



International Finance Corporation

**OEG REVIEW -
IMPLEMENTATION OF THE 1991 FOREST
STRATEGY IN IFC'S PROJECTS**

VOLUME II

JUNE 23, 2000

**OPERATIONS EVALUATION GROUP
DIRECTOR: WILLIAM E. STEVENSON
TASK MANAGER: AFOLABI OJUMU**

Study Team

| | |
|-------------|---|
| Core Team: | Afolabi Ojumu Rafael Dominguez Cherian Samuel Dominique Zwinkels |
| Consultant: | John Gilliland |

The empirical findings in this report are based on information which private sector companies assisted by IFC have provided in respect of their activities and operations. Because of the confidentiality of this information, identifying data about individual companies have been disguised or aggregated as appropriate in accordance with the requirements of IFC's policy on disclosure of information.

OEG REVIEW - IMPLEMENTATION OF 1991 FOREST STRATEGY IN IFC'S PROJECTS

TABLE OF CONTENTS

ANNEXES

1. IFC's 1991 FOREST MEMORANDUM
2. WORLD BANK'S OPERATIONAL POLICY
3. IFC ENVIRONMENT OPERATIONAL PROCEDURE
4. OUTLINE OF OEG'S REVIEW OF IFC'S FORESTRY OPERATIONS
5. LIST OF PEOPLE INTERVIEWED OR CONSULTED
6. FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY REGION/COUNTRY
7. FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY PRODUCT TYPES
8. FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY FOREST TYPES
9. FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY FOREST OWNERSHIP
10. GEF FUNDED PROJECTS
11. CASE STUDIES - SAMPLE VS. POPULATION CHARACTERISTICS
12. PROFILE OF CASE STUDIES
13. COMMENTS FROM OEG FEEDBACK SESSION

REVIEW OF 1991 FOREST STRATEGY

1991 FOREST MEMORANDUM

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IFC/SecM91-119

FROM: The Secretary

September 4, 1991

IFC FORESTRY PROJECTS

Attached is a memorandum from the President entitled "IFC Forestry Projects" dated August 30, 1991, which responds to Directors' questions during the Board discussion of July 18, 1991 on the Bank's Forest Policy Paper (R91-96/L) concerning the applicability of the Bank's forestry policy to IFC.

Questions on this memorandum may be referred to Mr. Friedrich Luhde (ext. 38861).

Distribution:

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Bank and MIGA

International Finance Corporation

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: CORINTFIN

BARBER B. CONABLE
President

August 30, 1991

MEMORANDUM TO THE BOARD OF DIRECTORS

SUBJECT: IFC FORESTRY PROJECTS

1. On July 18, 1991, the Executive Directors of IBRD considered the Forestry Policy Paper (FPP) issued on June 24, 1991 by the Agriculture and Rural Development Department of the Bank. IFC was consulted during the preparation of the FPP.
2. The purpose of this memorandum is to confirm that in its forestry investments, the Corporation will adhere to the principles contained in the FPP. Specifically IFC will not finance commercial logging in primary tropical moist forests (TMFs). Furthermore, all infrastructure projects (e.g. roads, dams, mines) which may lead to loss of TMFs will be subject to rigorous environmental assessments as set out in IFC's Environmental Review Procedure for projects that raise significant environmental issues.
3. All projects financed by IFC will conform with the spirit and intent of the FPP. However, the application of the FPP will have to reflect the particular nature of IFC's private sector business. The FPP mandates that Bank forestry sector operations will be subject to government commitment to sustainable and conservation-oriented forestry, but IFC cannot impose conditions on governments. It may decide to finance projects in countries where such commitment is weak, provided that the project itself conforms with the FPP and that the sponsors commit to follow World Bank guidelines and internationally accepted practices aimed at preserving present forests. For such projects, IFC will specifically consult with Bank staff.
4. IFC's involvement in the forestry sector will be directed predominantly at temperate forests which, according to the FPP, are well suited for industrial utilization. In particular, IFC will finance the sustainable use of commercial plantations and the reforestation of degraded land, generally in connection with industrial projects. IFC projects will also encourage the optimal use of wood resources by supporting secondary industries (e.g. particleboard, fiberboard) where the raw material is a waste product of other industrial operations.

Barber B. Conable

REVIEW OF 1991 FOREST STRATEGY

WORLD BANK'S OP 4.36

OP 4.36
September 1993

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

Forestry

Note: This document is based on *The Forest Sector: A World Bank Policy Paper*, 7/18/91, and also complements the following Bank guidelines: OD 4.01, *Environmental Assessment*; OD 4.20, *Indigenous Peoples*; OD 4.30, *Involuntary Resettlement* ; and OMS 2.36, *Environmental Aspects of Bank Work*. Staff should also consult OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*; OPN 11.02, *Wildlands* ; and OPN 11.03, *Management of Cultural Property in Bank-Financed Projects*. Questions may be addressed to the Director, Agriculture and Rural Development Department.

1. Bank¹ involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. In pursuit of these objectives, the Bank applies the following policies:

- (a) The Bank does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.² In borrowing countries where logging is being done in such forests, the Bank seeks the government's commitment to move toward sustainable management of those forests, as described in para. 1(d) below, and to retain as much effective forest cover as possible. Where the government has made this commitment, the Bank may finance improvements in the planning, monitoring, and field control of forestry operations to maximize the capability of responsible agencies to carry out the sustainable management of the resource.
- (b) The Bank uses a sectorwide approach to forestry and conservation work in order to address policy and institutional issues and to integrate forestry and forest conservation projects with initiatives in other sectors and with macroeconomic objectives.
- (c) The Bank involves the private sector and local people in forestry and conservation management or in alternative income-generating activities. The Bank requires borrowers to identify and consult the interest groups involved in a particular forest area.
- (d) The Bank's lending operations in the forest sector are conditional on government commitment to undertake sustainable management and conservation-oriented forestry. Such a commitment (which may be reflected in specific conditionalities; see [Good Practices 4.36](#) for examples) requires a client country to

- (i) adopt policies and a legal and institutional framework to (a) ensure conservation and sustainable management of existing forests, and (b) promote active participation of local people and the private sector in the long-term sustainable management of natural forests (see paras. 19-20 of OD 4.01, *Environmental Assessment*);
 - (ii) adopt a comprehensive and environmentally sound forestry conservation and development plan that clearly defines the roles and rights of the government, the private sector, and local people (including forest dwellers) (see [OD 4.20](#), *Indigenous Peoples*);
 - (iii) undertake social, economic, and environmental assessments of forests being considered for commercial use;
 - (iv) set aside adequate compensatory preservation forests to protect and conserve biological diversity and environmental services and to safeguard the interests of forest dwellers, specifically their rights of access to and use of designated forest areas; and
 - (v) establish institutional capacity to implement and enforce these commitments.
- (e) The Bank distinguishes investment projects that are exclusively environmentally protective (e.g., management of protected areas or reforestation of degraded watersheds) or supportive of small farmers (e.g., farm and community forestry) from all other forestry operations. Projects in this limited group may be appraised on the basis of their own social, economic, and environmental merits. However, they may be pursued only where broad sectoral reforms are in hand, or where remaining forest cover in the client country is so limited that preserving it in its entirety is the agreed course of action.
- (f) In forest areas of high ecological value, the Bank finances only preservation and light, non-extractive use of forest resources. In areas where retaining the natural forest cover and the associated soil, water, biological diversity, and carbon sequestration values is the object, the Bank may finance controlled sustained-yield forest management. The Bank finances plantations only on non-forested areas (including previously planted areas) or on heavily degraded forestland.

2. The Bank does not finance projects that contravene applicable international environmental agreements.

"Bank" includes IDA, and "loans" includes credits. Definitions are given in [Annex A](#).

REVIEW OF 1991 FOREST STRATEGY

IFC's OP 4.36

Introduced
July 1998

OP 4.36.

Forestry

Note: This policy applies to projects financed by the International Finance Corporation (IFC). In case of doubt, any determination of what is acceptable to IFC under this policy is made by the Vice President, Investment Operations in consultation with the Vice President with corporate responsibility for environmental issues, the Technical and Environment, and Legal Departments. Questions should be addressed to the Associate Director, IFC's Environment Division.

1. IFC¹ involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. In pursuit of these objectives, IFC applies the following policies:
 - a. IFC does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.²
 - b. IFC involves the private sector and local people in forestry and conservation management or in alternative income-generating activities. IFC requires project sponsors to identify and consult the interest groups involved in a particular forest area.
 - c. IFC's financing operations in the forest sector are conditional on the project sponsor's commitment to undertake sustainable management and conservation-oriented forestry. Such a commitment requires the project sponsor to:
 - i. adopt policies and programs to (a) ensure conservation and sustainable management of existing forests, and (b) promote active participation of local people in the long-term sustainable management of natural forests;
 - ii. adopt a comprehensive and environmentally sound forestry conservation and development plan that clearly defines the roles and rights of the government (where applicable), the project sponsor, and local people (including forest dwellers) (see OD 4.20, "Indigenous Peoples");
 - iii. undertake social, economic, and environmental assessments of forests being considered for commercial use;

- iv. set aside adequate compensatory preservation forests to protect and conserve biological diversity and environmental services and to safeguard the interest of forest dwellers, specifically their rights of access to and use of designated forest areas; and
 - v. establish an internal capacity to implement and enforce these commitments.
- d. IFC distinguishes investment projects that are exclusively environmentally protective (e.g., management of protected areas or reforestation of degraded watersheds) or supportive of small farmers (e.g., farm and community forestry) from all other forestry operations. Projects in this limited group may be appraised on the basis of their own social, economic, and environmental merits. However, they may be pursued only where broad sectoral reforms are in hand, or where remaining forest cover in the country is so limited that preserving it in its entirety is the agreed course of action.
- e. In forest areas of high ecological value, IFC finances only preservation and light, non-extractive use of forest resources. In areas where retaining the natural forest cover and the associated soil, water, biological diversity, and carbon sequestration values is the object, IFC may finance controlled sustained-yield forest management. IFC finances plantations only on non-forested areas (including previously planted areas) or on heavily degraded forestland.
2. IFC will not finance projects that contravene any relevant international environmental agreement to which the member country concerned is a party.

Annex A ---- Definitions

1. The following definitions apply in this statement:
- a. Primary forest is defined as relatively intact forest that has been essentially unmodified by human activity for the previous 60 to 80 years.
 - b. Tropical moist forest is generally defined as forest in areas that receive not less than 100 mm of rain in any month for two out of three years and have an annual mean temperature of 24° C or higher. Also included in this category, however, are some forests (especially in Africa) where dry periods are longer but high cloud cover causes reduced evapotranspiration.
 - c. Carbon sequestration refers to the process whereby forested areas retain a revolving but stable store of organic carbon in their biomass. Clearing, burning, or otherwise substantially altering the forest increases the net release into the atmosphere of carbon-based gases that contribute to the greenhouse effect.

- d. The term local people describes the broad group of people living in or near a forest, with some significant level of dependence upon it. The term includes forest dwellers, indigenous forest-adjacent populations, and recent immigrants.
- e. Sustainable management of natural forests means controlled utilization of the resource to produce wood and non-wood benefits into perpetuity, with the basic objectives of long-term maintenance of forest cover and appropriate reservation of areas for biodiversity protection and other ecological purposes.
- f. A natural forest is an area in which the cover has evolved naturally so as to provide significant economic and/or ecological benefits, or one that is sufficiently advanced in regeneration and recovery from disturbance as to be judged in near-natural condition.

Footnotes

¹ The International Finance Corporation (IFC) is the World Bank Group entity with a mandate to invest in private sector projects in developing member countries. It lends directly to and makes equity investments in private companies without guarantees from governments and attracts other sources of funds for these projects. IFC also provides advisory services and technical assistance to governments and businesses. (This policy also covers projects funded under the Global Environment Facility.)

² Definitions are given in Annex A.

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: October 8, 1998

TO: Mr. Assad Jabre, CPOVP

FROM: Bill Stevenson, CEXOE

EXTENSION: 30770/1

SUBJECT: Review of IFC's Forestry Operations

You may be aware that the Environmentally & Socially Sustainable Development Network (ESSD) is undertaking a full review of the Bank's 1991 Forestry Policy at the request of the Executive Directors. The Operations Evaluations Department (OED) is also carrying out a parallel, independent assessment of the Bank's performance under the policy. The focus of the two studies is the impact of the 1991 World Bank Group policy on operations affecting the forestry sector, and they are expected to feed into a proposed revision of the Bank Group's policy and strategy for the sector. The Approach Paper for the OED study, attached as an Annex to this memo, was distributed to the Committee on Developmental Effectiveness (CODE) on a no-objection basis on August 5, 1998.

As mentioned in OED's Approach Paper, IFC is expected to assess the impact of the forestry policy on its projects. OEG would independently review the impact of IFC's operations on the forestry sector, and the Technical & Environmental Department would review the assessment of environmental performance. While this work is outside our planned and budgeted program for FY99, we consider it important for OEG to participate in order to ensure appropriate and relevant coverage of IFC's operations and be able to help shape policy recommendations that may emerge.

I attach an outline of OEG's work plan for this exercise. I will welcome an early opportunity to discuss it with you.

cc: Messrs./Mmes. Lee, Raczynski, Riddle, Picciotto, McAllister, Slade, Lele

OEG's Review of IFC's Forestry Portfolio

Objectives

- a. Assess the impact of the Bank Group's 1991 Forestry Policy on IFC projects along two principal dimensions: (i) slowing deforestation; and (ii) adequate reforestation.
- b. Garner the relevant lessons of experience that could be useful for future operations.
- c. Complement the assessment of environmental performance in IFC projects under the Forest Policy, being undertaken by the Technical & Environmental Department.
- d. Complement similar assessment of Bank projects, being done by OED and ESSD (it is expected that IFC's work in (a) and (c) would be incorporated in the Bank's report(s)).
- e. Contribute towards the expected revision of: (i) Bank Group's Forestry Policy; and (ii) Bank Group's Forestry Sector Strategy.

Scope

- a. Study will cover primarily the period since 1990 (i.e. including ongoing operations); in addition, it will analyze the pre-1991 operations by way of a before/after 1991 Forestry Policy comparison of the operations in the portfolio.
- b. Review IFC's projects in areas that are likely to have impacts on the forest sector (i.e. timber and logging, pulp and paper, mining, agribusiness, and infrastructure -- particularly roads, dams, and power).
- c. Select a representative sample of projects for the study along key characteristics like: (i) size of the project; (ii) type of activity (i.e., projects engaged in direct forest harvesting vs. projects not engaged in direct forest harvesting; it should be noted that projects based on imported forest products would be excluded in order to avoid double counting); (iii) country; and (iv) department.
- d. Investigate projects turned down by IFC to establish what happened and whether IFC's involvement might have been instrumental in slowing down the depletion of forest resources

Issues to be addressed in the study

(List is tentative and subject to extent of relevant evidence from operations reviewed)

- a. Focus of the study would be the selected sample of projects. This will be supplemented by country case studies. Countries will be chosen according to the size of the IFC portfolio (countries selected by us may be different from those of OED, depending on the composition of the forestry portfolio of the Bank and IFC).

- b. Document the source of forest resources (i.e., own vs. purchased, project-owned government-owned or third-party owned, tropical vs. non-tropical forests, primary vs. plantation forests) so as to provide the context for the discussion on sustainable forest management.
- c. Describe the logging practices used by direct forest harvesting projects, i.e., integrated harvesting, area-based concessions, and quantity-based concessions, to supplement the discussion in (b) on sustainable forest management.
- d. Catalogue the current practices for reforestation in IFC projects, in terms of the responsibilities of sponsors, governments, and/or third-party owners; analyze its implications for sustainable forest management.
- e. Compare the cost/benefit of forest owners vs. cost/benefit of forest users and evaluate potential for policy implication considering the nature of forest ownership (i.e., government, project, and third-party).
- f. Establish the sustainability of forest management, based on wood volume available vs. off-take requirements in the forest area.
- g. Establish the sustainability of forest management, based on cost of operations; if not sustainable, investigate evidence of flight to tree crops, conversion to real estate, etc.
- h. Analyze the impacts of: (i) post-harvest technology improvement; (ii) R&D; (iii) product diversification and innovation; and (iv) value-added outputs in slowing deforestation; document the role that IFC may have played with respect to facilitating the transfer of technology in the Forestry Sector.
- i. Explore if independent certification of forest management would help to slow the depletion of forest resources.
- j. Comment on the evidence of corruption in forest resource depletion.
- k. Using statistical analysis, examine if the 1991 Forest Policy led to significant changes -- quantitatively and/or qualitatively -- in the type of projects assisted by IFC.
- l. Compare (data permitting) the ex-ante and ex-post rates of returns (FRR, ERR, ROE) in IFC forestry projects over time; analyze if the 1991 Forest Policy had any effects.
- m. Compare the profitability of different types of projects within the forestry sector (e.g. plantation vs. treecrops) to see if there are distinct patterns across countries with different enabling environments; also see if the 1991 Forest Policy had any effect.
- n. Catalogue other development impacts flowing from the sample of projects studied.

Time Schedule

Our timing would be driven by OED's. Draft report of OED is scheduled for January/February 1999, which in turn is being driven by the review of ESSD. There are indications that this target may be optimistic and would need to be pushed back.

Budget and Funding

The budget for the study would be prepared to establish the travel and consultant budget requirements. It is expected that IFC Management would make a special allocation for the out-of-pocket costs of study.

REVIEW OF 1991 FOREST STRATEGY

LIST OF PEOPLE INTERVIEWED OR CONSULTED

| <u>Name</u> | <u>Title</u> | <u>IFC Department/Unit</u> |
|----------------------|------------------------------|-----------------------------|
| Motoko Aizawa | Principal Counsel | Legal |
| Glen Armstrong | Manager | Environmental Unit |
| Teresa Barger | Associate Director | Credit Review |
| Richard Caines | Environmental Spec. | Environmental Unit |
| Sung Chung | Principal Engineer | Technical Unit |
| Eric A. Crabtree | Investment Officer | Europe |
| Mark Eckstein | Environmental Spec. | Environmental Unit |
| Todd Hanson | Environmental Spec. | Environmental Unit |
| Lars A. Hirche | Consultant | Latin America and Caribbean |
| John C. Kittridge | Environmental Spec. | Environmental Unit |
| Gert-Joachim Lange | Senior Engineer | Technical Unit |
| Letitia Lowe | Head | Financial Mkt Environment |
| Peter McGovern | Principal Engineer | Agribusiness |
| Thomas Milton | Senior Investment Officer | Sub Saharan Africa |
| Ali R. Naqvi | Investment Officer | Telecom, Trans., Utilities |
| Peter Neame | Senior Environment Spec. | Environmental Unit |
| Juan Payeras | Investment Officer | Telecom, Trans., Utilities |
| Andreas M. Raczynski | Director | Technical and Environmental |
| Martyn J. Riddle | Associate Director | Environmental Unit |
| Douglas Salloum | Consultant | Environmental Unit |
| Ole C. Sand | Principal Investment Officer | Central & Southern Europe |
| Junfeng Shi | Consultant | Telecom, Trans., Utilities |

REVIEW OF 1991 FOREST STRATEGY

FY 85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY REGION/COUNTRY

| Region/Country | FY85-91 | | | FY92-98 | | |
|------------------|-----------|----------------|--------------|-------------|----------------|--------------|
| | No. | Project Cost | IFC Approval | No. | Project Cost | IFC Approval |
| LAC | | | | | | |
| Argentina | 6 | 160.8 | 17.6 | 4 | 81.4 | 15.7 |
| Brazil | 10 | 2,842.4 | 183.4 | 10 | 1,109.0 | 128.0 |
| Chile | 7 | 1,468.9 | 288.5 | 4 | 111.0 | 10.6 |
| Colombia | 1 | 0.0 | 0.3 | 0 | 0.0 | 0.0 |
| Costa Rica | 1 | 6.0 | 1.8 | 0 | 0.0 | 0.0 |
| Ecuador | 0 | 0.0 | 0.0 | 1 | 12.8 | 5.0 |
| Guyana | 1 | 10.1 | 1.7 | 0 | 0.0 | 0.0 |
| Mexico | 2 | 66.0 | 18.0 | 1 | 55.3 | 12.0 |
| Venezuela | 0 | 0.0 | 0.0 | 1 | 0.0 | 2.7 |
| Sub-Total | 28 | 4,554.2 | 511.3 | 21 | 1,369.5 | 174.0 |
| EUROPE | | | | | | |
| Bosnia | 0 | 0.0 | 0.0 | 2 | 21.1 | 16.0 |
| Croatia | 0 | 0.0 | 0.0 | 1 | 42.2 | 19.8 |
| Estonia | 0 | 0.0 | 0.0 | 2 | 32.1 | 8.0 |
| Hungary | 1 | 48.0 | 8.8 | 0 | 0.0 | 0.0 |
| Latvia | 0 | 0.0 | 0.0 | 1 | 19.0 | 4.0 |
| Lithuania | 0 | 0.0 | 0.0 | 1 | 34.3 | 8.9 |
| Poland | 1 | 0.0 | 0.4 | 4 | 406.9 | 46.4 |
| Romania | 0 | 0.0 | 0.0 | 1 | 12.0 | 4.0 |
| Russia | 0 | 0.0 | 0.0 | 2 | 188.5 | 48.5 |
| Turkey | 0 | 0.0 | 0.0 | 3 | 207.8 | 64.3 |
| Sub-Total | 2 | 48.0 | 9.2 | 17 | 963.9 | 219.9 |
| ASIA | | | | | | |
| China | 1 | 0.0 | 2.4 | 4 | 213.6 | 30.7 |
| Fiji | 1 | 13.3 | 4.0 | 0 | 0.0 | 0.0 |
| Indonesia | 2 | 92.5 | 23.2 | 0 | 0.0 | 0.0 |
| Korea | 1 | 3.0 | 0.2 | 0 | 0.0 | 0.0 |
| Laos | 0 | 0.0 | 0.0 | 1 | 2.9 | 1.1 |
| Sri Lank | 0 | 0.0 | 0.0 | 1 | 9.3 | 1.1 |
| Thailand | 2 | 120.0 | 57.9 | 2 | 44.7 | 13.1 |
| Sub-Total | 7 | 228.8 | 87.7 | 8 | 270.5 | 46.0 |
| AFRICA | | | | | | |
| Congo | 2 | 7.6 | 2.7 | 0 | 0.0 | 0.0 |
| Cote d'Ivoire | 1 | 1.3 | 0.5 | 0 | 0.0 | 0.0 |
| Gabon | 1 | 13.6 | 4.0 | 0 | 0.0 | 0.0 |
| Ghana | 1 | 1.8 | 0.6 | 2 | 9.5 | 2.1 |
| Kenya | 2 | 48.2 | 18.5 | 6 | 167.9 | 60.8 |
| Liberia | 1 | 25.9 | 8.5 | 0 | 0.0 | 0.0 |
| Malawi | 2 | 25.3 | 3.2 | 0 | 0.0 | 0.0 |
| Nigeria | 2 | 4.2 | 1.3 | 0 | 0.0 | 0.0 |
| South Africa | 0 | 0.0 | 0.0 | 3 | 50.4 | 17.9 |
| Swaziland | 0 | 0.0 | 0.0 | 1 | 12.0 | 5.0 |
| Zambia | 0 | 0.0 | 0.0 | 1 | 24.5 | 5.6 |
| Zimbabwe | 1 | 28.8 | 15.7 | 1 | 0.4 | 0.2 |
| Sub-Total | 13 | 156.7 | 55.0 | 14 | 264.7 | 91.6 |
| CAMENA | | | | | | |
| Egypt | 1 | 27.6 | 6.2 | 1 | 17.9 | 5.0 |
| Jordan | 0 | 0.0 | 0.0 | 1 | 29.7 | 10.0 |
| Pakistan | 3 | 18.8 | 7.2 | 2 | 83.3 | 27.6 |
| Uzbekistan | 0 | 0.0 | 0.0 | 1 | 8.1 | 4.0 |
| Sub-Total | 4 | 46.4 | 13.4 | 5 | 139.0 | 46.6 |
| TOTAL | 54 | 5,034.1 | 676.5 | 65.0 | 3,007.6 | 578.1 |

REVIEW OF 1991 FOREST STRATEGY

FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY PRODUCT TYPES

| | <u>Pulp and Paper</u> | | | <u>Wood Processing</u> | | | <u>Engineered Wood</u> | | |
|------------------------------|-----------------------|-----------------|-------------|------------------------|-----------------|-------------|------------------------|-----------------|-------------|
| | <u>No.</u> | <u>IFC Inv.</u> | | <u>No.</u> | <u>IFC Inv.</u> | | <u>No.</u> | <u>IFC Inv.</u> | |
| | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> |
| <u>FY 85-91</u> | | | | | | | | | |
| % of Total Investment | | 82% | | 8% | | | 10% | | |
| LAC | 22 | 439.8 | 79% | 3 | 29.2 | 56% | 3 | 42.4 | 62% |
| ASIA | 3 | 58.1 | 10% | 1 | 4.0 | 8% | 3 | 25.6 | 38% |
| AFRICA | 5 | 35.8 | 6% | 8 | 19.2 | 37% | 0 | 0.0 | 0% |
| CAMENA | 4 | 13.4 | 2% | 0 | 0.0 | 0% | 0 | 0.0 | 0% |
| EUROPE | 2 | 9.2 | 2% | 0 | 0.0 | 0% | 0 | 0.0 | 0% |
| Total | 36 | 556.2 | 100% | 12 | 52.4 | 100% | 6 | 68.0 | 100% |
| | | | | | | | | | |
| <u>FY 92-98</u> | | | | | | | | | |
| % of Total Investment | | 77% | | 10% | | | 13% | | |
| LAC | 14 | 122.0 | 27% | 3 | 10.5 | 19% | 4 | 41.5 | 57% |
| ASIA | 1 | 3.1 | 1% | 2 | 11.1 | 20% | 4 | 30.7 | 42% |
| AFRICA | 8 | 87.8 | 20% | 4 | 1.7 | 3% | 1 | 1.1 | 2% |
| CAMENA | 5 | 44.2 | 10% | 1 | 2.4 | 4% | 0 | 0.0 | 0% |
| EUROPE | 12 | 189.0 | 42% | 5 | 30.9 | 55% | 0 | 0.0 | 0% |
| Total | 40 | 446.1 | 100% | 15 | 56.6 | 100% | 9 | 73.3 | 100% |

REVIEW OF 1991 FOREST STRATEGY

FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY FOREST TYPES

| | <u>Tropical Forests</u> | | | <u>Boreal/ Temperate Forest</u> | | | <u>Plantations</u> | | |
|-------------------|-------------------------|----------------|--------------|-------------------------------------|----------------|--------------|--------------------|----------------|--------------|
| | <u>No.</u> | <u>IFC Inv</u> | | <u>No.</u> | <u>IFC Inv</u> | | <u>No.</u> | <u>IFC Inv</u> | |
| | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> |
| FY 85-91 | | | | | | | | | |
| % of Total | | | | | | | | | |
| Investment | | 4% | | | 28% | | | 68% | |
| LAC | 1 | 1.7 | 8.6 | 4 | 153.5 | 99.7 | 15 | 320.9 | 87.5 |
| AFRICA | 5 | 14.2 | 71.3 | 0 | 0.0 | 0.0 | 6 | 39.2 | 10.7 |
| ASIA | 1 | 4.0 | 20.1 | 0 | 0.0 | 0.0 | 3 | 6.6 | 1.8 |
| CAMENA | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 |
| EUROPE | 0 | 0.0 | 0.0 | 1 | 0.4 | 0.3 | 0 | 0.0 | 0.0 |
| TOTAL | 7 | 19.9 | 100.0 | 5 | 153.9 | 100.0 | 24 | 366.7 | 100.0 |
| FY 92-98 | | | | | | | | | |
| % of Total | | | | | | | | | |
| Investment | | 0% | | | 36% | | | 64% | |
| LAC | 0 | 0.0 | 0.0 | 1 | 2.8 | 1.9 | 17 | 156.3 | 60.0 |
| AFRICA | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 7 | 62.6 | 24.0 |
| ASIA | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 6 | 41.8 | 16.0 |
| CAMENA | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 |
| EUROPE | 0 | 0.0 | 0.0 | 12 | 144.1 | 98.1 | 0 | 0.0 | 0.0 |
| TOTAL | 0 | 0.0 | 0.0 | 13 | 146.9 | 100.0 | 30 | 260.7 | 100.0 |

REVIEW OF 1991 FOREST STRATEGY

FY85-98 IFC DIRECT IMPACT INVESTMENT APPROVALS BY FOREST OWNERSHIP

| | <u>Government</u> | | | <u>Own</u> | | | <u>Third Parties</u> | | |
|------------------------------|-------------------|-----------------|------------|------------|-----------------|------------|----------------------|-----------------|------------|
| | <u>No.</u> | <u>IFC Inv.</u> | | <u>No.</u> | <u>IFC Inv.</u> | | <u>No.</u> | <u>IFC Inv.</u> | |
| | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> | | <u>\$m</u> | <u>%</u> |
| FY85-91 | | | | | | | | | |
| % of Total Investment | | 12% | | 88% | | | 0% | | |
| LAC | 2 | 3.5 | 5 | 17 | 471.9 | 100 | 1 | 0.7 | 100 |
| AFRICA | 11 | 53.4 | 84 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| ASIA | 3 | 6.6 | 10 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| EUROPE | 1 | 0.4 | 1 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| CAMENA | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| Total | 17 | 63.9 | 100 | 17 | 471.9 | 100 | 1 | 0.7 | 100 |
| | | | | | | | | | |
| FY92-98 | | | | | | | | | |
| % of Total Investment | | 54% | | 33% | | | 13% | | |
| LAC | 0 | 0.0 | 0 | 14 | 132.4 | 92 | 6 | 56.7 | 100 |
| AFRICA | 6 | 61.6 | 26 | 1 | 1.0 | 1 | 0 | 0.0 | 0 |
| ASIA | 5 | 31.8 | 13 | 1 | 10.0 | 7 | 0 | 0.0 | 0 |
| EUROPE | 12 | 144.1 | 61 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| CAMENA | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 |
| Total | 23 | 237.5 | 100 | 16 | 143.4 | 100 | 6 | 56.7 | 100 |

REVIEW OF 1991 FOREST STRATEGY

GEF FUNDED PROJECTS

| NAME/DESCRIPTION OF INTERMEDIARY | PROJECT LOCATION | LOAN (US\$000) | GEF OBJECTIVE | PROJECTS |
|---|---|----------------|------------------------------------|--|
| Environmental Enterprises Assistance Fund (US non-profit environmental investment fund) | Central America Dominican Rep. Mexico | 400 | Biodiversity, Climate change | Energy efficiency, renewable energy (photovoltaic solar home systems) |
| CARESBAC-POLSKA (local for-profit small business investment fund) | Poland | 600 | Biodiversity, climate change | Energy efficiency, organic farming |
| FUNDECOR (local non-profit foundation) | Costa Rica | 500 | Biodiversity | Reforestation, Sustainable forest |
| El Sewedy (for-profit electrical supply company) | Egypt | 500 | Climate change | Energy efficiency (compact fluorescent lamps) |
| World Wildlife Fund (Global NGO) | Papau New Guinea | 250 | Biodiversity | Sustainable forestry |
| Grameen Shakti (local non-profit company) | Bangladesh | 750 | Climate change | Energy efficiency, renewable energy (photovoltaic solar home systems) |
| Dessau-Soprin (Canadian for-profit engineering company) | Tunisia, Morocco, Algeria | 800 | Climate change | Energy efficiency (energy service companies) |
| Conservatin International (Global NGO) | Global | 1,000 | Biodiversity | Organic farming, Ecotourism |
| FCG (local foundation) | Guatemala | 500 | Biodiversity, Climate change | Ecotourism Renewable Energy |
| Selco Vietnam (local for-profit company) | Vietnam | 750 | Climate change | Renewable Energy (photovoltaic solar home systems) |
| Save Valley Wildlife (local for-profit company) | Zimbabwe | 1,000 | Biodiversity | Re-stocking of wildlife on private conservancy land |
| International Expeditions (US for profit company) | Central and Southern America | 750 | Biodiversity | Ecotourism |
| Barclays Bank of Botswana (for-profit bank) | Botswana | 1,000 | Biodiversity, Climate change | Ecotourism, non-timber forest use, Renewable energy |
| Peer Consultants (US for-profit engineering company) | South Africa | 1,000 | Climate change | Energy efficiency (passive solar heating and cooling designs) |

REVIEW OF 1991 FORESTRY POLICY

CASE STUDIES – SAMPLE VS. POPULATION CHARACTERISTICS

| | Sample | | Population | | Rep. | Sample | | Population | | Rep. |
|-----------------------------|-----------|------------|------------|------------|-----------|------------|------------|------------|------------|-----------|
| | No. | % | No. | % | rate | IFC Inv. | % | IFC Inv. | % | rate |
| Sector | | | | | | | | | | |
| Timber (B-A) | 4 | 29 | 7 | 24 | 57 | 59 | 15 | 77 | 12 | 76 |
| Pulp & Paper (B-D) | 5 | 36 | 10 | 34 | 50 | 162 | 42 | 273 | 43 | 59 |
| Others | 5 | 36 | 12 | 41 | 42 | 169 | 43 | 286 | 45 | 59 |
| Total - Sector | 14 | 100 | 29 | 100 | 48 | 390 | 100 | 636 | 100 | 61 |
| Type | | | | | | | | | | |
| Greenfield | 3 | 21 | 6 | 21 | 50 | 31 | 8 | 58 | 9 | 53 |
| Expansion | 11 | 79 | 23 | 79 | 48 | 359 | 92 | 578 | 91 | 62 |
| Total - Type | 14 | 100 | 29 | 100 | 48 | 390 | 100 | 636 | 100 | 61 |
| Raw Material Source | | | | | | | | | | |
| Govt. plantation | 9 | 64 | 16 | 55 | 56 | 161 | 41 | 213 | 34 | 75 |
| Own plantation | 4 | 29 | 12 | 41 | 33 | 219 | 56 | 413 | 65 | 53 |
| Others | 1 | 7 | 1 | 3 | 100 | 10 | 3 | 10 | 2 | 100 |
| Total - Source | 14 | 100 | 29 | 100 | 48 | 390 | 100 | 636 | 100 | 61 |
| Region (Investments) | | | | | | | | | | |
| Africa | 6 | 22 | 9 | 18 | 67 | 53 | 14 | 55 | 9 | 97 |
| Asia | 6 | 22 | 7 | 14 | 86 | 42 | 11 | 43 | 7 | 97 |
| Europe | 7 | 26 | 11 | 22 | 64 | 75 | 19 | 126 | 20 | 60 |
| LAC | 8 | 30 | 22 | 45 | 36 | 219 | 56 | 413 | 65 | 53 |
| Total - Region Inv. | 27 | 100 | 49 | 100 | 55 | 390 | 100 | 636 | 100 | 61 |
| Region (Companies) | | | | | | | | | | |
| Africa | 2 | 14 | 5 | 17 | 40 | 53 | 14 | 55 | 9 | 97 |
| Asia | 3 | 21 | 4 | 14 | 75 | 42 | 11 | 43 | 7 | 97 |
| Europe | 5 | 36 | 9 | 31 | 56 | 75 | 19 | 126 | 20 | 60 |
| LAC | 4 | 29 | 11 | 38 | 36 | 219 | 56 | 413 | 65 | 53 |
| Total - Region Inv. | 14 | 100 | 29 | 100 | 48 | 390 | 100 | 636 | 100 | 61 |

Notes:

1. The number of sample and population referred to companies, except under regional investments where they referred to investments.
2. IFC investment in \$ million.
3. In “type” category the data refer to the first investment in cases of multiple investments.

REVIEW OF 1991 FORESTRY POLICY

PROFILE OF CASE STUDIES

| High Risk Countries ^{1/} | Project Name ^{2/} | Year of Approval | Tropical Moist Forest | Ownership of Forest/Plantation | Sector |
|-----------------------------------|----------------------------|--------------------|-----------------------|--------------------------------|-----------------|
| | Africa | | | | |
| No | AFR 1 | 88,89,94, 96,98 | No | Government owned | Pulp & Paper |
| No | AFR 2 | 85 | No | Government owned | Timber |
| | | | | | |
| | Asia | | | | |
| No | AS 1 | 94,97 | No | Government owned | Engineered Wood |
| No | AS 2 | 97,98 | No | Government owned | Engineered Wood |
| No | AS 3 | 93 | No | Third-party owned | Pulp & Paper |
| | | | | | |
| | Europe | | | | |
| No | EU1 | 98 | No | Government owned | Pulp & Paper |
| No | EU 2 | 95,96,98 | No | Government owned | Pulp & Paper |
| No | EU 3 | 95 | No | Government owned | Pulp & Paper |
| No | EU 4 | 96 | No | Government owned | Timber |
| No | EU 5 | 96 | No | Government owned | Timber |
| | | | | | |
| | LAC | | | | |
| Yes | LAC 1 | 90,91,92 | No | Own plantation | Pulp & Paper |
| Yes | LAC 2 | 93 | No | Own plantation | Pulp & Paper |
| Yes | LAC 3 | 90 | No | Own plantation | Pulp & Paper |
| Yes | LAC 4 | 87,96,97 | No | Own plantation | Pulp & Paper |

^{1/} i.e. countries with threatened TMFs as identified in the 1991 Forest Paper.

^{2/} The projects are located in 9 different countries.

REVIEW OF 1991 FORESTRY POLICY

COMMENTS AT OEG FEEDBACK SESSION

Introduction

On June 12, 2000, OEG held a Feedback Session with the NGO community on the Preliminary Draft of *OEG Review – Implementation of the 1991 Forest Strategy in IFC's Projects* (CODE2000-37). The open, half-day session followed the placement of the report on the internet on May 23, 2000 and the invitation issued for the session included the website address.

Invitations were sent to 13 NGOs (see Attachment I) but only four were able to attend. Written comments (see Attachment II) were received from a group of Brazilian NGOs. Attendees at the Feedback Session were:

| | |
|-----------------------|---|
| Mr. Bruce J. Cabarle | Director, Global Forest Program, World Wildlife Fund |
| Mr. Tom Dillion | Senior Forest Program Officer, World Wildlife Fund |
| Ms. Korinna Horta | Senior Environmental Economist, Environmental Defense |
| Mr. Douglas P. Norlen | Policy Director, Pacific Environment & Resources Center |
| Ms. Anny Wong | Global Forest Policy Project |

Summary of Comments

The purpose of the Feedback Session was to solicit comments from the NGOs on the OEG report and receive their recommendations for consideration in the final report. The record of the session reproduced here is based on notes taken by OEG staff. Since the session adopted an open, informal, question-and-answer format, the comments and recommendations are not attributed to any individuals or organizations. The comments are presented below in the form of bullet points, rather than question-and-answer. OEG has not obtained the concurrence of the attendees to the accuracy of the record.

- What was responsible for the delay in the IFC report, which was expected to be available for discussion along with the Bank's in January?
- Why has the report removed the names of the projects and their country locations? What does IFC expect to get out of the consultation given this disclosure limitations? Meaningful exchange on the case study findings would require specifics, particularly as the NGO community has information about the status of forest in various countries around the world.
- In preparing the report, did IFC come across any surprises, any expectations not met?
- Have the administrative shortcomings identified been addressed? Were these shortcomings due to failure of policy or of performance?

- Given the operational staff's lack of awareness of the 1991 forest strategy, etc., how was IFC able diligently to uphold the prohibition regarding TMFs?
- Was the 1991 forest paper not meant to include IFC operations?
- Low stumping is pervasive in Bank countries, how does IFC handle it? Do IFC and the Bank consult on this matter?
- Given the gap between the time it takes for the Bank to pursue sector dialogue with the government and IFC's project decision process, is there any alignment of the operations of the two organizations, are there constraints inhibiting such alignment?
- How does IFC screen its forest plantation projects regarding acquisition of the land?
- At the screening stage, does IFC look at the compounding effect of its project and others in the area on the environment, forests, etc.? In other words, who controls for the cumulative loss of forests from the various projects?
- Is the disagreement between OEG and the operation staff on the requirement for screening infrastructure projects impacting on TMFs centered on local consultation process, duration of public notice, or what? Who determines the environmental procedure categories for projects - operations staff or environ-mental specialists?
- The OEG report is less complimentary/optimistic than the Bank's report on the positive impact prospects of forest certification. OEG should take a look at the supportive approach taken by the Bank. In any event, the OEG report should clarify the distinction between forest certification and eco-labeling. Unlike other forest certification systems, FSC's procedures include activities to ensure transparency of the process. In addition, the harmonization efforts identified in the report have fizzled, as did several before it. Rather than harmonization, efforts are now being concentrated on "mutual recognition" of the specific standards, decision-making process and protocols of each system by the other systems, based upon agreed basic principles.
- Unlike OED's report, the OEG report is silent on monitoring issues. How will events like the recent development in Russia (where the environmental agency was disbanded overnight) create monitoring problems for IFC?
- What is the next step?

REVIEW OF 1991 FOREST STRATEGY

Attachment I

EMAIL INVITATION TO OEG FEEDBACK SESSION

To: Marcus Colchester <marcus@fppwrm.gn.apc.org>, Frances Seymour <frances@wri.org>, Korinna Horta <korinna@edf.org>, Andrea Durbin <adurbin@foe.org>, Graham Saul <gsaul@bicusa.org>, Bill Mankin <bmankin@igc.org>, Alex Wilks-Bretton Woods Project <bwref@gn.apc.org>, Gustavo Fonseca <g.fonseca@conservation.org>, shajost@iucnus.org, bruce.cabarle@wwfus.org, dwalubengo@fanworld.org, rcarrere@chasque.apc.org, sandra@ax.apc.org

cc: Afolabi Ojumu/HQ/IFC@IFC, Mark A. Constantine/HQ/IFC@IFC, William E. Stevenson/HQ/IFC@IFC, Gregory K. Ingram/Person/World Bank@WorldBank

Subject: IFC OEG Review -- Implementation of the 1991 Forest Strategy in IFC's Projects

Dear NGO friends and members of civil society --

Please find attached two volumes of a preliminary draft of OEG's report "Implementation of the 1991 Forest Strategy in IFC's Projects". Interested members of the public may also view the reports online at: www.ifc.org/oeg/forestry/forestry.html

Also, by way of this email, I would like to draw your attention to a June 12 feedback session to be held at IFC Headquarters (2121 Pennsylvania Ave, NW) at 2 pm. For purposes of ensuring continuity and to learn from various perspectives from the South, southern NGO representatives (copied on this email) who attended the OED workshop held in January are being invited to the feedback session (with travel and expenses paid). For these individuals, please direct your inquiries on travel arrangements to: Ms. Lita Filamor (Lfilamor@ifc.org) in the Operations Evaluation Group. As noted below, questions and comments on the report may be addressed to OEG@ifc.org for the attention of Mr. Afolabi Ojumu.

Thank you and best regards,

Shawn Miller
NGO Relations and Outreach Officer
International Finance Corporation
smiller1@ifc.org

**International Finance Corporation (IFC)
Operations Evaluation Group (OEG)**

OEG Review - Implementation of the 1991 Forest Strategy in IFC's Projects

Below is a preliminary draft of OEG's report "Implementation of the 1991 Forest Strategy in IFC's Projects". This review is a companion to the evaluation of the World Bank's operations by its Operations Evaluation Department. Both reviews were undertaken to inform the updating of the Bank Group's forestry strategy and policy. This draft report will be the subject of a stakeholders feedback session to be held on June 12, 2000, at the IFC Headquarters in Washington DC. Public stakeholders' comments on the findings will be considered by OEG as input to their preparation of the final report to IFC's Board.

Questions and comments on the report may be addressed to OEG@ifc.org for the attention of Mr. Afolabi Ojumu.



Forestry Vol II.pdf Forestry Vol I.pdf

REVIEW OF 1991 FOREST STRATEGY

Attachment II

LETTER FROM BRAZILIAN NONGOVERNMENTAL ORGANIZATIONS
TO THE WORLD BANK CONCERNING REVISION OF THE
FORESTRY POLICY STRATEGY

Given:

- the need for appropriate development of Brazil's tropical forests in their different biomes, especially the Amazon forest, taking account of the assets they represent, their biodiversity, and the need to maintain environmental services essential to the maintenance of life on the planet;
- the risks inherent in liberalizing the markets for forest products, within the framework of the international market, to the detriment of the environmental and social functions of forest activities;
- the attempts to make Brazil's Forestry Code more flexible, with negative consequences on the country's biomes and threats to the constitutional rights of the indigenous peoples;
- progress of agribusiness as a factor of conversion of the Brazilian tropical forests;
- the potential impact on tropical forests of the new infrastructures included in the Federal Government's Multi-Year Plan (PPA);
- the basic role of small family operations (both extractive and non-extractive) in keeping the conservation/development equation evenly balanced;
- the catalyzing role to be played by the World Bank's forestry policy in contributing to the definition and installation of a new, essentially sustainable development model, of which the principal aim is to combat poverty,

The undersigned nongovernmental organizations, which were participants in the consultations on revising the World Bank's forestry policy held in Brasilia in November 1999 and March 2000, are now writing to suggest that the resultant amendments to the World Bank's present forestry policy, in the Brazilian context, be restricted to the following aspects:

1. The new forestry policy strategy should have a broad, multi-sectoral approach that meshes with the country's macroeconomic policies, with effective democratic engagement of Brazilian civil society.
2. Facilitate the expansion and consolidation of the experiments in sustainable development, including sustainable forest management (both wood and non-wood), in the direct-use conservation units, in indigenous areas, and in initiatives of a community nature involving family operations. It is hoped thereby to strengthen the initiatives being promoted as pilot demonstration activities within the MMA. It is therefore suggested that the underlying premise of the 1991 forestry policy be maintained, in terms of the central role to be played by the local populations in sustainable forest management and of the necessary synergy between environmental conservation and the eradication of poverty.

3. Reaffirm in the new policy the prohibition on World Bank Group investments for direct support to medium-sized and large private enterprises for the exploitation of forest resources in native forests, for a period of time that will allow for the consolidation of emerging systems of sustainable production and marketing of forest products, managed by communities, families, and small businesses.
4. Increase participation by the World Bank as financial agent and donor of funds for projects (research, training, land tenure reform, monitoring, inspection, etc.) designed to restructure the government forest sector and strengthen the Government's capacity to formulate, develop and monitor a sustainable forest policy.
5. Contribute to the definition of a policy that will facilitate support for insertion into the market of products resulting from sustainable forest management, mainly by supporting the marketing and distribution of those products.
6. Have Bank-supported projects include financial support for institution building within civil society, emphasizing the strengthening of local organizations to manage projects for the production and marketing of sustainable products.
7. Make the approval of any financing of the forest sector conditional upon socio-environmental certification by internationally renowned independent entities.
8. Expand the debate on the global instruments and mechanisms for developing forest environmental services (carbon sequestration fund and biodiversity conservation fund), the Bank Group's role in those funds, and the relationship with its forest policy strategy.
9. Support the creation of new indirect-use and direct-use conservation units.
10. Strengthen the positive experiences of PPG-7, building on the sense of ownership of the program at both federal government and civil society levels.
11. Encourage coordination of the World Bank's forestry policy for Brazil with the policy underlying the Pilot Program (PPG-7).
12. Expand support for activities related to the World Bank's forestry policy to the other biomes of Brazil (Mata Atlântica, Cerrado and Caatinga).
13. Coordinate the review of the forestry policy with other policy revisions taking place within the World Bank in such areas as involuntary resettlement, indigenous populations, etc.
14. Creation of a Management Committee within the World Bank, with participation by the Government and civil society (along the lines of PPG-7), to implement the Bank's forestry policy in Brazil.

CNS - *Conselho Nacional de Seringueiros*
FASE - *Federação de Órgãos para Assistência Social e Educacional*
Greenpeace Brazil
GTA - *Grupo de Trabalho Amazônico*
INESC - *Instituto de Estudos Socio-Econômicos*
ISA - *Instituto Socioambiental*