating new knowledge and innovative approaches to sustainable forest management. However, the programs have operated without a programmatic approach to engaging in partnerships that could systematically exploit synergies derived from the Bank's comparative strengths and those of the partners on one hand, and between the three programs on the other hand. In spite of the significant individual achievements based on rapid responses to windows of opportunity, fragmentation of initiatives and their small size have limited overall impact.

Sixth, **forest-related safeguards** (especially Operational Policy (OP) 4.36 Forests, OP 4.01 Environmental Assessment, OP 4.04 Natural Habitats, OP 4.10 Indigenous Peoples, and OP 4.12 Resettlements) have not been adequately implemented in the Bank's lending program. In various projects, triggering of some safeguards has been inconsistent. Inspection Panel reports on forest-related investment projects show serious problems, including overlooking project impacts on local communities and the environment as well as deficiencies of due diligence and supervision. Operational guidance on the application of safeguards in projects influencing forests is not sufficient to meet the needs of practitioners. Task team leaders (TTLs) tend to consider safeguards more a barrier during project design than a tool for achieving the objectives of the Forest Strategy, for managing risks, and for seizing emerging opportunities.

The Review has issued the following key recommendations to improve the effectiveness of the implementation of the Bank's Forest Strategy:

- **Mainstream the Strategy in related programs and projects.** The Bank should encourage countries to include forest issues in country dialogues and support sound forest-related analytical work in the preparation of PRSPs. Poverty strategies should be better linked to national forest programs and other sectoral planning frameworks. In addition, the Bank should strive for more effective mainstreaming of the Forest Strategy interventions in CAS, particularly in those countries where forest resources are important for poverty alleviation, conservation of environmental values, and economic growth. The Bank should also systematically manage potential impacts on forests of DPL operations early in the planning process, when these impacts are likely to be significant. As a matter of priority, the Bank should finalize the design of methodologies to address forest issues in DPLs.
- **Expand lending and enhance the quality of interventions in forest-related activities.** 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 from international sources outside the Bank. Greater efforts and resources should be dedicated to create awareness among the Bank's regional and technical managers of the contribution of forests to poverty alleviation and their role in producing global, regional, and local services. This would also allow improvement of project design quality through better Analytic Advisory Assistance/Economic and Sector Work (AAA/ESW) and ensure more effective monitoring and evaluation of results, impacts, and associated causal relationships. Furthermore, the Bank should strengthen its knowledge management to ensure integration of lessons and experience in project design and implementation.
- **Increase focus on poverty alleviation and broadly shared growth.** 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-scale forest owners and communities participate in investing in sustainable forest management and downstream value-added processing, as well as in developing and accessing markets for their products. This should involve support for grass-root 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 in project design, 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.
- **Strengthen cooperation between the Bank and IFC.** 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 small holders 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 implementation of both 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.

- **Enhance the role of the market to promote improved forest governance and sustainability.** In forest certification, the Bank should focus on promoting implementation, including provision of support to community forests, small-scale private forest owners, and countries that lack implementation capacity. Efforts to improve forest governance should be based on—and should give greater importance not only to—increased efforts to analyze the political economy of forest reforms, but also to constituency-building to support such reforms over time. To complement certification, the Bank should continue to develop common approaches to defining legality as well as tools for verifying legal compliance (including monitoring and tracking of timber flows). An independent, transparent, and participatory review of existing certification schemes against OP 4.36 requirements operating in the Bank's client countries should be organized to provide guidance for these schemes to meet Bank requirements, and to assist TTLs in preparing projects where certification is applied. 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.
- **Strengthen and expand the World Bank Group's forest partnership approach.** The Bank should integrate its global forest programs within a coherent, all-embracing strategy for implementation under the planned Global Forest Alliance (GFA) concept. As a global initiative, the new, overarching forest alliance should focus on integration of the global public goods generated by forests (particularly carbon sequestration) and innovative investment and financing approaches, including tapping capital markets (for example, along the lines of the International Financing Facility for Immunization). Being complementary, GFA should target mainstreaming the global dimensions of forests into current investment vehicles and local action, and it should contribute to integration of parallel sources of financing and technical assistance—including Global Environment Facility (GEF), bilateral donors, international organizations, nongovernmental organizations (NGOs), and the private sector. GFA interventions and outputs should be effectively linked to the Bank's country dialogue and lending program, thereby scaling up their impacts. GFA should facilitate the mobilization of funding for forest-related ESW. Its initiatives should be inclusive in participation, transparent in decision making, and effective in communication.
- **Improve the application of safeguards and due diligence.** The Bank should provide further guidance and training in the application of its safeguards related to forests (including DPL, infrastructure, 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 to avoid risks, and how to effectively contribute to the objectives of the Bank's Forest Strategy as an integral part of project design. The Bank should urgently bring to completion the Forest Sourcebook, the Forest Law Manual, and the DPL Due Diligence Toolkit. Training should be extended to client counterpart staff to 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.
- **Improve risk management in forest operations.** In cooperation with the Food and Agriculture Organization (FAO), International Tropical Timber Organization (ITTO), NGOs, and the private sector, the Bank and IFC should organize policy dialogues and consultative processes to remove the constraints and mitigate the risks related to investing in sustainable management of natural tropical forests and planted forests. This requires (i) further analytical work on costs and benefits of action and inaction in promotion of sustainable forest management; (ii) effective communication; and (iii) organization of high-level policy forums on the financing of commercial sustainable forestry, to forge shared views among stakeholder groups on central issues. Such policy dialogue and consultation on the productive use of natural tropical forests should be a priority, as it could lead to a quantum leap in financing for their sustainable management.
- **Strengthen the Bank staff and resources.** 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 the staff incentive structures that address the specific characteristics of forest projects, as they inherently increase transaction costs. This is already grossly overdue, as it has 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.

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
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
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	Organisation for Economic Co-operation and Development
OP	Operational Policy (WB); Operational Program (GEF)
OTCA	Organization of Amazon Cooperation Treaty
PES	Payment for environmental services
PDR	People's 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
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

CHAPTER ONE

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.[1] That evaluation provided valuable lessons and insights to increase the relevance of the Bank's interventions in a development context that had substantially changed in the intervening period (Lele et al. 2000). The formulation of the 2002 Strategy was a response to the shortcomings of the previous Forest Policy.

The 2002 Forest Strategy aims at slowing down deforestation and forest resources degradation as well as to enhancing the contribution of forests to sustainable and equitable economic development. The Strategy seeks to focus the Bank's action on three major closely interrelated thrusts, or "pillars":

- **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 housing and farming instruments, medicines and nutrition, rural employment, and income. The Forest Strategy focuses on creating economic opportunity and securing rights of access, use, and ownership, and other forms of empowerment of rural people, especially the poor, indigenous people, and forest- dependent communities. The main tools are those of policy, legal reform, and institutional strengthening to secure consolidation of rights and take advantage of opportunities and avenues for poverty alleviation, greater participation of marginalized groups in formulating and implementing forest policies and programs, and for nurturing self-reliant community programs and integrating forest-based activities in rural development strategies.
- **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. Poor government interventions often compound these market failures. This 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.
- **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. It also seeks to ensure that Bank investments in other sectors adequately take intersectoral linkages that could harm protected areas and natural habitats into account, and that they adopt appropriate safeguards to mitigate them.[2] The key elements of each one of these pillars 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

1. 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).
2. 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.

BOX 1

Pillars of the Forest Strategy

Harness Potential of Forests to Reduce Poverty

- 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

Integrate Forests in Sustainable Development

- 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

Enhance Global Environmental Services

- 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

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 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 conditions that would respect the protection of their environmental services. Fourth, the new Strategy focuses on ways to enhance the quality of governance, particularly on combating illegal logging, related trade, and corruption. Fifth, the focus of the new Strategy is on forests instead of forestry, and explicitly calls for adequate consideration of intersectoral linkages and for the integration of forest issues in macro- and sector- planning exercises, such as in the 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.

The Forest Strategy—as all sector Bank strategies—is a guidance document. Its implementation takes place within the framework of the Bank's global programs and the priorities of client countries. While recognizing the general nature of the Strategy, failure to implement it through an appropriate forest portfolio will have serious consequences with regard to the livelihoods of the poor who depend on forests, on rural employment and income, and on trade balance. More generally, such failure will significantly impact progress toward achieving Millennium Development Goals (MDGs). Monitoring of the Strategy implementation is therefore of crucial importance.

THE CHANGING GLOBAL CONTEXT

The design and implementation of the Forest Strategy respond to a continuously changing global environment and an evolving development context that simultaneously posed new challenges and opened fresh opportunities. These continue to change the nature of the demands for the future work of the Bank 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 remain of international concern. The global deforestation rate is about 13 million hectares (ha) per year, with few signs of a significant lessening trend (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 warranted 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 of 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 the forest tenure and access rights in many countries, such as Bolivia, Brazil, Colombia, the Philippines, Tanzania, and Mozambique. Building the capacity of communities and forest-dependent people to manage and conserve forest resources by will continue to be a major challenge, which will be difficult for many governments to address without substantive support from the Bank.

Furthermore, it is also increasingly realized that actions to improve the management of forest resources, and maximize their contribution to poverty alleviation, economic development, and environmental quality are much more complex than initially thought and that they require a better understanding of deep institutional and governance challenges that are a condition for generating coherent and lasting impacts. While in the past these objectives were pursued as relatively independent goals, it is increasingly clear that in practice, initiatives converge, and that much can be gained from the synergies created in implementing coherent strategies that integrate forest conservation with poverty alleviation and economic expansion. 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 will probably continue to be replaced incrementally by regulations that make greater use of market forces, emphasize greater participation in decision-making and implementation of forest policies and programs by the private sector, civil society and other stakeholders. The global drive toward decentralization is certain to continue to transfer decision-making powers and responsibilities to local levels of government.

In recent years the level of general awareness of the devastating effects of illegal logging, trade of illegal products, and the spread of corrupt practices in the forest sector has substantially increased. Measures to improve governance, such as the adoption of reformed policy, legal, and institutional frameworks; joint trade initiatives involving both importing and exporting countries—fostering greater use of tracking technologies to monitor financial and product flows—and methods to ensure greater transparency in decision-making processes involving forest resources will all likely gain strength and will need to become more sophisticated.

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 in Bank client countries. Planted forests, established by industrial companies, farmers, private investors, and local communities, will have a growing importance as sources of industrial wood raw material. Plantations will be subject to more careful design 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 one of the key challenges for the international community (ITTO 2006).

Environmental services are often much more valuable than the production of timber and nontimber forest products, but as global or local public goods, they have no established markets. 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. The role of forests in global efforts to mitigate climate change through a combination of measures (carbon sink enhancement in the growing stock and in the stock of wood products in use, deforestation avoided to reduce carbon emissions, substitution of bioenergy for fossil fuel, and so on) will be paramount in this respect, but the role of the other services of forests (such as watershed protection) will also gain importance in the future. Various innovative mechanisms will be applied to mobilize financial resources to compensate the producers of these services.

Strategies to achieve MDGs will have an effect on the opportunities shaping the future implementation of the Forest Strategy. The Strategy's objectives are particularly consistent with those of MDG 1— Eradicate Extreme Poverty and Hunger by "reducing by half the proportion of people living on less than a dollar a day"— and MDG 7— Ensure Environmental Sustainability by "integrat(ing) the principles of sustainable development into country policies and programs; revers(ing) loss of environmental resources," to both of which improved forest management can effectively contribute.[3]

Furthermore, with a growing awareness of the significant effects on forests of developments in agriculture, mining, infrastructure, and other sectors, as well as those resulting from changes in macroeconomic policies, innovative tools for enhancing synergies and reducing negative impacts through mitigation measures will need to be developed. This will require clear environmental impact policies and detailed economic analysis to determine the value of impacts and help design compensation mechanisms. Multisectoral large-scale interventions in natural resource management will increasingly be applied.

Of direct relevance to the implementation of the Forest Strategy are the expected changes in ways to deliver international aid, as epitomized by the Paris Declaration. Signed in 2005, the

3. 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.

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 countries' ownership by respecting their policies and helping strengthen their capacity to implement them; (ii) *Alignment:* Donors will base their overall support on partner countries' national development strategies, institutions and procedures. For example, this means that donors will draw conditions from a developing country government's 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 countries' 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.

Declaration calls for substantial changes in delivering international aid. By endorsing the Declaration, more than 100 countries and organizations, including the World Bank, committed themselves not only to increasing the volume of aid, but most 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, and resource allocation will be increasingly driven by host country priorities. The role of international financing will partly be to "fill the strategic gaps" that may not be possible to address through domestic resource allocation.

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").[4] 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 or experience that could be used in planning and implementing future activities (See Terms of Reference in appendix 1). The period of the Review is from the Forest Strategy's 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[5] made extensive use of documentary evidence contained in Bank databases and relevant files. It 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 organizations, private sector, multilateral and bilateral international agencies, and civil society. Thirty-nine written contributions were received.[6] 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 Bank's forestry operations. Comments received were considered in the final version of the Review. The reviewers relied on a substantive effort by the Bank's Forest Team to gather relevant documentary materials, and for data assembly as well as key analyses.[7]

4. Mid-Term Review, Terms of Reference, May 2, 2006. The Bank's Forest Team commissioned the Review.
5. Arnoldo Contreras-Hermosilla and Markku Simula.
6. The submitters are included in Appendix 1.
7. 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.

It should be emphasized that the Review does not attempt to evaluate the relevance or the contents of the Strategy, which are still considered largely appropriate. Only four years have passed since the Strategy was adopted; 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 Bank's 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; and Section 5 has an analysis of selected implementation instruments.

CHAPTER TWO

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 countries' 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 the integration of forest components in 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 PRSPS NEEDS IMPROVEMENT

Poverty Reduction Strategy Papers (PRSP) 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 PRSPs are prepared by governments of low-income countries (Box 3). They focus on outcomes that benefit the poor and have a comprehensive, long-term perspective for poverty reduction. 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 Bank.[8]

The strengths and weaknesses of PRSPs submitted by countries are analyzed by the staffs of the Bank and the IMF in the Joint Staff Advisory Notes, with the purpose of identifying priority areas for strengthening Poverty Reduction Strategies. 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.

The Review examined PRSPs in a sample of 43 countries with the purpose of determining how they addressed forest issues of relevance to the Forest Strategy. (See in appendix 3 a matrix of projects and findings). 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 and in contributing to the economy and to 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 having a substantial proportion of their land area under forest cover (for example, Indonesia, Côte d'Ivoire, Bhutan, and Vietnam). In these cases, a detailed analysis of forest impacts would clearly have seemed relevant. The lack of analysis in these cases meant very poor or altogether nonexistent treatment of important linkages between the forest sector and developments in other related sectors (such as those in agriculture and mining) that are well known for having a strong influence on how forest resources are managed. Similarly, linkages resulting from influences of macro policies, such as tax or trade polices, also known to have an effect on forest management, were also ignored or treated inadequately. Other countries that failed to treat forest issues in their PRSPs included some with relatively small forest area, but for whom forests were clearly important for livelihoods and the environment. In these cases, an in-depth consideration of forest issues

8. PRSPs are a tangible expression of the Bank's 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

Key Elements of PRSPs

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.

in PRSPs would have been required (for example, Ethiopia, Nigeria, Kenya).

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

In 24 countries, or more than half of the PRSPs, there was some discussion of the main challenges facing the sustainable management of forest resources and opportunities for interventions. In 23, there was a discussion of policy and program responses to address the challenges and opportunities identified, but only 12 PRSPs translated these responses into a coherent strategy of policy and institutional reforms to improve forest management within the context of overall poverty reduction strategies.

In practically all cases, the quality of analysis was rather poor. For example, forest management challenges identified in the PRSPs were not linked with respective remedial actions. Other challenges did not have remedial actions included in the Action Matrix and some proposed actions were unrelated to 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 countries or are treated in a partial or inadequate manner 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 Bank engagement in forests, but also creates barriers to the management of interactions caused by changes in macro policies, or in other sectors that have considerable impacts on forests. Countries' efforts to reduce poverty are also constrained by their not taking advantage of opportunities that forest programs can provide.

The above results coincide with those of an earlier review of forest issues in PRSPs in Sub-Saharan Africa (Oksanen, Pajari, and Tuomasjukka 2003) and those of analyses carried out by the Forest Team (World Bank undated c) 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 of the sector or an insufficient capacity of country governments to properly integrate forests in their PRSPs. As mentioned, the countries design PRSPs; governments, therefore, are expected to have a high level of ownership, that is, they closely identify their actions with the objectives and priority programs of their own Strategy Papers. However, since PRSPs are a condition to trigger Bank support to low-income countries, some governments may see the formulation of their PRSPs as merely meeting a requisite for Bank support. The countries have a strong incentive to accommodate the wishes of donors rather than express in PRSPs their true commitment to the actions that the country is prepared to undertake to alleviate poverty. Where this is the case, analytical quality would be hard to achieve.

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. "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 macro planning instruments,[9] 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 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.*

9. For example, CAS.

TABLE 2.1
Inclusion of Forests in PRSPs (43 countries)

	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

Table 2.2
Forests in CAS (53 countries)

	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

The Bank should also 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 CAS

CASs are comprehensive analyses of the country's development challenges and of areas where Bank interventions could have the most impact. CASs describe the Bank's overall strategy for support to countries, based on an informed analysis of challenges, opportunities, country priorities and Bank comparative advantage. Since 2002, the CASs for low-income countries have been expected to use PRSP as a basis and therefore to be closely aligned. Despite this, there is an expected degree of difference between PRSPs and CASs, as the Bank strategy for support to the country need not coincide one-to-one with the PRSP. Whether the PRSP treats forest issues or not, the inclusion or exclusion of forest-related interventions in a CAS largely determines the Bank's engagement in the sector.

This Review examined the treatment of forest issues in a sample of 53 CASs (see appendix 3 for list of projects and matrix of findings). 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).

Two-thirds (34) of the CASs included analysis of the interactions between forest resources and poverty alleviation, 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 fewer than one-third considered these actions important enough to include them 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 given a level of importance in the PRSP—but had either insufficient or no treatment at all in the CAS. The opposite was also true: in six countries, forest issues were not mentioned or were dealt with in a superficial manner in PRSPs, but were included in CASs. While, as stressed before, PRSPs and CASs do not need to be fully consistent with each other, the discrepancies observed put into question the degree of CAS (and PRSP) ownership that the countries may have of actions supported by the Bank in the forest sector.

Furthermore, the Review found a wide variation in the quality of analytical work. In a number of cases, actions proposed were not the coherent result of problem and opportunities analyses, while in other situations consistent sector programs did not address well-diagnosed sector problems and opportunities.

In conclusion, and despite Strategy intentions, mainstreaming of the Forest Strategy in CASs appears to be weak and the quality of the analyses needs significant improvement. In relatively few countries, CASs include forestry interventions, and less than one third view forest resources as important enough to include them in their policy matrices. Failure to integrate forest issues in a CAS, particularly in countries where forest resources are key for the maintenance of environmental quality, is likely to have long-term serious consequences, impeding attainment of the MDGs, undermining livelihoods of forest dependent peoples, and threatening economic opportunities.

Better integration of forest sector considerations in CAS could be done by initially focusing on a priority number of countries, carrying out analytical work to identify main gaps in information and knowledge as well as opportunities for strategic action, and obtaining consensus within the Bank on the scope of potential work, responsibilities. and allocation of resources. This would also require an analysis of the country's 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 more timely case for inclusion of forest concerns in the CAS needs to be made in various countries. In some cases (Bulgaria) overcomplicated and lengthy Bank procedures have been responsible for missing opportunities to include forest issues in CAS. However, it is apparent that to achieve better integration of forests in CAS, regions would need to expand their capacity with additional expertise on forestry and natural resources issues. Furthermore, financial resources allocated to carry out the necessary economic and sector work are inadequate for quantifying the potential of forest resources to contribute to poverty alleviation, sustainable economic growth. and protection of environmental services, thus ensuring the proper integration of forest issues in CASs.

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. Bank regions should have available adequate expertise on forests and natural resources, and should strengthen their capacity to carry out improved analytical work. Bank management should recognize the specific characteristics of forests as a source of public goods, which are valuable but complex to enhance; therefore necessary resources for analytical work are critical.*

TAPPING THE POTENTIAL OF DEVELOPMENT POLICY LENDING NEEDS IMPROVED MANAGEMENT OF FOREST IMPACTS

Development Policy Lending (DPL) is aimed at supporting implementation of policy reforms either at the macro or sector level, by providing a rapid disbursement mechanism to address urgent country needs. DPL was originally designed to support broad macroeconomic policy reforms, but in practice, lending has evolved over the years to also include assistance to specific sectors or groups of sectors, or on strategic interventions (such as privatization or civil service reform). Funds are quickly disbursed in one or more tranches that are released after the borrowing country complies with specific conditions (for example, the approval of a new forest law) or the achievement of certain performance benchmarks (for example, area brought under sustainable forest management).

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 release of funds tied to performance benchmarks does away with the critical assumption of previous policy lending programs that there is a strong causal relationship between expenditures and results: funds are released when there is evidence of actual results rather than released under the expectation that they will produce results in the future. This emphasis on targeted results requires a clear definition of achievements and an adequate mechanism to measure progress.

Policy lending can have significant effects on forests and therefore need to be examined and, if appropriate, possible unintended indirect negative effects that may propagate through intersectoral relationships have to be avoided. Management of intersectoral linkages in DPLs also offers significant opportunities for improving the contribution of forests to economic growth, environmental quality, and poverty alleviation.

Given that the forest impacts of DPLs are complex and vary across specific country contexts, DPLs require careful analysis to safeguard forests against immediate and potential long-term negative impacts, and to take advantage of emerging opportunities. The Strategy stipulated that the Bank would support applied research and improved economic analysis to evaluate the potential effect on forests of adjustment operations and their policy reforms.

DPLs do not trigger Bank safeguard policies. Since 2004, a new Operational Policy (OP), OP 8.60, guides the design and implementation of DPLs. OP 8.60 directs the Bank to determine whether the country policies (or state/province level policies in the case of large countries such as India) supported by the DPL operation will likely "cause significant effects on the country's environment, forests, and other natural resources…" or "are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups." OP 8.60 makes it clear that in cases where these significant effects may be present, the Bank should analyze ways to enhance positive outcomes and reduce negative ones. When there are significant gaps in the analysis, or limitations in the borrower systems, OP 8.60 prescribes that the Bank should analyze how to handle those gaps either before or during the DPL implementation.[10]

Since 2002 the Bank has approved 258 DPLs, 11 of which had forestry components, with International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) commitments totaling some US$94 million—9 percent of the total IBRD/IDA commitment. DPLs have been more frequently employed in Africa. There were 50 other projects with activities not formally classified as "forest components," but including 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 integration of forest-related issues in DPLs has been highly variable, but it has been generally imperfect. 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 well considered in DPLs in Gabon and Cameroon but in various others, particularly those that are targeted at infrastructure, agriculture, or mining, that can have substantial negative effects on forests, they have been inadequately

10. Development Policy Lending, OP 8.60, August 2004.

BOX 4

Development Policy Lending (DPL) to Support Natural Resources Management in Gabon and Cameroon

In Gabon and Cameroon, forest, biodiversity, and other natural resources are critical to rural livelihoods where a large proportion of the population lives in extreme poverty. Natural resources are also central to economic development and stability. They are unique in 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 in these two countries 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.

Since the Gabon and Cameroon DPLs are meant to support sector programs, only sector-related expenditures are financed, as specified in the annual finance law. Full social and environmental assessments were conducted, and implementation of the respective plans is included in the DPL policy matrix as a trigger for disbursement.

examined and therefore satisfactory corrective measures have not been put in place (Box 4).

Because of the complexity of intersectoral linkages with impact on forests (often of an indirect nature and therefore difficult to trace), a critical element in the design of DPL operations is the availability of current and sound analytical work. This is particularly the case in countries affected by deep market, policy, and institutional failures. Sound upstream analytical work is clearly necessary to ensure the quality of interventions, but it has not always been carried out. Often, effective mitigation of these impacts has been imperfect, for lack of resources assigned to carry out the necessary analytical work. Thus, some DPLs have been launched without knowing what their forest impacts would be, with assessments being left for future operations, despite the fact that some of these impacts may have been irreversible.

In view of this situation, the Bank is developing a quick method for identification of conditions in which the forests may be impacted by DPLs, and that therefore may require mitigating action. This method would complement the use of other instruments, including Country Environmental Analysis (CEA) and Strategic Environmental Assessments (SEA).[11] 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 of rapid CEAs, that would allow the integration of forest sector issues prior to or early in the DPL design also merits consideration, to ensure due diligence in the application of OP 8.60.

Because DPLs are implemented in various tranches it is often argued that there are always opportunities to both research the nature of negative impacts and design corrective action during DPL implementation. However, the inherent difficulty in tracing the complex effects of DPLs on forests makes it unlikely that corrective actions to deal with adverse impacts will take place during DPL implementation. Even when DPL impacts on forests can be clearly identified, generally there is intense pressure to keep the operation progressing even if some of its impacts on forests may be negative, or if some of the loan conditions related to forests are not satisfied.[12] The momentum of a large DPL operation often overwhelms the importance of implementing other—and in the opinion of government and Bank officials, comparatively unimportant—forest-related mitigation actions. However, these actions could be of major significance in avoiding large-scale negative impacts on the forests and the livelihoods of the poor depending on these natural resources.

Besides these limitations, there are constraints related to internal Bank procedures. The staff repeatedly called attention to the fact that the internal review procedures allow for substantive comments only rather late in the loan preparation process. Recommendations for adjustment of the operation may therefore come too late to be taken into account in any significant way. At this late stage in the process, the pressure for not to delay a DPL operation is high, particularly if corrective design would require substantial and lengthy further analytical work.

Due diligence is also compromised by the lack of adequate practical guidelines to interpret ambiguous terms in the OP 8.60, such as “significant impacts.” This is therefore mainly left to discretionary and variable interpretation.[13] The imminent publication by the Bank of the Forest Sourcebook, which will assist the Bank staff, borrowers, and others in planning and implementing DPLs, should reduce this type of problem.

11. 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 country’s 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).

12. Based on staff interviews.

13. Based on staff interviews.

In summary, relatively few DPLs include assessments of the potential effects of policy reforms on forests, and when they do, the quality of the analytical work is sometimes inadequate. Internal Bank review procedures pose obstacles for the Forest Team to contribute to the DPL design, as the opportunity for suggesting adjustments to the operation are mainly possible only during the last stages of design. The significant momentum for action generated by DPLs makes it unlikely that larger operations and reforms will be subjected to substantial delays or alteration because of forest sector concerns during implementation. Because of all this, the Bank's 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 identify potential forest impacts of DPL operations early in the project planning process. This is particularly important in countries where the project pipeline includes DPLs that are likely to have a significant impact on forests. Analytical work requirements should be assessed 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 to address forest issues in DPLs.*

CHAPTER THREE

The Investment Lending Program

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

Pending Reengagement in Forests

Since 2002, the Bank has approved 12 selfstanding forestry projects, and 39 others that include forest investments as components of broader loans (appendix 4). There are a further 13 projects in the pipeline, 4 of which are standalone forestry projects and the rest with substantial forest components.

Aggregate forest investment can be taken as a proxy, albeit imperfect, to estimate the extent of the Bank's involvement in forests.[14] Total sector lending tends to fluctuate widely because one or two large projects can change the overall picture in a year (Chart 1). 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 2002–6. 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 approval of the Strategy. This, however, should be qualified, as the volume of lending during the period following the adoption of the Strategy depends on a couple large projects in China and India. If only one of these large projects had not materialized, the overall picture would be substantially different.

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, the Bank's total forest investments, measured this way, fell from nearly US$1 billion during the period 1997–2001 to some US$770 million during 2002–6.

IBRD/IDA has not been successful in expanding forest lending, which shows that re-engagement in the sector has not been substantial since the Forest Strategy was approved in 2002. On the other hand, there has been a substantial integration of forest lending in natural resource management, agriculture, environment, and rural development projects, as intended by the Strategy.[15]

The Bank convincingly 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 nontropical 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 had become the largest region in forest lending (29 percent)

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[16] oriented toward redefining policy and institutional frameworks, community-based development, household energy access, natural resources management, environmental management, poverty reduction, transfrontier 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

14. 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.
15. Deducted based on the difference between charts 1 and 2.
16. The Forest Management and Conservation project in Tanzania is an exception.

CHART 1
IBRD/IDA Forest Lending Commitments

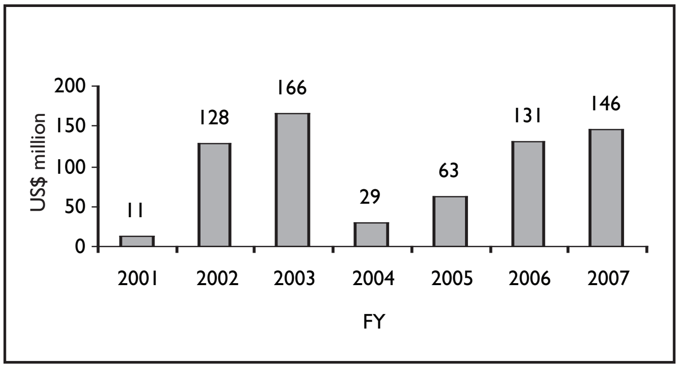
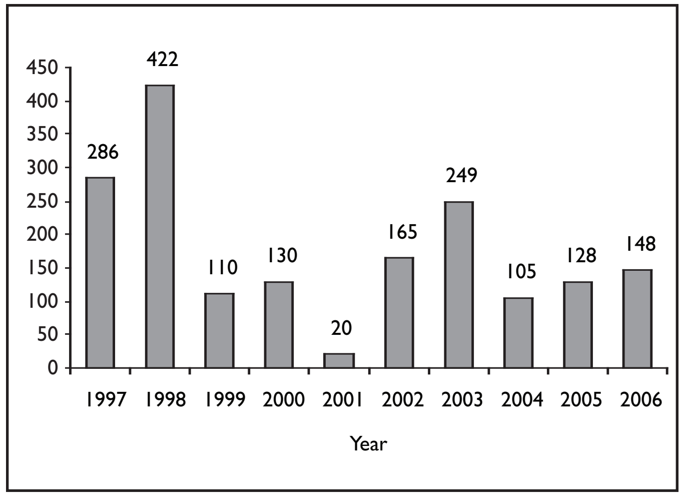


CHART 2
IBRD/IDA Lending Including Forest Components in Other Projects Not Coded AT (Forestry)



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, thus expanding regional coverage to other countries. 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).

Forest-sector issues remain absent in the great majority of countries' national planning schemes and in the Bank's own analytical work in Africa. Thus, Bank involvement, although recovering from past very low levels, is still disproportionate with the magnitude of forest problems and opportunities in the sector. Since forest interventions are particularly problematic in Africa, it may be advisable to continue to focus efforts on integrating forest components in broader loans aimed at improving the policy and institutional framework and targeted at the reduction of poverty in those countries where favorable conditions exist.

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

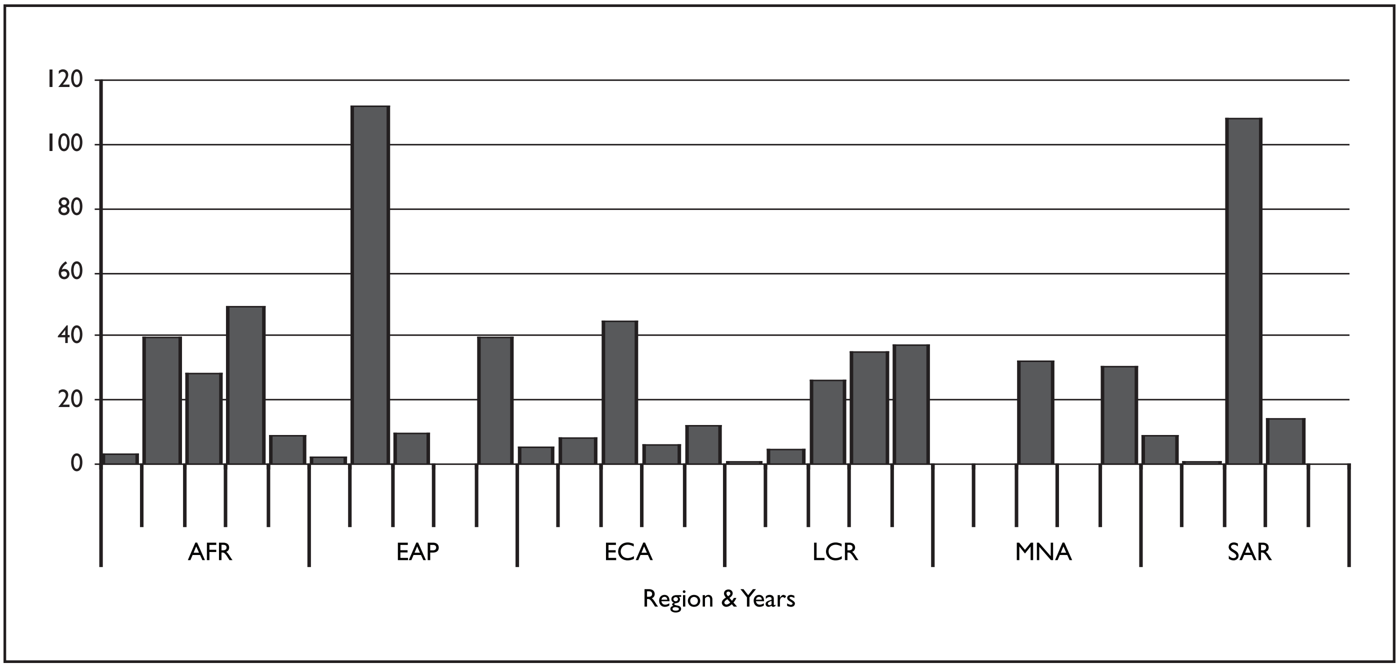
ECA has experienced a recent decline in lending in middle-income countries. Bank activities are increasingly geared toward supporting policy and institutional dialogue and reforms, staff training, and knowledge systems. This has been supported by a regional assessment of 17 forest organizations in transition economies and in several forest-rich economies, and of the key challenges faced and options for improving institutional performance in delivering sustainable forest management (PROFOR 2005). Since 2002, ECA 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, while forest components of broader projects in Armenia, Tajikistan, Turkey, Albania, Azerbaijan, and Kazakhstan have been targeted at 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.

In LAC since 2002, the Bank has been involved in standalone forest projects in Honduras and El Salvador. 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 Guatemala, Mexico, Brazil, 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.

Forests in MNA 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 (the Islamic Republic of Iran, Tunisia), and rural development (Algeria, Morocco).

In SAR, all Bank investments since 2002 have been in India. Here, the last standalone intervention was the Andhra Pradesh Community Forest Management project, launched in 2003 and due to be completed soon (Box 10). The portfolio also includes forest components in watershed management projects in two states. The Bank is currently engaged in a policy dialogue with the government of India to determine areas for future collaboration. Analytical work indicates that there are opportunities for rural

CHART 3
Amount of IBRD/IDA Forestry Lending by Region FY01–FY05



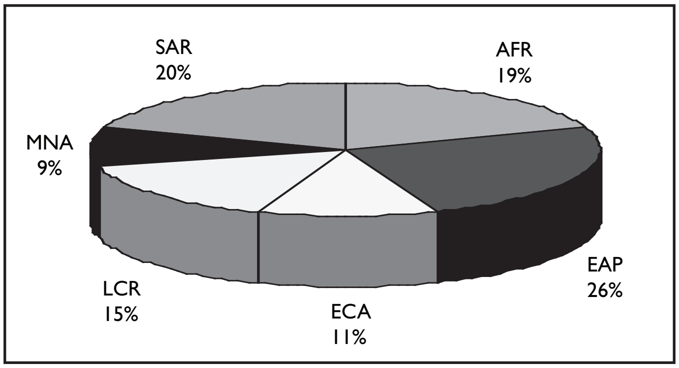
Note: AFR = Africa region; EAP = East Asia and Pacific region; ECA = Europe and Central Asia region; LAC = Latin America and the Caribbean region; MNA = Middle East and North Africa region; SAR = South Asia region.

growth, poverty reduction, and improving the condition of forest-dependent people (World Bank 2005b).

ALIGNMENT WITH STRATEGY OBJECTIVES: SHARPER FOCUS ON POVERTY ALLEVIATION IS NEEDED

The explicit reference to the three pillars of the Strategy in project objectives and activities gives an idea of the central intentions, and therefore of the weight attached to the Strategy pillars, in individual investments. The Review examined 40 active, pipeline, standalone, and forest-component projects to assess their stated objectives and activities, and the alignment of these with the objectives of the Strategy.[17]

CHART 4
Regional Distribution of IBRD/IDA Lending 2001–5



Poverty alleviation activities in the project portfolio ranged from strengthening land tenure rights, reform of policies that discriminate against poor and indigenous peoples, and development of community fuelwood plantations to increased productivity of pastures and forest lands, erosion control; ecotourism training, and promotion of fuel efficient technologies for households. 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 levels of corruption and improve the management and administration of forest concessions. Actions related to *protecting environmental values and services* included establishment and management of protected areas, development of markets and payments for global and local environmental services of forests, and fostering soil and water conservation.

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.[18] In eight projects, consideration of

17. 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.
18. The relevance scale to categorize project objectives and activities was High, Substantial, Modest, and Negligible.

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 country's 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 Gabon's forest landscape, and set the stage for more socially, economically, and environmentally coherent land use. It has committed to review all logging permits, repossess those that are in the hands of noncompliant companies and individuals, step up the enforcement of fiscal measures and the obligation to prepare sustainable management plans, strengthen forest controls in the field, change the mode of access to permits from discretionary to transparent and competitive, maintain a moratorium on the allocation of new permits until the new allocation procedures are in place, 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.

BOX 6

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

The Bank's Forest Strategy, taking into account the weak performance of state-owned plantations in the past, 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 biodiversity conservation and poverty alleviation. 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. To address varying local conditions and smallholder/community management objectives, the project promotes different cropping systems, including fast-growing plantations, mixed forestry-agriculture crops, and fruit trees. The Project aims to establish 66,000 ha of plantations on bare or poorly stocked forest land, bringing benefits to an estimated 19,000 poor or medium-income households from 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 inefficiencies often associated with new institutions created by public sector projects

The Project is a good example of the Bank's performance in implementing Sector Wide Approaches—in this case through the national Forest Sector Support Program and sponsored by 22 other signatories comprising government agencies, donors, and NGOs. The Bank's role is strategically crucial, as none of the other development partners provides significant support to the plantation sector, whichis a high priority of the Vietnamese government, due to the rapidly rising import needs for wood and wood products in the country.

poverty alleviation was moderate, and in 3 it was negligible (Table 3.1). Although lacking comparative earlier data, it may be concluded that there is a moderate alignment with the poverty reduction goal in forest projects.

There was significantly more relevance to the other two Strategy pillars—*integration of forests in sustainable economic development and protecting vital environmental values.* Furthermore, in almost half of the projects (19), all three elements of the Strategy were assigned, and pursued with, roughly the same importance (rated high or substantial in all three dimensions), while the other projects were more focused on only one or two of the elements of the Strategy Very few projects completely neglected one or more of the pillars of the Strategy, indicating that the three objectives are not being pursued independently as separate avenues of action but instead as parts of more comprehensive and coherent interventions.

BOX 7

Community Forestry in Albania

Natural resource management in poor rural areas is a particular challenge to the implementation of the sector strategy, as the local population needs immediate improvement of economic benefits while, due to rampant environmental degradation, there is a need to invest in restoration to reverse the declining trends in the potential of natural resources to generate products and services to meet the people's needs. Several Bank-financed projects have been able to break the vicious circle of degradation and poverty through innovative approaches. In Albania, the Forestry Project adopted participatory approaches and combined measures to restore land productivity, which resulted in quick and demonstrable benefits. The crucial element of the three location-specific pilot projects has been the transfer of user rights and management of 30 percent of the country's forest and pastures (330,000 ha) from the State to 140 local communities, which resulted in a dramatic change in the forest cover and reduction of erosion. Forest/Pasture User Associations have developed management plans and invested in membership dues in resource management. The ex post economic rate of return (ERR) of the Communal Management Component of the project was 32 percent (excluding significant benefits to the nation's irrigation system due to reduced soil erosion). 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, which will spread the experience nationwide, pursue legal reforms to convert user rights to secured tenure, and increase and diversify income generation from natural resource products and services.

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 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 $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 (GEF) project) included creating 18 million hectares (ha) of protected areas (9 million ha of strict protected areas and another 9 million ha of extractive reserves); consolidating 20 existing protected areas, and bringing 7 million ha 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 ha 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 the creation and funding of 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.

That said, there is no reason why all forest projects should pursue all the objectives of the strategy with equal intensity.[19] Forest activities cannot always contribute to substantial poverty alleviation; often there is more demand for projects that mainly target environmental protection or economic growth. Furthermore, it is recognized that the emphasis observed in the portfolio on activities oriented towards economic development and environmental conservation undoubtedly have an effect on levels of poverty (see example in Algeria). However, the lower relative emphasis on poverty alleviation as an explicit target of projects in countries where rural poverty is widespread and acute, indicating 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 and engage with poor and disadvantaged communities through government agencies.

The Review used the same sample of projects to examine the degree of sustainability, integration of social issues, and participation

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

BOX 9

Forestry and Rural Development in Algeria

As many as 70 percent of the poor in Algeria are in rural area; studies have shown that there is a correlation between poverty and unemployment. Rural areas are affected by unemployment due to the seasonal nature of agricultural activities.

The Bank's 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 tree 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 meeting the farmers' needs. Silvo-pastoral systems combining forest and forage species in planting systems, particularly in riparian areas, also proved to be viable options. The project demonstrated the critical role of decentralized operation and participatory approaches in providing employment and poverty reduction, and in mobilizing the rural poor to adopt sustainable NRM practices. Launched with World Bank support, the project became government-funded in 2006, as result of substantial increases in oil revenues.

BOX 10

Community Forestry in Andhra Pradesh

Andhra Pradesh is India's fifth largest state, with a population of more than 66 million. Forest lands extend over 23 percent of the state. Direct dependencies of a large poor population on forests and increasing pressures have 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, increased efficiency of forest management and community development, for increased forest-dependent community participation in the management of resources. As communities assume forest management responsibilities under the system of Forest Community Management, the project supports legal entitlements to incomes generated from timber and nontimber products generated by better managed forest resources.

in the forest portfolio (Table 3.2). More than 80 percent of forest projects appear to have introduced interventions that were either very likely or likely to be sustained after project completion. Among the factors that threatened sustainability of the other 20 percent were (i) an excessive reliance on project-paid employment to carry out project activities, which cease 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 activities supported by the project.[20]

Social aspects appear to have been carefully considered in half of the projects (19) and taken into account with some importance in another third (13). However, in as many as 5 projects (14 percent), social aspects 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.

With only three exceptions, the forest projects involved participatory procedures in their preparation and implementation plans. 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 objec-*

20. 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 3.1
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

tives and effective mechanisms for monitoring and evaluation. Use of the Poverty-Forest Linkages Toolkit should be promoted.

LESSONS LEARNED NEED TO BE APPLIED

The Review also attempted to capture the main lessons learned during the implementation of projects.[21] Annex 1 contains a detailed description of these lessons. They are summarized below. It is interesting to note that 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 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 sector-specific targeted interventions. Simple technologies should be preferred, tailored to farmers' 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, as action must overcome resistance from groups that are negatively affected by improved governance. Experience also shows that in designing and implementing corrective actions, there should be a clear division of responsibilities among 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 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 have often been necessary for achieving true commitment to sustainable forest management. The use of clear mechanisms for solving conflicts can avoid stalling progress. Improvements can be built on traditional forest management systems but new, more productive technologies are often needed. Commercial orientation tends to be lacking in many community forestry interventions; marketing should be part of 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 appropriate tools for 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 during both design and implementation; more than regular supervision is required as a condition for success. Apart from obstacles to achieving economic profitability, a key constraint tends to be the lack of proper integration of local people's livelihoods, traditions,

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

21. 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.

and other priorities in forest management plans. Addressing these needs requires definite measures and commitment from concession holders. Independent auditing and certification are necessary tools to make concession projects work as expected.

Planted forests are for many countries the only option to meet needs 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, if these 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 programs. This in turn requires the provision of research and development, extension programs, and 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, which 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 they hold promise in various situations where necessary preconditions exist. Transaction costs of putting into place payment mechanisms for environmental services can be high, and care must be exercised that these do not outweigh benefits. Payments should preferably be linked to conservation actions rather than to just setting aside specific areas. Quantification of the environmental services provided, monitoring, auditing, and respective 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.

There are also a number of *cross-cutting lessons*, which tend to be valid for most types of forest projects. Ensuring effective participation of relevant stakeholders is a common key requirement for success, particularly during implementation stages, 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 part of the project formulation. It is advisable to keep the focus on a core set of objectives and activities with results-oriented indicators and targets. An adequate degree of flexibility is needed to adjust objectives and activities in accordance with accumulating experience and changing circumstances. Wherever possible, preference should be given to multi-donor approaches and country-driven. sector-wide programs (such as NFPs), rather than to isolated projects, which are less likely to have an enduring impact.

Recommendation. *The Bank should strengthen its knowledge management practices to ensure adequate integration of 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, as it is uncertain whether the recent expansion in lending volume is 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 EAP countries. The concentration of investment in a few countries in the African region is a cause of 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 continue still to require further improvement. Significant experience has been accumulated during Strategy implementation, but it is not effectively capitalized as many of the same issues that were identified during the evaluation of the previous Forest Policy still need to be adequately addressed.

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 from international sources outside the Bank. It should dedicate greater efforts and resources to creating awareness among regional and technical management of the Bank of the contribution of forests to poverty alleviation and in producing global, regional, and local services. This would also allow improvement of project design quality through better analytical advisory assistance and economic and sector work and 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. GEF is an important partner in the implementation of the Forest Strategy, and is particularly relevant to its third pillar (environmental services and values).

The Strategy states that the Bank's 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".

In 2003–5, 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.[22] The number of Bank-implemented GEF projects has averaged 13 per year since 2000. 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[23] has progressively gone down from about 28 percent to 19.5 percent. These figures convincingly show that grant funding can be powerful in leveraging the Bank's lending to forestry, as without the GEF partnership the forest portfolio would be significantly smaller than at present.

Activities of GEF's forest-related projects fall into three groups: (i) forest conservation, including management of protected areas and buffer zones; (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 been for this last group of activities, while the first group accounted for 26 percent of the total. There has been a clear change in emphasis toward more sustainable-use projects: in 2000–2, the number of sustainable-use projects was six, while in 2003–5 their number increased to nine.[24] This change has been 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 Bank's Forest Strategy.

In biodiversity projects, more clarity is needed on a number of key issues such as (i) treatment of rights of the 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 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 in many countries still far from being resolved because of different stakeholder perceptions of how protected areas should be managed.

The downside of GEF in grant-funding blended lending projects has been that transaction costs tend to be high. On average, it takes almost five years to process a full-sized GEF biodiversity project from its entry into the pipeline to implementation.[25] 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 well more than compensate for the higher transaction costs of GEF blended projects. GEF's new Resource Allocation Framework (RAF) is aimed at improving the allocation of resources on a strategic basis, and increasing the transparency of operations and results. The downside of this 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 new crosscutting program on sustainable forest management under preparation would open substantial new opportunities for joint WB-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 (CASs). The Bank should also explore options to reduce 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 the 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 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 FY03 and FY06, IFC invested more than US$1 billion to help finance 25 forestry sector projects with a total cost of about US$4 billion (Chart 5). The size of projects ranged between US$2.9 million (a packaging project in the Kyrgyz Republic) and US$500 million (a paper mill project in China). The pulp and paper industry accounted for 56 percent of the total, while 33 percent was

22. 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).
23. According to the GEF classification (GEF 2005).
24. 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.
25 GEF has recently set a target to reduce the time required for project preparation and processing to 22 months in all projects.

CHART 5
IFC Forest Sector Investment

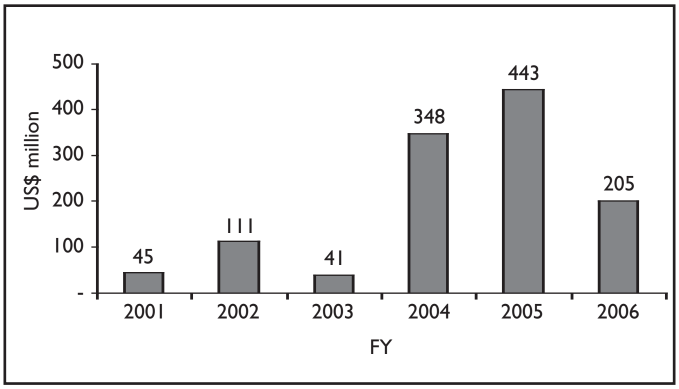
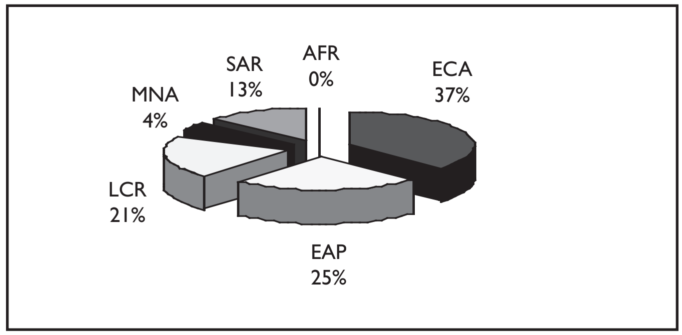


CHART 6
IFC Forest Investments. Regional Distribution 2003–6



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.[26] 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.[27]

Geographically, the ECA attracted most IFC financing during 2003–7, followed by EAP, LAC, SAR, and MNA (Chart 6). Only one African country appears in the IFC portfolio during the period.[28] IFC projects concentrated in 16 countries. The Bank had forestry lending activities in 10 of them, indicating a considerable geographic overlap.[29]

The main drivers for the increase in IFC's portfolio have been strong demand growth for forest products in emerging markets, competitive cost advantages in production of plantation wood, and associated relocation of industrial capacity from developed countries, which has benefited several countries in the EAP, ECA, and LAC regions. It can be assumed that the legitimization of commercial forestry in investments of the Bank Group has also 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, which partly explains the lack of growth in the Bank's portfolio of selfstanding 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 the current official development assistance flows.[30] IFC-leveraged investments have averaged in excess of US$1 billion per year.[31] Thus, the influence of IFC in forest sector investments is 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 Strategy's three pillars.

IFC and the Pillars of the Forest Strategy

Sustainable economic development is the main orientation of IFC's investments. The link with the two other pillars of the Strategy is considerable but less direct. With regard to *poverty alleviation,* the available information[32] did not allow a quantitative or qualitative consolidated assessment of the income and employment impacts of IFC projects in the forestry sector. However, the project companies often generate highly significant 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.[33]

26. 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.
27. As an example, there is ongoing work to prepare a strategic plan for the pulp and paper industry in Ukraine.
28. 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.
29. The regional analysis is based on projects with a total value of US$800 million. In two countries without the Bank's forest lending there are practically no production forests.
30 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.
31. IFC's 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.
32. Summary descriptions of IFC's projects.

While almost all the investments to date relate to large-scale industrial projects, 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 has expressed in its Performance Standards.[34] 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.[35] 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. These can be considered substantial achievements in view of the competitive environment of IFC operations. At present, certification appears to be the only practical tool to unlock opportunities in financing sustainable management of natural tropical forests.[36]

The 41 Equator Principles Financial Institutions have adopted the IFC Performance Standards for their Principles on 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 to leverage the implementation of the Bank Group safeguards in sustainable forest management–related project investment by the private sector. Further mainstreaming can be expected.[37]

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

Harnessing Bank-IFC Synergies

There are powerful reasons for closer collaboration in the forest sector between the Bank and IFC. First, both 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 the Bank's OP 4.36. Second, there is large scope for taking advantage of productive synergies. The Bank's client base is the public sector while IFC's is the private sector. The Bank's focus on supporting establishment of environmentally sound legal and regulatory standards and capacity is essential to creating an enabling environment which establishes the necessary pre-conditions for the sustainable operation of the predominantly downstream private operators in which IFC invests. The Bank's work can substantially contribute to project risk mitigation for IFC's investors. Creation of enabling conditions also offers IFC an opportunity to be proactive in promoting responsible private investment in countries where it has not been possible before. On the other hand, the complementarity of IFC and Bank lending improves the attractiveness of the Bank's lending for the governments in client countries. For responsible private investors, risk mitigation through enabling conditions is a key decision criterion, while the combined roles of the two institutions in the country provide an additional comfort factor for investors vis-à-vis eventual policy changes. As forest-based investments are by definition usually made with a long time horizon, all means to mitigate risks are particularly important for private investors.

The Bank Economic and Sector Work (ESW) and analytical advisory assistance (AAA), especially those related to governance reform, also help create enabling conditions for IFC investment projects.[38] Of particular importance is the Bank's work related to the clarification and establishment of tenure and usufruct rights of forest resources, which can remove a key bottleneck for private investment in many countries. On the other hand, IFC's participation in an environmentally sustainable private company can demonstrate profitable success within the framework of a Bank-supported regulatory structure (supply response). It is at this intersection that the benefits of collaboration are strongest.

The main reasons for the lack of activity in financing investments based on sustainable management of natural tropical forests are the shortage of sustainable private operations and the reputational risk for IFC resulting from the apparently inevitable criticism by some advocacy NGOs that may emerge around any timber production investments based on natural tropical forests. The specific concerns raised include possible takeover of indigenous peoples' lands, displacement of peasant farmers, unduly capital-intensive solutions in using land from the perspective of employment creation, political marginalization of smallholders in land use planning, lack of adequate participation, and inadequate

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33. 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 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 WWF's 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.

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

35. 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.

36. One reason for IFC's low level of investment in the management and utilization of natural forest has been NGO's 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 IFC's 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.

37. 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.

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

BOX 11

The Equator Principles Financial Institutions

The Equator Principles Financial Institutions (EPFIs) have adopted their Principles in order to ensure that the projects financed 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 compensated for appropriately. The adoption of and adherence to these Principles offers significant benefits to the Institutions, their borrowers, and local stakeholders through the borrowers' engagement with locally affected communities. The Equator Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures, and standards related to its project financing activities. The Institutions will not provide loans to projects where the borrower will not or is unable to comply with the respective social and environmental policies and procedures that implement the Equator Principles.

impact assessments. The sensitivities related to these legitimate concerns have been exemplified by the Bank's natural forest investments in Cambodia, the Democratic Republic of Congo, and Papua New Guinea, and also in some projects involving plantation development. It is, however, emphasized that proper implementation of the Bank's safeguards can effectively eliminate undue adverse impacts related to these concerns.

IFC, together with the Bank, has a significant impact in promoting responsible business practices. The Bank, including through its partnerships, could help address many of the policy issues related to IFC's investments that are at the heart of NGO concerns. This would be valuable particularly in Africa, where IFC's role in the forestry sector is still marginal. In addition to closer cooperation with the Bank, IFC's interface and partnerships with NGOs should be strengthened and expanded in order to achieve the goals set out in the Forest Strategy. In particular, joint Bank-IFC-NGO efforts could demonstrate that sustainably managed and certified internationally financed production operations based on natural tropical forests can generate important social and environmental benefits and reduce pressure to convert these lands to other uses. This multipurpose approach to sustainable management of natural forests offers a feasible and socially more acceptable alternative than strict protection in many situations. The availability of financing (such as that provided by IFC) for sustainably managed operations by responsible private operators, along with the continued greening of the demand side (public and private buyers), can make a major contribution to reducing logging by illegal operators. Reduction of the "chilling effect" is therefore a shared challenge—where joint action is needed— for the Bank and IFC. 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 two institutions is the Sustainable Forestry Pilot Project of the Bank in the Russian Federation, which has been instrumental in building up preconditions for IFC investment in the wood-processing industries. The Bank project helped revise the legal framework,[39] promote forest certification and strengthen human resources, while 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 two institutions were necessary in providing support to the country to maintain the momentum for policy reform in a complex political situation.

There are many areas of potentially beneficial collaboration. IFC's extensive experience in providing technical assistance to small and medium enterprises (SMEs),[40] a major potential source for off-farm employment in rural areas (Molnar et al. 2006), could be drawn on in the Bank's lending to build up entrepreneurial capacity in the forest-based SME sector. 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's investments in this sector are still marginal and would benefit from the creation of an enabling environment. IFC could enhance the use of the Global Forest Trade Network (GFTN) of the WB/WWF Alliance in linking its investments with responsible buyers in order to mitigate both reputational and business risks.

IFC's Environmental Finance Division and its Regional Development Facilities could work collaboratively with PROFOR and with the WB/WWF Alliance, for example, in identifying local commercial banks or other institutions that could be used as intermediaries for channeling IFC funding and donor-supported technical assistance to forest-based SMEs.

The Bank's 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

39. The new Forest Code was approved in December 2006.

40. IFC's Small–Medium–Scale Enterprise Department and its Regional Development Facilities have had more than a decade of experience implementing technical assistance programs.

strengthened through cooperative and coordinated efforts. Company-community partnerships and contractual arrangements with tree farmers are a particularly attractive opportunity in this context.[41] Also, demand creation for the services of both institutions could be enhanced, and unnecessary overlapping investments avoided, through coordinated efforts.[42]

The potential benefits of closer collaboration go beyond what has been identified in the previous paragraphs. There are many other areas of potential symbiotic relationship between the two institutions. These include harmonizing implementation of the safeguard policies of the two institutions to 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 Bank and IFC. The centralization of IFC's Global Forest Products Sector investment activities within the Manufacturing and Services Department has facilitated operational links. With IFC's expertise centralized within a dedicated sector team, better sharing of knowledge and a more collaborative approach to Bank Group activities in the sector have been achieved.[43] This is opportune, given the dramatic shift of fiber sourcing and demand to emerging markets. IFC is substantially benefiting from the accumulated knowledge and experience of the Bank in countries where they have not had earlier investments in the forestry sector.

While there is good potential to strengthen and expand cooperation to harness synergies between the two organizations, there are also inherent limitations. For example, IFC's 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. In short, there are strong reasons for greater collaboration between the Bank and IFC, both at central and country levels, but there are also obstacles to such cooperation, deriving from different institutional cultures, operational procedures, and most importantly, the nature of the business and client concerns.

Recommendation. *The present IFC-Bank cooperation approach based on informal consultations and personal relations should be complemented by institutional approaches (for example, engagement of IFC in Global Forest Alliance activities, joint periodic review of project pipelines, mutual participation in project preparation and appraisal missions, 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 small holders and local communities, not only as outgrowers but also as true partners of harvesting and manufacturing companies they supply; (iv) encouraging private investment in payment mechanisms for environmental services; (v) producing guidance material for the application of both 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 Bank and IFC 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 involve analytical work on costs and benefits of action and inaction in promotion of SFM, effective communication, and organization of high-level policy forums on the financing of commercial sustainable forestry, in order to forge shared views among stakeholder groups on central issues. Such a forum on natural tropical forests would be a priority, as it could lead to a quantum leap in financing for their sustainable management.

The Multilateral Investment Guarantee Agency's Role

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, MIGA's political risk guarantees have been applied only in two pulp and paper mill projects in the ECA region in the late 1990s.[44] The instrument could be applied more extensively as the long time horizon in forestry investments is compatible with the political risk guarantees. Credit financing in forestry investments in many client countries is constrained by lack of nationally available insurance services for forests. MIGA used IFC's safeguards in the past and cooperated in the due diligence process. They presently have their own safeguards, which are being revised to align with the new IFC performance standard. MIGA has also started an SME investment program that is relevant for forestry enterprises. MIGA also has substantial potential to provide guarantee services related to the Clean Development Mechanism (CDM) projects of afforestation and reforestation, as well as to avoided deforestation projects, which would improve the quality of the respective 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 recently started 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.*

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

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

43. 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.

44. 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.

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), created in 2004 as a private sector trust managed by the Bank, 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 carbon-offset trade. Thus, in addition to its central objective of reducing emissions, the BioCF has a strong equity connotation as well. Community groups, private companies, public agencies, and NGOs propose projects, implement them, and receive funds in exchange for emission reduction credits. Fund-supported activities are consistent with the three pillars of the Forest Strategy but its emphasis is on environmental conservation. The Fund is 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 Fund's first tranche mobilized about US$54 million;[45] the second tranche became operational in 2007 as the preset minimum of US$10 million in new contributions was achieved. Based on 150 project proposals, the first tranche 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 BioCF's 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 a result of a deliberate promotional effort by the BioCF. It also demonstrates the potential of the region's poor rural communities to access the international carbon market through biocarbon trade, as they have large areas of degraded land in need of rehabilitation through afforestation/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.[46]

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 the Bank's forestry investment lending and BioCF projects. The Bank has forest or forest component lending projects in several countries where BioCF is financing carbon sequestration (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 Repúblic Bolivariana de Venezuela). However, the link between Bank and BioCF interventions appears to be ad hoc at most, rather than part of a 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, as its 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 (that is, covering the second commitment period of the Kyoto Protocol), while the seller is free to resell the stored carbon from the beginning of 2018 onward (or liquidate the growing stock in the timber market). Concerns have been expressed by some civil society stakeholders about potential risks that carbon investments could have on the rural poor if the lands they use for their livelihoods will be assigned for carbon schemes. Environmental and social issues are considered by the BioCF when sustainability impacts of biocarbon projects are assessed.[47] 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 BioCF's 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.

45. As of August 31, 2005.
46. Many BioCF projects include commercial plantation components.
47. 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.

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.*

CHAPTER FOUR

Enhancing Partnerships and Linkages to Other International Processes in Forest Strategy Implementation

NEED FOR INTEGRATION OF GLOBAL PROGRAMS

The Strategy acknowledged that the Bank did not have the human and financial resources needed for implementation. 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 WB/WWF Alliance for Forest Conservation and Sustainable Use (the Program) was formed in 1998 to build on the competitive strengths of the two leading organizations to address the shared concern about global deforestation and forest degradation. The purpose was to integrate the parties' implementation approaches to promote cooperation and maximize synergies between the two. 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. The Alliance also seeks to establish 25 million hectares of new protected areas, improve protected area management in 75 million hectares, and put 300 million ha of forest under improved forest management by using a combination of initiatives for promoting independent forest certification, improved forest governance and management, community-based forest management, and restoration of degraded forest lands.

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

PROFOR is a multidonor partnership program, formed to enhance the contribution of forests to poverty reduction, sustainable development, and protection of environmental services by carrying out analytical work and thus improving information and creating knowledge on livelihoods, governance, finance, and cross-sector cooperation issues in four interrelated thematic areas: (i)) a livelihoods approach to poverty reduction. This area concentrates on the contribution that forests can make to the livelihoods of the rural poor through the provision of employment and income creation. The program gives particular attention to small-scale activities performed at the farm and household levels; (ii) forest governance is a thematic area that focuses on the ways in which forests are managed by governments and other stakeholders, and on how to improve decision-making processes as well as regulatory and institutional frameworks to ensure quality governance, including better enforcement of regulations, improved incentives, and enhanced transparency and accountability; (iii) innovative approaches to financing sustainable forest management. PROFOR aims at increasing the profitability of sustainable forest management over that of unsustainable practices. PROFOR also analyzes options for altering market forces and incentives to promote sustainable forest management, reforming forest revenue-collection systems, and developing markets and compensation mechanisms for forest environmental services; and (iv) cross-sector impacts affecting forests. PROFOR analyzes and devises ways to manage links between sustainable management of forests and other sectors and macroeconomic policy.

The three programs are consistent with a strong international consensus, as expressed in various international forums and agreements. Detailed analyses of each program are included in Annexes 2, 3, and 4. The following text summarizes the origins and cross-cutting issues of the programs.

Origins

The three programs, established before 2002, are included in the 2002 Strategy and given an important role in the Strategy's implementation. Each of the programs was created in the absence of a programmatic approach to partnerships that ideally would have systematically exploited synergies between the Bank's comparative strengths and those of potential partners on one hand, and between the three programs, on the other.

Relevance to the Forest Strategy

Despite their diverse origins, all three programs are consistent, with different degrees of intensity, with the objectives of the Forest Strategy. The Alliance supports activities that are aligned with the Strategy pillars related to protecting vital local and global environmental services and values, and to integrating forests in sustainable development. While poverty alleviation appears to have commanded less importance in the past, the Alliance has recently given attention to the interactions between conservation and poverty. The PROFOR statement of objectives fully coincides with the objectives of the Strategy and therefore is highly relevant to its implementation. The objectives of the FLEG Program are well aligned with the Strategy objectives of integrating forests in sustainable economic development and protecting vital local and global environmental services and values. While the Program's direct link with poverty-alleviation objectives appears indirect, the effects of strengthened law enforcement on traditional rights, local employment and income generation for the poor can be positive, provided that the legislative system is sound and attaches adequate importance to these values. Further analytical and empirical work on this subject is advisable, a task that the Bank has already under way (see Colchester et al. 2006).

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 actions even in the absence of the partnership. Therefore, the causal link between outputs and effects is difficult to track, which makes a clear attribution of results on the ground a task surrounded by some uncertainty.

Having these caveats in mind, it is still apparent that the output of the three programs in supporting the Strategy implementation is considerable. Consistent with the Alliance program, the global forest area under protection has expanded substantially. So 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, partly as a result of the Alliance's work, which has influenced the existing certification systems to adjust their rules toward meeting the Bank's requirements. The FLEG program has raised the level of global awareness as well as the degree of mobilization of public opinion and political commitment to improve levels of governance by taking specific action to curb illegal logging, corruption, and trade in wood of suspect origin. This is illustrated by the Ministerial Declarations and politically backed plans of action in three regions, which in some cases are being translated into international and national-level action. The volume of analytical material produced by PROFOR to support various actions is quite substantial. This work is highly relevant, as it is mainly driven by demand, as a response to gaps in the current knowledge. In many cases, PROFOR activities are at the cutting edge of applied research.

The Bank has employed its global mandate and its convening power to engage governments, the private sector, and civil society in the activities of the three global programs, but there is still much untapped potential. The Bank has also been effective in mobilizing financial resources to fund the programs.

Major Challenges and Opportunities

The assessment of the three global programs[48] indicates that a more programmatic approach to planning their future evolution and implementation would be highly desirable—to maximize synergies, avoid overlapping initiatives, create clear priorities for action and, not least, facilitate the mobilization of future financing to sustain the programs. This would mean striking an appropriate balance between the strategic approach and the opportunistic character of the programs; the latter should be maintained as one of their unique assets.

More importance needs to be given to poverty-reduction initiatives. Until very recently, integration of poverty-alleviation activities was relatively weak in all three programs. From the perspective of the implementation 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, the objective of sustainable forest management does not conflict and can be pursued simultaneously with poverty alleviation goals, but this requires deliberate and well thought-out interventions. The three programs are now in the process of revising their interventions to give greater importance to poverty-alleviation goals and therefore it can be expected that this limitation will be reduced substantially in the near future.

There are opportunities to strengthen mainstreaming of the programs in both the Bank Group and outside. First, it is clear that stronger linkages between the programs and the Bank regions and country operations would increase the effectiveness and impact of the Forest Strategy's implementation. Examination of the potential for the establishment of closer and organized connections with other relevant Bank programs and with members of the Bank Group (International Finance Corporation and Multilateral Investment Guarantee Agency),[49] as well as with related global programs (Critical Ecosystem Partnership Fund [CEPF], the Public

48. Annexes 2 to 4.

49. See sections 3.3 and 3.4.

Sector Governance Program, and so forth), is likely to reveal important opportunities for productive collaboration. Also, through closer contacts, Bank staff could benefit from a better understanding of how the partnerships work and what productive links could be established with their day-to-day responsibilities. The present communication initiatives designed to support the dissemination of knowledge of the Alliance activities[50] are steps in the right direction. There is, however, a need to better mainstream the programs (and the Forest Strategy in general) in the design of Poverty Reduction Strategy Papers (PRSPs) and Country Assistance Strategies (CASs). With regard to opportunities to establish closer linkages between Bank-run programs and other complementary initiatives outside the Bank, there is a clear case for ensuring a better harmonization of FLEG and the European Union Forest Law Enforcement, Governance and Trade program.

Second, more intense work to translate some of the Programs' regional processes into specific action at the country level through PRSPs, CASs, Development Policy Loans, and investment projects is highly desirable. In the case of FLEG, the current limitation appears to be to the result of the politically sensitive nature of the corrective actions proposed, which are often resisted by powerful vested interests in Bank client countries.

The Forest Team is currently elaborating a new Global Forest Alliance (GFA) concept which would integrate the three past programs under a common operative framework, provide opening for new initiatives (for example, avoided deforestation to mitigate climate change), and 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 considers this a positive initiative, as it would improve effectiveness through enhanced synergies, focus on selected key global targets, rationalizing coordination requirements between the current individual initiatives, and reducing transaction costs associated with program management. Such a global initiative would capitalize on the Bank's convening power and capacity to mobilize financing, as well as on its leadership role in developing innovative ways to finance and implement 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 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 Bank's 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

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

In February 2006 the UNFF agreed on four Global Objectives on Forests,[51] all of which are consistent with the objectives of the Bank's Forest Strategy. The corresponding ECOSOC resolution of July 2006 contains a number of recommendations, ranging from strengthening aid flows and developing innovative funding mechanisms to strengthening and enhancing contributions from existing forest-related funds, including PROFOR, for sustainable forest management. The Resolution also reaffirms UNFF's commitment to forest law enforcement and governance, and therefore is consistent with FLEG objectives. Negotiations are currently under way to reach a consensus on a nonlegally binding instrument on all types of forests, which would provide a common framework for all countries in advancing toward the global objectives of reduction of forest loss and degradation, as well as sustainable forest management. There is now a major opportunity for a closer collaboration between the Bank's forest program and the future Program of Work of the UNFF.

The Bank's participation in the CPF has brought with it opportunities for promoting 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 processes. The Bank, the Convention on Biodiversity (CBD), and IUCN have worked together developing conceptual foundations for ecosystems approaches for forests.

50. For example, World Bank undated a.

51. 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.

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.

As the lead agency within CPF in the theme of economic aspects and financing of sustainable forest management, the Bank has produced several contributions to the UNFF in the form of technical papers,[52] thematic workshops,[53] and other meetings.[54] PROFOR has also brought together players within the international dialogue through its analytical work on key policy issues. The Bank's leadership in promoting forest law enforcement and governance through regional processes facilitated the above-mentioned political decisions by UNFF/ECOSOC for expanded action on the subject. The role of the Bank has been significant for the success of CPF and goes beyond the examples given above. The Bank's continuing facilitation in the next phase of intergovernmental forest policy deliberations will be crucial, as the Bank is in a unique position to contribute to issues related to the "means of implementation," particularly financing mechanisms for sustainable forest management (SFM) and capacity-building to facilitate action on the ground.

The Bank has actively participated in the work of UNFF and CPF, and its inputs have contributed in many ways to the work of these two forums. The Bank's role in helping influence the international policy forums cannot be understood in a narrow sense. It is clear that this influence has gone beyond efforts that are directly linked to lending. The past broad range of Bank roles should be emphasized, because by influencing the international forest policy environment, the Bank can help create enabling conditions for its long-term involvement in client countries.

The Bank has increased collaboration with various NGOs such as the IUCN and the World Business Council on Sustainable Development, Forest Trends, and the Forest Dialogue, and encouraged wide 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], Organization of Amazon Cooperation Treaty, and Central American Commission of Environment and Development), specialized bodies (such as Central Africa Forest Commission [COMIFAC] and Regional Community Forestry Training Center [RECOFTC]), and a large number of national bodies and organizations in client countries that can contribute to the achievement of 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 country's forestry transition process after the political conflict was resolved there. In the Liberia case, the country's strong need to rebuild institutions and acceptable levels of governance coincided with the donor community's keen willingness to help in such an endeavor. The political conditions for effective forest reform were therefore present, creating a favorable environment for introducing donor-supported governance transformation (Box 12). Another important example of country-level partnerships is the work carried out in Brazil, under the Bank-managed Rain Forest Program, to build up 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 the preparation of the Forest Strategy. The interaction has continued since then with many of these organizations, but 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).

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 economic aspects and by financing 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) that fit into the Bank's global forest alliance; (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 goals, both at country and international levels.*

National Forest Programs

The Strategy singled out the National Forest Programs (NFPs) as one of the means for policy development and expanded collaboration in carrying out work on macroeconomic and environmental issues that are relevant to the improved 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 a Steering Committee that governs the Facility. Collaboration in this case has the potential to be 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 Review revealed a lack of information to analyze this operational link, which in itself is an indication that this connection is not particularly strong. In specific cases (for example, Georgia and Tanzania), the Bank has acknowledged the advantages of NFP as a strategic framework for its interventions in forests, and has taken a

52. For example, UNFF 2003.

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

54. Including Bank-organized UNFF side-events and meetings of the Forest Investment Forum.

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 Liberia's forest estate through a shared multi-donor program sponsored by parallel financing mechanisms. Members of the LFI, in addition to the World Bank, include organizations such as the US State Department, the European Commission, the US Forest Service, the International Monetary Fund, FAO, IUCN, the Environmental Law Institute, and Conservation International, CIFOR, and Fauna and Flora International, as well as Liberian government agencies and civil society organizations. The LFI's primary aim is to ensure Liberia's forests contribute to the long-term well-being of Liberia's 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 in the country 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.

major role in facilitating the design and implementation of NFPs. However, documented information on the extent and nature of cooperation is scarce. Interviews with staff in both the Bank and the NFP Facility confirm that extensive productive links do not exist, with contacts being limited to specific and sporadic activities (joint efforts have taken place in the area of communications and dissemination) or during meetings of governing bodies. However, even more important is the potential of national NFP processes in client countries to complement and contribute to the Bank's analytical work and to the design of lending projects. NFPs also provide a country-level forum for joint policy dialogue that goes beyond the narrower dialogue, which typically involves the Bank and the government in the context of specific projects. NFP provides, therefore, an opportunity for programmatic interventions that remains to be tapped.

The Bank also has an operational partnership with FAO's Investment Center. The Center promotes improved forest management through assistance to countries in streamlining forest policy frameworks and design of programs and projects. The Bank and the FAO benefit from a partnership in which the Investment Center, when an investment opportunity has been identified, has the advantage of being able to draw from its own technical staff or from other units of FAO, and can collaborate in carrying out the required analytical work associated with the design of forest projects and programs that can receive Bank support (or the support of other financial institutions). This collaboration between the two institutions has been taking place since 1968, when a project in the then-Zambia on industrial forestry was approved.

Recommendation. *NFPs and similar national planning processes should be part of PRSPs, and the outcomes should be considered in CAS. 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.*

CHAPTER FIVE

Other Instruments and Organizational Aspects

The implementation of the Strategy has made use of various instruments, procedures, and resources other than those already discussed in preceding sections of this report. In this section the Review examines how the Bank has made use of four key instruments: (i) safeguards; (ii) certification; (iii) the External Advisory Group; and (iv) analytical and sector work. In addition, in (v), selected organizational issues are discussed.

Need to Improve the Application of Safeguards and Due Diligence

The Bank has developed a set of key Operational Policies (OPs) that are critical to ensuring that potential adverse environmental and social impacts of projects are properly identified and mitigated.[55] Development Policy Lending (DPL) projects are subject to OP 8.60, which exempts DPLs from safeguards, but instead contains other possible requirements for these types of loans that may have impact on forests. The Review examined the application of various safeguards in 34 forest and forest-component projects.

A large majority of forest projects (83 percent) were classified as Environmental Assessment Category B; only one project (on institutional sectoral reform) was classified as Category C. The five Category A projects (14 percent) were either very large undertakings or projects that involved road construction in temperate natural forests with potential substantial irreversible damage.

The choice of which safeguard policies to trigger, and how they are applied after they are triggered, is as important as the environmental assessment classification of projects. As an umbrella policy, OP 4.01 Environmental Assessment was triggered in all cases. OP 4.10 Indigenous Peoples was triggered in 50 percent of the cases, as indigenous groups are frequently living 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 featured in a broad range of projects (community and participatory forest management, watershed management, environmental and natural resource management, protected areas, plantation projects, and so forth). OP 4.09 Pest Management was an issue in the same type of projects; it 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 those projects that did not trigger this safeguard, there were two with a forestry development focus (Morocco and Tunisia) and one dealing with payments for environmental services associated with the reforestation of degraded lands (El Salvador). Given the language of OP 4.36, the Review and some Bank staff find 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 the ways in which it addresses environmental, social, economic, and poverty dimensions related to 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 current Bank work on developing a forest law manual is a good step in providing such practical guidance.[56]

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, Lao People's Democratic Republic, 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,

55. 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.

56 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.

acute conflicts between stakeholders have materialized, leading to two requests for investigations by Inspection Panels (Cambodia and Papua New Guinea).[57]

The Inspection Panel reports[58] show serious problems, mostly related to poor quality project design that disregarded impacts of the project on local communities and environment, but caused as well by deficiencies of due diligence and other managerial aspects in the case of Cambodia. The Panel did not raise issue with regard to the substance of the safeguard policies per se. The investigation was not limited to the due diligence process, but also covered review of the Bank's supervision of implementation.

Another key issue in the application of OP 4.36 relates to the Bank's requirements for certification standards and systems contained in this safeguard, and the degree of compatibility of the International Finance Corporation's (IFC's) Performance Standards (PSs) with the Bank's safeguards, a theme that is discussed in more detail in Section 5.2.

It is common for OP 4.04 Natural Habitats (applied in 62 percent of the projects reviewed) to be triggered together with OP 4.36. The latter contains several cross-references to the former. Only in two cases was OP 4.04 applied in projects in which OP 4.36 was not triggered (protected areas, rural and community development, environmental conservation, and so forth). 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[59] should be addressed in project design is a complex issue that would benefit from practical guidance. Furthermore, safeguards do not explicitly address the vast number of forest-dependent people beyond those covered by the indigenous peoples safeguard. An area that has proved to be problematic is how to address those customary rights that are not legally recognized.

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 an adequate procedure has not been laid out for establishing which forests could be 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 will have to be considered also in the forthcoming Forest Sourcebook.

As mentioned in the discussion of policy lending operations,[60] project preparation teams face several obstacles in applying OP 8.60 Development Policy Lending to managing forest-related risks inherent in this lending instrument, including what appears to be the lack of readily available practical guidelines on how to interpret 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 for assisting in managing risks. Although systematic information is lacking, there is no doubt that compliance with individual safeguards tends to increase project preparation costs. These costs vary significantly according to the type of projects, the safeguards triggered, and the country context. Benefits that derive from application of the safeguards—both for the Bank and the beneficiaries of lending projects—appear to be poorly known, for example, the fact that the operational policies are aimed at mainstreaming the Bank's strategies in the development process. Obviously, however, despite their contribution to preparation costs, in the long term, safeguards reduce project risks and improve project quality. They also contribute to ensuring that sustainable forest management (SFM) is achieved in practice on the ground while contributing to the three pillars of the Forest Strategy. Further work on training and guidance could contribute to changing the perception that safeguards are mainly requirements to be satisfied and not instruments to increase the quality of projects. Both Bank staff and country agencies would benefit from such capacity building. It is unfortunate that the Forest Sourcebook has not been completed yet, because the document is badly needed. A better understanding of the role of safeguards, with more emphasis on "doing good" than "avoiding bad," is required.

The Review recognizes that due diligence and supervision of forestry projects represents many challenges in terms of timely availability of qualified in-house capability. Some of the due diligence tasks are so specialized that regions cannot be expected to have full capacity in all subject matters. For instance, assessment of social issues in forestry and environmental impacts is a task requiring specialized knowledge. A cost-effective way to address the needs for such expertise would be to employ a social forestry expert and a forestry environmental impact assessment expert in the Sustainable Development Network (SDN)[61] Forest Team who could serve all the regions in their particular areas of specialty. A complementary way to address the gap in some situations would be to employ independent technical and financial auditors the Bank funds, as has been done in a project in Argentina. Continued use of the Bank's forest law expertise can also help ensure that there is an adequate forest law and regulatory framework to underpin the likelihood of success of the project. The forthcoming Forest Law Manual should also be of assistance in this regard.

In conclusion, the Review reveals that there are opportunities to improve the application of safeguards in forest project design, but implementation is facing some obstacles. While the applicable safeguards may not have been identified in some cases, in others, even if correctly identified, they may not have been applied in a sufficiently rigorous manner.[62] In some sensitive natural forest projects,

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57. 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.
58. The Inspection Panel 2002, 2006.
59. This is also a central issue to the implementation of CBD.
60. See section 2.3
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.

this has resulted in conflicts and in Inspection Panel investigations. There is a need for TTLs to utilize practical guidelines to conduct their application in practice to reduce long-term costs and ensure greater compliance. The publication of the Forest Sourcebook should go a long way toward addressing these problems.

The previous analysis needs to be seen in the context of the Bank's lending activities. OP 4.36 was revised but has not (at least not yet) led to increased lending to commercial forestry activities. This is at least partly explained by the fact that, together with management responsibility or resource ownership, forestry investments are being shifted to the private sector in many client countries. IFC's role has increased and this is also observed in its portfolio (see section 3.3.1), which emphasizes the importance of the IFC Performance Standards. On the other hand, in spite of the policy change to allow Bank financing for commercial harvesting in tropical natural forests, no such projects have been proposed, 5 years into the new policy. This illustrates the divergent views among some stakeholders about the Bank's role in forestry.

Recommendation. *The Bank should provide further guidance and training in the application of its safeguards related to forests (including DPL, infrastructure, and other projects with impact on forests) covering both the due diligence process and project implementation. Management and staff training should clarify how to apply safeguards to not only avoid risks, but also to effectively contribute to the objectives of the Bank's Forest Strategy as an integral part of project design. The Bank should urgently bring to completion the Forest Sourcebook, the Forest Law Manual, and the DPL Due Diligence Toolkit. Training should be extended to client counterpart staff to 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.*

CERTIFICATION: FROM PERFECTING THE INSTRUMENT TO PROMOTING IMPLEMENTATION

Forest certification (including associated labeling of forest products) is a voluntary, market-based instrument that was introduced in 1993 to provide assurance to consumers that forest products originate from sustainably managed sources. Certification is therefore a potentially powerful tool that attempts to promote both sustainable production and sustainable consumption. In the Forest Strategy, certification was identified as one of the key instruments to integrating forests with sustainable economic development.

Most of the Bank's work in forest certification has been carried out under the World Bank/World Wide Fund for Nature (WB/WWF) Alliance (see annex 3) but some lending projects have also included specific support for certification (for example, Mexico, Lao PDR, and the Russian Federation). The Alliance has supported the development of forest certification in several countries, especially standard setting.[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 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 Bank's 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 Bank's activities, the Strategy identified a set of requirements[67] that acceptable forest certification systems should meet, which were further elaborated in OP 4.36.[68] These are mostly considered appropriate by the Review Team.[69]

In addition to the Bank, certification is a particularly relevant instrument for IFC, which is financing private enterprises that manage forests and procure their raw material from forests that are managed by other parties. IFC has used the Bank's requirements for certification as a basis for defining its performance standards related to the management of renewable natural resources.[70] There are, however, some minor differences, mostly in wording, between the two sets of requirements (see comparative analysis in appendix 4). As a whole, with the exception stated in the paragraph below, the requirements of the two institutions for forest certification can be considered compatible and consistent with each other. In addition, both OP 4.36 and IFC's 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.

While the Bank has specified a comprehensive list of requirements for certification standards and schemes, the IFC's approach is to implement its Performance Standards through the client's social and environmental management system. Both institutions make allowance for situations where certification cannot yet be reached. The Bank allows lending to industrial-scale logging for uncertified operations, provided that the client adheres to a time-bound, phased action plan acceptable to the Bank for achieving certification. The respective IFC requirement states

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).
68. The Strategy, however, implied that certification would be additional to the Bank's 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.

that in the absence of a suitable certification system for particular types of resources, sustainable natural resource management can be demonstrated through an independent evaluation of the client's management practices, or an independent evaluation of the status of the resource populations in question.[71] There is no guidance on the requirements to be used in such independent evaluations or on the requirements of the evaluators (except their independence). The quality of these evaluations may therefore require particular scrutiny from IFC to mitigate any possible associated risks. This aspect is probably the most significant difference between the Bank's and IFC's safeguard provisions on forest certification.

As the Bank's clients are agencies in the public sector, the clause referred to above may mainly apply directly to the management of state-owned forests. In the majority of Bank client countries, production forests are, however, managed and utilized by concession holders, communities, nonindustrial and industrial private forest owners, and so forth., who may or may not be direct beneficiaries of a Bank investment project. The Bank is attempting to upgrade and strengthen a country's entire forest management system by using certification as a strategic promotional instrument to improve practices of all operators whether they are immediate beneficiaries of the Bank's investments or not.[72] This general promotional role of certification is somewhat different from using the instrument as part of the OP 4.36 safeguards in terms of conditionalities. The dual roles of certification are not fully explicit and could merit further clarification in future Bank guidance.

Assessment of Certification Schemes and Standards

In order to facilitate the application of certification in the Bank's lending projects, the WB/WWF Alliance has developed a Forest Certification Assessment Guide, which explains how the Bank's requirements can be interpreted.[73] The earlier pilot efforts[74] to assess national forest certification systems and standards have shown that the task is complex, time-consuming, and requires special skills. In spite of FCAG's guidance, evaluation of how various schemes meet the individual criteria of OP 4.36 may still be subject to significant personal judgement by evaluators, thereby leading to the risk of inconsistent outcomes.[75]

The TTL has responsibility for establishing which scheme is acceptable under given circumstances in a lending operation. Unfortunately, the TTL may not be fully trained to address this issue.[76] 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. Need for further work in client countries would be then limited to assessment of new, emerging schemes or standards under development. 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."[77]

Enhancing the Role of Certification in Strategy Implementation

Forest certification is a useful instrument for its specific purpose: to demonstrate to what extent forest management on the ground complies with the requirements set for SFM. In the Bank's client countries, there is a need to have flexible approaches to apply forest certification so that it does not become an obstacle to access to the Bank's financing or an unjustified barrier to market access. OP 4.36 does not adequately take into account the fact that in many client countries, reaching legal compliance in commercial harvesting operations is already an important step forward and should be rewarded. Achieving full-certified compliance with an SFM standard as defined in the Policy is a long and complex process, both in terms of (i) developing the nationally applicable standard through meaningful participation of all stakeholders; and (ii) applying it in practice in different types of forest management units. As 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 equity impacts, if the disadvantaged countries and groups are not adequately assisted to address their constraints.

Forest certification remains a key instrument for implementing the Forest Strategy, but its potential may have been overestimated, and its linkage to poverty reduction or reducing forest loss is indirect. Capacity to achieve SFM needs to be built up at the level of 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 to increase the area under responsible forest management through development of certification and linking buyers with suppliers through the GFTN. Introducing a requirement for chain-of-custody certification in IFC-financed downstream industrial projects

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71. IFC Guidance Note 6, paragraph G26.

72. 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". Para 12 specifically allows the Bank to finance smallscale landholders and local communities under community management.

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

74. 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.

75. FCAG's 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.

76. The Sourcebook will, however, include a chapter based on FCAG to give further guidance.

77. 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.

would help ensure that illegal or unsustainably produced raw materials are not used. Implementing chain-of-custody certification would not represent 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 are lacking implementation capacity. 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 TTLs in preparing projects where certification is applied. 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 of implementation of the Forest Strategy. EAG meets once a year and reviews information provided by the Bank on future investment, economic and sector work (ESW), the Bank's global programs, and other initiatives. EAG reports are considered by Bank management, which also provides its feedback on the advice given.

The Group's 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. There are currently nine members in EAG, and knowledge about all groups is present except in the case of 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, and the Africa (AFR) and Middle East and North Africa (MNA) regions by one. With the exception of the private sector, the membership can be considered balanced. Five members come from organizations, which are more or less closely cooperating with the Bank, while four come from bodies that are not linked to the Bank.[78] The proportion of members identified with the Bank is considered by some interviewees to be inappropriate, and even possibly detrimental to true independent advice. In future nominations, non-Bank-affiliated members could be given a preference to strengthen the Group's degree of independence.

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

The Review notes that working with EAG has been a learning process for Bank management and for EAG members. The earlier problems related to timely feedback from management on EAG recommendations, and making EAG's documents readily available for interested external parties, have now been addressed. These two aspects are fundamental to the credibility and justification of EAG's existence.

EAG is a highly useful instrument to improve the Bank's performance in Forest Strategy implementation. Its modus operandi appears to be appropriate, but a private sector representative should complement its membership. The rotation of membership has been started and will ensure necessary dynamism in the Group. Interviews with the EAG members revealed a general satisfaction with the outputs and the impact on the Bank. The Group's main challenge is difficult to meet, when in practice, only three to 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 responds to the Bank's 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 Bank's 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 Bank's 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

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

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 assessment of forest–poverty linkages and forest certification standards and systems, as well as for tracking progress in protected area management, meet the Bank's own needs for applying safeguards and improving project design and implementation, and will be used by other actors (see annex 3). As an example, GEF 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 Bank's 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 mainly come from global programs (Alliance, the Program for Forests [PROFOR], and FLEG). The Bank's budget-funded forest ESWs and technical assistance products coded to forestry fluctuated between two and four per year in FY2002–6. Without the contribution of the global programs through various AAA products, this would have been grossly insufficient to meet even the immediate needs of the Bank's 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.[79] As mentioned before, the proper integration of forest issues in CAS and 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 Bank's 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. Particularly the Europe and Central Asia (ECA) regional strategy was able to guide how the opportunities opened by the 2002 Forest Strategy and OP 4.36 in this region could be exploited in CASs and country programs. However, the direct contribution of regional strategies in other regions was not detectable 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:

- innovative financing mechanisms for SFM and management of protected areas;
- transfer processes for resource rights;
- development of community-based and other SMEs in the forestry sector;
- corporate–community–smallholder partnerships;
- implementation procedures for decentralization
- payment mechanisms for forest environmental services;
- transparency and strengthening of forest governance;
- simplified tools for monitoring and assessment of forest operations for community forests;80
- organizational options for monitoring and control of forest operations;
- poverty reduction among park people; and
- 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 Bank's 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 share of their working time for meeting the processing requirements of the 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 best way to use the limited human resources that the Bank has in the forestry sector. An alternative model could be 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. In this approach, which is practiced, for example, in IFC, the technical staff would be partnered with processing and investment staff, and would no longer be tied down by ever-changing processing requirements where technical expertise is not required.

The Anchor's 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 Bank's forestry work. Lack of mobility is also unlikely to promote innovation. At 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.

79. 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.
80. As cost-effective options for formal certification procedures.

The Forest Strategy and the OP 4.36 brought new knowledge challenges for the Bank staff. The Forest Sourcebook was aimed at addressing this gap, but its production has been delayed and the document does not yet exist in a form that would be readily accessible to the Bank staff and external stakeholders who have a keen interest in understanding how the Bank's policies should be interpreted in practice. This is a major constraint for in-house capacity-building and should be considered a priority. The Sourcebook should be understood as a living document composed of modules that can be updated when a need arises.

As was pointed out in Section 6, the Bank continues to revisit lessons learned that were already identified in earlier reviews and evaluations (for example, Lele et al. 2000). There are apparently structural reasons in the organization which may act as hidden barriers to implement recommendations, which can delay the process of project preparation or add to its costs. Forest projects are complex and almost always involve addressing environmental and social issues that can be a source of conflict among stakeholders or are otherwise difficult to deal with. The Bank's current incentive structure, which is targeted at fast, low-cost processing of projects, does not fit well with the forest 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 likely to also improve the 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 emphasizes 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 the staff incentive structures that address the specific characteristics of forest projects, which inherently increase transaction costs. This is already grossly overdue as it has 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 I

Lessons of Experience from the Bank's Forest Projects

Since 2002, the Bank has approved over 50 standalone and component forestry projects (appendix 3). The implementation of these projects generated a wealth of lessons in handling obstacles faced in the implementation of the Strategy and in taking advantage of opportunities. These experiences are of considerable value for improving future project design and operation. The following sections have been elaborated based on the available documentation on individual Bank projects; it attempts to summarize the most important experiences gained in the design and implementation of forestry projects as they relate to the objectives of the Forest Strategy. The information has been compiled based on the documentation of the Bank's projects. Many of these lessons have been singled out in the evaluation by Lele et al. (2000). They are reported here to highlight that further work on them is still needed.

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. Often these complexities have been ignored by project preparation teams, resulting in targets that are unrealistic and too ambitious.

Activities oriented toward poverty reduction call for exceptional local leadership and institutional capacity, and adequate human resources in 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 the plans for delivery of technical assistance should consider training of rural producers and should carefully explore the tradeoffs involved in privatizing technical assistance, as privatization reduces the possibility of building up institutional capacity of government agencies.

Poverty-oriented projects must also ensure intense participation of the affected populations. All stages of the project cycle, from early identification and design to later stages of monitoring and evaluation, should strive to involve main stakeholders. Participation enhances consensus on local needs and priorities and thereby reduces project risks. However, effective rural participation has not been easy 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 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 adverse impacts on rural livelihoods associated with 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 poses limits to achieving positive forest outcomes in client countries, damaging the image and credibility of the sector as well as that of Bank-supported interventions. Experience in various countries (for example, Cameroon, Gabon, Madagascar, Lao People's Democratic Republic) indicates 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 deterrent power of penalties for acting in illegal ways. The policy framework and institutional arrangements need to be adequately analyzed during project design. Clarity of expected outcomes of interventions, a focus on fundamental objectives, and an adequate institutional capacity 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 Europe and Central Asia (ECA) projects, it was found that the government's interest in policy reforms can be greatly increased if they are crafted within a broader context where noncontroversial but innovative technical interventions form part of a package of solutions to the country's forest problems. Wood-flow tracking systems, remote sensing tools, and monitoring and certification schemes are examples of such innovations. This kind of technical intervention, in turn, often contributes to raising the level awareness of forest potentials and forging broad stakeholder support for reform through a broad 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 broader 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 of the ECA region, 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 transfer decision making to the local level. However, the results have been mixed, as in practice, effective transference of responsibility and authority has proved to be difficult. In Indonesia and Tanzania, decentralization without clear rules of the game and effective monitoring systems can be risky. Furthermore, the general institutional tendency to resist any transfer of authority in government agencies has to be addressed. 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 a holistic approach to natural resource 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 agriculture 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 microcatchment, 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. The sustainability of projects for the conservation of natural resources is much more likely to materialize if projects produce additional income for farmers. But the existence of potential income benefits is not enough. The timing of these benefits is also important; many of the 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 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. Both timber and marketable nontimber forest products should be considered in project design, as the latter can often be economically more important than the former. Experiences in Mexico and 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. As exemplified in Lao PDR, governments can also benefit from expanded collection of taxes and forest fees, and from cost savings because of reduction in enforcement efforts. With the transfer of responsibilities for forest management and production to communities or the private sector, the government can also divest loss-making 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 even 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. Project support should include efforts to establish basic management capacity for community administration, which is often lacking. Furthermore, 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 (LAC) and EAP, 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 by the entire community.

Involvement of 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 nontimber 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 women's 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 to 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, collection of nontimber forest products and ecotourism. With clarity on 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. Bringing degraded, open-access resources under community management can bring particular problems, as economic benefits tend to be limited. In addition, livelihood impacts on neighboring communities can be negative, leading 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 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

The existence of a clearly defined and designated permanent forest area is a key factor in successful concession management. This area must have an accurate inventory of the multiple forest resources as a requisite for adequate 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.

Furthermore, concession-management plans should explicitly analyze the linkages and tradeoffs between conservation and development objectives and activities. In this respect, experiences in Indonesia and the Congo Basin show that due attention needs to be accorded to management, harvesting, processing, and marketing of nontimber forest products.

Experiences in Mozambique and elsewhere in Africa show that the economic returns of concession forest management often depend critically on the existence of adequate infrastructure to link forest areas with markets. 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. Often there is insufficient knowledge of legal conditions for applicants to prepare their credit applications, and technical assistance to fill this void is rare. 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. Also, as shown in 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 ensure private investment in plantation development, which can be launched by the Bank's initial support.

To make plantation forestry economically viable, it is frequently necessary to raise technical management standards. As happened in Chile, the adoption of new, innovative technologies relying on high- performance species, high-quality seedlings, and efficient planting practices can substantially improve productivity and economic profitability. Also, production technologies that depend on natural regeneration can offer a cost-effective way for production forestry or for rehabilitating degraded lands to succeed. Furthermore, it has been observed, for example, in India and Vietnam, that plantations linked to industries tend to have higher levels of productivity.

Furthermore, site- and species-matching must receive due attention, to avoid adverse environmental and social impacts. In addition, since policy and market failures can create more formidable obstacles to viability than technical considerations, projects must be solidly based on sound policy and market organizational analyses. In particular, security of land tenure 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 key to successful technology transfer.

BIODIVERSITY CONSERVATION

Projects need to address the root causes of biodiversity losses. Biodiversity conservation is frequently not given importance in land use planning, and thus the consideration of biodiversity services in productive landscapes is not appropriately incorporated into project design. Biodiversity should not be considered a stand-alone activity; 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 single species.

Biodiversity considerations should be included in the country's 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 fade during the project implementation stage.

In some cases such as in Mozambique, the project design included analyses of the trade-offs between the expedience and efficiency of delivering a project and strengthening of local governments to ensure sustainability. Similar problems tend to be common in many project interventions, which lack the possibility of sustained engagement over extended periods.

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.

Furthermore, strengthening public-private partnerships, including capacity-building within partner organizations to implement comanagement arrangements, can be critical for ensuring 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, particularly 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

Cases in El Salvador and Costa Rica illustrate that environmental services are site-specific and that their value, as well as their costs, varies widely from case to case. For this reason, targeted payments are often more cost-effective than paying everyone the same amount (as practiced, for example, in Mexico). However, this is far from a generalized rule, as transaction costs of targeted payments can be very high in cases where individual plots are small and the number of farmers is large (for example, in many parts of India). Thus, 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 long-term sustained 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 environmental impacts of the project.

PES projects are not specifically designed to reduce poverty; targeting them at this objective risks 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 (grouping many small-scale landowners) lead to gains in efficiency in capacity- building. Early involvement of local partners (for example, nongovernmental organizations and communities) is important in promoting participation and strengthening ownership of PES schemes.

Program on Forests, PROFOR

CONTEXT

PROFOR is a multidonor partnership program formed to enhance the contribution of forests to poverty reduction, sustainable development, and protection of environmental services, by carrying out analytical work and thus improving information and creating knowledge of livelihoods, governance, finance, and cross sector cooperation issues in 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 the provision of employment and income creation. The program gives particular attention to small-scale activities performed at the farm and household levels.
- Forest governance is a thematic area that 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 enhanced transparency and accountability.
- Innovative approaches to financing sustainable forest management. PROFOR aims at increasing 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. PROFOR analyzes and devises ways of to manage links between sustainable management of 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 or study ideas that originate in the program itself and that are implemented through direct contracting. Thus, PROFOR is essentially a financing vehicle to encourage analytical work to foster the development of innovative approaches to sustainable forest management.

PROFOR's Management Board provides strategic guidance to the Program's operations. Its members include representatives of the partner institutions: that is, the World Bank, contributing donors, the National Forest Programs Facility, and the Food and Agriculture Organization (FAO). Board members meet once a year and keep in contact through electronic means and telephone conferences.

ACTIVITIES AND OUTPUTS

The range of PROFOR activities under the four broad themes above is diverse. They are carried out at global, regional, and country levels. PROFOR outputs consist of publications, knowledge tools, seminars, and technical workshops. Since 2003, the program has produced nine major publications and several minor ones.[81] In terms of number of activities supported, most are currently related to governance issues (11) with those having to do with sustainable forest management (SFM) financing close behind (10). Those linked to poverty and livelihoods are in third place (7) and only a few are presently being implemented on inter-sector impacts (4). Most of the funds disbursed so far have supported global activities (58 percent) or have targeted at the country level (36 percent). 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.

PROFOR's livelihoods thematic area has included work on methodologies for enhancing the contribution of forests to poverty alleviation. PROFOR has also conducted country policy dialogues.

81 One in 2002, one in 2003, three in 2004, three in 2005, and one so far in 2006.

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

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 (three languages)	798	83
Forest Investment Forum	810	84
Institutional Changes in Forest Management (two languages)	1,024	87
Reforming Forest Fiscal Systems to Promote Poverty Reduction and Sustainable Forest Management (Three languages)	1,539	94

Source: Salmi 2006.

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

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

The 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 (NFP) Facility housed at FAO.

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

Demands for further knowledge should be met by adequate responses by the Program following explicit, clear, and transparent criteria. Until recently, such criteria, other than general alignment with the Program's four thematic areas, were not readily available, and therefore remained unknown to many potential applicants for PROFOR support. In fact, the recent PROFOR Mid-Term Review (Salmi 2006) shows that PROFOR's stakeholders[82] did not appear to have a clear picture of how activities and projects were selected for funding. Recently, guidelines for applications for funding, containing explicit criteria for approval, have been 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) production of a methodology to identify and monitor impacts on forests of Development Policy Lending; (ii) development of tools and methods for planning and implementation of mechanisms for Payments for Environmental Services, which were field tested in Africa; (iii) analysis of opportunities to promote innovative private sector–community partnerships; (iv) development of a Citizens Report Card, a method that provides a simple but powerful instrument 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; and (v) 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.[83]

82. With the exception of the participating donor group.
83. Poverty-Forests Linkages Toolkit. The toolkit is in the final stages of design and testing.

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.

What has been the effectiveness of already published outputs? Since PROFOR's 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. By examining the frequency with which the PROFOR Web site has been used and by counting the number of downloads, a perspective can be obtained on the importance of PROFOR's work and on which outputs are considered by practitioners to be most relevant. This method assumes that the more the Web site is visited, and the more a publication is demanded, the more such publication is likely to generate an impact in the world.

The intensity of use of the PROFOR Web site has substantially increased from 542 visits per month in 2002 to over 8,000 in recent months (Salmi 2006). Thus, there is little doubt that the usefulness of PROFOR as a source of information and knowledge has increased sharply in a relatively brief period.

It is important to highlight that the increased importance attached by PROFOR to the poverty-alleviation issues discussed above is likely to have significant impacts and to increase the efficacy of the program. Thus, for example, the document on reforming fiscal systems to promote poverty reduction and SFM is the top download (see table A2.1)

How large are these numbers? The short answer is: substantial. A comparison with other similar programs reveals a median rate of some 270 session-downloads per title per year. Furthermore, Elsevier tracks the frequency of downloads from its journal Science Direct and considers 50 a high number of downloads per year. PROFOR numbers compare favorably with these other initiatives.

Citation rates in scholarly journals and articles are another way to assess the usefulness of PROFOR's 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. PROFOR's 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.[84]

The midterm review (MTR) team concludes that the uptake of PROFOR products is substantial and comparable to, or greater than, that of programs of similar character related to natural resource management.

However, despite this positive observation, the review of PROFOR's dissemination list revealed that the Program could further improve its impact by increasing its dissemination coverage through international and 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).[85] This demonstrates a high level of efficiency, particularly in view the fact that PROFOR mainly finances small catalytic activities, which typically have high transaction costs.

However, the efficiency of the Program could be further enhanced in two ways. The first one is by further exploiting the opportunities for synergies between PROFOR and other related programs, both within the Bank and outside. PROFOR as a knowledge-creation and dissemination program has already a close operational linkage with FLEG and the WB/WWF Alliance, although this linkage appears to be more opportunistic than programmatic. A programmatic approach to the management and implementation of these programs as a coherent group, to harness potential synergies of working together, appears highly desirable.

Second, outside the Bank an obvious connection that could be strengthened is that with NFPs. PROFOR is particularly well-suited to exploit a closer link to NFPs, both to identify issues of global importance that require additional knowledge and to learn from experiences of implementation.

The second efficiency issue relates to the linkages between PROFOR and Bank operations in countries. The Program could multiply its impact by securing a closer involvement in the Bank's operations beyond analytical work, to support lending design by including study of experiences acquired in implementation that can be applied in similar contexts.

Furthermore, and related to program efficiency, the question has been raised whether PROFOR does work that the Bank and other partners would carry out anyway. In practice, it is difficult to establish a clear separation between activities that are of an incremental nature and those that may just replace activities that would take place in the absence of PROFOR. The MTR is of the opinion that in the Program's activities, additionality is predominant. Interviews with Bank staff revealed features of PROFOR that no similar facility in the Bank can provide. The main one is PROFOR's capacity to operate unencumbered by complex administrative structures, and therefore its unique ability to react quickly to applications for support. Furthermore, the SDN Forest Team management of the Program is fully aware of the danger of merely doing work that would be carried out by the Bank with or without PROFOR, and consciously aims to avoid activities that would not constitute true additionality. Given the considerable area that exists between incrementality and substitution, the MTR thinks that the approach taken by management is appropriate, and perhaps the best that can be applied in practice.

84. 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 World's Forests) is cited in an average of about 7 to 8 scholarly articles per year.

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

BANK PERFORMANCE

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

The Bank is fully making use of its global mandate and reach to operate the Program. The Bank's convening power has been used to engage key partners to increase supply of globally relevant knowledge-related outputs to achieve the broad objectives of the Forest Strategy. Nevertheless, it appears that there are further opportunities to improve synergies with other partners, including other partnerships housed at the Bank, through an inclusive program to support the Forest Strategy implementation.

In this context, the MTR also raises the issue of whether the Management Board, which provides the overall direction of the Program, should not include partners from the NGO community, the private sector, and client countries. The inclusion of these partners would contribute to securing continued program efficacy. Should demand for PROFOR's activities increase as expected, the inclusion of perspectives from those stakeholder groups may be increasingly necessary in refining the Board's 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 a total of some US$6.4 million in Trust Funds from a variety of donors since 2002.[86] The PROFOR Mid-Term Review estimated the total contribution of the Bank to the program in the neighborhood of US$1 million. Cofinancing from other partners is about US$1.3 million. Thus, the total resources captured by the program since 2002 add up to nearly US$9 million.

Global-country links

The Bank's multisector capacity, analytical expertise, and country-level knowledge have been instrumental in ensuring program quality. In addition to PROFOR's natural links with other global forest-related programs, it has also been able to draw on the expertise of regional staff for project quality reviews. As mentioned, there are opportunities for further increasing the nexus between the Bank's country operations and PROFOR, by, for example, further communicating the objectives and the services the Program can supply in its areas of action. These opportunities may increase in the near future, as the evolution of PROFOR leads to the production of knowledge outputs related to the integration of poverty-alleviation concerns in project design.

Oversight

The Bank's inputs—and the Trust Fund to support the Bank's coordinating role in programs—are undertaken under the Bank's normal procedures for financial management. The operational oversight is under the SDN Forest Team. The Bank's participation in the Management Board enables the monitoring and control of the Program in terms of achievement of strategic objectives. The potential for conflict is inherent, as the Bank is simultaneously a leading partner of the Program and the institution involved in monitoring. An external and independent review was recently commissioned to address this problem.

Exit strategy. 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.

STRONG ASPECTS

- PROFOR's objectives fully coincide with those of the 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 experiences from the Bank itself, as well as from external institutions and individuals, to carry out activities that are key to 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's project and other operations.
- There is solid evidence that PROFOR supplies knowledge products that are in high demand and are therefore highly relevant.
- PROFOR has a 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 partnerships housed in the Forest Team is highly desirable.
- Given PROFOR's emphasis on the production and dissemination of knowledge as a global public good, the composition of the Management Board may be revisited to include perspectives from client countries, the private sector, and nongovernmental organizations, to provide guidance on the broad direction and policies of the Program. In this case, the incremental transaction costs should be considered.
- The Program's priorities, procedures, and criteria for deciding on support for various activities do not appear to be widely known outside a reduced circle. This arguably limits effective-

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

ness. 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 populations that depend on forests (such as traditional rights and land tenure issues). Again, the MTR notes that 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 receive, 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 in volume, 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 demanding 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 leading organizations in the world, to address the shared concern about global deforestation and forest degradation. The purpose was to integrate each party's implementation approach in order to promote cooperation and maximize synergies. The first Alliance Agreement (Alliance I) ended in December 2005 and the parties signed a new agreement (Alliance II) on May 25, 2005.

The goals of Alliance I were to advance conservation of protected areas and sustainable forest management (SFM). The public goods generated by the Program are biodiversity, mitigation of climate change, amenity values, watershed conservation (water quality and quantity), and so forth. The first goal of Alliance I is 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 [SFM]) 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.[87]

In 2000, the partners agreed to focus on target-driven activities in key countries, integration of the broader missions of WWF and the Bank, and opportunistic activities with expected high return (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 partners' programs, and identified target-driven activities, learning and capacity-building (LCB) tasks, a communication strategy, and a mechanism for monitoring and evaluation.

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.[88] 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 Bank's 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.[89] As it is obvious that the partners can only have a limited direct contribution to achievement of the adopted broad goals, the Alliance's 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,[90] The partners have discussed the idea of broadening

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

88. Outside of strict protected areas.

the range of participants in the Alliance, but the benefits (wider participation base, voice of the beneficiary countries formally expressed in the Program's 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 Bank's 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.

OVERALL ASSESSMENT

Relevance

The Alliance I goals and activities have been aligned with the third and second pillars of the Forest Strategy. There is therefore a clear link to the Bank's core institutional objectives and the 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.[91] 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 as 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 Program reflects an international consensus on the need for international action in biodiveristy conservation and sustainable forest management.

The activities are directly linked with the objectives of the Convention on Biological Diversity but the Program is not formally implementing it. The objectives and the activities of the Alliance can also be interpreted as contributions to the implementation of the Proposals of Action of the Intergovernmental Panel on Forests (IPF) and the Intergovernmental Forum on Forests (IFF) and the outcomes of United Nations Forum on Forests, which emphasize collective action to advance conservation and sustainable use of forest resources both at country and international levels. The Alliance attempts to complement other international initiatives, as it is unique in its focus and approach. The Program does not compete with, or substitute for, regular Bank instruments; it therefore represents added value. It complements the Bank's economic and sector work and develops tools that can be used in lending operations. The Program is facilitating the implementation of formal standards and approaches within internationally agreed frameworks; particularly its certification component is focused on this aspect.

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 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, as it is impossible to establish a proper with-without analysis because of the Program's catalytic nature.

There has been a fair degree of mainstreaming of the Alliance in both partners' 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 Program's objectives, but which are not jointly decided even though they may be directly or indirectly influenced by the Program. Furthermore, other stakeholders' activities that have been induced or are otherwise linked with the Program are often difficult to clearly attribute to Alliance impacts.

Without WWF's 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.[92] 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).[93] 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 understand how large international conservation NGOs with entirely different cultures work—helping identify and tap potential synergies that can be further enhanced.[94]

Through collaboration with the Bank, WWF has learned how the linkage between conservation and sustainable development—at grassroots level—can be addressed.[95] There is a clear mutual understanding that sustainable 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 Alliance's 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 (PA) management 166 percent.[96] The achievement rate of the third target—200 million ha of certified forest globally—has been reported as only 16

89. Co-chairs, coordinators, and regional coordinators in both organizations.
90. The 2000 MTR recommended incorporation of a broader set of stakeholders to enhance impact (Forbes Baldwin 2002).
91 The Alliance started to explicitly analyze linkages between forest conservation and poverty alleviation in India only in 2005.
92. The interviews of the Review revealed a strong opinion among high-level Bank staff involved in the revision of the Forest Strategy.
93. WWF has also provided a substantive input for the elaboration of the IFC Performance Standards.
94. Based on interviews of the WB staff.
95. Based on interview of the WWF staff.
96. 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.

percent.[97] Because of the complexities and constraints involved in implementing forest certification in the Bank's client countries, the Program's 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,[98] 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:[99] (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 Alliance's 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, resulted in entirely new cross-border cooperation in forest conservation and sustainable forest management, including the establishment of 3.5 million ha of new protected areas. In addition, protected-area establishment and management have also been supported since 2002 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. The Bank's involvement in the 28 Global Environment Facility (GEF)–cofinanced biodiversity projects since 2002 can be assumed to have been less pronounced without the Alliance.[100]

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, Lao People's 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, the cooperation with GFTN resulted in International Finance Corporation (IFC) support for local companies to achieve certification. A financing mechanism for forest concessionaires was developed in Peru, which may be replicated elsewhere. Development of timber tracking systems has been supported in Cambodia, Nicaragua, Peru, and in the Congo Basin countries. In order to promote responsible investment in forest management, the Alliance has organized three Investment Forums (two in 2004 and one in 2006) which recently have given a focus 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 development of LCB tools on several key issues related to protected area design and management, biodiversity conservation in production forests, forest governance, and forest certification.[101] Many innovative ideas and instruments identified in 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.[102]

In spite of these significant results, the Review team observes that, during the last two years, less than before has been achieved in LCB products. The main recent output of the Alliance has been the elaboration of the Forest Certification Assessment Guide (FCAG) for determining whether systems and standards for certifying the sustainable management of commercial forests meet the Alliance 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 to public agencies in countries which are developing procurement guidelines that reference sustainable forest management and legality as purchasing criteria. This Alliance project was exceptional in the sense that, because of its political importance, it involved all the levels of organizations on both sides.

As a whole, the volume of LCB activities and outputs completed appears to have decreased.[103] This is claimed to be associated with a reduced level 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

97. 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).

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

99. 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.

100. Based on interviews with Bank staff members.

101 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 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

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

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

approach[104] may not have been adequate. 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 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,[105] but it needs to be updated and revised in view of the past accomplishments and the new targets of Alliance II.

Efficiency

The transaction costs of the Alliance are considered to be on the high side: in 2000–5, 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; their budgets range typically from US$20,000 to US$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.[106]

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 on concentrated actions, 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, Ukraine, Bulgaria). This is a general risk when financing pioneering approaches such as initiation of the national development process of forest certification. 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 dropped because of financial constraints. In situations where future financing arrangements of the planned activities are not clear to the participating stakeholders, the credibility of the Alliance may unnecessarily suffer in the event of the materialization of the image risk.

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 Bank's lending activities (Indonesia, Russia, and so forth); and (iv) engagement of the private sector to promote investment in sustainable forest management and related trade.[107]

BANK PERFORMANCE

Four aspects are considered in reviewing the Bank's performance in the Program: (i) comparative advantage; (ii) global-country links and impact on the Bank's country work; (iii) oversight; and (iv) exit strategy.[108]

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

The Bank's leadership has also been crucial to mobilize funding for the Alliance. The Bank's share[109] 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 percent of the total in 2005).[110] While half of the Bank's 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 even weaker.

The Bank's multi-sectoral capacity has enabled country-level assessments of tradeoffs between conservation and production in the context of establishment of 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 drawing on synergies with the Alliance, particularly in the area of improving forest governance. These three

104. 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.
105 However, it was never formally articulated or agreed to by the Co-Chairs.
106. As a reference, PROFOR's overhead costs are 4 to 5 percent of total expenditure (See annex 1).
107. GFTN involvement, Investment Forum meeting, and so on.
108. These are compatible with the OED evaluation of the Bank's global programs (World Bank/OED 2004).
109. Including funding from the WB Development Grant Facility (DGF).
110. The percentages include also funding from WB Development Grand Facility that was raised by the Bank's Alliance management, although accounted as WWF input.

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 Bank's expertise in country and sector-level analysis has ensured the general high quality of the Program's analytical work on local constraints on conservation and sustainable use of forest resources. Most of the Alliance's interventions have been done in individual countries, where the Bank's 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 Bank's lending operations. The Bank has forest portfolios in most countries where the Alliance has been operating.[111] The role of the 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 Bank's 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) which was not part of the 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 Bank's activities add value to, and mainstream, Alliance outputs : (i) adoption of critical elements of Alliance activities in the Forest Strategy; (ii) adoption of the criteria for acceptable certification systems in OP 4.36;[112] (iii) the Bank's extensive portfolio in protected areas; and (iv) the Bank's 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 Bank's 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 conservation and sustainable management of forest resources.

The Program can be considered complementary to the Critical Ecosystem Partnership Fund (CEPF), which is financing country-level investment in biodiversity hotspots, while the Alliance is providing support to fostering country-level approaches (strategies) and standards for biodiversity conservation and sustainable use. However, there is no operational link between the two global programs, as their origins were quite different and the strategic approaches to biodiversity conservation are also different. However, as regards protected areas, their activities at country level can be closely related or even overlapping. From the host-country perspective, it would be beneficial if the messages and approaches of the Bank's programs are internally consistent and complementary, rather than seeming to be separate initiatives under the Bank umbrella. The Program 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 (SDN Forest Team).

Oversight. According to the Memorandum of Understanding (MOU), parties organize coordination and review meetings twice a year. Management procedures in preparing and recording meetings are relatively informal although decision-making follows the Bank's rules.[113] 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 influence, by definition, the oversight function. As in many similar global programs, it is difficult to separate the roles of partners and participants when they are mixed as 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,[114] but there are provisions for periodic review, which can be expected to generate a vision of the long-term future of the Alliance. Despite the long-term nature of the problems the Alliance is addressing, the Review team is of the opinion that the issue 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, at the latest in 2009.

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 Bank's global reach and mandate, and related convening power to engage all the relevant stakeholder groups and to provide access to, and influence

111. 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.

112. These were also the basis for IFC's recently approved Performance Standard 6 Biodiversity Conservation and Sustainable Natural Resources Management.

113. Based on the review of the available minutes of the joint meetings.

114. 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.

on, top executives in client countries— which is coupled with the Bank's capacity to link protected-area needs to the sustainable development framework; and (ii) WWF's extensive field presence and in-depth issue knowledge on protected-area management. Global-level action has been effective in raising the issue of protected areas in the political agenda 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 Alliance's work on criteria and requirements for certification systems has also influenced other actors' policies in this field.

- For the Bank (and also 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 passing through the time-consuming regular process. 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 Yaounde 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 Bank's lending and in plugging in additional, strategically important activities to help ensure efficacy of the ongoing lending projects.
- The Program's 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 LCB products developed by the Alliance are typical outputs that create multi-country benefits, provided they are effectively disseminated. For example, the Tracking Tool of PA management is reported to be used also by GEF. The intention of the Alliance is also to spread the use of the Forest Certification Assessment Guide among other stakeholders (IFC, national public procurement policies, GFTN members, and others).
- The Alliance's 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.
- WWF's close cooperation with the private sector through the GFTN is a particular asset for the Alliance, the value of which is also recognized by IFC in mitigation of business risks. This cooperation will also be important for Alliance II continuing to influence the private sector's 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 Program.

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 program's stakeholders) (World Bank/OED 2004). The Alliance can be considered to largely follow 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 Bank's 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 Program could also reduce transaction costs.

Poverty linkage needs strengthening, particularly in view of 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, including cross-sectoral policy impacts and more focus on valuation and compensation mechanisms of 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.[115] Such a new approach is reflected in the recent Alliance proposal to GEF (GEF 2006), which could provide a major boost in this area, where necessary methods and tools still largely remain to be developed.

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

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

so forth) in the Program would be useful to strengthen the relevance of the interventions to country situations and to build a closer explicit linkage between poverty reduction and biodiversity conservation. This would be also useful for enhancing the Alliance's impact on the Bank's lending activities. The Alliance targets could be better integrated at country level with the preparation of the Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs), which would 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 (TTLs) of the Bank, the specific objectives and roles are not apparently fully clear. Beneficiaries' expectations resulting 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 Program and the Bank's activities and other global programs needs special efforts, particularly if institutional barriers have to be overcome. The competing roles of the Bank's partners in different programs is likely to need facilitation by the Bank's management to capitalize on potential synergies in investing in the promotion of protected area management. In this case, particularly, synergies between the Alliance and CEPF could have been captured. but as the activities and approaches have been quite different, synergistic links did not develop. However, the 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 PA investment by CEPF;[116] (ii) in planning of the PA networks by the Alliance, the CEPF hotspots could play a strategic conservation and demonstrative role;[117] (iii) the Tracking Tools developed by the Alliance are applicable also in CEPF-supported PAs; (iv) the Ecosystem Profile methodology developed by CEPF has potential application in the design of the Alliance PA 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.[118]

There has been an element of incoherence in Alliance work related to the development of innovative tools for conservation and sustainable use. While in protected area management, the explicit purpose has been to improve the impact of the tools developed, through getting them adopted by other actors, the FCAG was originally explicitly targeted at use by Alliance partners. Only recently has it been made clear that other users are expected to make use of this tool. Broad participatory processes should be involved from the outset in the preparation of these kinds of key policy documents to ensure their extensive use.

LCB work should not be limited to the development of LCB products; their effective dissemination needs also to be addressed to ensure improved 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).[119] The last one addresses the key success factors of the Alliance (fundraising, building policy partnerships, and supporting target-oriented field programs and LCB programs). Both internal and external target groups have been identified, together with the required action. A range of communication tools will be used. 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 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 according to an inter-agency comparison.

There is a need for mobilization of additional funding. The current funding mechanism is based on core funding from the partners[120] and to a smaller extent from donor pledges from the WB trust funds.[121] In the early years, the funding was at the level of US$2.5 million, but since 2000 there has been a clearly declining trend.[122] In 2005, the total expenditure was only US$1.3 million—about half of the 2000 level. This is a cause of concern as Alliance II has broader objectives than Alliance I, resulting in increased resource requirements. Increased volume of activities would also improve the Program's efficiency, reducing relative transaction costs, as management costs appear to be fixed.

WWF has recently dismantled the regional level units of its organization.[123] It can no longer assign effective regional coordinators for the Program while the Bank continues operating the Alliance through regional coordinators. This raises a new situation. Such changes, with a major impact on Program implementation, should preferably be planned jointly, in advance, to allow swift transition to a 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 Program.

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

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

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

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

120. The Bank's budget and trust funds, DGF, and WWF-US core operational trust funds.

121. 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.

122. With the exception of 2004.

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

SUGGESTIONS TO THE TASK TEAM

- 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.[124] The overarching goal of reducing the deforestation rate by 10 percent implies a reputational risk and therefore, the Program's strategic approach should be clearly spelled out.
- 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 o formally engaging new partners in Alliance work, particularly IFC. The valuable role of co-opting GFTN in Alliance activities has already been recognized in IFC's 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. IFC's formal engagement in the Alliance would strengthen synergies with the Bank and WWF, particularly by facilitating WWF's access to private companies to assist them in their efforts to promote sustainable forest management.
- 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 Program's business management could also be improved with better planning, preparation, and recording of joint coordination meetings.[125]
- 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.
- 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 third and second pillars of the Forest Strategy and is in the process of strengthening its linkage with poverty reduction (the first pillar). The Program is also directly contributing to the implementation of the Convention on Biological Diversity and other forest-related international commitments.
- **Outcomes to date, and initial and potential impacts**
  The Program's 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.
- **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 Alliance's role can only be catalytic in achieving this.
- **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 Program. There is a considerable degree of linkage between Alliance activities and the Bank's preparation

124. The Bank's 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.

125. 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.

and implementation of lending projects, but this link could be further strengthened. There is a need to adopt a more programmatic approach in planning Program activities while maintaining its demand-driven focus. The management system needs strengthening for efficiency improvement. Coordination and cooperation with the Bank's other relevant global programs is generally strong (for example, FLEG and PROFOR) but there are also areas which need strengthening (particularly CEPF). The Bank's oversight capacity is probably inadequate; specific resources should be allocated for this purpose. An exit strategy remains to be elaborated when the Program is undergoing a detailed evaluation, preferably in 2008–9.

ANNEX 4

Forest Law Enforcement and Governance (FLEG)

CONTEXT

In many countries, economic and equity losses, and environmental damage resulting from illegal forest operations, are considerable. 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 also emphasized that efforts to control illegal logging and trade are politically difficult undertakings as 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 of civil society, the private sector and, when necessary, the Bank.

FLEG: WHAT IS IT?

The FLEG 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 in improving the quality of governance in the forest sector. Within this coalition, and in view of its global mandate, convening power, and capacity to mobilize financial resources, the Bank has a central organizing and coordinating role that it discharges through its FLEG Program.

The FLEG Program organizes three types of sequential 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, which seek 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, institutions of civil society, and industry to initiate action to improve forest governance and combat illegal logging and other forest crimes. Furthermore, the program's intent on mainstreaming FLEG processes into existing regional political organizations contributes to increasing ownership and sustainability, while avoiding the creation of new institutions to implement agreed actions.

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 and—in the absence of a scenario without Bank participation—the impossibility of attributing outputs and effects to Bank activities. With this caveat, this review focuses to the extent possible on reviewing the Bank's contribution to the partnership, or the Bank's activities carried out under its "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's is not explicitly oriented toward alleviating poverty. However, in practice the program emphasizes legislative reforms to ensure protection against the potential negative equity impacts of indiscriminately enforcing laws that do not consider such impacts or rural populations' rights. Furthermore, recent FLEG analytical work has already emphasized the need to increase the focus of the program on poverty alleviation issues, and therefore an increased thrust in this direction will take place in the near future.

The FLEG Program also is well aligned with the stated priority of the Forestry Strategy of harmonizing activities of various interested parties in coherent 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 on the priority of illegal logging and associated trade in improving governance in the sector, as expressed in, for example, the Birmingham G8 Summit, the World Summit on Sustainable Development, deliberations of the United Nations Forum on Forests, and 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 as well as that of technical knowledge of the magnitude, underlying causes, and deleterious effects of illegal forest acts.

Arguably, the past low levels of awareness among the public and decision makers of the magnitude and consequences of illegal forest acts helped their proliferation. Until recently, illegal logging and trade and corruption in the forest sector were taboo subjects in intergovernmental and other policy debates. Also, specialized analytical work had not developed a sufficient base of knowledge of the magnitude or the underlying causes and effects of illegal logging and associated trade to allow an intelligent discussion of desirable policy and institutional reforms to deal with the issue.

It is apparent that the level of awareness has increased enormously, both among the public and the community of policy researchers, in the last five years or so. The subject has become a central topic in the international debate, in the media and in the 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 months period during 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 in the Internet during the last three months. This review concludes that these numbers strongly suggest that the FLEG program has effectively contributed to increasing specialized and public 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 either unpublished or with limited access. 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 Bank's 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. This regional process engaged government officials, technical experts, nongovernmental institutions, and entities of the private sector from countries of East Asia, Europe, and North America, and culminated in a declaration issued at a Ministerial-level Conference in which participants pledged to adopt an indicative list of actions to control illegal logging and trade (the Bali Declaration). Following the general model of operation described above, 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. 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 process, 2003) and in Europe and North Asia (ENAFLEG process, 2005) . Both initiatives produced a Ministerial Declaration. The African Ministerial Declaration led to integration of FLEG actions with the Central African Forest Commission (COMIFAC) Plan of Convergence. In Europe and North Asia, strong stakeholder support to ENAFLEG's 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. At variance with previous initiatives, in this region 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 are evidence that the FLEG Program has been successful in creating initial political commitment in a rather large number of countries. Some 80 countries and 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 in both groups of 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." (St. Petersburg Declaration on FLEG, 2005)

In addition, the regional FLEG initiatives are beginning to secure the integration of FLEG concerns in other regional processes, such as the COMIFAC and its Plan of Convergence in the Congo Basin, and ASEAN in East Asia, thus fostering further political commitment to deal with the problem.

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 agreement 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 have been followed by several regional-level initiatives. There have been events to exchange experiences and refine planning of future activities (for example, customs collaboration and training of prosecutors 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, which illustrates the political complexity of the problem.

There is better information on the country actions undertaken by the Bank. The Bank's 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 institutional strengthening. The governance components of these projects amount to a total of some US$310 million, or more than 10 percent of all project costs.

Of these, 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.

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 Bank's global mandate and global operations are key to the success of the FLEG Program, which depends on actions in various countries. The review team thinks that there would have been no other organization with the Bank's 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 considers, however, 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 that have closely related programs to improve forest governance, particularly the International Tropical Timber Organization and the Food and Agriculture Organization. In this respect, the review notes that 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 catalyzed funding for the tasks demanded by the regional initiatives, including execution of applied research, preparation of technical documentation, participation of key stakeholders, and the operation of the regional task forces. Furthermore, the Bank has mobilized funding to finance the FLEG secretariat housed in the Bank. 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.

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, and that therefore, the Bank should examine barriers and possible remedial initiatives related to further mainstreaming actions for combating illegal logging and associated trade in client countries.

While the Bank has a clear comparative advantage in fostering action at the country level, linked to the regional initiatives and their indicative action plans, there are as yet few country initiatives

BOX A4.1

Related Governance Initiatives at the 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 Bank's Legal Vice Presidency assesses compliance with national laws and international agreements in Bank-supported projects, and country needs for regulatory reform.

The Bank also supports countries to combat questionable financial practices in the area of Anti-Money Laundering/ Combating the Financing of Terrorism.

to implement significant projects and programs 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. Furthermore, where action is taking place, frequently it is not linked to the regional or global FLEG program. This limits opportunities to enhance the effectiveness of the program at these various levels.

Bank's Advisory Services to Countries

The Bank's 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 a few countries only. 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 at providing 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 has also been declared a predicate offense against the Anti-Money-Laundering legislation thus setting a unique precedent on this matter. Building systems to improve transparency, accountability, the rule of law, and governance are all actions that feature prominently in the Bank's draft Forestry Strategy for Indonesia.

The Bank is engaged in actions aligned with FLEG in various other countries. In Bosnia and Herzegovina, for example, 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. The 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 public sector management of Russia's forestry through policy reforms, improving land use management, protecting and regenerating forested areas, and developing en 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 at improving governance in client countries (see box A4.1). The expertise and experience accumulated in these related Bank programs are relevant to the FLEG program. Collaboration with the Bank's Financial Intelligence Unit is already taking place, 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, 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.

Furthermore, in many respects, the FLEG program is complementary to the World Bank/World Wide Fund for Nature (WB/WWF) Alliance and the Program for Forests (PROFOR).

Although there are no explicit and formal operational 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 Bank's Forest Team, the FLEG program should be better integrated with others into a comprehensive partnership strategy.

Oversight

The Trust Funds to support the Bank's coordinating role in FLEG are subject to the Bank's 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 Bank's 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.

Exit Strategy

Politically difficult governance reforms typically take a long time to take hold. The Bank 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 region-wide partner institutions.

STRONG ASPECTS

- 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 on the subject, 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, design of action programs, and their implementation.
- 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.

KEY ASPECTS 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.
- A long-term strategy for Bank participation in the FLEG Partnership, and 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 missing. 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 the 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 Program's visibility, general awareness, and stakeholder commitment.

GENERAL RECOMMENDATIONS

Increase the focus of the program 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. Often, legislative frameworks favor politically and economically powerful groups, and tend to exclude less vocal and politically less potent poor populations. Thus, addressing poverty and rights issues in law enforcement requires intentional 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 FLEG's 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. As mentioned earlier in this review, it is apparent that 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. However, greater integration of activities carries transaction costs that, given the magnitude of the Forest Team's human resources, can hardly be afforded. 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 argued in another part of this review, this is not an exclusive FLEG problem, but a general one of insufficient consideration of forest issues in macro planning of bank initiatives and interventions, such as CASs and DPLs, and may therefore need to be treated as part of a more general thrust to secure greater mainstreaming of the Forest Strategy in the Bank's lending program. This thrust must rely on deeper analytical work than is presently the case.

APPENDIX I

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 forests' 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 world's 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[126] Forest

126. Subsequently changed to SDN Forests Team after TOR written.

Team will be undertaking a Sector Strategy Implementation Update (SSIU).[127]

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.

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 Bank's 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.

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

APPENDIX 2

List of People Consulted

Organization	Name	Title[128]
The World Bank Group		
ARD	Kevin M. Cleaver	Director, Agriculture & Rural Development
	Sushma Ganguly	Sector Manager
	Erick Fernandes	Watershed Specialist
	Aminesh 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)
	Tapani Oksanen	Senior Forestry Specialist and FLEG Coordinator
	Jill Blockhus	Natural Resources Management Specialist, PROFOR
	Diji Chandrasekharan	Natural Resource Economist, Consultant
	Laura Ivers	Communications Officer
	Klas Sander	Global Coordinator WB/WWF Forest Alliance
	Laurent Valiergue	Biocarbon Finance Specialist
	Maria Ana de Rijk	Junior Professional Associate
	Edgardo Maravi	Consultant
Environmental Department (ENV)	James Warren Evans	Director Environmental Department
	Jonathan Lindsay	Senior Counsel, Environmental and Socially Sustainable Development and International Law
	Charles di Leva	Chief Counsel, Environmental and Socially Sustainable Development and International Law
BioCarbon Fund	Benoit Bosquet	Senior Natural Resources Management Specialist, BioCarbon Fund
Africa Region (AFR)	Guiseppe Topa	Lead Forests Specialist
	Laurent Debroux	Forests Specialist
	Christian Albert	Senior Forest Specialist
	Clotilde Ngomba	Senior Agricultural Economist
	Mary Barton-Dock	Sector Manager
	Karen Brooks	Sector Manager
	Paola Agostini	Senior Economist

127. Titles are those valid at the time this review was carried out.

Organization	Name	Title[128]
East Asia and Pacific (EAP)	William Magrath	Lead Natural Resource Management Economist
	Susan S. Shen	Lead Ecologist
	Joseph Leitmann	Lead Environmental Specialist
	Hoonae Kim	Sector Manager
	Mario Boccucci	Consultant
Europe and Central Asia Region (ECA)	Kristalina I. Georgieva	Country Director, Russia
	Dirk Reinemann	Country Manager, Bosnia and Herzegovina
	Bob Kirmse	Senior Forestry Specialist
	Andrey V. Kushlin	Senior Forestry Specialist
	Jessica Mott	Senior Natural Resources Economist
	Marjory Anne Bromhead	Sector Manager
	Peter A. Dewees	Lead Environment Specialist
Latin America and the Caribbean Region (LAC)	Robert Davis	Senior Forests Specialist
	Jim Smyle	Senior Natural Resource Management Specialist
	Gregor V. Wolf	Senior Environmental Specialist/Rain Forest Unit Manager
	Abel Mejia	Sector Manager
	Gunnar Platais	Senior Environmental Economist
	Gerardo Segura	Senior Rural Development Specialist
	Laura Tuck	Sector Director
	Mark Cackler	Sector Manager
South Asia Region (SAR)	Peter Jipp	Senior Forest Specialist
	Grant Milne	Senior Natural Resource Management Specialist
	Adolfo Brizzi	Sector Manager
	Richard Danamia	Senior Environmental Economist
International Finance Department	Mark A. Constantine	Principal Strategy Officer, Global Manufacturing and Services
Corporation	Peter A. Neame	Program Manager
	Ole C. Sand	Team Leader. Forest Product Sector
	Dwight O'Donnell	Industry Specialist, Global Manufacturing Services Department
	Saran Kebet-Koulibaly	Manager, Global Manufacturing Services Department
Multilateral Investment Guarantee Agency	Harvey D. Van Veldhuizen	Lead Environment Officer
	Robert McDonough	Senior Environment Officer
World Bank Institute	Konrad von Ritter	Sector Manager
	Marian Delos Angeles	Senior Environmental Economist
Other Bank Staff	Robin Ruth Ritterhoff	Senior Advisor to the U.S./Executive Director
	Ken Chomitz	DEC
	Harvey Himberg	Senior Environmental Specialist, Quality Assurance and Compliance Unit
	Stephen Lintner	Senior Adviser, Quality Assurance and Compliance Unit

Organization	Name	Title[128]
External Advisory Group Members	Hosny Ellakany	University of British Columbia
	Yati Bun	Executive Director, Foundation for People and Community Development Inc., Papua New Guinea.
	David Kaimowitz	Director General CIFOR
	Christiana Amoaka-Nuama	Former Minister for Lands and Forestry, Ghana
	Steward Maginnis	Head, Forest Conservation Programme, The World Conservation Union (IUCN)
	Yam Malla	Executive Director, Regional Community Forestry Training Centre for Asia and the Pacific, RECOFTC
	Arvid Khare	Forest Trends
Other Stakeholders	Andrea Kutter	GEF, Senior Environmental Specialist
	Pekka Patosaari, Mahendra Joshi	UNFF Secretariat
	Jan Heino	Assistant Director General, FAO
	Juergen Blaser	Intercooperation
	François Wencelius	NFP Facility
	Bruce Cabarle, Ken Crichton, Duncan Pollard	WWF
	Per Björkman	SIDA/NATUR
	Gary Dunning	The Forest Dialogue
	David Cassells	TNC
	Mary Coulombe	AF&PA
	Andy White, Augusta Molnar	Forest Trends/Rights & Resources
	Michael Jenkins, Kerstin Canby	Forest Trends
	Martin Walter	Consultant
	James Griffiths	WBCSD
	Teresa Presas	CEPI
	Antoine de la Rochefordière	SGS
	Marcus Colchester	Forest People Program
	Kari Keipi	IBD, Senior Environmental Specialist
	Ralph Roberts	CIDA, Senior Advisor, Forestry and Conservation
	Lars Laestadius	WRI
	Evy von Pfeil	GTZ
	Eleanor Nichol, John Buckrell, Michael Davis	Global Witness
	Olli Haltia, Jyrki Salmi, Anna-Leena Simula, Petri Lehtonen, Jukka Tissari, Esa Puustjärvi, Hanna Nikinmaa, Jussi Lounasvuori	Savcor-Indufor
	Jim Douglas	Australian National University
	Marko Katila	Finnish Ministry of Foreign Affairs, Department of International Development
	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 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**
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 d'Ivoire	-	-	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	-	-	-	-
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

	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**
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
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	-	-
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

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
2004	P072003	Benin	Poverty Reduction Strategy Credit—1st PRSC	20	10	2

Year	Project ID	Country	Name	Project loan (IUS$ million)	Forest component (percent)	Forest component commitment (US$ million)
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
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 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

Aspect	WB OP 4.36	IFC PS 6 and GN6
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 IFC's PS6 and GN6 apply also to resources other than forests, somewhat different wordings have been used.