

September 20, 2007

Mr. Patrick Alley
Global Witness

Mr. Stuart Wilson
Forests Monitor

Ms. Susanne Breikof
Greenpeace International

Mr. Simon Counsell
Rainforest Foundation UK

Dear Sirs/Madam:

Re Proposed Forest Carbon Partnership Facility (FCPF)

Thank you for your letter of September 7, 2007 on the above topic, in which you express your concern that the proposed FCPF might make incentives available for the logging industry and therefore create environmentally and socially perverse outcomes.

In line with the Bank's revised 2002 Forest Strategy, the proposed FCPF would seek to support emission reduction activities that are pro-poor and that contribute to sustainable economic growth and provide forest-related environmental services. Like you, we are well aware that in several cases forest concessions and other private sector investments have not achieved tangible development impacts and benefits on the ground, especially for forest-dependent people in rural areas. This is a large part of the reason why the Bank's revised Forest Strategy gave such strong emphasis to promoting community and smallholder-based approaches to sustainable forest management. That strategy, and near-universal opinion, agrees that to address forest issues today it is possible, and indeed essential, to work with communities and logging companies simultaneously.

In keeping with the commitments made in its revised strategy, the World Bank Group intends to continue supporting the development of clearly articulated, mutually beneficial partnerships between larger-scale companies that are managing negotiated long-term concessions, smaller-scale forest-harvesting and manufacturing enterprises, and local communities and small holders involved in the production of industrial wood. We recognize the importance of more rigorously applying safeguard policies and strengthening independent monitoring of World Bank Group-financed forest industrial companies.

Carbon payments from activities aimed at reducing emissions from deforestation and degradation (REDD) provide country recipients with a unique incentive to:

- Create an enabling policy and regulatory framework for responsible private sector companies;
- Support community-based development activities;
- Strengthen law enforcement and monitoring to contain illegal logging, corruption and other forest crime; and
- Identify and mitigate negative cross-sectoral impacts¹.

Independent forest certification would play an important role in assuring transparent interaction and agreements with forest-dependent communities as well as excluding forests of high conservation value from logging operations.

As some of you know from having participated in the April and July workshops, the proposed FCPF will start with capacity building to strengthen a country's ability to reduce deforestation and degradation, under the Readiness Mechanism. Readiness activities will involve a high degree of consultation with civil society. The design of a national REDD strategy must itself be rooted in a broad-based consultative process, where civil society and the private sector will be represented. Consultations will also be conducted in the process of designing an Emission Reduction Program in the few countries selected into the Carbon Finance Mechanism. These design features, combined with the application of the World Bank Group's safeguard policies, should ensure that REDD programs will simultaneously support broader poverty reduction objectives. Additional checks and balances would be provided by a number of independent ad hoc technical advisory panels, which would render advice to, e.g., the Participants' Committee and Buyer Participants' Committee.

You also asked how the lessons from the past were factored into the design of the proposed FCPF. Here are some examples:

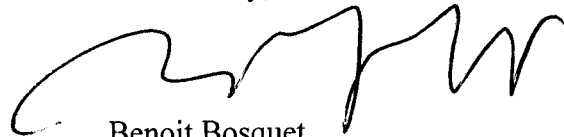
- (1) *Poverty and deforestation.* REDD will contribute to strengthening national development and land use policies. A national strategy for REDD will require decisions involving many sectors of the economy. REDD activities have a great potential to underpin poverty alleviation objectives.
- (2) *Public-private partnerships.* The FCPF is a partnership bringing together developing and industrialized countries, the private sector, NGOs and international organizations, where the meaning of partnership is translated in the prominent role given to the Participants (developing and industrialized countries) in the governance structure. The partnership approach of the FCPF is one of the best ways to mitigate risk. The various FCPF stakeholders, in partnership with the Bank, and following guidance from the UNFCCC and IPCC, will work together on solving the operational and methodological challenges associated with REDD.

¹ We detail measures for governments to put in place to achieve these objectives in the World Bank's recently published book on forest law, entitled "Forest Law and Sustainable Development."

- (3) *Safeguard policies*. Safeguard policies are an inherent part of the FCPF design.
- (4) *Harnessing the power of markets*. The FCPF would test both market and non-market approaches for REDD, depending on country conditions and positions. One example of such market approaches would be payments for environmental services.

Finally, we wish to clarify the next steps. As indicated in the Concept Note posted on the FCPF website, the Concept Note is superseded by the subsequent design documents, including the Term Sheet which is available on the website. The Committee of Development Effectiveness of the Bank's Board of Executive Directors will discuss an implementation update of the Forest Strategy on September 24, 2007. As for the Mid-Term Review, it is being finalized and should be released in the near future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Benoit Bosquet', with a stylized flourish at the end.

Benoit Bosquet
Senior Natural Resource Management Specialist
Environment Department
Latin America Region