



# World Bank Group Forest-Sector Impacts: Has the Forest Action Plan Made a Difference at the Country Level?

Authors:

**LADD CONNELL,  
CAROLINA JUANEDA  
& BRIAN DORMAN**

**MAY 2019**

Published by: Bank Information Center in May 2019

The research for this report was made possible by the generous support of the Climate and Land Use Alliance (CLUA).

The views and conclusions expressed in this publication are those of Bank Information Center alone and do not necessarily reflect the opinions of other individuals and organizations that have participated in the work or of BIC's sponsors or supporters.

For further information on the issues raised in this report, please contact Bank Information Center at:

1023 15th St. NW, 10th Floor,  
Washington, DC 20005

Tel.: (202) 737-7752  
Email: [info@bankinformationcenter.org](mailto:info@bankinformationcenter.org)  
[www.bankinformationcenter.org](http://www.bankinformationcenter.org)

# Introduction

The World Bank's Forest Action Plan ("FAP," April 2016) set out two pillars to heighten the Bank's support for forests: the first is an increase in direct support for forest programs; the second is to "mainstream" forests so that they are taken fully into account in other sectors. Building off of the 2002 Forest Strategy, the FAP represents the Bank's most comprehensive framework on across-the-board forest engagement to-date, aiming to integrate forest governance into development decision-making and guide financial intervention so as to better protect and sustainably manage forests, reducing deforestation, forest degradation, and land-use change.

Based on the FAP two pillars, the Bank Information Center (BIC) decided to assess if, since April 2016, the Bank increased its work in forest conservation and sustainable forest management, and reduced forests impacts from development projects in other sectors such as infrastructure, energy, and agriculture. The main goal of this exercise was to find country-level evidence to answer a simple question: Is the World Bank meeting its forest commitments? This led us to analyze active and pipeline World Bank Group (IDA, IBRD, & IFC) projects at country-level to assess what influence, if any, the WBG's Forest Action Plan (FAP) has had on its project portfolio in key forest countries across different regions. We wanted to get a better idea of the influence of the FAP by understanding general forest sector trends at the country level. We found out that the picture is mixed.

## A Note on Our Methods

### SELECTION: DATES, COUNTRIES, SECTORS, & STATUS

The FAP was adopted on April 6th, 2016 and is intended to frame forest-sector development and related commitments through 2020. The FAP's adoption date provides a benchmark for seeing its effect in guiding WBG finance towards increasing direct support for forest programs and mainstreaming forests so that they are taken fully into account in other sectors. We then analyzed approved projects in the three years before and pipeline and approved projects three years after the FAP's date of adoption – three years because we are now at the FAP's three-year anniversary (April 2019).

Within the six-year window, BIC selected a sample of countries with significant forests at-risk for increased deforestation. In Asia, we analyzed projects in Nepal and Indonesia; in Africa, the Democratic Republic of the Congo, Liberia, and Mozambique; and in the Americas, Mexico, Colombia, Peru, and Brazil. These countries contain dense primary forests with biologically diverse and fragile ecosystems which not only provide essential ecosystem services for the communities which depend upon them, but also serve as important regulators of atmospheric CO<sub>2</sub> in the global climate system.

Within these countries, and between our dates, we were principally concerned with evaluating WBG projects in or near forested areas that would either impact forest-dependent communities, or vital forest ecosystems. While we reviewed the entire portfolio, we selected for rating pipeline and active projects from the forestry sub-sector and from the agriculture, energy & extractives, transport, water & sanitation, industry & trade services sectors. We looked most closely at these sectors as they pose increased risks for forests and forest-dependent communities and can be directly or indirectly primary drivers of deforestation. The FAP commitment to forest integration or mainstreaming should in principle be prioritized in these sectors to ensure effective sustainable management of forests and to secure the rights and livelihoods of forest-dependent peoples.

We focused on active and pipeline projects because 1) this best captures current trends and the large majority of WBG projects approved since April 2013; 2) projects closed may include projects that were not completed because of factors specific to the project; 3) many closed projects in this timeframe are development policy operations, which provide general budget support, and the impacts of these on forests, if any, are likely to be indirect and more difficult to discern, whereas investment projects more likely have direct on-the-ground impacts.



## DOCUMENTS REVIEWED

Using WBG active and pipeline projects<sup>1</sup> in each country, we began by reading the project documents disclosed by the WBG. We focused on the Project Information Document, Integrated Safeguards Data Sheet, and the Environmental Impact Assessment (EIA), where available. Often, IFC had fewer documents available for analysis. In cases of private IFC lending where the recipient was only named, we investigated the recipient's known practices and portfolio. Although the primary document for our analysis was each project's EIA, we supplemented our research with secondary source material, including recent and relevant scholarship, news reports, and technical commentary from NGOs and CSOs with special expertise, either on the project itself, or with similar developments in the same geographic location.

Within the key documents, we looked for and analyzed environmental impacts and mitigation strategies as identified by the WBG or its in-country partners responsible for authoring the reports. We treated 'forest-smart' interventions, typically in governance and capacity building, the same as infrastructure projects. For the WBG, each project is typically assigned a value meant to accurately reflect the environmental or social impact risks. The IFC uses FI-1, FI-2, and FI-3, where FI-1 is the highest risk rating, and FI-3 is the lowest. For its other lending arms, the WBG uses environmental categories of A, B, and C, where A is the highest risk, and C is the lowest. In evaluating project documents we noted their impact values, and compared them to the provided technical analysis, whilst carrying out our own parallel analysis.

## Rating

After our assessment, we rated projects +2 to -2 for expected forest impact, recognizing that some projects will not have forest-relevant impacts.

**+2:** directly positive expected impacts on forests and forest-dependent peoples, typically assigned to projects which provided direct support to protected areas, or for forest governance schemes guided by indigenous communities, or employing strategies which have been demonstrated to be associated with sustainable natural resource management.

**+1:** projects identified as 'pro-forest,' indirectly. Indirectly positive impacts were typically associated with WBG interventions aimed at reducing negative environmental impacts, or improving institutional capacity, or governance structures with sustainable forest management or protection of forest-dependent peoples as guiding principles.

**0 (zero):** projects we could only identify as having potentially negative impacts. Projects with a 0 rating were often accompanied by poor documentation which limited our ability to carry out a thorough analysis, but which nevertheless indicated that negative environmental impacts were latent possibilities given the development type or sector. Some projects were given a 0 because our analysis concluded that the particular project would have measurable, negative impacts if the mitigation strategies as laid out in the EA were not scrupulously adhered to.

Our negative ratings were typically reserved for projects in sectors identified as being primary drivers of deforestation: namely, infrastructure related to fossil fuel energy development and transmission, or transportation; or funding for mining, or agricultural expansion. If a particular project was found to result in deforestation, lead to significant changes in land-use at frontier regions, adversely impact the rights or access of forest-dependent communities, or had highly probable adverse impacts on protected areas, this project was given a negative score.

**-1:** projects producing only indirectly negative impacts.

**-2:** projects identified as having substantial, direct, and measurable negative environmental impacts, specifically on forests and forest-dependent peoples.

---

<sup>1</sup> Information publicly available on the World Bank's website 'Projects and Operations' section: <http://projects.worldbank.org/>



**N/A:** projects with very low, or no, forest impacts expected. “N/A” projects were typically related to healthcare, education, or institutional development or capacity building in sectors not associated with forestry. Some infrastructure projects were also classified as N/A because we found that such development either did not drive deforestation generally because of its location or sector of engagement or had minimal land-use impacts.

## Results

Assessing and quantifying international development projects is rarely simple or straightforward. Even in instances where infrastructure or energy development posed increased risk to forests and forest-dependent peoples, in each case we analyzed that potential so as to either rule out negative impacts or identify measurable ones. Because sustainable development is a theoretical construct, and is often not directly observable or measurable, evaluating the environmental impacts of these projects required robust qualitative analysis of the multiple dimensions involved in project design and implementation. These projects were typically related to the agricultural, energy, and transport sectors, and required more care on our part to disaggregate.

For every project analyzed, however, our ratings are meant to reflect as accurately as possible the positive, negative, or potentially negative impacts on natural forests and their ecosystems. Along with our scores, we tracked and included the levels of funding committed to each project by the WBG. These two figures were compiled into a database and analyzed together in order to identify trends in funding compared to frequency in project type before and after adoption of the WBG’s FAP. The results of our analysis are further articulated in each country-level assessment in this document.



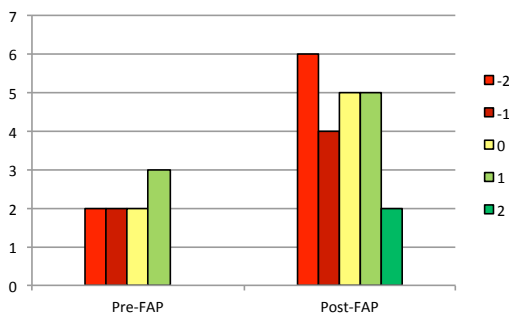
# World Bank Group Forest Impacts in Asia, Africa & the Americas

## 1. ASIA

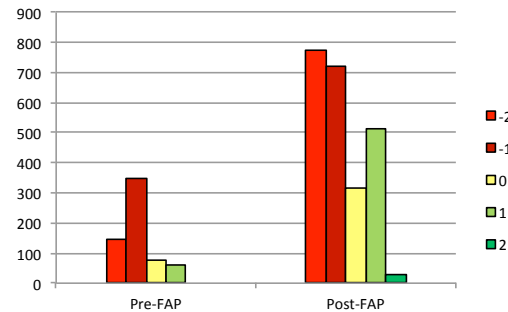
# Indonesia



**NUMBER OF FOREST-IMPACTING WBG PROJECTS**



**SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)**



As with other countries included in this study, forest-related WBG interventions in Indonesia appear to tell two stories. On the one hand, 'pro-forest' projects increased in number after the adoption of the WBG's Forest Action Plan in April 2016, as did their funding levels; however, the number of projects that produced definite or potential negative environmental impacts also increased, along with a concomitant escalation in funding commitments for those projects.

Before adoption of the FAP, active 'pro-forest' WBG interventions in Indonesia were minimal, representing less than 10% of all funding from April 2013 to 2016. Of the three projects introduced pre-FAP (two in 2014), none had any direct bearing on natural forest protection or on curtailing land-use change, despite 2014 being one of the worst years on record for tree cover loss in Indonesia.

After the FAP's introduction, however, we find a marked increase in focus on 'pro-forest'-related projects, two of which have the potential to produce positive direct, and measurable impacts on natural forests while also promoting indigenous, community-based management strategies. However, at US\$30.85 million, it still amounted to only 1.33% of the active forest-impacting portfolio.

Negatively impactful projects increased both in numbers and in funding commitments. Projects which we estimate to have direct, indirect, or potentially negative forest impacts more than doubled in number and their funding more than tripled after the FAP's adoption. These are mostly linked to infrastructure and industrial development, including unsustainable power generation.

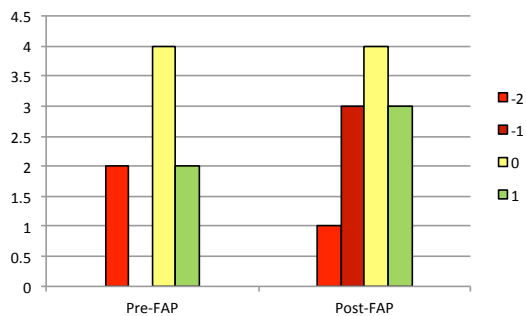
Two projects which we identified as *potentially* producing negative impacts on forests (rated 0/ yellow in our charts) in the post-FAP period are to develop geothermal energy. While this type of electricity production is likely to greatly reduce GHG emissions over the long-term, in the short- and medium-term, developments such as these, especially in a heavily forested area, will contribute to deforestation if project design and implementation does not provide for a robust mitigation strategy to offset harm – which these projects did not include. Since this is a significant environmental impact, we suggest that immediate attention to mitigation is required for geothermal development in Indonesia, if it is to be consistent with the Bank's own policies, including the "mainstreaming" of forests as promised under the FAP.

<sup>2</sup> For all of the visuals presented here it is important to note that we have assessed only active and pipeline projects in the three years before and after the FAP (4/6/2013-4/6/2019).

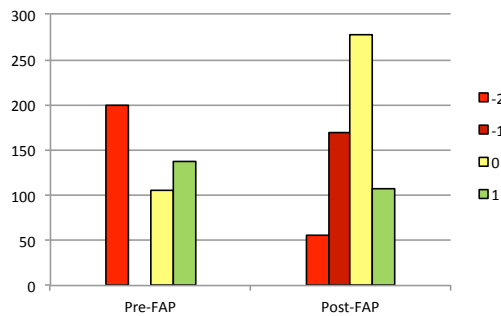
# Nepal



**NUMBER OF FOREST-IMPACTING WBG PROJECTS**



**SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)**



WBG forest-impacting projects in Nepal analyzed in the three years before and since the Forest Action Plan point to a mixed picture, with no definite impact from the FAP.

Projects classified as directly producing negative environmental outcomes declined in number, and their funding fell 72% after the adoption of the FAP. However, projects with indirectly negative forest impacts increased from 0 to 3, with US\$170 million in WBG funding, compared to US\$108 million in ‘pro-forest’ projects. Still, this is less than the more negatively impactful projects financed before the FAP. We found no active projects to be directly ‘pro-forest’ before or after adoption of the FAP. Indirectly ‘pro-forest’ projects did increase in number, but their funding declined 22% after adoption of the FAP. Projects with *potentially* negative forest-related impacts remained quite high during the study period, and their funding levels increased dramatically after the FAP.

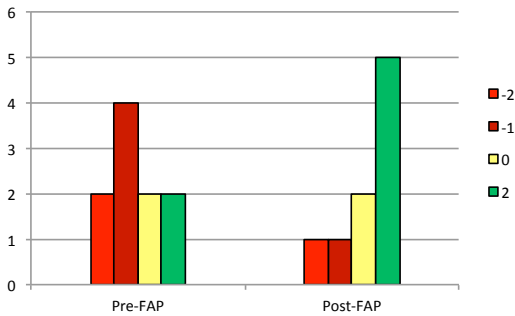
Of the projects identified as producing direct and measurable or indirectly negative environmental impacts, most involved infrastructure expansion, development, or road-works. The largest of these includes over US\$100 million in financing to help construct a large hydropower plant and associated facilities that we estimate will produce significant environmental harm, but will only indirectly impact forests. Many of the projects ranked as *potentially* creating negative forest impacts (scored as 0) also involved hydroelectric development, but these projects were much smaller in scale and their possible negative impacts on forests may be mitigated by following specific measures, outlined in their environmental assessment reports, designed to curb their cumulative impacts.

Projects with Indirect ‘pro-forest’ impacts included small renewable energy projects, and promotion of climate resilience policies and sustainable environmental management practices.

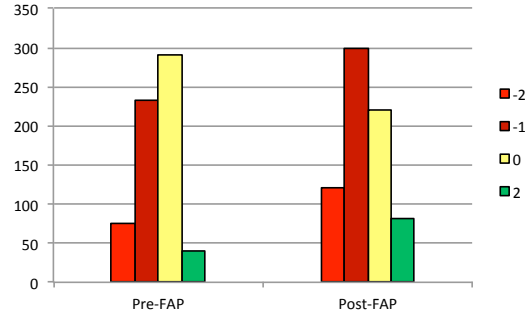
# Democratic Republic of the Congo



**NUMBER OF FOREST-IMPACTING WBG PROJECTS**



**SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)**



Given the size of DRC’s economy (US\$37.2 billion in 2017), World Bank Group active financing impacting forests was fairly high in the DRC during the pre- and post-FAP years, nearly US\$1.4 billion. While more ‘pro-forest’ projects were funded post-FAP, indicating increased efforts in forest protection and sustainable natural resource management, total funding levels nevertheless remain skewed heavily towards projects associated with deforestation, or likely to produce definite and measurable negative environmental impacts.

Post-FAP, five ‘pro-forest’ projects had allocated funds totaling US\$81 million, a 103% increase, thanks largely to the FCPF Carbon Fund US\$55 million grant to “reduce GHG emissions from deforestation and forest degradation, enhance carbon stocks, and improve peoples’ livelihoods in Mai-Ndombe Province.”

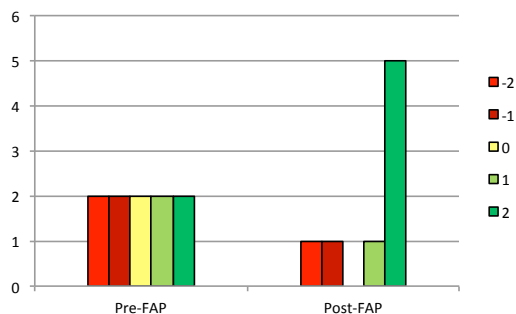
At the same time, two other larger projects were estimated to produce substantial negative impacts – most critically, a US\$120 million IDA commitment to fund the development and expansion of extractive industries and extended geological and geochemical prospecting. Overall, funding for projects with expected negative environmental impacts remained dramatically higher than funding for readily identifiable ‘pro-forest’ projects, both before (\$308M vs. \$40M) and after (\$420M vs. \$81M) adoption of the FAP.

These facts indicate that while the WBG in DRC has made progress in the first pillar of the FAP, increasing the number and size of ‘pro-forest’ projects, it has had less success in the second, mainstreaming forests into other sectors.

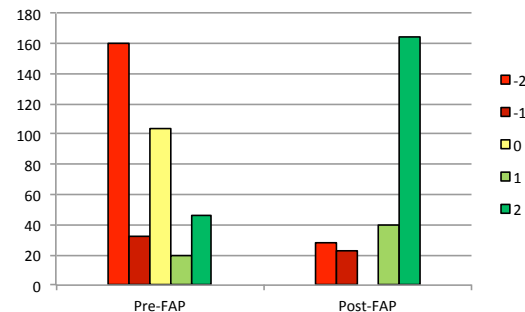
# Mozambique



## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



Our study of active WBG interventions in Mozambique indicate that significant progress has been made regarding ‘pro-forest’ engagement in both the number of projects approved, and in their funding levels. Projects we assessed to be highly likely to produce directly negative forest impacts decreased in number, and their funding also decreased from \$160M to \$28M after adoption of the Forest Action Plan in April 2016.

During the pre-FAP 2013-2016 period, active WBG projects were equally distributed (2 projects each) in terms of expected forest impacts, both positive and negative. Financing of pre-FAP projects, however, skewed heavily towards those we have classified as direct or indirect drivers of deforestation and environmental harm, US\$192 million vs. US\$65 million total for ‘pro-forest’ projects. Projects that *potentially* posed negative environmental harm received over US\$100 million.

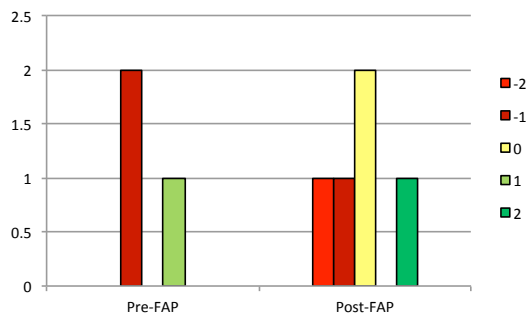
Subsequent to adoption of the FAP, the WBG increased both the number and financing of ‘pro-forest’-related projects from 4 to 6 totaling US\$204.5 million - a 212% increase over the pre-FAP period. Perhaps the most significant of these includes US\$45 million in direct financing for protected conservation areas, and for assisting the communities living in and around those areas.

Projects associated with deforestation and highly likely to produce definite and measurable negative environmental impacts had their funding cut 82% after the FAP. Only one project fell into this category – a US\$28 million IDA commitment to assist in scaling up activities in the mining and gas sector. No new funding was allocated to projects assessed as having potential negative impacts on forests. In sum, this is an excellent example of the transformation one would expect in the WBG portfolio-- of forest mainstreaming-- following adoption of the FAP.

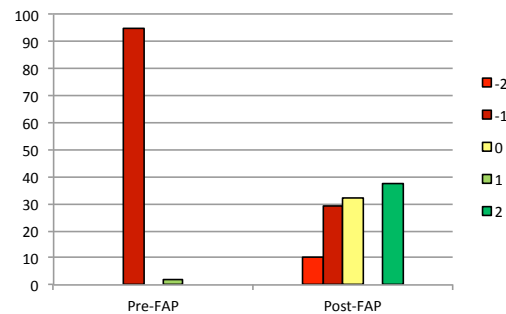
# Liberia



## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



Reflecting Liberia's small geographic size and economy, relative to other countries in this study, fewer projects were found since April 2013 to have any bearing on forests or the environment. Of these, only those assessed as indirectly or potentially producing negative forest-related impacts received large financial commitments. Despite Liberia being home to a large portion of West Africa's rich forest ecosystem and being repeatedly identified as at-risk for increased fragmentation due to human activities, the WBG funded only one (albeit important – see below) 'pro-forest' project in Liberia subsequent to the adoption of the Forest Action Plan in April 2016.

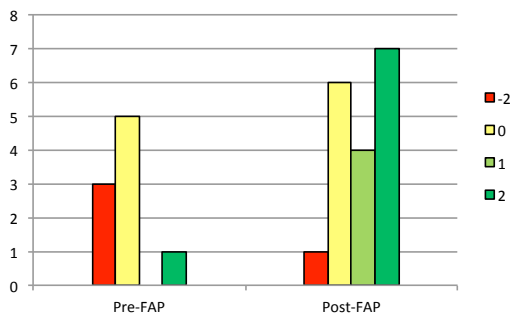
Pre-FAP, the WBG does not have any approved and active projects that we found to be direct drivers of deforestation. The WBG did, however, pursue two projects with a combined financial commitment totaling US\$95 million that we have assessed will produce significant, but largely indirect negative forest-impacts. These projects both relate to the expansion of electricity infrastructure fed by a small, but extremely harmful, heavy fuel oil power plant which serves as base-load for commercial use. Only one indirectly 'pro-forest' project was funded in the amount of US\$2 million; it involves development of light renewable energy infrastructure for rural communities.

After the FAP's adoption, we find fewer indirectly environmentally harmful projects with reduced financing, a slight increase in funding for directly negative impactful forest-related projects, and sizable 'pro-forest' engagement, up to \$37.5 million – more than a 250% increase in financing over directly harmful projects. The single project with direct and measurable 'pro-forest' impacts involves institutional support for the effective implementation of REDD, and capacity building for conservation, community forestry, and sustainable agroforestry projects. The directly negative project (US\$10.5 million) concerns the development of a large landfill that will result in forest clearing and population displacement. Potentially negative forest-impacting projects (scored as 0) were few in number. These projects included funding for the promotion of agribusiness growth, including oil palm, which historically has been associated with deforestation; and support for reforms aimed at facilitating private sector participation in mineral resource management. Both of these projects require careful planning and close monitoring to avoid, minimize, and mitigate potential negative impacts.

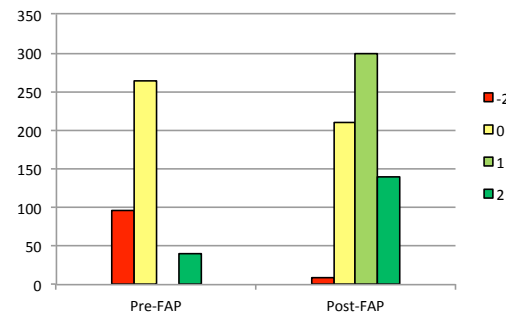
# Mexico



## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



Since the adoption of the World Bank Group's Forest Action Plan in April 2016, 'pro-forest' projects in Mexico have jumped both in number (from 1 to 12) and funding, from US\$40 million (pre-FAP) to US\$460 million. Two of these 'pro-forest' projects have positive implications for sustainable forest management while also strengthening indigenous peoples' organizations and promoting community forestry strategies.

One caveat is that almost 70% of the total US\$460 million post-FAP 'pro-forest' projects are in the pipeline, only 30% being active funding. Most of these are linked to REDD+ programs, sustainable energy, and landscape management.

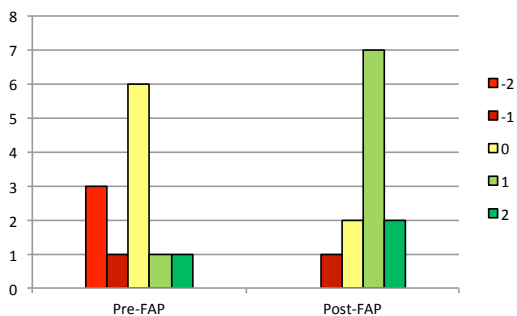
In line with this, the number and funding of projects which we identified as having a direct or indirect negative impact on forests decreased by almost 90% in the post-FAP period. These negatively impactful projects are IFC projects linked to the agribusiness and infrastructure sectors. The number of projects potentially producing negative impacts on forests (rated with 0/yellow in our charts) slightly decreased when compared to the pre-FAP period, along with a parallel decline in funding commitments for those projects. Almost 70% of the total potentially negative projects are again IFC projects.

In Mexico, the WBG has succeeded in increasing investment towards pro-forest projects, yet most of these projects are forestry-sector projects. For the Bank to be consistent with the FAP commitments, mainstreaming of forests into the infrastructure, energy, and agriculture sectors – private as well as public – remains critical.

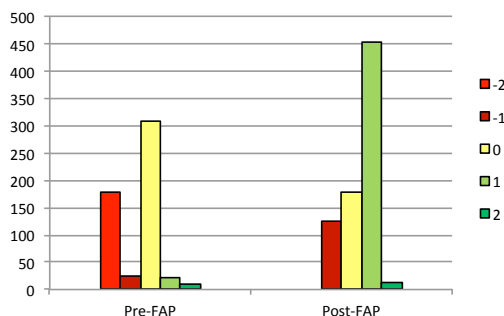
# Colombia



## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



In Colombia, from pre-Forest Action Plan (April 2013-2016) to post-FAP (April 2016-April 2019), we see positive trends. The number of World Bank Group projects assessed as likely to reduce drivers of deforestation and produce a positive impact on forests more than tripled (from 2 to 9) and funding jumped from US\$31 million to US\$464 million, almost fifteen-fold. Most of these projects are in the forestry sector linked with direct positive impacts on forest conservation, sustainable resource management, and renewable energies.

Concomitantly, the number of projects identified as creating direct or indirect negative forests impacts declined, as did funding (from US\$205M to US\$126M), an almost 40% decrease pre-FAP to post-FAP. Almost all these projects (4 out of 5) identified with direct or indirect negative expected forest impact are IFC projects linked with the infrastructure sector and the oil, gas, and mining industry.

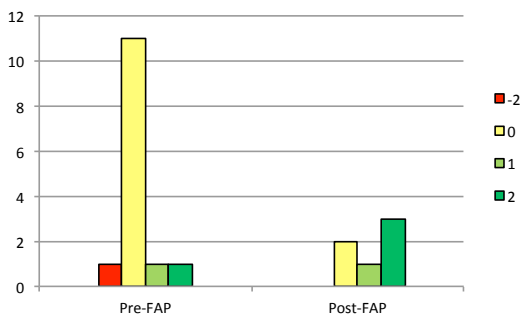
As for the *potentially* negative forest-impacting projects (shown in yellow), the declining pre-FAP to post-FAP trend continues in number and funding (from US\$309M to US\$180M, a 42% decrease). Again, most of the projects identified here are IFC projects linked to infrastructure, agribusiness, and forestry. The largest project in this category is the recently approved "Multipurpose Cadaster Project," totaling US\$100 million. While its stated purpose is "to strengthen tenure security and provide access to cadaster information," which should be positive, differing abilities of communities (vs. investors, e.g.) to take advantage of this could potentially exacerbate land conflicts and have a negative impact on forests and forest-dependent peoples. The report done by BIC "[The World Bank and Colombia's Territorial Development Policy Financing: Whose land is it, anyway?](#)" identifies the disconnect between the significant risks of land conflict and the project's safeguards analysis, which considers environmental and social impacts to be minor, site-specific and easily manageable.

In Colombia, the overall WBG impact for forest and forest peoples looks relatively good as the WBG has succeeded in increasing investment toward pro-forest projects and decreasing the funding of projects identified as negative and potentially negative for forests. Yet, the challenge for the Bank to fulfill the FAP's commitments remains mainstreaming forests' conservation and sustainable management into other sectors that promote change in land use.

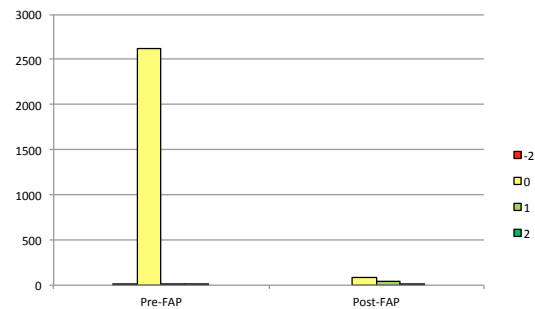
## Perú



## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



In Peru, World Bank Group projects with an identified forest impact decreased from the pre- Forest Action Plan (April 2013 – April 2016) to the post-FAP period (since April 2016). However, the number of projects identified as likely to reduce drivers of deforestation and have positive forest-related impacts doubled (from 2 to 4) and funding more than tripled (from US\$ 14.4M to US\$ 52.2M), pre-FAP to post-FAP.

As for direct negative forest impacts, we identified a single IFC project with US\$10 million funding in the pre-FAP period. Meanwhile, WBG projects identified as having *potentially* negative impacts on forests (rated 0/ yellow in our charts) decreased from 11 projects totalling US\$ 2.5 billion to 2 projects worth US\$ 80 million, a 97% drop. These projects were typically in sectors identified as being primary drivers of deforestation, mainly from the extractive industries or agriculture sectors, but where impact depends on quality of implementation. Given the decline, the WBG appears to be doing good work in terms of its forest commitments.

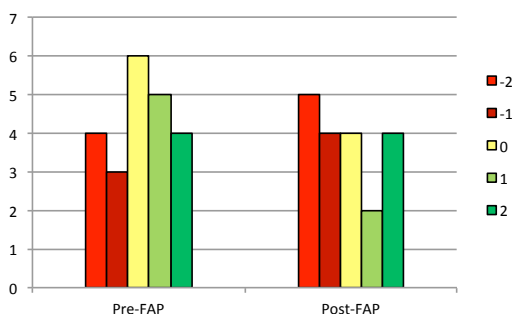
However, analyzing the potentially forest-impacting projects in depth, there is a mixed picture. Perhaps the most significant finding in Peru's case is that the largest pre-FAP WBG lending is in the form of Development Policy Loans (DPLs) given as general budget support to promote policy and institutional change. The two DPLs together ("Public Expenditure and Fiscal Managements;" "Boosting Human Capital and Productivity") totaled US\$2.5 billion (95% of the yellow-coded projects), fifty times the amount of loans identified as likely to having a positive forest impact in the post-FAP period. This is important because DPLs are disbursed based on the completion of a set of policy or institutional policy change measured called 'prior actions,' mutually-agreed between the Bank and the government that often involve the passage and implementation of laws. And these laws, without the proper enabling environment in place, can have profound impacts on forests, natural habitats, and natural resource management as a whole. The two DPLs complement each other, intended to promote private sector-driven growth, boost productivity, and set the government's legal and institutional framework for public-private partnerships (PPPs). These reforms are expected to result in more private sector competition, raise firm productivity, and induce stronger economic growth.

The report "**Analysis of World Bank Interventions in Peru and Their Impact on Forests**" (May 2018) by BIC and Derecho, Ambiente y Recursos Naturales (DAR), from Peru, finds that the two DPLs parallel the rest of the portfolio as not likely to have a particular impact on forests or climate. While the prior actions for Boosting Human Capital and Productivity were judged as unlikely to have a negative impact themselves, they were included in an omnibus bill, Law 30230, that significantly weakened environmental and social regulations, including through, *inter alia*, expedited approval of environmental impact assessments, greatly reduced (by 50%) fines for environmental violations, and weakened indigenous peoples' land tenure rights. While the Bank may state that it is not supporting those changes, it has at the least missed an opportunity to engage Peru's government on upholding environmental standards and indigenous rights—policies to which it is officially committed both in its safeguards and implicitly in the "mainstreaming of forests" under the FAP. We expect that in executing the FAP, the Bank will engage more on forest conservation and sustainable management of forests at both policy and program levels in key forest countries such as Peru.

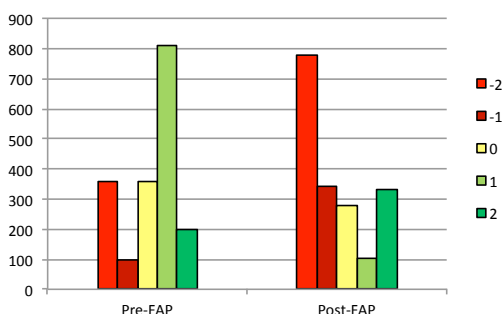
# Brazil



**NUMBER OF FOREST-IMPACTING WBG PROJECTS**



**SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)**



Considering the other countries included in this study, forest-related World Bank Group projects in Brazil appear to be an exception. On the one hand, with the adoption of the Forest Action Plan in April 2016, ‘pro-forest’ related projects decreased in number and in funding, from approximately US\$1 billion to US\$437 million pre-FAP to post-FAP, a drop of more than 50% in funding. Although the numbers are not encouraging, two of the projects, which represent around 20% of the identified 6 post-FAP ‘pro-forest’ projects, have the potential to produce a direct positive impact on forests by increasing forest area under restoration and sustainable management in the Brazilian Amazon and improving natural resource management with conservation practices and low-carbon emissions agriculture in Brazil’s Cerrado Biome. Interestingly, the single project that represents more than 50% of the post-FAP ‘pro-forest portfolio’ is a Development Policy Loan (DPL), which aims to increase the institutional capacity of the state of Mato Grosso for sustainable agriculture, forest conservation, and climate change mitigation.

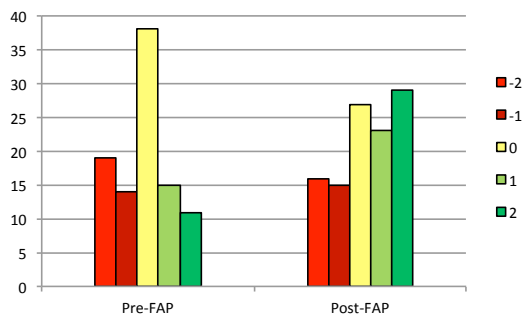
On the other hand, the negatively impactful projects increased both in numbers and in funding commitments. The funding of projects which we estimated to have a direct or indirect negative impact on forest and forest-dependent people increased by more than 50% after the FAP’s adoption. These are mostly IFC-funded projects (8 out of 9) linked to sugarcane production and expansion, industrial development, and unsustainable power generation.

Thirdly, the number of projects generating *potentially* negative impacts on forests (scored as 0) decreased when compared to the pre-FAP period, along with a decrease of 20% in funding commitments. Again, many of the projects ranked as potentially creating negative forests impacts, for both pre and post-FAP period, are IFC-funded projects that involve agricultural expansion, or projects that support sustainable rural development and renewable energy, but environmental risks and mitigation measures are not accurately outlined in their environmental assessments reports or include unidentified sub-projects that might pose a deforestation risk.

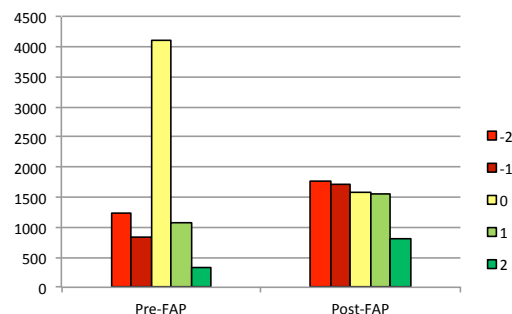
In Brazil, the WBG failed to increase investments towards ‘pro-forest’ projects and to reduce those with direct or indirect negative impacts on forests. In this sense, Brazil is the exception to the trend we have been identifying in most of the other countries where, after the adoption of the FAP, number and funding for ‘pro-forest’ projects increase. For Brazil to be consistent with the FAP commitments, it still needs to address two main issues: increase investments on pro-forest projects, and “mainstreaming of forests and forest-dependent peoples” into the agribusiness, infrastructure, and energy sectors. We expect the Bank to engage more and have a leading role in promoting forest conservation, sustainable infrastructure, and integrated resource management of forests, not only at the project level, but also at the policy level. To have an active, positive role in key forest countries like Brazil is critical for the environment, the conservation of the Amazon basin, and the protection of the rights of forest-dependent peoples.

# Main Findings

## NUMBER OF FOREST-IMPACTING WBG PROJECTS



## SIZE OF FOREST-IMPACTING WBG PROJECTS (US\$M)



Overall trends relative to FAP implementation in the countries analyzed:

- In most, the number and funding of WBG projects with an **indirect (+1) or direct (+2) positive impact** on forests and forest-dependent people experienced a significant increase in number of projects (26 pre-FAP to 52 post-FAP), and dramatic increase in funding (US\$1402.4M to \$2366.1M post-FAP – 69% increase). As per the first FAP pillar, this is good news and consistent with the goal of increasing the WBG’s support for forest programs. Yet most of these projects are forestry-sector projects.
- In many of the countries, the number and funding of WBG projects which we identified as posing **indirect (-1) or direct (-2) negative impact** on forests slightly decreased in number (33 to 31 post-FAP), but sizably increased in funding (\$2053.6M to \$3489.9M post-FAP, a 70% increase). This could be partly explained by the lack of capacity of the WBG to fulfill the second FAP pillar and ‘mainstream’ forests into other sectors that are primary drivers of deforestation, such as infrastructure, non-renewable energy, extractives, agriculture. However, it also may (likely does) reflect the lack of capacity or awareness in host countries of the need for a paradigm shift from forests being treated primarily as a resource for extraction to being an essential component of a healthy landscape, with multiple non-timber values. Most of the identified projects that pose indirect or direct negative impacts on forests are non-forestry sector projects.
- The projects identified as having **potentially negative (0) impacts** on forests and forest-dependent peoples decreased in number (38 to 27) and financing (\$4121.8M to \$1592.4M – 61% decrease) after the adoption of the FAP. In most of the Latin American countries analyzed, most of the projects with potentially negative implications on forests are mostly IFC-funded projects linked to agribusiness production and expansion, industrial development, unsustainable power generation, and extractives.

**The bottom line:** The Bank succeeded in increasing investments and funding for projects with positive direct or indirect expected impacts on forests. At the same time, the FAP appears to have had zero benefit in terms of ‘mainstreaming of forests’ into other sectors such as infrastructure, energy, extractives, and agriculture -- the ones that are the primary drivers of deforestation.

# Main Recommendations

## WORLD BANK

- 1. Effectively Mainstream Forests into other Sectors:** To be consistent with second pillar of the FAP, the World Bank Group should do a better job to mainstream forests into the infrastructure, energy, extractive, and agriculture public and private sectors. The Bank should support and increase investments and funding for projects that have a positive direct or indirect impact on forests beyond the forestry sector.
- 2. Introduce Institutional Incentives to Mainstream Forests into other Sectors:** To ensure that other sector projects at the Bank prioritize protecting the environment and the needs of forests peoples, the proper incentives should be in place to create the enabling environment for this to happen. Budgetary incentives can be combined with results-based incentives to prioritize forests and forests people's agenda, both in the public and private sectors.
- 3. Be a leader on Forests and Forest Peoples Rights for other MDBs and Key Forest Countries:** The WBG proved that if there is institutional and political will, more funding can be destined for forests and forest-dependent peoples. The Bank has deep knowledge and experience on forests' multiple values, in both the abstract (e.g. through knowledge programs like PROFOR and WAVES), and in practice (through executing projects under programs like the BioCarbon Fund ISFL and the FIP). It should use this knowledge and experience as a lever both to raise awareness/stimulate demand in borrower countries and to pull the regional MDBs to follow its leadership-- in a "race to the top." We expect the Bank to engage more and have a leading role in promoting forest conservation, sustainable infrastructure, and integrated resource management of forests, not only at the project level, but also at the policy level.
- 4. Apply Forest Monitoring Tools:** The WBG should encourage and promote the application of tools and methods for monitoring, reporting, and verification of forests' status and impacts of the projects, particularly in sectors that are identified as main drivers of deforestation (agribusiness, infrastructure, extractive industries, unsustainable power generation).
- 5. Minimize future WBG investments in projects identified as having potentially negative impacts on forests and forest dependent peoples:** These are types of projects that, in catering to profit motivations, inhibit the Bank's capacity to actually mainstream forests issues into other sectors. Most of the projects with potentially negative implications on forests are projects linked to agribusiness production and expansion, industrial development, unsustainable power generation, and extractives industries.

