Striking the Right Balance
World Bank Forest Strategy

The Bank's 1991 Forest Strategy brought the environmental agenda into the mainstream of the Bank's activities and challenged the Bank group to adopt a multi-sectoral approach to conserving tropical moist forests and expanding forest cover. Implementation experience suggests the need for a new, broad-based strategy reflecting concern for conservation of all forest types, incorporating the views of all stakeholders, and stressing long-term involvement, partnerships with a range of constituencies, learning by doing, and the exchange of experience across countries.

Striking the right balance will require tradeoffs between global environmental goals and the diverse development realities in client countries (especially the needs of the forest-dependent poor, including indigenous peoples), between the twin objectives of conservation and development, and between short-term costs and long-term benefits. To be credible, the revised Bank strategy must either align human and financial Bank resources with its objectives in the forest sector or scale down its objectives. The Bank should capitalize on its convening powers to facilitate partnerships that mobilize additional financial resources (over and above improved coordination of existing country-specific aid flows) for use in client countries, including new financing mechanisms on a scale large enough to achieve the global goals set out in the revised strategy.

A Conservation Strategy
Prompted by alarming estimates that deforestation was affecting 17 to 20 million hectares a year in the developing world and that tropical moist forests were shrinking inexorably, in 1991 the Bank announced a conservation-oriented strategy for the forest sector. Reinforced by an operational policy and "good practices" in 1993, and followed by a variety of safeguards, that strategy helped shift Bank-financed investments away from projects that had previously contributed to global
The smoke ban on the use of Bank funds for all commercial logging in primary tropical moist forests—had a chilling effect on innovation. The do-no-harm approach has made the Bank Group wary of getting involved in experiments to improve forest management, to address illegal logging, or to improve the interface with forest industries, although borrowers are strongly urging the Bank to help them modernize their antiquated forest sectors.

Disappointing Implementation

Implementation fell short of expectations, in several respects. Direct forest lending was not adequately incorporated into the Bank’s country assistance strategies; into macroeconomic and deforestation and sent a strong message about changed objectives in the forest sector. The two central objectives of the Bank’s forest strategy—which itself came to be viewed as a safeguard—were slowing down rates of deforestation in tropical moist forests and planting trees. The Operations Evaluation Department (OED) recently carried out the first comprehensive evaluation of the strategy. The OED team conducted six in-depth country studies (three in forest-rich Brazil, Cameroon, and Indonesia, and three in forest-poor China, Costa Rica, and India), a review of well over 700 Bank operations with direct and indirect impacts of forests. The evaluation included a global review, six regional portfolio reviews, and a review of IFC, MIGA, and GEF operations.

OED’s review of Bank activities and changing Bank and international trends supports two main findings: First, the Bank has implemented its 1991 Forest Strategy only partially—mainly through an increased number of forest-related components in its environmental lending. Direct lending in the forest sector has stagnated, although small forest components in a variety of projects have increased. Second, implementation has had only a modest impact on the strategy’s two central objectives, and the sustainability of its impact is uncertain. Bank influence on containing rates of deforestation in tropical moist forests has been negligible in the 20 countries identified for Bank focus, and tree planting has occurred on too small a scale to make a significant impact on global forest cover.

The strategy sent a strong signal about changed objectives in the forest sector and a new focus on conservation, but it did not provide the means for implementing its ambitious goals. The controversy surrounding the policy formulation and implementation—including the

![Net Change in Bank Forest Commitments](image)

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Conservation: A Tough Sell in Forest-Rich Countries

THE 1991 STRATEGY UNDERRATED THE "DEVELOPMENTAL FUNCTION" NATURAL FORESTS SERVE IN forest-rich countries such as Brazil, Cameroon, and Indonesia, where the Bank has had difficult relations in the forest sector. Developing countries need to increase incomes, employment, and exports to meet their development objectives. Countries rich in forests but poor in capital and budget resources have tended to use their natural capital to finance development. This produces a conflict between national interests and global environmental objectives, which puts the Bank in the difficult position of promoting a dialogue on forest strategy that can reconcile local and global interests. Devolution of power to the local level has increased pressure on forests in situations where power relationships are unequal and where the income, employment, and revenue needs of local governments and their politically powerful constituents increase that pressure. Sustainable development may be necessary or desirable in the long run, but most of the costs of forgoing the financial and economic benefits of forest exploitation are local and immediate, while the environmental benefits of forest conservation tend to be national and global and, even where they are local, are either long-term or accrue to groups with only a limited voice in local governance. The situation can improve only if countries develop broad-based participatory institutions that offer equal voice to local constituencies, especially the vulnerable, and only if they can find the resources to forgo the short-term exploitation of forests.

Forest-rich countries have tended to exploit their resources inefficiently. As a public asset, forests have also tended to be a source of private profit in countries with weak governance. In many countries illegal logging in natural forests accounts for at least half of the total timber supply, and wastage through conventional logging, processing, and transport accounts for as much as 70 percent of the total harvest. The Bank strategy adopted the ban on financing for commercial logging on the defensible grounds of uncertain valuations of forest environmental services, inadequate forest management systems, and irreversibilities associated with forest loss. But poor governance, corruption, and political alliances between various segments of the private sector and ruling elites, combined with minimal local and regional enforcement capacity, all have played a part in environmentally damaging and socioeconomically inequitable exploitation of natural capital. Because of the divergence between national and global interests, in the context of current Bank forest strategy, forest-rich countries have shunned the Bank's involvement. Bank strategy should address these issues through increased and improved partnerships with local governments and with the progressive private sector, rather than assume that the absence of Bank Group financing for commercial logging in primary tropical forests will somehow reduce deforestation.

The poor have been less a source of deforestation and forest degradation in the forest-rich countries than the 1991 strategy assumed. A much stronger factor appears to have been the growing domestic and international demand for wood energy in industries, for timber in construction, and for tropical forest products and products of alternative land uses. To contain deforestation and degradation, countries need substitutes and alternative livelihoods. For example, investments in alternative sources of energy, including tree planting, could help reduce demand for wood energy from natural forests. Without such investments, and without adequate finances to compensate countries that incur costs to achieve global environmental objectives, deforestation and forest degradation will continue.

The 1991 strategy recognized the need for international transfers to underwrite conservation of global value, but failed to generate the momentum needed to establish adequate mechanisms or finances for that purpose. There is little borrower demand for Bank funds to finance pure conservation, such as efforts to protect existing natural forests. Demand has also declined for the expansion of forest cover by tree planting, which could serve many forest functions and could help relieve pressure on natural forests. The long time needed for tree growth (when there is no cash flow and when risks are high), combined with tight credit, high domestic interest rates, and the continued supply of timber from natural forests, has thwarted demand for investments either in small-scale tree planting or in plantation forests. Resources provided by the Global Environment Facility are too small relative to the need. Bank leverage through policy conditionality is more limited than popularly believed. But increased environmental consciousness, even in the forest-rich countries, provides more opportunities for Bank involvement in forest production, development, and conservation activities.

Although the Bank consulted extensively with non-governmental organizations (NGOs) in formulating the 1991 strategy, the consultative process did not include perspectives of Bank staff and managers, the private sector, and borrowing countries, many of whom thereafter felt no sense of ownership (or sometimes even awareness) of the strategy. Moreover, the strategy failed to provide the resources needed both to fund national efforts to achieve global objectives and, internally, to cover the high transaction costs of Bank involvement. The narrow focus of the forest strategy, combined with the powerful impact of globalization and economic liberalization, inhibited risk-taking and had a chilling effect on Bank involvement in improving forest management. Moreover, the Bank's do-no-harm policy had no impact on the alarming rate of deforestation. Finally, rapid changes since 1991, both globally and in the Bank, have made the strategy only partially relevant.

The strategy's emphasis on doing no harm increased public accountability, but it made the challenges of involvement in the sector more complex, raised transaction costs (without raising the resources to deal with them), and was seen as increasing the reputational risk for Bank Group involvement in the forest sector. Against this reality, the framework of internal Bank incentives is currently tilted against forest operations and the Bank's
Successes in the Forest-Poor Countries

THE THREE FOREST-POOR COUNTRIES STUDIED (CHINA, COSTA RICA, AND INDIA) HAVE SOUGHT BANK support for tree planting or regeneration more than the forest-rich countries have. Forest policies in the three countries are roughly in line with Bank forest policy, emphasizing the forest's environmental role and the subsistence needs of the forest-dependent poor. Scarcity has brought the countries (and the forest-poor parts of forest-rich countries, such as southern Brazil) to a conservation orientation. Objectives of improving tree cover and meeting the basic needs of the poor have been better implemented in these countries than in forest-rich countries or forest-rich regions of forest-poor countries. The Bank's mission of reducing poverty has been better-served by concentrating forest strategy on the forest-poor countries, where the interests of local and global communities coincide, although the forest-poor countries cannot afford IBRD or even IDA lending terms. Forest cover is stabilizing in these three countries, but the degradation of publicly owned forests is still a serious issue. All three countries now have progressive forest policies and Bank efforts have been demand-driven, with countries taking the lead.

Independent of Bank strategy, some forest-poor countries are ahead of the Bank in their forest policies and innovative approaches. Some are developing national sources of financing for environmental actions of national interest. The spread of democratization and increasing demands for transparency and accountability, as well as vibrant nongovernmental organization (NGO) movements, have collectively increased opportunities for impact. The Bank's convening power, its policy advice, its lending, and its prestige are important in countries beginning to commit to improving forest sector management. Forest cover is stabilizing in China and India, for example, where the Bank is helping to operationalize participatory approaches to forest management. In Costa Rica, a multisectoral approach to policy advice facilitated the implementation of far-reaching reforms and national financing mechanisms.

Most of the population that lives in and around forests is among the poorest and often includes indigenous minorities. The success of large programs in forest-poor China and India (representing 60 percent of the Bank's direct forest sector lending) suggests that through a combination of policy and institutional reforms and investments, it is possible to achieve win-win outcomes—greater poverty reduction and an improved environment. Yet there has been a precipitous decline in such investments in Africa, where millions of poor people are forest-dependent. The investments in China and India show that forest regeneration through community participation can offer substantial economic benefits to millions of poor households, while increasing forest cover, sequestering carbon, and reducing pressure on natural forests. But it takes a long time to develop and nurture community organizational structures, establish new rules of the game, and attain legal, environmental, organizational, and financial sustainability. Moreover, the risks to those investments are high given the conservative attitudes of most forest departments and the poverty typical in forested regions.

Can other donors provide the much-needed investments in poor countries while the Bank contributes through economic and sector work and policy dialogue? Without additional grant or concessional assistance, governments are unlikely to be interested in long-term Bank involvement in the risky forest sector. Yet international willingness to provide grant funds appears to be weaker today than when the forest strategy was formulated, despite growing environmental awareness in developing countries.

capacity in the forest sector has declined. Some skills, including those for assessing the impact of global, macroeconomic, and technological changes on forests, were always in short supply, and remain so. These and other factors discussed in the report have made Bank managers risk averse. In an increasingly demand-led Bank, neither its borrowers nor country managers tend to be motivated to incur the risks and transaction costs associated with complex, controversial forest operations. The Bank has not provided the resources needed to track the progress of forest operations and is weak on monitoring compliance with safeguard policies.

Revising the Strategy

Despite the Bank's limited presence in the forest sector—less than 2 percent of its total lending—it could be a highly influential global actor. The task is challenging: the Bank's goals are ambitious, but it has committed too few resources to the sector. Moreover, stakeholders' expectations are diverse. Some of the Bank's borrowing governments, for example, do not share advocacy NGO's expectations about conservation and are seeking responsible involvement of the private sector. OED concludes that the Bank needs to adopt a broad-based strategy that includes the views of all stakeholders, more proactively pursuing the twin objectives of conservation and development in a financially sustainable and socially equitable manner that stimulates genuine borrower demand.

Revising the Bank's forest strategy and policy—and supporting implementation strategies—should enable the Bank to play two synergistic roles. In its global role, the Bank would capitalize on its convening powers to facilitate partnerships that mobilize additional financial resources (over and above improved coordination of existing country-specific aid flows) for use in client countries, including new financing mechanisms on a scale large enough to achieve the global goals set out in the revised strategy. In its country-level role, the Bank would address the diverse realities in client countries.
using all the instruments at its command and stressing long-term involvement, partnerships with a wide range of constituencies, learning by doing, and the exchange of experience across countries. This would require a long-term commitment and a greater commitment of resources to the sector.

**A More Relevant Strategy**

Seven elements would make the Bank forest strategy more relevant to current circumstances and strengthen the Bank's ability to achieve its strategic objectives in the forest sector.

*Mobilize financing for global forest services.* The Bank should use its global reach to address mechanisms and finances for mobilizing concessional international resources outside its lending activities. These resources should be substantial enough, and on sufficiently attractive terms, to interest developing countries. Without additional grant or concessional assistance, governments are unlikely to be interested in long-term Bank involvement in the risky forest sector. Support for Bank leadership in developing carbon and other markets (certification, ecotourism, water) is not universal, and international willingness to pay for these services is questionable. Given the Bank's increasing decentralization, the Bank will need to revisit the matrix management arrangement governing forest operations if the Bank is to play a global role in advancing or implementing international agreements or piloting new approaches.

*Forge international partnerships.* The Bank needs to be proactive in establishing partnerships with all relevant stakeholders, governments, the private sector, and civil society to achieve its goals. The Bank and other development partners must increasingly work together to improve forest management in all kinds of forests, aiming to reach a balance of environmental, economic, and social objectives. This may lead to new agreements and new ways of mobilizing resources, with the Bank as one of many partners. Initiatives introduced by World Bank President James Wolfensohn, such as the CEO Forum and the World Bank/World Wide Fund for Nature (WWF) Alliance, which went beyond the prescriptions of the 1991 strategy, reflect this new spirit.

*Broaden the types of forest covered.* Rather than narrowly focus on tropical moist forests in 20 countries, revised Bank strategy should encompass all natural forests of national and global value. At the same time, tree planting to serve many important functions can relieve pressure on natural forests.

*Foster sustainable development objectives.* Forest issues should be duly considered in all of the Bank's relevant sector activities and macroeconomic work and should be covered explicitly in Country Assistance Strategies and structural adjustment lending. Because of the contributions they can make to improved forest management, the Bank should provide enough resources (independent of lending operations) for quality economic and
sector work, research and extension, and it should support work that can help establish guidelines, criteria, and indicators for improved forest management, without necessarily endorsing any one standard. Through partnerships, the Bank should also help create public and private capacity for widespread application of improved forest management and tree planting (through small, medium-size, and large community, private, and public plantation forests, as appropriate to circumstances and with environmental and social impact assessments in place).

**Curtail illegal logging through improved governance and enforcement of laws and regulations.** This will require helping Bank borrowers improve, implement, and enforce existing laws and regulations. It will also require that national stakeholders (especially civil society and the private sector) demand, implement, and monitor improved governance practices.

**Apply a more inclusive definition of “the forest-dependent poor.”** The revised strategy should directly address the employment and livelihood needs of all poor people, while continuing to safeguard the rights of indigenous peoples. More attention should be paid to how forest issues affect all poor people, with particular focus on the conflicting needs of different forest user groups.

**Align resources with Bank objectives in the forest sector.** The Bank needs to adjust its internal incentives and skill mix so that operational staff feel they have the support and confidence of Bank management and country borrowers and access to the human and financial resources needed to address risky and controversial issues of the forest sector. The Bank must also diligently and routinely monitor compliance with safeguard policies in its investment and adjustment lending.

**Link to Environmentally and Socially Sustainable Development Network’s (ESSD’s) Forest Policy Implementation Review and Strategy (FPIRS)**

OED WAS ASKED BY THE BANK’S SENIOR management, the Board, and NGOs to undertake an independent assessment of the implementation of the Bank’s forest strategy as an input into the ESSD’s Forest Policy Implementation Review and Strategy. The review involved extensive consultations with key stakeholders including NGOs, the private sector, the Bank’s borrowers, international organizations, donors, and forest sector analysts. The draft OED Forest Strategy Review, regional reviews, and six country case studies informed ESSD’s 9 regional consultations of the total of 14 held for the review. OED’s final report was presented to the Bank Board’s Committee on Development Effectiveness (CODE) in June 2000. ESSD’s Forest Strategy Paper is planned for fiscal year 2001.
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