EXECUTIVE SUMMARY

The Challenges

Over 150 heads of state have declared that halving extreme poverty by 2015 is central to the International Development goals. These goals include increasing school enrollment, reducing child and maternal mortality, expanding health services, eliminating gender disparities and improving environmental management for sustainable development. The Bank supports these goals by emphasizing the social and structural dimensions of development, focusing its efforts, increasing selectivity and emphasizing partnerships and transparency. Global and corporate advocacy priorities and areas of core competencies are being pursued as a result.

A forest strategy for the Bank that can make an effective contribution to poverty reduction and environmental management is central to achieving the International Development goals. Forest resources directly contribute to the livelihoods of 90 percent of the 1.2 billion people living in extreme poverty and indirectly support the natural environment that nourishes agriculture and the food supplies of nearly half the population of the developing world. Forests are also central to growth in many developing countries through trade and industrial development. However, mismanagement of this resource has cost governments revenues that exceed World Bank lending to these countries. Illegal logging results in additional losses of at least US$10 to 15 billion per year of forest resources from public lands. If captured by governments, these losses could support expenditures in education and health that would exceed current development assistance to these sectors.

Forests are also central to the environmental commons. Nearly 90 percent of terrestrial biodiversity is found in the forests of developing countries. Most of the carbon emissions of developing countries come from deforestation contributing to 10 to 30 percent of global carbon emissions. Unfortunately, the lack of markets for the national and global environmental services offered by forests has contributed to high rates of deforestation in developing countries. Growing forests are a valuable resource not just for their timber and biodiversity values but also for their prospective value if a global market emerges for the sequestering of carbon from forests.

The Bank's Performance in the Forest Sector

The Bank's performance in the forest sector has been unsatisfactory. The World Bank's 1991 forest strategy and 1993 policy largely focused on environmental issues and protecting tropical moist forests. They reflected rising international concern about the rate of tropical deforestation and strongly emphasized the need to preserve intact forest areas.

While the 1991 strategy recognized the role that forests could play in poverty reduction and the importance of policy reforms in containing deforestation, its hallmark was a strong commitment not to finance commercial logging in primary tropical moist forests. This emphasis on safeguarding forests has meant in practice that little attention was paid to the management of natural forests in the tropics and therefore to the poverty-reduction potential of forests. The 1993 policy led to a generally passive "do no harm" stance on natural forests in the tropics. Interventions designed to more proactively improve economic and environmental management of those forests were often seen as too costly and risky. What OED has termed "the chilling effect" permeated operations in the Bank Group, including the IFC and MIGA.

Furthermore, the 1991 forest strategy did not have clearly defined implementation mechanisms. As a consequence, countries rich in forest resources have not been recipients of World Bank funding, nor have they benefited from strong research and analytical sector work (Economic and Sector Work termed ESW in the World Bank), or engaged in a strong dialogue on forest policy and strategy. The bulk of the US$3.7 billion lent by the World Bank for forests during the 1990s went to China, India and Eastern Europe. The OED review concluded that the Bank had been "irrelevant" in slowing deforestation despite the commitment to this objective in the 1991 Forest Strategy. The World Bank needs to modify its strategy, expand its policy to include all forest areas and refocus the strategy on poverty reduction and economic management, including
good governance. Moreover, it is now acknowledged that the impacts on forests and forest-dependent people of what the Bank does in support of policy reforms and investments outside the forest sector is of equal, or even greater, significance than its forest sector activities. Non-forest interventions, such as rural development and infrastructure programs and projects and economic adjustment measures, must be carefully formulated to take account of important forest outcomes.

The Elements of the Strategy

The Comprehensive Development Framework implies that the Bank retains a broad diagnostic and analytic capability but will be selective in its direct assistance, seeking its comparative advantage and working with clients and partners. Through this approach, it is expected that the Bank will maintain a high degree of economic and technical work while widely consulting with partners and stakeholders. The building of the Bank's new forest strategy has followed this model of analysis and consultations. As detailed in Annex 7, a two-year process of analysis and consultation has gathered input from around the world, from development partners and stakeholders including governments, civil society in developing and developed countries, industry, forest-dependent people and partner donor agencies and UN bodies. The process also included wide consultations with Bank task managers and other staff.

These consultations were supported by extensive analytical, technical and economic studies, some commissioned by the World Bank and others done in parallel by independent institutions and NGOs (see Annex 8), on a wide range of subjects. Among other things, these studies emphasized the importance of dealing with governance and quantified for several countries the costs of poor forest management and illegal activities. The studies also confirmed the close link between the livelihoods of the poor and forests and helped to refute the largely false notion that the poor are the cause of deforestation in developing countries. They also identified strategic approaches to forest issues, including participation and partnerships. From this process, the revised Forest Strategy has been built on three pillars:

- Harnessing the potential of forests to reduce poverty
- Integrating forests in sustainable economic development
- Protecting global forest values

Addressing these three aspects together makes a forest strategy complex and multifaceted-it is not just about growing or protecting trees but is a complex interaction of policy, institutions and incentives. A narrow perspective on forestry—even sustainable forestry—is insufficient. To be effective, the strategy demands a multi-sectoral approach that addresses cross-sectoral issues and takes into account impacts on forests and forest people of activities, policies and practices outside the sector. In activities within these three pillars of engagement the Bank must be selective in its support. In broad terms, the Bank would focus on economic policy and rural strategies that embrace both sustainable use and conservation of vital forest environmental services. It would provide institutional and policy for community and joint forest management, governance and control of illegal activities, the building of markets and financial instruments in support of private investment in sustainable forest management and conservation. For IFC and MIGA, the major focus would be to support private investments in sustainable forest management, conservation and rural forest industries.

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