



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 interests 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.

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.



e) In forest areas of high ecological value, IFC finances only preservation and light, nonextractive 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 nonforested 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 nonwood 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.