

ASIAN DEVELOPMENT BANK

ASIAN DEVELOPMENT BANK

FOREST POLICY

(Working Paper)

June 2003

ABBREVIATIONS

| | | |
|--------|---|---|
| ADB | – | Asian Development Bank |
| ASEAN | – | Association of Southeast Asian Nations |
| CBD | – | Convention on Biological Diversity |
| CCD | – | Convention to Combat Desertification |
| CITES | – | Convention on International Trade in Endangered Species of Wild Fauna and Flora |
| DMC | – | developing member country |
| ECOSOC | – | Economic and Social Council (UN) |
| FAO | – | Food and Agriculture Organization |
| FCCC | – | Framework Convention on Climate Change |
| GDP | – | gross domestic product |
| IFF | – | Intergovernmental Forum on Forests |
| IPF | – | Intergovernmental Panel on Forests |
| ITTA | – | International Tropical Timber Agreement |
| ITTO | – | International Tropical Timber Organization |
| LTSF | – | Long-Term Strategic Framework |
| MEA | – | multilateral environmental agreement |
| NGO | – | nongovernment organization |
| NWFP | – | nonwood forest product |
| RSDD | – | Regional and Sustainable Development Department |
| SME | – | small and medium-sized enterprise |
| UNCED | – | United Nations Conference on Environment and Development |
| UNFF | – | United Nations Forum on Forests |
| WHC | – | World Heritage Convention |

GLOSSARY

| | | |
|----------------------|---|--|
| Carbon sequestration | – | process whereby a forested area captures and accumulates carbon from atmospheric carbon dioxide in its biomass |
| Crown density | – | Proportion of land covered by forest/tree foliage |
| Forest certification | – | process by which forest owners voluntarily submit their forests to inspection by an independent certification body to determine whether the management meets clearly defined standards or criteria, particularly with regard to sustainable forest management |
| Forest management | – | interventions that seek to achieve the most appropriate balance between protection of habitat for conservation of genetic and ecosystem diversity, wildlife, soil, and water, and production and extraction of potentially useful wood and nonwood forest products |
| Forest sector | – | includes all aspects of the management and protection of natural and semi-natural forests, woodlands, and the plants and animals for which they are the habitat, as well as planted tree crops; land that is classed as |

NOTES

- (i) In this report, “\$” refers to US dollars.
- (ii) “The region” refers to the Asia and Pacific region.

“forest” but no longer carries forest cover is considered within the forest sector if restoration of the forest is economically justified or desirable for environmental purposes; the forest sector also covers other economic activities that are wholly or largely dependent on forests, including small and medium-sized enterprises and industries that process and market wood and nonwood forest products; it also includes all aspects of trade in these products that have a direct bearing on the resource, such as supply, demand, and prices

| | |
|--|--|
| Geographic information system | – computer-based system for capturing, storing, checking, integrating, manipulating, analyzing, and displaying spatial and non-spatial data for study of natural resource and/or social change processes and patterns |
| Integrated natural resource management | – management of the land, water, forest, and biological resources needed to sustain land productivity and avert degradation of natural resources and potential productivity |
| Landscape approach | – planning for a defined or circumscribed area, such as a river basin or watershed, that probably includes several land and forest uses |
| Market-based instrument | – tool used to align private costs with social costs to reduce negative environmental externalities |
| National forest estate | – area, whatever its ownership, used for forestry purposes |
| Nonwood forest products | – non-timber output from forests, such as gums, resins, honey, silk, hides and skins, fruits, and nuts |
| Plantation | – forest established by planting and/or seeding in the process of afforestation or reforestation; uses either introduced species (all planted stands) or intensively managed stands of indigenous species; meets the criteria of one or two species at planting, even age class, and regular spacing |
| Private sector in forestry | – both informal (local communities) and formal (industry) involved in utilization and management of forests, and financing of forestry operations |
| Protected area | – zone where use is restricted as mandated by an official act to conserve biodiversity and to protect the area's special cultural or biological significance |
| Reduced impact logging | – logging technology to reduce environmental and social impacts associated with industrial timber harvesting |
| Rehabilitation | – reforestation of degraded forests and/or afforestation of wasteland |
| Resource security | – no change in land use: forest lands maintained under forest and tree cover |
| Restoration | – restoring the original forest ecosystem species composition, structure, and functions |
| Seminatural forest | – forest derived from natural communities of trees that have been subject to management and that retain many of the characteristics of natural forest, such as mixed species and age classes, but with reduced variability |
| Sustainable forest management | – management system that maintains a forest's critical ecological functions and biological diversity, and minimizes the adverse impacts of human activity so as to ensure availability of forest goods and services in perpetuity for use of present and future generations |
| Transfer payment | – payment made by individuals/groups for using an environmental resource to compensate other individuals/groups for not being able to use same resource |

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I. INTRODUCTION

1. The Asia and Pacific region is home to 900 million of the world's poorest people. Since most of these people live in rural areas, the region's forests have an important role in helping to sustain their basic needs and to maintain their quality of life.

2. In the Asia and Pacific region, forests cover 807 million hectares (ha), or about 28% of the region's total land area,¹ with some very specific features:

- (i) 15% of the world's total forest and wooded land;
- (ii) some of the world's most valuable and rarest forest ecosystems;
- (iii) up to 450 million people depend on forests for their livelihood;
- (iv) more than 2 billion people consume 70% of the total wood harvest as fuel, with wood being the most important source of domestic energy;
- (v) forestry and related industries are important sources of employment;
- (vi) demand from timber-deficit developing member countries (DMCs) of the Asian Development Bank (ADB) exceeds sustainable output from the main surplus DMCs, resulting in increased imports and overexploitation;
- (vii) overexploitation is harming much of the natural forest biodiversity and the environment;
- (viii) in the last decade, annual average rates of deforestation in some DMCs have been as high as 1.8% of total forest area.²

3. ADB invested around \$1 billion in the forest sector during 1977-2002. ADB believes a change in its forest policy is desirable and necessary to improve the implementation and impact of its forest sector investments; to contribute more directly to achieving the overarching goal of poverty reduction; and to respond to the region's emerging forest resource conservation and development challenges. Population and income growth and migration to urban areas will put increasing demands on the region's forests for forest products and forestland use, and for services, especially sustainable water supply. Over the next two decades, it is expected that the manufacturing and service sectors, with increasing links to regional and global markets, will replace agriculture and primary sectors as the dominant sectors for economic growth and development in the region. Globalization and regional agreements such as the Asia-Pacific Economic Cooperation, Association of Southeast Asian Nations, and the South Asian Association for Regional Cooperation are expected to boost growth, promote more liberal trade policies, and increase economic integration. Globalization and increased trade will bring many benefits. However, without improved public and private sector governance, the potential risk of unsustainable forest use and illegal logging will increase.

4. Private sector initiatives, such as forest certification and carbon sequestration provide opportunities to improve the region's forestry governance and investment environment. ADB's forest sector operations and assistance must be capable of responding to persistent and emerging challenges, including dealing with global climate change, preventing the loss of

¹ For the purposes of this paper, forest refers to an ecosystem with a minimum of 10% crown cover of trees and/or other wooded land/bamboos generally associated with wild flora, fauna, and natural soil conditions and not subject to agriculture.

² Refers to annual average rate of deforestation (as % of forest area) 1990-2000. ADB. *Annual Report 2001*. Manila.

biodiversity, mitigating damage from catastrophic floods and forest fires, and solving environmental problems such as “The Asian Brown Cloud.”³

5. This proposed ADB Forest Policy is based on a review and revision of *The Bank’s Policy on Forestry* (March 1995). A multistakeholder, participatory review strategy was drawn up, which had six main components: (i) the establishment of a forest sector working group drawn from across ADB, which was asked to comment on the study methodology and outputs; (ii) ADB forest sector policy and portfolio performance assessment; (iii) Bangladesh, Pakistan, Philippines, and Sri Lanka country case studies focusing on the poverty reduction potential of forestry projects, which included formal and informal consultations with stakeholders and project beneficiaries; (iv) regional forest resource, policy, and regulatory framework assessment, and a regional consultative workshop at ADB headquarters; (v) peer review by external experts; and (vi) establishment of a web site, <<http://www.adb.org/projects/forestpolicy>>, to document the study process and disseminate its outputs. More than 500 individuals from different stakeholder groups have participated in the review process.⁴

6. Section II of this paper looks at the close link between poverty and environmental degradation and highlights the important role sustainable forest management can play in poverty reduction. In Section III, ADB’s sector experience is reviewed along with the impact of *The Bank’s Policy on Forestry* (March 1995) on forest loss, sector development strategies, and investments. The scale and scope of challenges faced by the forest sector in the region are discussed in Section IV, particularly the achievement of ADB’s overarching goal of halving poverty in the region by 2015. Section V describes ADB’s policy objectives, strategies, and interventions for achieving its vision for forestry in Asia and the Pacific. Section VI describes how the Forest Policy will be implemented and monitored by ADB. The proposed new Forest Policy (see Box) will guide ADB staff in determining policy and investment priorities in the forest sector in DMCs, and in designing new programs and projects.

³ The Asian Brown Cloud is a layer of haze consisting of pollutants and particles from biomass burning and industrial emissions present in much of Asia and the Pacific. It can adversely affect human health, and the region’s forest, agro- and aquatic ecosystems.

⁴ A detailed outline of the public consultation process is in Appendix 1.

Summary of ADB Forest Policy

Vision: Stewardship of forests for a healthier and wealthier future for all in Asia and the Pacific

Goal: Improve Sustainable Forest Resource Management for Poverty Reduction and Environmental Protection

Policy Objectives: Provide assistance to ADB's developing member countries (DMCs) to (i) strengthen management of the region's remaining natural forests to improve their condition, especially those of high conservation and/or commercial value; (ii) strengthen forest governance to improve resource access and security, particularly for economically and socially disadvantaged groups; (iii) increase the extent and productivity of plantations and trees on farms to increase wood supply and rural employment opportunities; (iv) improve the livelihoods of forest-dependent communities and their access to development opportunities; and (v) improve the efficiency, effectiveness, and transparency of regulatory and management agencies.

Strategies: ADB will promote sustainable forest management in an integrated manner with human welfare and poverty reduction.

A. Strengthen Forest Governance, Capacity Building, and Resource Security

- (i) Promote review of regulatory regimes in concerned DMCs, including laws that directly govern the forest sector, land use and tenure.
- (ii) Promote the analysis of pricing policies that impact forestry, including agricultural prices and subsidies and include assistance with strategic planning to balance supply and demand of forest products and services.
- (iii) Secure stakeholder and government agreement in principle on the scope of envisaged reforms before project implementation.
- (iv) Promote a broad-based approach to institutional reform and support existing user groups and promote the establishment of new groups in association with forestry assistance.
- (v) Promote comprehensive approaches to capacity building—including promoting the participation of women—in the preparation and implementation of assistance projects.
- (vi) Promote the establishment and management of Protected Areas to safeguard the environment.

B. Integrated Approach to Forestry and Poverty Reduction

- (i) Give priority to wood-based rural energy projects where the wood supply is sustainable and from planted trees, and the projects offer pro-poor benefits.
- (ii) Give priority to assistance where stakeholder participation in the development, and endorsement of policy has been institutionalized, and where forest policy puts priority on poverty reduction, social development, and environmental protection.
- (iii) Give priority to assistance that generates employment, and improves employment conditions in the forest sector.
- (iv) Give priority to assistance in the forest sector where poor people and communities have access to forest resources to support their development, and where measures to mitigate environmental degradation will have particular benefits for poor communities.

C. Enhance Use of Technology Blending and Landscape/River Basin Approach

- (i) Promote blending of modern and indigenous technologies for improving forest condition and productivity.
- (ii) Use a landscape/river basin approach in investment planning to facilitate integrated and improved forest/natural resource management.

D. Promote Public-Private Sector Partnerships and Resource Mobilization

- (i) Promote the development and application of adequate regulatory frameworks to facilitate private sector involvement.
- (ii) Support the creation of an enabling policy and investment environment that will promote a larger engagement of potential partners in the forest sector by reducing the risks associated with the sector.
- (iii) Support forest resource assessments and valuation of national forest estates.
- (iv) Give priority to assistance that is in line with international agreements, and promote their implementation and that of other international agreements related to forests.
- (v) Promote harmonization of forest sector policies among ADB's DMCs to develop better regional demand and supply balance of wood and wood-based products, and avoid negative environmental externalities.
- (vi) Promote regional cooperation in collecting and disseminating forest sector supply-demand information.
- (vii) Promote coordination with bilateral and multilateral development organizations.

E. Stimulate Implementation of Multilateral Environmental Agreements

- (i) Facilitate implementation of the United Nations Conference on Environment and Development 1992 Forest Principles for addressing global biodiversity conservation priorities, as reinforced in the World Summit on Sustainable Development in Johannesburg in August-September 2002.
- (ii) Assist DMCs in accessing global financing mechanisms such as the Global Environment Facility for the integration of biodiversity concerns in forest sector strategies, plans, and management.
- (iii) Promote regional consultation on carbon sequestration in forests, and provide support for enhanced carbon sequestration.
- (iv) Promote regional consultation on the risks and mitigation potential of forests for addressing catastrophic forest fires and floods, and the emerging Asian Brown Cloud problem.

II. SUSTAINABLE FOREST MANAGEMENT: A KEY TO POVERTY REDUCTION

7. While some progress has been made in slowing down deforestation rates in Asia and the Pacific, the region's remarkable economic growth in the past two decades has been accompanied by continued forest loss and degradation. This has had a negative impact upon the region's prospects for achieving sustainable development, particularly on the rural poor, who rely on these resources for significant portions of their livelihood. ADB's rededication to the goal of poverty reduction in 1999—the Poverty Reduction Strategy—provides new challenges and opportunities with regard to the management of the region's forest resources and ADB's support for the forest sector.

8. The Poverty Reduction Strategy provided the direction for all new ADB operations and activities. ADB is dedicated to achieving the International Development Goals (identified in United Nations conference agreements and resolutions during the 1990s) within Asia and the Pacific by 2015. These goals include reducing the number of people living in poverty by half, and reversing the loss of environmental resources.⁵ Integral to addressing the issues of poverty reduction through pro-poor, sustainable economic growth, is the achievement of environmental sustainability, and reversing the effects of past forest resource mismanagement. This is one of ADB's core developmental challenges in moving its poverty reduction strategy forward.

9. For the rural poor, forests play an important role in achieving food and livelihood security. For example, in many rural communities in the Lao People's Democratic Republic, virtually all food except for rice is derived from the forests, including nonwood forest products (NWFPs) provided by more than 700 species of plants and animals. As illustrated in Table 1, a rural family consumes some \$280 equivalent per year in NWFPs (including fuelwood), and on average NWFPs provide 55% of family cash income of villages near forests.⁶

Table 1: Simplified Income Model of an Average Lao Rural Household of Five Persons

| Income Category | \$ | Percent | Remarks |
|----------------------|------------|------------|--|
| Total NWFPs | 280 | 40 | |
| Forest food | 200 | 28 | bamboo-shoots/fish/greens |
| Firewood | 40 | 6 | firewood and local use wood |
| Other NWFPs | 40 | 6 | medicine/rattan/bamboo |
| Rice | 350 | 50 | 350 kg paddy/person/year |
| Total noncash | 630 | 90 | |
| Cash income | 70 | 10 | mainly from sales of NWFPs and livestock |
| Total income | 700 | 100 | |

NWFP = nonwood forest product.

10. ADB's forest sector operations demonstrate that forests and forestry can play an important role in achieving environmental protection, poverty reduction, and sustainable development in an integrated manner. Several ADB Forestry Sector Projects in Bangladesh show evidence of this link. For example, the Community Forestry Project,⁷ the second ADB-assisted forestry project in Bangladesh, implemented during 1981-1987, generated employment of about 3 million person-days of unskilled and semiskilled work in its operational area. This is equivalent to about 12,000 full-time jobs, and represents only a very modest investment of \$440 per job, which is roughly equivalent to the average national income as measured by per capita GDP. Similarly, the Upazila Afforestation and Nursery Development Project⁸ generated about 23 million person-days of unskilled and semiskilled employment in its operational areas or the

⁵ The International Development Goals were subsumed into a set of eight goals at the Millennium Summit of the United Nations (UN). These goals, known as the Millennium Development Goals, have the endorsement of the entire UN body.

⁶ ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Lao PDR for the Nam Ngum River Basin Development Sector Project* (Appendix H). Manila.

⁷ ADB. 1981. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Bangladesh for the Community Forestry Project*. Manila.

⁸ ADB. 1989. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Bangladesh for the Upazila Afforestation and Nursery Development Project*. Manila.

equivalent of more than 90,000 full-time jobs with an investment of \$500 per job. The Bangladesh Forestry Sector Project⁹ has also started making a difference in peoples' lives. In one case, 761 beneficiaries received more than \$400,000 (averaging \$540 per beneficiary) as their share of agroforestry and woodlot plantation sale proceeds. This has allowed these landless and poor households to replace thatched roofs on their houses with corrugated tin sheets, buy cattle for plowing, and lease land to increase their food security. These beneficiaries have also put aside about \$75,000 for establishing and maintaining second rotation plantations. Estimates indicate that an initial investment of about \$160,000 on these plantations yielded a net revenue of \$400,000 to the Government.

11. ADB's forest sector projects are expected to create tree and forest cover of over 900,000 ha, whereas the loss of forest cover in the project countries amounts to about 770,000 ha annually. Thus, while the investments appear to have had limited impact on the loss and conservation of natural forests, these have made a substantial contribution toward compensating for the loss of the forest resources' future productive potential. Clearly, forest sector investments have the potential to put rural communities and DMCs on course to sustainable forest management, and to deliver maximum benefits to the poorest people.

12. Forest loss and degradation and poverty are mutually reinforcing, and unless addressed in an integrated manner, will hamper sustaining poverty reduction and environmental security in the region. Increasingly, accelerated economic growth and more human dependence on forest resources are undermining forest ecosystems and the services they provide, such as the maintenance, distribution, and quality of water yields; conservation of terrestrial and aquatic biodiversity; sustainable agriculture and fisheries; and global climate. An integrated approach to forest management means striking a balance between the implementation of policies and interventions to achieve the most appropriate balance between conservation; the production of useful wood and nonwood forest products for national economic development; and meeting the needs of the poor and vulnerable, who depend on forests for survival. For example, deforestation and catchment degradation are believed to have contributed to the loss of life and property in the disastrous November 1999 floods that affected eight provinces in central Viet Nam, killing over 700 people and causing material damage of over \$250 million.¹⁰

13. As stated in ADB's 1999 Poverty Reduction Strategy, poverty reduction includes access to basic health and education services, the right to a means of livelihood, protection from natural and external shocks, and the power to participate in decision making. Forests and good forest governance can directly and significantly contribute to all of these challenges except education. Meeting the poverty reduction challenges will require, in addition to social development, sustained annual growth of 3-7% in real gross domestic product (GDP) per capita until 2015. If current population growth rates continue at an average of about 2%, the national GDPs must grow at an even higher rate to achieve the necessary per capita growth.¹¹ It is important to keep in mind that an annual GDP growth rate of 3-7% based on the development and growth in the manufacturing and nonrural sectors of the economy may not be sufficient to achieve poverty reduction goals, because the vast majority of the poor are living in rural areas, whereas the industrial and services sectors are concentrated in the urban areas. Furthermore, while rural poverty has declined rapidly in recent years in the more favorable agricultural areas of the region, rural poverty has been persistent in places with fragile environments, i.e., poor soils, steep slopes, and poor access.

⁹ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Bangladesh for the Forestry Sector Project*. Manila.

¹⁰ SIDA. 2003. *Living with the Floods*.

¹¹ ADB staff estimates and the *Quality of Life in Rural Asia Study* (see footnote 13).

14. ADB's assistance to the forest sector has been guided by *The Bank's Policy on Forestry* (March 1995), which recognized the link between forestry, poverty, and the environment. However, while correctly focusing on improving forest management to check deforestation, it does not explicitly address poverty reduction. In addressing the need to seek greater consistency between forest policy and the long- and medium-term strategic agenda, and because of increasing concerns over existing portfolio performance, and difficulties in developing a forestry projects portfolio, ADB has developed a new forest policy. The policy explains how ADB will increasingly integrate poverty reduction and other social development objectives in its forest sector operations.

III. EXPERIENCE OF THE ASIAN DEVELOPMENT BANK AND LESSONS LEARNED

A. Policy Impact and Issues

1. Continued Deforestation

15. The current ADB forest sector portfolio is in line with the 1978 and 1989 sector development papers and *The Bank's Policy on Forestry* (March 1995). The portfolio represents assistance in creating plantations to compensate for the loss of natural forests, and declining potential production capacity. Despite emphasis in successive policies on the need to slow forest loss, the decline in natural forests and associated biological diversity has continued. This declining trend continues, as deforestation continues to be more profitable than sustainable forest use: policy interventions and investments have not been commensurate with the scale of the problem. However, ADB's strategic focus on supporting national forest sector strategic planning through forestry sector master plan preparation and plantations has helped reduce the overall rate of forest loss in the region and increase the sustainable supply of forest products.

2. Shift Toward Sectorwide Community-based Natural Resource Management and Private Sector Involvement

16. In dealing with forests as an integral part of the larger natural resource base, ADB's efforts have triggered far-reaching policy changes in some DMCs, particularly where ADB has adopted a sector approach. ADB has found that individual projects have only a limited impact on addressing the fundamental issues resulting in the sector's underperformance. ADB assistance has the largest impact when DMCs are encouraged to adopt forest policies that emphasize community-based natural resource management—an important involvement in light of ADB's strengthened poverty focus. ADB-assisted forestry projects enhance the role of nontraditional forestlands and the private sector, particularly local communities and nongovernment organizations (NGOs), in increasing wood production and improving forest management.

3. Undervaluation of Forests and Forestry

17. Forest sector investments generally show low financial, but high economic, rates of return—nonmonetary benefits are often not reflected in national or sector accounting systems. Market failures and distortions, such as agriculture subsidies in the developed as well as developing countries, result in undervaluation of forest resources and project benefits. This discourages forest sector investment by DMC governments and the private sector. The insurance and nonmonetary household consumption values of forests have also been ignored.

B. Forest Governance and Institutional Issues

1. Legal Reform and Access to Resources

18. It has been difficult to change forest laws and even more difficult to enforce them. For example, existing regulatory frameworks are inadequate to address the position and rights of indigenous people, whose poverty is linked to lack of access to resources, and limited development opportunities. Reducing monopolistic control of forest departments over forestland, reforming laws and regulations on land tenure and resource access, and instituting equitable cost- and benefit-sharing arrangements have faced difficulties. As most forestland is nominally state owned, lack of clear regulation and enforcement results in an “open-access” regime and in conflicts over rights of access to and use of forestland.

2. Institutional Reform

19. Successful forest resource management, which includes the active involvement of communities and civil society, is dependent upon progress in reforming organizational structures and how institutions manage forest resources. ADB-assisted institutional change is under way in several DMCs; however, it has been difficult to agree on the roles of forest departments and forest resource users in the private sector and local communities. Many forest departments are unwilling and/or unable to realign their roles and management structures to changed needs and demands. Several DMCs, in initiating forest department reorganization—often at the request of aid agencies—have encountered difficulties. In some DMCs, policies have been adopted to decentralize and delegate responsibilities to lower administrative levels, to encourage the involvement of users in forest resource planning and management, and to train forest department staff in participatory forest management. Substantive forest department reforms, however, are taking place too slowly and in too few countries. Often, DMCs’ fiscal and budgetary constraints slow the institutional strengthening and restructuring of forest departments. The means and mechanisms for consensual decision-making and coordinated functioning have been difficult to establish and implement: institutional oversight structures—nonpartisan forest commissions and national forest forums—have had limited success. Institutional reform in the forest sector requires political will and can be successful only with the active participation of all involved, especially ministries responsible for civil service reforms. However, community and household rights and responsibilities, and the accountability of local governments, civil society, and the press, are steadily being recognized.

3. Capacity Building

20. Human resource development in the forest sector has not kept pace with changing needs, mainly as a result of a lack of clarity and/or confusion about defining the roles and responsibilities of institutions that are, or need to be, involved in forest resource management. The forest sector has lacked an overall reorientation of educational, training, and research institutions. New technologies such as remote sensing and GIS are not readily adopted due to budgetary constraints, lack of training and awareness, and resistance to change.

4. Gender Awareness and Women’s Representation

21. There is increasing awareness of the importance of women in developing and managing, and their dependence on forest resources. However, women are still underrepresented in all levels of decision making in the forest sector.

C. Technical Issues

22. Just 35-40% of the biomass productivity potential of natural forests and plantations is realized in the region, mainly because of outdated management, technology, and practices. Most forest planning and practices focus primarily on timber and wood products, rather than forest ecosystem management. State-of-the-art forest conservation and development tools, such as ecosystem and landscape planning, which are vital for integrated natural resource management, are underutilized, or not used at all, by forest planners. Community involvement is often at the expense of technical quality of forestry operations, resulting in limited use of new technologies. In ADB projects, limited use has been made of such technology as geographic information systems, biotechnology, forestry expert systems, and the Internet.

D. Investment and Portfolio Performance

1. Declining Investments in the Forest Sector

23. The region's continuing forest loss and degradation indicates that DMC governments accord lower priority to forests than to many other sectors of their economies. Sustainable forest resource management requires significant investments in human resources, infrastructure, technology, and systems to compensate forest owners for the nonmarket benefits they provide. Poor management, and the diversion of capital generated by forest-resource exploitation to other sectors, has meant that countries that still have adequate forest resources have not been maximizing their potential benefits. Though ADB and the international community have long recognized the importance of forests, multilateral development funding has not reflected this in the priority it affords the forest sector. From 1977 to 2002, ADB invested around \$1.06 billion in stand-alone forestry projects, representing about 1.08% of all lending.¹² ADB assistance peaked at about \$150 million in 1988, representing 5% of total lending, and has declined steadily since to less than 1%. The sector's investment needs are greater than public sector financing can provide, and community and private sector investors are often discouraged by the lack of adequate governance, particularly where access and tenure issues are concerned.

2. Investment Size and Distribution

24. ADB has lent some \$1 billion to the forest sector in 12 DMCs, and has provided technical assistance funding amounting to a further \$37 million extending to those 12, plus an additional 9 countries. Table 2 gives a summary of the distribution of these funds by country and number of projects. An examination of the investment portfolio according to the resource status of the recipient countries reveals that the size of the projects was largest in the resource-poor countries, and smallest in the resource-rich countries. Moreover, a higher proportion of the resource-poor (50%), excluding small island countries, and transition countries (71%) applied for and were provided loans, than the resource-rich countries (38%).

¹² See ADB Forest Sector Operations (1977–2002) in Appendix 2.

Table 2: Breakdown of ADB Lending to DMCs for Forest Sector Projects, by Country, Resource Status and Project

| Resource Status ^a | Countries | Total Value of Loans (\$ million) | Number of Projects | Lending per Country (\$ million) | Average Size of Project (\$ million) |
|------------------------------|-------------|-----------------------------------|--------------------|----------------------------------|--------------------------------------|
| Resource rich | 5 | 258.8 | 13 | 51.8 | 19.9 |
| | Indonesia | 125.8 | 5 | | 25.2 |
| | Malaysia | 54.0 | 2 | | 27.0 |
| | Myanmar | 50.1 | 2 | | 25.0 |
| | Lao PDR | 27.2 | 3 | | 9.0 |
| | Samoa | 1.7 | 1 | | 1.7 |
| Transition | 5 | 552.1 | 17 | 110.4 | 32.5 |
| | Philippines | 311.0 | 7 | | 44.4 |
| | PRC | 77.0 | 1 | | 77.0 |
| | Nepal | 71.6 | 4 | | 17.9 |
| | Sri Lanka | 59.5 | 4 | | 14.9 |
| | Viet Nam | 33.0 | 1 | | 33.0 |
| Resource poor | 2 | 249.1 | 7 | 124.6 | 35.6 |
| | Bangladesh | 164.9 | 5 | | 32.9 |
| | Pakistan | 84.2 | 2 | | 42.1 |
| Total/Av | 12 | 1,060.0 | 37 | 88.3 | 28.6 |

Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

^a Resource rich: per capita forest area more than 0.51 ha. Transition: per capita forest area between 0.10 and 0.50 ha. Resource poor: per capita forest area less than 0.10 ha.

3. Portfolio Performance

25. By December 2002, 11 of the 37 projects had been evaluated. Only one of the 11 was considered a failure, and the others were either partly or generally successful. The one unsuccessful project, a relatively small one in Samoa to create plantations, was badly damaged by cyclones; it also had technical problems.

26. This performance was judged on the basis of implementation, the degree to which the objectives and physical targets were achieved, and the overall economic impact. The latter was determined principally on the basis of the estimated economic internal rate of return on project completion compared with that calculated at appraisal. ADB's portfolio performance assessment and experience of the World Bank Forest Policy Implementation Review and Strategy conducted during 1998-2002 indicate that active (free-standing) forestry projects perform better than projects in other sectors such as agriculture or environment. Forest-component projects, however, tend to have the lowest ratings.

E. Multilateral, Bilateral, and Nongovernment Organization Support

27. The World Bank has just completed a comprehensive review of its forest strategy and operational policy. The newly adopted forest strategy is built on three equally important and interdependent pillars: (i) harnessing the potential of forests to reduce poverty, (ii) integrating forests in sustainable economic development, and (iii) protecting vital local and global environmental services and values. Initiatives such as forest round tables and forest sector partnerships in several DMCs have played an important role in bringing together aid agencies,

governments, and civil society to develop a common approach to address forest loss and degradation. All these initiatives acknowledge the importance of developing the forest sector to protect the environment and reduce poverty.

28. In the region, a number of countries including India, PRC and Viet Nam have initiated major national forest rehabilitation and restoration programs to reverse forest loss and degradation. Bilaterals and NGOs, both international and domestic, play a crucial role in raising the awareness and capacity of DMCs to develop and implement sustainable forest management strategies and projects. This joint effort of communities, governments, NGOs, and bilateral and multilateral institutions including ADB is starting to reverse the loss of forest cover in the region.

IV. CHALLENGES FOR FORESTS AND FORESTRY IN ASIA AND THE PACIFIC

A. Overall Demand for Forest Products and Services

29. The region's population is projected to increase from about 3.3 billion in 2000 to an expected 4.4 billion in 2015, and the Rural Asia Study¹³ and ADB's LTSF consider that average per capita income will need to grow from 3% in some subregions to as much as 7% in others to achieve poverty reduction targets. This means that if current patterns of wood consumption (log and wood products, and fuel wood) and processing efficiency are maintained, then regional demand for wood products alone would increase from the present 1.2 billion cubic meters (m³) to around 3.8 billion m³.¹⁴ Market forces may induce more efficient production and consumption patterns, but the growing cycle of trees is relatively long—if growing capital is liquidated wastefully in the short term, it will be difficult for corrective forces to take effect.

30. Regional trends identified in the LTSF, such as urbanization, demographic transition, and the information revolution, will also influence the demand and supply of forest products and services: urbanization is likely to increase the demand for wilderness and recreation facilities; demographic transition, and projected economic growth will require an increase in employment generation and labor productivity; social and military conflicts can increase pressure on forest resources; and advances in information technology will facilitate the globalization of trade in forest products, which will increase access to regional and global markets, advanced technology, and capital.

1. Growing Imbalances in Demand and Supply in the Region

31. As its own forest-resource base is shrinking, the region currently imports almost 20% of its annual forest product needs, and population growth will add to future demand for forest lands and products, resulting in further resource-base decline. In the mid-1980s, the region was a major exporter of wood products, particularly tropical hardwood plywood. ADB, in its 1989 review of its assistance to the forest sector, concluded that the sector was an important contributor to economic development; however, the environmental and economic costs of this growth were not considered. The region was also expected to remain the world's leading exporter of tropical hardwood plywood. Since then, the region has become a major net importer of wood products, while tropical plywood has declined in importance as a commodity. The contribution of wood processing to economic growth has declined in most countries in the region.

¹³ ADB, 1999. *Quality of Life in Rural Asia*. Hong Kong: Oxford University Press for ADB.

¹⁴ These estimates are based on current processing efficiencies and income elasticity in demand for major products, and are indicative of trends and patterns of growth. They are not forecasts.

32. Large quantities of timber products are traded within the region. Demand from timber-deficit countries, however, is already exceeding the sustainable output from the main surplus countries. This is contributing to illegal logging, which destroys forest wealth and deprives governments of revenue. The international price for timber products reflects primarily the cost of production and does not include the costs necessary to ensure that the market promotes sustainable resource management. The lack of effective monitoring and controls in the region encourages the smuggling of forest products, and the resulting overexploitation of natural forests debilitates the environment and reduces biodiversity. Natural forest regeneration is disturbed when illegal logging follows authorized selective logging; species composition is altered; and susceptibility to fire is increased.

2. Domestic Energy Requirements

33. Wood is the most important domestic energy source for the region's rural population and the poorest people, many of whom collect it as a "free good." The latest Food and Agriculture Organization (FAO) and World Bank data indicate that the total annual consumption of wood for energy in ADB DMCs is around 905 million m³, which has an energy equivalent of about 216 million tons oil equivalent—7% of total energy consumption in the region.¹⁵ The greatest demand for fuel wood is generally in the poorest, most densely populated regions with the least forests, and it is these forests that face the greatest threat. Although new technologies to improve the efficiency of energy extraction of wood and other nonconventional energy sources that can supplement fuelwood are available, they have been introduced only on a limited scale. Furthermore, per capita energy consumption, like wood consumption, is strongly linked to wealth as measured by per capita gross national product. The income growth targets necessary to eliminate poverty may result in an increase in per capita energy demand of 30-50%, if the living standards of those who are currently classified as poor improve.

3. Production and Consumption Scenarios

34. Changes in production and consumption patterns that may occur include the following:

- (i) Increased pressure on resources will affect the price of logs and timber products, leading to greater efficiency in harvesting and processing: a smaller volume of logs will produce the same quantity of end products
- (ii) Increasing product prices will discourage consumption growth, so per capita consumption increases will be slower than growth in income would indicate, based on past consumption patterns
- (iii) Increasing raw material prices will make investment in plantations more attractive. The decline in the supply of raw materials from natural forests will be partially offset by an increase in plantation-grown wood; Asia and the Pacific will increase imports from other regions, especially temperate forests, where the resource is generally under less threat
- (iv) Improved natural forest and plantation management will result in higher productivity, so output can be sustained from a smaller resource base
- (v) Timber and wood products will be increasingly replaced by substitutes

¹⁵ FAO Forest Energy Data from Energy Information Systems and World Bank, World Development Indicators 2000.

B. Forest Governance and Resource Security

1. Access to Resources and Benefit Sharing

35. Land and land tenure are the most important issues affecting forestry in most DMCs. Much of the region's forests are regarded as "state land," often seen as a "land bank," and used to meet the need for land for other purposes. In some DMCs, forests are on communal or common land, but the same conditions apply. With land largely monopolized by government or big private landowners and influential rent seekers—especially where there is still forest to log—its value is distorted, leading to theft in the form of "illegal" occupation and inefficient use. "State land" means public ownership, administered by government, not government ownership, but many governments have difficulty making this distinction, and disregard de facto traditional use. This is at the root of much of the conflict associated with forests: governments issue rights and licenses for forest exploitation to selected and often influential entrepreneurs, and do not recognize the rights of traditional users or local communities. License fees for rights to exploit forests are usually awarded for nominal amounts that do not reflect the land's real rental value. This contributes to the undervaluation of forests and forestland, as much potential capital is tied up, and not available for development. Related to this are interagency conflicts as forest departments struggle to retain control over land, while agriculture departments, for instance, seek to expand the area under their jurisdiction.

36. Community involvement in forest development and management has increased; however, often communities do not fully benefit from this. Institutionalized benefit-sharing arrangements have not been adequately developed, and rights of access and tenure security have not materialized to the extent desirable. In the majority of cases, the potential beneficiaries of forest development and management lack legal recourse to deal with dispute resolution.

2. Government Function and Institutional Reform

37. Lack of adequate strategic planning and regulatory capacity, and failure to adopt competitive selection processes, has led to corruption, lack of transparency, and inefficient and unsustainable forest exploitation. Governments throughout the region dominate activities in the forest sector, through "state-owned land and forest." There is a clear distinction between functions that only governments should and can perform as the "forest authority"—including policy and strategic planning, creating an appropriate regulatory framework, and monitoring sector performance—and those where government involvement is not essential, and may even be counterproductive, such as day-to-day forest management. DMCs have given inadequate attention to strengthening their capacity to exercise their policy and regulatory roles, and instead have focused on capacity building for resource management. Too many regulations that forestry companies and households find impossible to comply with breed corruption and reduce the credibility of the rule of law.

3. Enabling Policy Environment

38. ADB has found that DMC governments have generally not recognized that their principal role in forestry should be the development of forest policy that provides medium- to long-term vision for the sector, in which poverty reduction, social development, and environmental protection are well integrated. In many cases, Governments have not taken into account the funding required and other incentives necessary to ensure implementation of such policy. Often, governments have also not clearly acknowledged the desirability of a more pronounced role for the private sector and community in resource mobilization and their investments in the forest

sector, and have failed to address sources of conflict between stakeholders over issues such as rights to land, and access to resources.

39. Inappropriate macroeconomic policies create market distortions and have a major impact on the economic efficiency with which resources are allocated and the willingness to invest in the forest sector. Inappropriate pricing methods and the underpricing of forest produce—in particular timber—lead to significant waste in forests, and in processing—waste that could be used as raw material for small and medium-sized enterprises (SMEs), thus creating additional off-farm employment. Market distortions in the forest sector strongly influence the efficiency with which resources are used—land and other inputs, such as labor and capital, and the outputs of products and services. Inappropriate fiscal policies, such as selective subsidies and pricing policies also create distortions.

40. The preparation of national strategic plans requires comprehensive and accurate information on the state of the sector and its performance, including resource inventory data; potential for sustainable supply of timber and other products; and conservation value for soil, water, and biodiversity. It also includes assessing the capacity of the processing industry, its efficiency, and the demand for forest products, including fuelwood, for domestic consumption and export; and the competing demands for land, both from farmers and local communities, and for other large-scale developments such as plantation crops. Thus far, there has been insufficient availability of reliable information necessary to improve transparency and to enable stakeholders to participate in constructive dialogue. But the information systems need to be demand and problem driven.

41. Multiple-use forest ecosystem management requires planning frameworks that integrate livelihood and human welfare needs with environmental protection. Thus far, there has been insufficient use of landscape planning approaches, which integrate conservation and sustainable use while taking into account social, cultural, and economic considerations. The blending of indigenous and modern resource conservation and management technologies has also not been sufficiently utilized in realizing the full development potential of forests and the communities' dependent upon them.

4. Multilateral Environmental Agreements and Regulatory Framework

42. Numerous multilateral agreements are relevant to sustainable development, and the forest policy, including the Convention on Biological Diversity, the Convention on Wetlands of International Importance, the Framework Convention on Climate Change, the United Nations (UN) Convention to Combat Desertification, and the World Heritage Convention. Most, but not all, DMCs have ratified these.¹⁶ The Convention on Biological Diversity, the objectives of which include the conservation of biological diversity, sustainable use of the components of biodiversity, and equitable distribution of benefits arising from the use of genetic resources, is of special importance to the forest policy.

43. National legal regimes for the region's forest sector vary widely in scope and quality. Some are overlaid with policy guidelines developed in the last decade, others comprise multiple instruments adopted reactively rather than proactively, and others are still emerging. Rarely do laws incorporate the concept of stewardship or define the roles and responsibilities of government and civil society in managing state forest resources. Overall, forest laws are still prescriptive rather than enabling, with limited implementation and enforcement.

¹⁶ A more detailed description of the significance of the different conventions and their possible linkage with the ADB Forest Policy is in Appendix 3.

5. Institutional and Organizational Capacity

44. The overall institutional context for development in which forest sector activities are situated is changing—many DMC governments are now well advanced in decentralizing or devolving responsibilities for the delivery of services. However, many DMCs have yet to develop a broad-based approach to institutional reform. Appropriate policies and strategy development, implementation, and monitoring require strong organizations at various levels of government, civil society, and the private sector. However, some capacity building still focuses on training in direct support of the implementation of project activities rather than strengthening institutions to better equip them to carry out policies and programs by themselves.

C. Forest Conservation, Environmental Protection, and Management

1. Conservation of Forest and Biological Resources

45. The “Green Revolution,” which enabled the region to dramatically increase food production, refers mainly to irrigated and high potential land. Agricultural output has been expanded mainly by intensification on irrigated land, and extensification on rain-fed land. The latter has generally entailed forest clearance. Misdirected incentive policies (subsidies), policy and market failures, and lack of concern for the environmental and conservation value of forests have contributed to forest loss and degradation. Urbanization has increased the demand for land and other resources, especially water and timber. Higher potential agricultural land is often used for expanding urban areas, and maintaining agricultural output capacity has meant more dependence on marginal rain-fed land, which translates into increased forest clearance. Conversion of forests for agricultural and other uses and overexploitation of forests for timber and nontimber products continues to occur mostly on more accessible and lowland tropical forests rich in biodiversity, and this results in continued environmental impoverishment. Climate change—especially if it occurs more rapidly than ecosystems and communities can adapt to it—poses a particular threat to the environment, and especially to poor people. The sheer size and magnitude of the deterioration and degradation of the region’s ecosystems, the compounding effects of accelerated urbanization, and pressures from a growing population will require political will and substantial investments to check biodiversity loss and environmental degradation.

46. Insufficient funding and inadequate institutional capacity will continue to hamper effective protected area system development and management. In many DMCs, the development and application of practical measures that address biodiversity issues within and outside protected areas have not been addressed. These measures include preventing the introduction of invasive alien species that threaten ecosystems, and mitigating their negative impact on forest biological diversity; appropriate measures to mitigate the negative impact of climate change on forest biodiversity and livelihoods; prevention and mitigation of the adverse effects of forest fires and fire suppression; management of protected area systems; and enabling indigenous and local communities to develop and implement adaptive community management systems to conserve and encourage the sustainable use of forest biological resources.

2. Integrated Natural Resource Management

47. The lack of a holistic and integrated approach in the management of land, water, forest, and biological resources has a negative effect on DMCs’ ability to address and minimize intersector conflicts. Forest resources are currently not sufficiently defined in terms of their

contribution to ecosystem conservation, poverty reduction, and economic development. The lack of appropriate valuation and pricing of natural resources to reflect their real economic value hinders efficiency and decision making. Integrated natural resource management requires policy makers and implementers to adopt a landscape approach, which facilitates integration of human welfare and conservation needs in sustainable natural resource planning and management. The challenge for ADB and the DMCs is to develop a medium- to long-term perspective in which forest resources will be developed to meet the needs of a larger and more prosperous population, while conserving them to allow biodiversity and watershed protection and delivery of other valuable environmental services.

3. Carbon Sequestration

48. Most of the region's energy consumption involves the combustion of carbon fuels and destruction and burning of forest and forest residues, known to contribute to global warming, and concerns about this and greenhouse gases have created interest in the use of forests to sequester carbon. Under the Kyoto Protocol, industrialized countries may use a limited set of land-use change and forestry activities to meet emission reduction commitments through the Clean Development Mechanism. Afforestation and reforestation are among the activities that are eligible under the Clean Development Mechanism, and this has created enthusiasm among forestry agencies in many DMCs. However, some practical, technical, and institutional issues need to be addressed before it can be applied in most DMCs.

D. Forestry, Diversified Livelihoods, and Poverty Reduction

1. Creation of Off-Farm Employment

49. Natural forests provide jobs in wildlife, forest, and water conservation and development; construction and furniture making; traditional health systems; and tourism. The creation of forest-based enterprises by poor people in rural areas depends on access to appropriate finance, technical expertise in business management, products, and markets; however, access to these has so far been limited, as has support from established companies willing to act as mentors or partners, and other mechanisms. A range of private sector enterprises not traditionally associated with forestry have interests that overlap with the sector, including tourism, pharmaceuticals, fragrances and flavors, energy, transportation, communications, water management, and agribusiness. Established companies have the potential to enter partnerships with small rural enterprises, to help with business skills training and access to markets, and to underwrite enterprises to assist with access to credit.

50. Much remains to be done to encourage the creation of off-farm employment, which is one of the most effective ways to diversify livelihoods and reduce poverty, while boosting economic growth. Forestry helps improve off-farm incomes for landless people and farmers with holdings too small to generate adequate income, through employment in resource management, and in the processing and marketing of forest products. It also provides a means to create wealth through development of family or cooperative SMEs based on a range of forest products and services. Insufficient recognition still exists of the role forest-estate delineation and demarcation, natural forest and biodiversity assessments, inventorying and management, and establishment of plantations for timber and fuel wood can play in creating substantial employment; also that further employment can be created in subsequent harvesting and processing.

2. Improved Quality of Life for Poor Rural Communities

51. Although many projects in rural areas have forest or forest dependent communities as their main beneficiaries, in many DMCs poor rural communities have not adequately benefited from forest sector development in terms of access to appropriate employment opportunities, rural infrastructure improvements, and other social benefits. Such improvements, supported by appropriate environmental and social safeguards, contribute to poverty reduction, such as improved communication and roads. Private and public sector forestry operations, in developing infrastructure for their own needs, build roads, and maintain radio and satellite telephone communication systems. Though these are often made available to local communities in times of crisis and emergencies, these resources remain underutilized in improving the quality of life of the rural poor.

52. Forest sector employment conditions are often poor, with low pay and inadequate attention to health and safety. Competitive pricing arising from widespread illegal logging, and underemployment result in employees accepting inadequate working conditions. Generally, forest sector working conditions do not conform to national standards.

3. Improved Access to Affordable Modern Forms of Energy from Wood

53. Income poverty is compounded with energy poverty. Wood is the main source of energy for poor rural people, which places increasing pressure on the resource. However, methods to optimize the energy derived from wood as a domestic fuel have not been fully utilized in many DMCs. Fuelwood resources have not been developed to an extent to counteract the pressure on the depletion of natural forests for fuel wood. Therefore, enabling conditions need to be created for the market to respond appropriately.

V. ADB'S VISION AND POLICY FOR FORESTS AND FORESTRY IN ASIA AND THE PACIFIC

54. ADB's vision for forestry is *Stewardship of forests for a healthier and wealthier future for all in Asia and the Pacific*.

55. As stated in ADB's 1999 Poverty Reduction Strategy, poverty reduction includes access to basic health and education services, the right to a means of livelihood, protection from natural and external shocks, and the power to participate in decision making. Meeting these challenges will require, in addition to social development, sustained annual growth of 3-7% in real GDP per capita by 2015. Forestry can and should play an important role in the fight against poverty and in the development process in Asia and the Pacific.

A. Policy Goal

56. Within ADB's overall policy context, the main goal of the forest policy is to improve sustainable forest resource management for poverty reduction and environmental protection. This will necessitate supporting environmental protection measures while striving to achieve forest-based economic growth. This builds on the technical prescriptions of *The Bank's Policy on Forestry* (March 1995), but puts greater emphasis on capturing the benefits that forests can provide for rural poverty reduction. The dominant governance issue for achieving policy objectives is land and forest tenure security, and the policy takes a stronger position on the need for institutional reforms. It emphasizes the landscape approach for integrating environmental improvement and poverty reduction, which cannot be achieved through purely

sector approaches, and it clearly identifies mechanisms for addressing environmental issues of national and global importance. Successful policy implementation will require all stakeholders to (i) improve their understanding of the role and value of forests; (ii) allocate adequate funds on appropriate terms to enable the necessary action to be taken; (iii) improve their capacity to properly manage forest resources, and the funds that are invested; and (iv) establish policies, institutions, and mechanisms for dealing with intersector issues that affect forest resources and their management.

B. Policy Objectives

57. ADB will assist DMCs to (i) strengthen management of the region's remaining natural forests to improve their condition, especially those of high conservation and/or commercial value; (ii) strengthen forest governance to improve resource access and tenure security, particularly of economically and socially disadvantaged groups; (iii) increase the extent and productivity of plantations and trees on farms to increase wood supply and rural employment opportunities; (iv) improve the livelihoods of forest-dependent communities and their access to development opportunities; and (v) improve the efficiency, effectiveness, and transparency of regulatory and management agencies. Policy recommendations and principles are in italics.

C. Strategies

1. Strengthen Forest Governance, Capacity Building, and Resource Security

58. ADB believes good governance must be the foundation of the forest sector. This requires definition and delineation of the national forest estate with accurate and reliable forest inventorying; the participation of local communities, women, and minority groups; equitable access to resources; an adequate regulatory framework; an enabling environment for private enterprise; pricing policies supportive of forest development; and an essentially broad and genuine willingness by government and other stakeholders to institute sustainable forest management. Strategic planning will determine priorities and the scale of investment required to maximize the social and economic benefits generated by the sector. Therefore, where appropriate, ADB's priority will be to provide assistance in the forest sector that incorporates an evaluation of the principles on which the regulatory regime for the forest sector is based, its internal consistency, the technical adequacy of its provisions, and the transparency and efficiency of the systems. Priority issues for dialogue with DMCs on legal reform related to the forest sector will include

- (i) *rights to forest resources, including community management, customary rights and traditional knowledge, and benefit sharing; and simplifying regulatory systems and making them more friendly to poor rural households;*
- (ii) *integrated resource planning at the landscape level, including environmental impact assessment;*
- (iii) *resource management, including restoring and rehabilitating degraded areas, establishing protected areas, and controlling fires and alien species;*
- (iv) *trade, enabling legal trade in forest resources, and controlling illegal trade;*
- (v) *valuation of forest resources and incentives for sustainable use and conservation.*

59. Laws and regulations outside the forest sector govern many issues that have substantial impact on it. *Therefore, ADB's project design process for the forest sector will promote a broader review of regulatory regimes in the concerned DMC. Preparatory work for assistance will review the laws that directly govern the forest sector, land use and tenure, conflict*

resolution, and access to information, and investment and other laws related to incentives and subsidies in sectors that may have an impact on the proposed forest sector investment.

60. The current international prices for timber products reflect primarily the costs of extraction and transport. Including the cost of replacement is necessary to ensure that the market promotes sustainable resource management. *Therefore, to facilitate the most efficient use of forest resources, ADB will give priority to assistance in the forest sector where measures are under consideration or have been introduced to remove distortions that result in underpricing of forest-based goods and services relative to those from other sectors. This will include assistance with strategic planning to balance supply and demand of forest products and services. ADB will also promote the analysis of pricing policies that impact forestry, including agricultural prices and subsidies, and will give priority to assistance where the relative economic efficiency of investing in forestry compared with other sectors is not distorted by inappropriate macroeconomic policies. ADB will promote regional consultations on these issues.*

61. Measures to remedy legislative and implementation constraints in the overall regulatory regime may be included in the design of the assistance package, or in measures accompanying it. Where required, regulatory reform may precede assistance. Capacity for implementing recommended reforms will also be evaluated. *Where appropriate, ADB will secure stakeholder and government agreement in principle on the scope of envisaged reforms before project implementation.*

62. Forest-user groups, forest protection committees, and joint forest management committees, among others, have successfully promoted participation, involvement, and benefit sharing by local stakeholder groups in field implementation activities. Forestry round tables have proven to be good mechanisms for opening the policy formulation process. *Therefore, ADB will promote a broad-based approach to institutional reform and will, where considered appropriate, continue to support such existing groups and promote the establishment of new groups in association with forestry assistance.*

63. ADB believes it is important to put in place better vertical coordination—involving local and national level stakeholders—and horizontal coordination—involving government departments with mandates for natural resource management. *Policy dialogue that precedes loan approval should address the scope and level of the capacity building required. When it is not possible to fund capacity building with TA funds, efforts will be made for loan funds to be used for this purpose. ADB will promote comprehensive approaches to capacity building—including promoting the participation of women—in the preparation and implementation of assistance projects.*

64. It is imperative to conserve and maintain underlying life-support systems, including ecosystems and biodiversity, while, at the same time increasing the supply of forest goods and services. Conserving and protecting the region's remaining natural forests, biodiversity, and life support systems will be strongly influenced by successfully addressing the existing forest products' supply-demand imbalance. The importance of allocating certain forested lands for conservation of biodiversity and ecological processes must not be underestimated. Virtually all countries in the region have established protected areas, with more than 6% of the land in the protected area system of Asia, and a little more than 2% in the Pacific. Protected areas provide a key tool for conserving biological diversity, enabling sustainable use, supporting tourism, and maintaining ecosystem services. *Protected areas can play a key role as an entry point to promote and develop collaboration among the several relevant international conventions, and*

their effective and equitable management should be a priority for inclusion in forestry-based poverty reduction strategies.

65. In many DMCs, forest departments are increasingly being given mandates to protect the environment, primarily through protected areas. *Priority areas that ADB will seek to assist the DMCs include*

- (i) maintaining the ecological integrity of protected areas by promoting compatible land uses around them;*
- (ii) undertaking biodiversity assessments in high-priority protected areas;*
- (iii) building a strong economic foundation for the terrestrial protected area system;*
- (iv) seeking new approaches to involve local communities in protected area management.*

2. Integrated Approach to Forestry and Poverty Reduction

66. In this new forest policy, ADB puts greater emphasis on ways to increase the extent and productivity of the national forest estate, and to improve its condition and conservation potential for local and global benefits.

67. Wood-based rural energy projects could create a double benefit for the poor by (i) raising the availability of utilizable energy; and (ii) creating off-farm opportunities for improved livelihoods in growing, harvesting, and converting wood energy into more convenient forms such as electricity. As women are often the main gatherers of fuel and users of domestic energy, they will benefit directly from this. Partnerships with the private sector can potentially be effective in mobilizing resources for wood-based rural energy project investments. *Therefore, ADB will give priority to assistance in wood-based rural energy projects where it can be shown that the wood supply is sustainable and is from plantations and trees on farms, and the projects offer pro-poor benefits such as additional employment, more rapid access to convenient energy, and price competitiveness.*

68. To be effective, DMC forest policies should aim to create a balance between the expressed wishes and needs of the majority of stakeholders likely to have a relatively short-term perspective, and the need for the sustainable improvement of long-term public welfare. The success of a policy will depend greatly on its endorsement by the majority of stakeholders. Without this, implementation will be difficult, and progress will be slow. *ADB will give priority to assistance in the forest sector where (i) it can be demonstrated that arrangements have been institutionalized, or there is a willingness to do so, for stakeholder participation in the development, and endorsement of policy; and (ii) a forest policy has been adopted that puts priority on poverty reduction, social development, and environmental protection. ADB will strive to incorporate forestry-related activities in its projects that include poor forest dependent communities among their target groups.*

69. ADB believes its priority for assistance must be aimed at creating opportunities for the development of SMEs, where either the necessary infrastructure and credit facilities are available, or where complementary investments are taking place for the development of these facilities within the same geographical area. The creation of off-farm employment must be sustainable and productive if it is to raise rural incomes, and provide an attractive alternative to agriculture or migration to urban areas. Forestry can create substantial employment provided forest resources are secured. *Where measures have been taken to ensure the sustainability of*

the resource, ADB will give priority to assistance that generates employment, and improves employment conditions in the forest sector.

70. ADB believes that investment must be promoted in forestry projects where private sector companies are willing to promote social benefits generated by their involvement. *ADB will give priority to assistance in the forest sector where poor people and communities have access to forest resources to support their development, and where measures to mitigate environmental degradation will have particular benefits for poor communities.*

3. Enhance Use of Technology Blending and Landscape/River Basin Approach

71. Using the landscape and river basin approach in investment planning facilitates integrated and improved forest natural resource management. Blending local and modern technologies for resource conservation and management will help realize the full development potential of forests, and the communities that depend on them. Forest sector assistance also reinforces social capital development among forest-dependent communities. *Therefore, ADB forest sector projects will promote the use of landscape planning approaches, which integrate conservation and sustainable use while taking into account social, cultural, and economic considerations.*

4. Promote Public-Private Sector Partnerships and Resource Mobilization

72. In many DMCs, the traditional role of the private sector in forestry has been in the exploitation and processing of timber, and this has generally been associated with rent seeking and disregard for social and environmental issues. ADB proposes to act on this by using its capacity as a convener to promote the participation of a wider range of private sector companies and civil society organizations in cosponsoring investment in the forest sector, especially in nontraditional fields such as ecotourism and bioprospecting. It is possible to see the development of an SME manufacturing and service sector in conjunction with an expanding and increasing natural and plantation resource base. This will also facilitate the DMCs and communities taking full advantage of emerging market-based resource mobilization and income-generating opportunities such as payment for watershed protection, and carbon sequestration and trading opportunities. *To ensure such assistance is socially responsible and meets all environmental and other safeguards, ADB will promote the development and application of adequate regulatory frameworks to regulate and facilitate such private sector involvement.*

73. *In consultation with other key stakeholders, ADB will assist in creating an enabling policy and investment environment that will promote a larger engagement of potential partners in the forest sector by reducing the risks associated with the sector.*

74. Partners may include individual households, small-scale growers, and commercial and financial enterprises including banks. Key factors to be addressed include access and tenure security, information, and knowledge about the extent and value of forests. *In support of the development of an enabling framework for public-private partnerships, ADB assistance will support forest resource assessments and valuation of national forest estates.*

75. This forest policy takes into consideration related policies of other multilateral institutions.¹⁷ The forest policy also reflects forest-related emerging issues of regional and global

¹⁷ A detailed analysis of the forest policies of other multilateral development institutions is in Appendix 4.

concern, as documented in international agreements on forests and forest resource preservation. *ADB activities in the forest sector will give priority to assistance that is in line with these international agreements, and promotes their implementation and that of other international agreements related to forests. ADB will also promote coordination with bilateral and multilateral development agencies.*

76. The availability of reliable information improves transparency and enables stakeholders to participate in constructive dialogue. *ADB will give priority to assistance that is either developed on the basis of such information, or includes the gathering and dissemination of such information as part of the investment strategy.*

5. Stimulate Implementation of Multilateral Environmental Agreements

77. Efforts to implement the Framework Convention on Climate Change and its Kyoto Protocol are also sensitive to the broader needs of the environment. Moreover, investments from carbon trading, and other financing mechanisms such as the Global Environment Facility (GEF) should provide additional resources for improving sustainable forest management in the region. However, carbon sequestration should favor the use of multiple species rather than monocultures, and natural forests should not be cleared for replanting plantations designed to sequester carbon. Preference should be given to “human-assisted natural regeneration” over reforestation, because it is more efficient in terms of carbon sequestered by dollar invested and has greater additional environmental values. Emphasis should continue to be on management of the existing natural forests to enhance their value for carbon sequestration. Opportunities for incorporating provisions enabling payments for ecosystem services and market-based instruments such as forest certification will be identified for stimulating implementation of multilateral environmental agreements. Resolution of land tenure security issues will be critical for enhancing the role of the region’s forests in carbon sequestration. ADB will facilitate implementation of the United Nations Conference on Environment and Development 1992–Forest Principles for addressing global biodiversity conservation priorities, as reinforced in the World Summit on Sustainable Development in Johannesburg in August-September 2002. *ADB will assist DMCs in accessing global financing mechanisms such as the Global Environment Facility for the integration of biodiversity concerns in forest sector strategies, plans, and management. ADB will also promote regional consultation on carbon sequestration in forests, and provide support for enhanced carbon sequestration and on the risks and mitigation potential of forests for addressing catastrophic forest fires and floods, and the emerging Asian Brown Cloud problem. ADB will promote regional consultation on payments for ecosystem services and carbon management, and give priority to assisting projects in which a positive contribution to carbon sequestration can be demonstrated.*

D. Types of Interventions ADB Will Support

78. The ADB LTSF and the development policy areas identified by the *Quality of Life in Rural Asia* study provide the framework for identifying interventions in the forest sector most likely to have a significant positive impact on rural development and poverty reduction.¹⁸ The

¹⁸ An important input in the development of the LTSF was ADB, 1999. *Quality of Life in Rural Asia*. Hong Kong: Oxford University Press for ADB. Although most indicators have shown some improvement or have held steady over the past 30 years, population growth has increased the absolute numbers living in poverty, and this is particularly true of rural areas. The study identified eight policy areas where interventions could have a positive impact on the quality of life of rural populations. The policy areas identified in the study are (i) land reform, (ii) governance, (iii) gender equity, (iv) income generation, (v) investment in rural infrastructure, (vi) development of rural financial institutions, (vii) improved energy carriers for rural household use, and (viii) social service provision.

matrix (Table 3) shows the type of interventions that the forest policy will emphasize for achieving the main ADB strategic development objectives. Collectively, the interventions represent the priorities for future ADB investment in the forest sector that will have the greatest possible beneficial impact on sustainable forest and environmental management, while ensuring poverty reduction and economic growth.

Table 3: Type of Interventions Under the Forest Policy

| Intervention Areas | POVERTY REDUCTION THROUGH | | | | |
|--|--|---|--|---|---|
| | Economic Development | Equitable Social Development | Environmental Sustainability | Engaging Private Sector and Civil Society | Regional Cooperation |
| Forest Governance | Realistic valuation of forests and forestry in economic analysis, intersector coordination, and pricing policy development Reform policy and management distortions in land holdings and markets. | Promote involvement of women and minority groups in forest management and protection. Support recruitment of women and marginalized groups in forest-related institutions. | Forest agency capacity building for policy and strategic planning, land-use planning, forest estate resource inventory and management, and extension | Secure land and resource tenure with participation of CBOs, NGOs, marginalized groups, and the private sector. | Reduce illegal trade in forest products and endangered species. Help improve management of transboundary protected areas. Promote cooperation on fire prevention and control. |
| Resource Security | Create employment and development opportunities for socioeconomically disadvantaged communities. | Involve women and marginalized groups in conservation and rehabilitation activities. | Assist DMCs in delineating, demarcating, and assessing the national forest estate. Promote market-based instruments (MBIs) for forest-based environmental services. | Capacity building for CBOs, NGOs, and small and medium-sized enterprises (SMEs) Special focus on strengthening involvement of women and marginalized groups. Establishment of multisector policy bodies | Information sharing on resource management and protection Rationalizing and harmonizing policies on forest products trade so that prices reflect full economic value Promote carbon sequestration |
| Livelihood Improvement, Income Generation, and Increased Access to Development Opportunities | Promote labor-intensive forest practices, production, and processing. Promote eco-tourism. | Promote women and marginalized groups-based enterprises, in particular those involving nontimber forest products. | Promote sustainable forest management (SFM) and plantations to reduce forest degradation. | Promote partnership with communities and commercial sector in forest resource and business management. | Promote regional cooperation in developing health and safety standards in the forest sector. |
| Rural Infrastructure | Promote environmentally friendly forest infrastructure to | Effective participation of women and marginalized | Promote environmentally sustainable design of forest | Promote MBIs as incentives for investment in forest services in water, | |

| Intervention Areas | POVERTY REDUCTION THROUGH | | | | |
|------------------------------|--|---|---|--|--|
| | Economic Development | Equitable Social Development | Environmental Sustainability | Engaging Private Sector and Civil Society | Regional Cooperation |
| | support rural development, and reduce environmental hazards. | groups in making decisions on rural infrastructure development. | infrastructure. | energy, and communications for information technology (IT). | |
| Rural Financial Institutions | Promote financial institution development to provide support for creation of enterprises. | Promote microcredit arrangements that target women and marginalized groups. | | Promote the involvement of banks and NGOs in the provision of microfinance. | |
| Rural Energy | Promote modern and environmentally sound wood conversion technology for more convenient forms of energy. | Promote women and marginalized groups-based enterprises focused on improving rural energy supply. | Promote servicing of rural energy needs through smallholder forestry. | Promote investment in renewable/biomass energy for locationally disadvantaged rural populations. | |
| Social Services | Promote the use of traditional knowledge. Reduce wood smoke pollution. | Forest extension services targeted specifically at women and marginalized groups. | Promote forest fire protection to reduce pollution and reduce forest degradation. | Promote provision of rural health services through improved forest infrastructure. | Help resolve transboundary pollution and environmental hazards (fires, flooding, soil erosion, and Asian brown cloud). |

CBO = community-based organization, NGO = nongovernment organization.

E. Consistency and Synergy with Other ADB Policies and Environmental Safeguards

79. Assistance to the forest sector will comply with ADB safeguard policies on environment, indigenous people, and involuntary resettlement, as well as other applicable ADB policies, including governance and gender. *ADB will not provide assistance for plantations in natural forest areas with more than 40% crown density. Furthermore, in any rural infrastructure or other public investment project where environmental assessment indicates that the proposed investment will contribute significantly to natural forest degradation or conversion to nonforest land use, and change in forest land use becomes inevitable, ADB will require rehabilitating or reforesting an equal area as appropriate in consultation with affected communities.*

F. Sector Assistance Strategy

80. ADB's forestry assistance should be guided by each DMC's forest resource status, economic development needs, poverty incidence, and Country Strategy and Program.¹⁹ Where appropriate, ADB will promote the establishment of a national forest estate with secure access

¹⁹ Per capita forest area (ha) provides a crude indicator of the richness or paucity of forest resources. Countries with more than 0.5 ha per capita are taken to be relatively rich in resources: those with less than 0.1 ha per capita are considered to be relatively poor. An area between these limits indicates a country in transition from being rich in forest resources to being poor. On this basis, 12 countries are classed as rich, 7 as transition, and 7 as poor.

and tenure. In forest-rich DMCs, the emphasis will be more on management and conservation, protection of the existing resource, and sustaining its economic and environmental service capacity. In low-income DMCs, the emphasis will be on the protection of important residual forests, and on creating additional local forest resources to improve the environment and reduce the need for forest-product imports. Forest-poor DMCs with high poverty will receive priority in sector assistance. In transition DMCs, the priority will be prevention of forest resource decline in light of growing pressure for land, and avoidance of a further slide into resource poverty. In upper-income DMCs, ADB will promote a policy to influence forest resource import and export policies and practices that promote regional forest resource security. In all cases ADB assistance will provide leverage to attract additional assistance from the private sector, public sector, and other development agencies. ADB should initiate policy dialogue with DMCs where it is not currently involved in the forest sector on those countries' forest-sector development strategies and plans.

VI. IMPLEMENTATION

A. Implementation Modalities and Methodology

1. Lending and Nonlending Modalities

81. To be effective, ADB's involvement in forestry should be long-term: about 10-15 years. Using a multistakeholder participatory diagnosis and design approach, ADB will encourage the development of national or subnational sector strategies, and, where relevant, link with national forest programs. ADB will also undertake more in-depth assessment, analysis, and formulation of sector performance targets. This is expected to result in higher quality project identification, and more thorough identification of policy and institutional issues to be resolved before assistance projects start. ADB will pursue innovative approaches to inform DMC governments of the importance of forest investments in reducing poverty.

82. ADB has often used a sector project approach in implementing its forest policy, and this will be further developed, with emphasis on policy and institutional changes. Including program lending will ease DMCs' implementation of policy and institutional changes that have financial implications. ADB will seek dialogue with DMCs to encourage sector-wide approaches, and for DMCs to fully acknowledge (i) the importance of forestry's intangible environmental and tangible nonfinancial social development benefits, (ii) the reduced costs of dealing with the consequences of environmental damage, and (iii) the income foregone by governments and local communities because of loss of a resource. Sectorwide approaches require an active partnership with other bilateral and multilateral development organizations that support activities in the DMC.

83. The number of ADB projects focusing exclusively on afforestation and plantations is likely to decrease in future. Consistent with a policy-oriented approach, projects will be undertaken that focus on sector restructuring and restoration of national forest estates and their productive capacity. Rural development and watershed projects will consider forest sector policy priorities, the planning framework for which will be provided by the proposed landscape approach.

84. ADB will continue to address growing imbalances in forest product demand and supply. Regional policy dialogue will focus on (i) enhancing regional cooperation in collecting and disseminating forest sector demand-supply information, and (ii) DMC dialogue on transboundary forestry issues.

2. Implementation Methodology

85. ADB's revised operational business processes are expected to result in higher quality projects at entry, with fewer start-up problems, better disbursement, and more focused impact. During project preparation and implementation, stakeholder participation will be sought to ensure that activities are consistent with local needs, and that benefits are equitably distributed. Stakeholder groups directly dependent on forests for their livelihoods, including socio-economically disadvantaged groups, and women should have increasing opportunities to influence decisions that affect them. Procedural guidelines of ADB's main safeguard policies on environment, indigenous people, resettlement, and other thematic policies and strategies to ensure project quality will enhance the development impact of forestry projects.

86. ADB will focus on detailed project implementation design and methodologies to avoid delays, study realistic disbursement profiles for a range of forest projects, and integrate results into project design. Executing and implementing agencies—mostly forest departments—and departments responsible for approving pricing and taxation policies must be more involved in project identification and design, especially in approving forest sector institutional reforms. Where the genuine involvement of executing and implementing agencies in project design cannot be ensured, it may be necessary for ADB to postpone or cancel a project.

87. A more holistic approach to the forest sector means pursuing an area-based, or landscape approach. In this, assistance to forest and other sectors should be based on or include a comprehensive land-use plan for the project area. The cross-sector approach is seen as more efficient, as it stimulates collaboration within ADB and reduces duplication, enables a more thorough analysis of what is really needed, and facilitates supervision.

88. Comprehensive reform and capacity building are needed to settle policy, legal, and institutional issues, and there must be clear DMC acknowledgement of the nature and timing of reforms for which loan funds may be needed, and their financial implications, before projects start; this will require more emphasis on up-front dialogue. If ADB and DMCs fail to develop consensus on these issues, it may be preferable to delay project approval rather than face implementation delays and low disbursements.

89. The success of a sector-wide approach depends on partnerships, dialogue, and shared information. Partnerships with Asia Forest Partnership and organizations such as the Center for International Forestry Research, International Development Resource Centre, International Tropical Timber Organization, Regional Community Forestry Training Center, United Nations Forum on Forests, World Conservation Union, and World Wide Fund for Nature will ensure that ADB has access to the collective knowledge on forests and forestry in the region.²⁰ Partnerships with bilateral development agencies and NGOs will ensure that ADB benefits from examples of approaches piloted in grant-funded projects.

B. Operational Implications for ADB

1. Strengthening Internal Capacity

90. ADB's proposed policy on forestry must be implemented through internalizing its poverty reduction orientation and an increasing emphasis on governance and participation in project

²⁰ Asia Forest Partnership involves over 14 governments, 8 international organizations, and The Nature Conservancy (TNC). The main objective is to promote Sustainable Forest Management in Asia.

identification and preparation. The January 2002 reorganization of ADB resulted in a stronger country focus. This, and the adoption of the country and project team concepts, will make it easier to plan and implement projects in the forest sector with a strong emphasis on environmental sustainability and poverty reduction. The Regional and Sustainable Development Department (RSDD) will be responsible for monitoring policy implementation and compliance, and will be the institutional anchor on forest sector issues. Through active networking with a range of external stakeholders, ADB will endeavor to exchange information on issues relating to development forestry. Forestry and natural resource specialists in the regional departments will undertake the programming and delivery of subregional and country-specific forestry projects, and external sources will be used where specialized knowledge is required.

91. New operational business processes have been introduced as part of ADB's reorganization. The stronger emphasis on poverty reduction and social development calls for fine-tuning of many newly developed or modified instruments used by ADB in the identification, preparation, and processing of forestry projects. For example, where appropriate specific forestry issues will be reflected in the context of the Country Strategy and Program (CSP). CSP should also assess the impact of proposals under other sectors, especially agriculture, infrastructure, energy and water on forestry. Poverty and social analysis will be conducted as part of project preparation. Particular attention will also be given to a reassessment of the guidelines for financial and economic analysis of forestry projects to fully incorporate social development and environmental benefits that may occur downstream from the project location or that may materialize later.

2. Communicating the Forest Policy

92. DMCs and other stakeholders such as bilateral and multilateral development agencies active in the forest sector in the Asia and Pacific region should become acquainted with the new approaches ADB seeks to pursue in its forest sector operations. Material will be prepared explaining ADB's new approach to the sector, and this will be widely disseminated through resident missions, staff working on forestry, and the ADB web site.

C. Monitoring and Evaluation of Forest Policy

93. The following criteria will be used to monitor implementation of the forest policy. They will be reflected in the planning of individual ADB forestry projects. This will ensure that individual projects will be monitored for their contribution to the new policy's objectives.

1. Policy Implementation

94. RSDD will coordinate and monitor policy implementation, conduct briefing meetings on the new forest sector policy within ADB, and prepare and disseminate information materials throughout 2003.

2. ADB Program and Portfolio Development

95. The new forest policy will be incorporated into the relevant CSP consultation and update process.

3. Governance Related to the Forest Sector

96. Forest policy in DMCs receiving ADB assistance for the forest sector will espouse the principles of poverty reduction, social development, and environmental protection. Participatory

mechanisms will be promoted to enable principal stakeholders, including those from outside the government, to participate in the review and reformulation of forest policy and regulation, and in the planning and development of sector interventions.

4. Expected Outcomes of the ADB Forest Policy

97. The expected outcomes are

- (i) enhanced livelihoods and food security for communities in ADB project areas;
- (ii) improved condition of forests and forest ecosystem functions, including biodiversity conservation enhanced in ADB project areas;
- (iii) increased tree and forest cover, and productivity in ADB project areas;
- (iv) reduced rates of deforestation in ADB project areas; and
- (v) a more informed, inclusive, transparent, and less conflict-ridden process of formulating and implementing forestry policies and projects.

98. Taking into account the progress monitoring of individual projects, every three years RSDD will formulate a progress report on the implementation of the new policy. The progress reports will include guidance to ADB staff working on forestry issues, and will ensure that qualitative monitoring of the new forest policy will be a proactive management instrument. A full evaluation of the forest policy is scheduled for 2010 or earlier, if so recommended in the progress monitoring reports.

D. Risks

99. This policy has been developed to minimize the risks associated with the implementation of investment projects based on the lessons learned, although implementing the new policy still involves risks. Some of them stem from the fact that ADB is only a partner in the implementation process, and it is not possible to guarantee that other partners will implement the required reforms within a reasonable time. Other risks are internal to ADB and depend on staff commitment to reforms from the time of country programming up until negotiating with DMC governments and potential development partners.

100. During the formulation of the policy, stakeholders were consulted and important points that were raised relating to its implementation have been noted. As shown in Appendix 1, the policy has received widespread endorsement. This indicates that the policy is in line with the goals of many DMC governments and other stakeholders, suggesting that the risk of it not being implemented is reasonably small.

101. In addition to the external consultations, intensive internal consultations were undertaken to ensure that the policy supports and is consistent with other sectors and the cross-cutting safeguard policies. The consultation process has led to a greater awareness among ADB staff, both of the potential contribution of the sector to ADB's major development goals, as well as its major characteristics that have had limited success in the past. This, combined with the proposed briefing of staff by RSDD and the distribution of information material, is expected to minimize the risk of any internal failures to implement the policy.

PUBLIC CONSULTATION PROCESS

A. Country Consultations

1. More than 500 people participated in country case study workshops; two workshops in each country were carried out in Bangladesh, Pakistan, Philippines, and Sri Lanka. These countries were selected because (i) they have substantial investments in the sector, and the Asian Development Bank (ADB) is a major investment partner; (ii) ADB's forest sector portfolio performance is perceived to be unsatisfactory, thus limiting scaling up and replication opportunities; (iii) policy and institutional reforms are important components of the current portfolio, and provide lesson-learning opportunities; and (iv) they are experienced in the participatory approach to policy diagnosis, strategy design, and development. The workshops discussed country case study implementation methodology and enabled comment on and validation of country case study outputs. The country case studies aimed to assess the impact at the field level of past and current investment projects in the forest sector. The country consultations confirmed the need for ADB forest activities to actively target poverty, as proposed in the draft strategic framework.¹ A clear consensus emerged regarding the need for institutional strengthening, and for additional attention to legal issues such as benefit sharing. While participants welcomed ADB efforts to involve stakeholders in project design and implementation, it was felt that more could be done in this respect.

B. Regional Workshop

2. About 140 participants attended the workshop conducted on 14-15 February 2002 at ADB headquarters, representing 11 developing member countries (DMCs), 16 international organizations, 15 nongovernment organizations (NGOs), 14 private sector and consulting companies, 2 academic institutions, and ADB staff and consultants. Seventeen presentations were made in plenary session covering the studies undertaken during policy review and the strategic framework development process, the framework itself, critiques by representatives of major stakeholder groups, and aspects of the implementation of the policy and future strategy. Four working groups deliberated on (i) forest governance, (ii) resource security and development, (iii) poverty reduction and environmental protection, and (iv) global environmental issues. The general conclusions were that the right lessons had been learned and that the challenges facing the sector had been correctly identified. The change in emphasis compared with previous policies, from focusing on best forest resource development and management practices to the sustainable management of the resources to contribute as much as possible to achieving the international targets for reducing poverty and sustainable development, was generally welcomed.

C. Operational Implications for ADB

3. Operational implications for ADB include the following:
- (i) The forest sector strategy is consistent with other sector policies and strategies within ADB, and the position of the forest sector strategy within the overall ADB policy environment needs to be clear.
 - (ii) Crosscutting safeguard policies such as gender, indigenous people, and environment should always fully applied when implementing the forest strategy.

¹ See http://www.adb.org/projects/forestpolicy/final_workshops.asp for detailed reports on the workshops conducted in each of the four countries.

- (iii) ADB projects in other sectors “do no harm” to forests; e.g., road projects that open up forest areas to encroachment and illegal logging.
- (iv) The resources made available by ADB need to be adequate.
- (v) The revised business processes must be supportive of the need to improve the selection and design of assistance that is consistent with the strategic framework.
- (vi) There needs to be greater clarity about how ADB will build partnerships, especially with other aid agencies and NGOs, in providing technical assistance aimed at institutional reform and capacity building.
- (vii) The role of consultants needs to be defined so that they can improve their skills.
- (viii) It may be necessary for ADB to consider performance-based management fees for executing agencies as a means of improving the quality of management and overall performance.

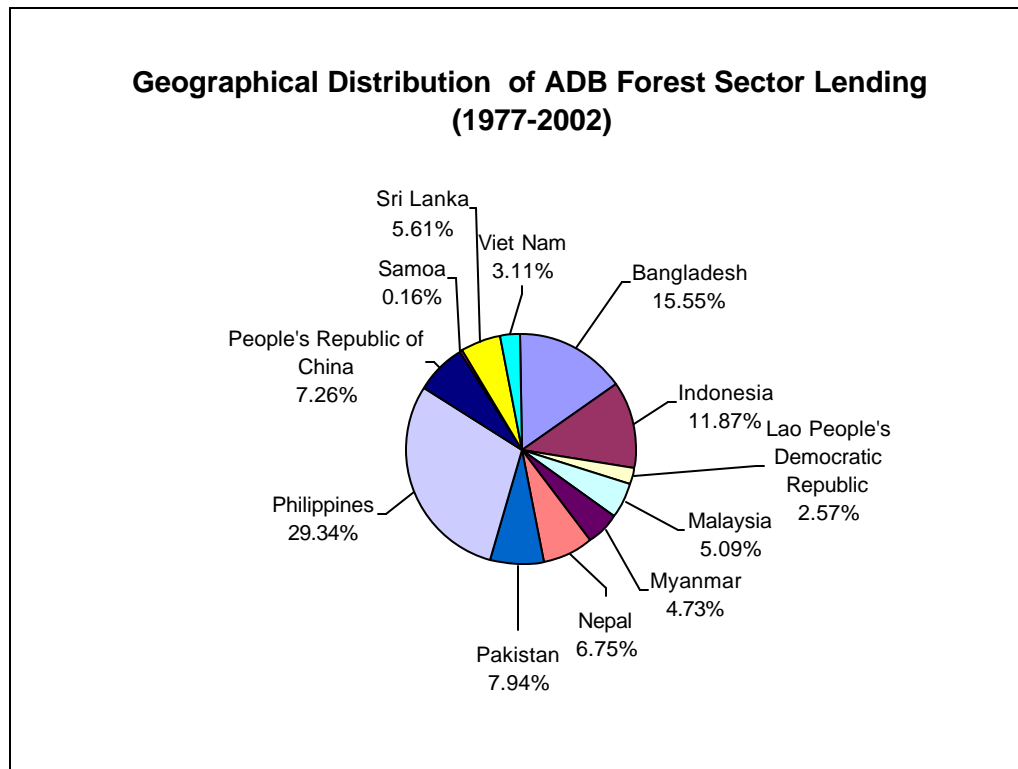
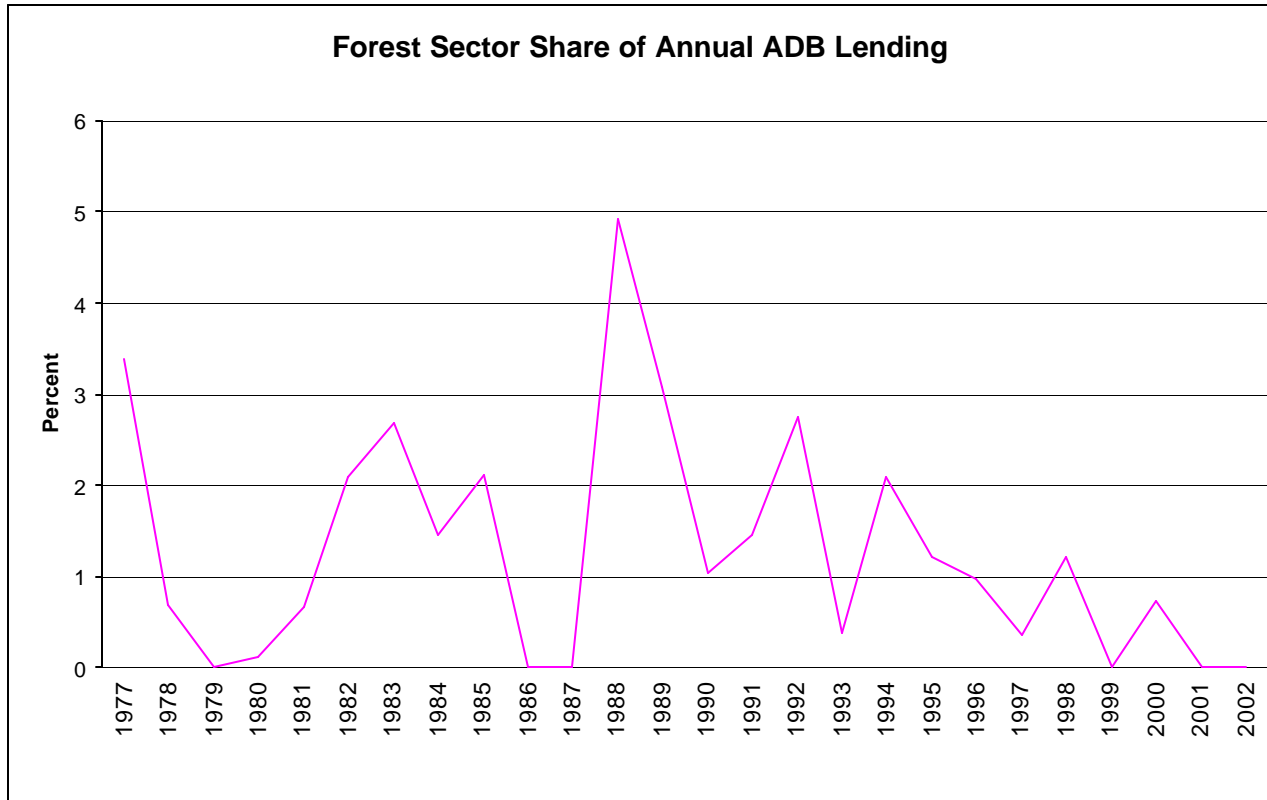
D. Monitoring and Evaluation

4. The attention given in the Long-Term Strategic Framework to monitoring and evaluation was welcomed. The need to have appropriate and well-defined targets, outcomes, deliverables and milestones was emphasized, and the question was asked, “Who will monitor ADB?” Monitoring should not be restricted to specific projects, but needs to cover the sector as a whole throughout the region to check on the overall relevance of ADB’s strategy for the sector.

E. External Peer Review

5. Before the regional workshop, the draft strategic framework, which was discussed during the workshop, was sent to about 12 forestry experts, representing mainly academe, research organizations, international NGOs, and some development agencies, for review and comment. The results of this peer review were presented at the regional workshop. Following the document’s redrafting, taking into account the workshop’s conclusions and recommendations, it was resubmitted to the same group of peer reviewers and to workshop participants. Comments received at this point were integrated in the draft working paper.

ADB FOREST SECTOR OPERATIONS



SIGNIFICANCE OF GLOBAL PROCESSES AND MULTILATERAL ENVIRONMENTAL AGREEMENTS FOR THE FOREST SECTOR IN THE ASIA AND PACIFIC REGION AND COMPLEMENTARITIES WITH ADB'S FOREST POLICY

A. Global and Regional Context

1. No single, legally binding global agreement exists on the conservation and use of forests. Although forest issues are being addressed in the context of multilateral environmental agreements (MEAs), most of the forest-specific work being done at the global level is soft law, which consists of nonlegally binding documents including declarations, principles, guidelines, and resolutions of international conferences and organizations, as well as treaties not yet in force. This work is being carried out through the “international arrangement on forests,” the culmination of a series of intergovernmental processes and activities undertaken since the United Nations Conference on Environment and Development (UNCED) that was consolidated in 2000 with the establishment of the United Nations Forum on Forests (UNFF), and the Collaborative Partnership on Forests.¹ The “international arrangement on forests” relies on global soft law instruments that directly address forest conservation and use, and on MEAs that are not forest-specific. By 2005, UNFF will consider recommending to the UN General Assembly “the parameters of a mandate for developing a legal framework on all types of forests.”

2. There are no Asia regional agreements in force that create obligations concerning forests. Two subregional agreements for Southeast Asia in the process of ratification—the Association of Southeast Asian Nations (ASEAN) Agreement on the Conservation of Nature and Natural Resources, and the ASEAN Agreement on Transboundary Haze Pollution—contain forest-specific provisions to be implemented in the 10 member countries.

B. Global Principles and Processes

1. Nonlegally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation, and Sustainable Development of all Types of Forests

3. The Forest Principles, adopted in 1992 at the UNCED, is the only global statement dedicated exclusively to forests. The Forest Principles promote conservation and rehabilitation of forests and forest resources, as well as sustainable forest management with the participation of local communities. Other issues addressed in the Forest Principles include economic valuation of forests, forestland and resource access and tenure, sharing of benefits derived from forests, technology transfer, equitable trade in forest products, access to information, financing forest conservation, capacity building, and research.

2. United Nations Forum on Forests

4. The United Nations Economic and Social Council established UNFF in October 2000 as the successor to the Intergovernmental Panel on Forests (IPF) and the Intergovernmental Forum on Forests (IFF). UNFF is an international forum for dialogue on forest issues, which promotes implementation of IPF/IFF proposals for action on management, conservation, and

¹ United Nations Economic and Social Council (ECOSOC). 2000. Resolution 2000/35, 18 October 2000. Report on the fourth session of the Intergovernmental Forum on Forests. U.N. Doc. E/2000/35, contained in E/2000/INF/2/Add.3 (on-line). Available: <http://www.un.org/documents/ecosoc/dec/2000/edec2000-inf2-add3.pdf>

sustainable development of forests.² The majority of these are consensus proposals, but there are a few on which no consensus was reached, including several related to financial mechanisms, valuation, trade, and intellectual property rights for indigenous knowledge.³ The proposals for action are nonbinding, but have been negotiated as part of an intergovernmental process and endorsed by ministers, and in that sense may be considered as soft law.⁴

C. Multilateral Environmental Agreements

5. More Asian Development Bank (ADB) member states in the Asia and Pacific region have ratified the Framework Convention on Climate Change (FCCC) and the Convention to Combat Desertification (CCD) than any of the other MEAs. Only slightly fewer Asia and Pacific member states have ratified the Convention on Biological Diversity (CBD). The CBD's overarching obligations for conservation and sustainable use reflect more specific provisions incorporated in other biodiversity-related MEAs ratified by a majority of ADB member states in the region—the World Heritage Convention (WHC), the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), and the Convention on Wetlands of International Importance especially as Waterfowl Habitat (Ramsar Convention). About one third of ADB member states are parties to the International Tropical Timber Agreement (ITTA).

1. Convention on Biological Diversity

6. Most of the provisions of the CBD relate to forests, whether as ecosystems, in terms of the individual species that comprise them, or in terms of their genetic resources. The CBD Conference of the Parties first adopted a work program on forest biological diversity in 1996, and expanded it in 2002. The expanded program comprises three elements: (i) conservation, sustainable use, and benefit sharing; (ii) institutional and socioeconomic enabling environment; and (iii) knowledge, assessment, and monitoring. An ad hoc Technical Expert Group on Forest Biodiversity has been established to provide advice on scientific research and development; to review available information on status, trends, and threats to forest biological diversity; and to suggest actions for the conservation and sustainable use of forest biodiversity. The CBD also promotes recognition of the traditional forest-related knowledge of indigenous people and forest-dependent people.

2. Framework Convention on Climate Change

7. The FCCC is designed to limit human-induced disturbances to the global climate system by seeking to achieve a stable level of greenhouse gases in the atmosphere. In the context of the FCCC, forests are important for their services as reservoirs and sinks, storing and removing greenhouse gases from the atmosphere. Obligations on all parties to the FCCC include a commitment to promote sustainable management of forests and to promote the development and use of technologies and practices that control, reduce or prevent anthropogenic emissions of greenhouse gases. The Kyoto Protocol to the FCCC develops the role that land use, land-use change, and forestry activities are to play in mitigating climate change. Industrialized parties to the FCCC are called upon to implement and further elaborate policies and measures such as the promotion of sustainable forest management practices, afforestation, and reforestation. How

² ECOSOC. 2001a. Multi-year programme of work of the United Nations Forum on Forests. U.N. Doc. E/CN.18/2001/5, 5 (On-line). Available: <http://www.un.org/esa/forests/multi-year-work.html>

³ Secretariat of UNFF. 2001. *The IPF and IFF Proposals for Action Main Actors and Degree of Action* (on-line). Available: <http://www.un.org/esa/forests/pdf/ipf-iff-proposalsforaction.pdf>

⁴ Institute for Global Environmental Strategies. 2001. *Report of the First Phase Strategic Research. Forest Conservation*, 57 (on-line). Available: <http://www.iges.or.jp>

to implement these measures remains controversial, but it is clear that the forest sector is an important part of the climate change negotiations.

3. Convention to Combat Desertification

8. The CCD does not define forests, but does define land degradation to include reduction or loss of forests and woodlands. Like the CBD, the CCD calls for an integrated, cross-sector approach to address the causes of desertification, which by definition includes loss of biodiversity. The CCD emphasizes the participation of affected communities at all stages of devising and implementing measures to combat desertification and mitigate its effects; calls for regional cooperation; and provides for coordinating actions with the CBD, the FCCC, and other relevant international agreements to maximize benefits and avoid duplication of efforts.

4. World Heritage Convention

9. Forested areas potentially come within the WHC definition of “natural heritage” as natural features of outstanding universal value from the point of view of science, conservation, or natural beauty; and as habitats of threatened species of animals and plants. Each party to the WHC agrees to take the appropriate legal and other regulatory measures necessary to identify, protect, conserve, present, and rehabilitate what have been designated as natural heritage sites under the WHC. At least 28 natural world heritage sites containing forests have been established in the region in 11 countries. Among these are the People’s Republic of China with 10 sites, India with 5, Indonesia with 3, and Nepal and Malaysia with 2 each.

5. Convention on Wetlands of International Importance

10. The Ramsar Convention promotes the conservation and wise use of wetlands through national action and international cooperation. It places considerable emphasis on sustainable development, including the participation of local and indigenous communities. Each party is required to designate at least one site. Sites included on the Ramsar list are expected to support vulnerable or endangered species, or threatened ecological communities, and to contain populations of plant and animal species important for maintaining the region’s biological diversity. Ramsar sites in the region that contain important forest resources, such as mangroves, include the Sundarbans of Bangladesh, islands such as the Olango Wildlife Sanctuary in the Philippines, and swamp forests such as the Tonda Wildlife Management Area in Papua New Guinea.

6. Convention on International Trade in Endangered Species of Wild Fauna and Flora

11. The objectives of the CITES are to ensure, through international cooperation, that the international trade in species of wild fauna and flora does not threaten survival in the wild of the species concerned, and to protect endangered species from overexploitation by means of a system of import-export permits issued by a management authority under the control of a scientific authority. While numerous forest animal species are included in the three appendixes under the CITES, only 16 tree species have been listed, mainly those used for timber. Listing of timber species under the CITES has helped draw attention to the need for better management, though the trade restrictions that may be implied are controversial. The CITES has recognized that commercial trade may be beneficial to the conservation of forest species and ecosystems when carried out at sustainable levels, but that some species have been threatened by detrimental levels of use and international trade.

7. International Tropical Timber Agreement

12. The ITTA is a commodity agreement that facilitates trade in tropical timber and ensures that the timber in international trade from tropical countries is being harvested sustainably. It is administered by the International Tropical Timber Organization (ITTO), which has members from most of ADB's timber-producing developing member countries. Although the ITTA is focused primarily on the tropical timber market and trade, its objectives include contributing to sustainable development generally and promoting the use of tropical timber from sustainably managed sources, as well as encouraging conservation of timber producing forests, reforestation, and rehabilitation of degraded forest land. The ITTA seeks to provide an effective framework for consultation, international cooperation, and policy development among all members, with relevance to all aspects of the timber economy involving tropical species, and to contribute to the process of sustainable development. The ITTA, often supported with funding from ITTO, encourages members to develop national policies aimed at sustainable utilization and conservation of timber-producing forests and their genetic resources and at maintaining the ecological balance in the regions affected by the tropical timber trade.

D. Linkages with ADB Forest Policy

13. The Forest Principles, though not legally binding, are an indication of political will on forest issues that can be used as additional justification and support for implementing the ADB Forest Policy in developing and governing the forest sector at the national level. Many of the elements contained in the Forest Principles are being integrated into work programs implementing the obligations of binding MEAs. The UNFF plan of action is intended as an instrument to strengthen policy implementation.⁵ Most action will be taken at the country level, since most of the IPF/IFF proposals for action are specifically addressed to countries, and countries will set their own priorities. The proposed ADB Forest Policy specifically incorporates most of the elements of the UNFF plan of action and allows scope for pursuing others.

14. Many of the measures required to implement the FCCC, CCD, CBD, and the other biodiversity-related MEAs are complementary and mutually supportive. They include (i) an integrated planning for conservation and sustainable use; (ii) providing conditions for compatibility between present uses and long-term sustainability; (iii) managing processes and categories of activities that cause land degradation; (iv) protecting and managing forest ecosystems inside and outside protected areas; (v) rehabilitating and restoring degraded forest lands; (vi) providing incentives for forest landscape restoration including afforestation and reforestation, with cobenefits for people and ecosystems; (vii) removing incentives that promote land degradation; and (viii) controlling alien species.

15. General obligations of the FCCC and ITTA promoting sustainable management of forests could be met by adopting measures that would comply with the CCD, CBD, and other biodiversity-related MEAs as well. Considerable innovation can be expected as governments experiment with investments in carbon sequestration. Monoculture plantations and other kinds of plantation activities that promote carbon sinks but deemphasize biodiversity and the interests of indigenous and local communities could potentially undermine not only the FCCC and ITTA obligations for sustainable forest management, but also initiatives under the CBD, the CCD, and the UNFF process. The potential impact of proposed investments that provide incentives for afforestation and reforestation will need to be carefully assessed.

⁵ ECOSOC. 2001d. Towards the development of the United Nations Forum on Forests plan of action. U.N. Doc. E/CN.18/2001/6, 1 (on-line). Available: <http://www.un.org/esa/forests/documents-unff.html>

16. Other ways in which ADB activities can support implementation of MEAs and the international arrangement on forests include giving priority to projects that (i) support and maintain the integrity of Ramsar and World Heritage sites; (ii) help ensure that CITES-listed species are given greater protection and activities do not conflict with CITES obligations; and (iii) emphasize and sustain the important role in forest management of indigenous and local communities, and the role of forest products in sustaining these communities' livelihoods. There is also potential for coordinating ADB activities in the forest sector with Global Environment Facility funding for forest-related projects that implement the FCCC and CBD.

SUMMARY OF FOREST POLICIES OF OTHER DEVELOPMENT BANKS¹

| | African Development Bank | Inter-American Development Bank (IDB) | World Bank |
|------------------|--|--|---|
| Policy Framework | Forestry is dealt with in the agriculture and rural development sector; Bank Group Policy (2000). The implementation of the Agriculture and Rural Development Sector Policy (ARDSP) is guided by the Bank Action Plan, which is based on a series of regional action plans. The Bank Action Plan will be updated on regular basis. | Sector Operational Policy on Forestry. Activities are also guided by General Operational Policies, which regulate cooperation. IDB lending in the forest sector is also influenced by strategies, that have been formulated to operationalize IDB's overall mandates. Best practices is a third instrument used to influence the design and implementation of projects in forest sector. | The World Bank has revised its forest strategy and also operational policy (OP4.36) and will be accompanied by revisions in procedures on the implementation of the Operational Policy on Forestry. In addition, lending in the forest sector is also guided by other existing policies, especially OP 4.01 (Environmental Assessment), OP 4.10 (Indigenous People), OP 4.04 Natural Habitats), OP 4.11 (Cultural Property), and OP 4.12 (Involuntary Resettlement). |
| Lessons Learned | Lending in forestry has been primarily for development of plantations for industrial use. ARDSP states that the following lessons from the past need to be retained with respect to forestry: (i) forestry should be integrated into farm management systems; (ii) rational exploitation of forests requires the application of full-cost recovery of environmental degradation that reflects the costs of exploitation, including the environmental costs of renewal and regeneration; (iii) regulatory and enforcement mechanisms for forest resource management need to be strengthened; and (iv) regional member countries (RMCs) should work systematically with traditional authorities to foster effective supervision and control access, particularly to parklands and forest reserves. | No information available. | A review by the Operations Evaluation Department in 1999-2000 of 1991 Forest Strategy resulted in the following findings: The focus on tropical moist forests was too narrow. The strategy did not provide financing mechanisms to address the divergent costs and benefits of conservation at the local and global levels. The strategy failed to address key governance issues. The World Bank lacked an internal implementation strategy and incentive structure to support the high transaction costs of the strategy. The strategy gave insufficient foresight to globalization and economic liberalization forces affecting forests. The World Bank adopted an overly cautious approach in the wake of the controversy that surrounded the formulation and implementation of the 1991 strategy. |

¹ Based on information contained in the following web sites:

Inter-American Development Bank : <http://www.iadb.org/cont/poli/OP-723E.htm>

African Development Bank: http://www.afdb.org/projects/policies/pdf/agri_policy_apr2000.pdf

World Bank: <http://lnweb18.worldbank.org/ESSD/essdext.nsf/14ByDocName/ForestPolicyandStrategy>

| | African Development Bank | Inter-American Development Bank (IDB) | World Bank |
|---------------------------------|--|--|---|
| Overall Policy Objective | To assume a leading catalytic role, within the next decade, in supporting the technological, institutional, and policy changes that would trigger a lasting transformation of the rural economies of RMCs by empowering their rural populations to improve their productivity and real incomes in an equitable and environmentally sustainable manner | To assist member countries in utilizing and conserving forest resources to provide social, economic, and environmental benefits to the present and future generations | To harness the potential of forests to reduce poverty, to integrate forests into the overall sustainable development of client countries, and to protect vital and global environmental services and values of forests |
| Outputs | Provision of rural infrastructure; expansion of private sector agribusiness; development and capitalization of more effective private sector financial networks; improved natural resource management centered on innovation of land tenure systems, which guarantee rural households the long-term incentives needed to manage and protect land, water, and other natural resources on a sustainable basis; capacity building; increased regional cooperation | Institutional strengthening; research and studies; forest management; reforestation, afforestation, and restoration. agroforestry systems to enhance rural development; establishment of forest-based industries; forest conservation and protection measures; forest-related services | Poverty: Improve livelihoods of 500 million people, most of whom are poor and dependent on forest and tree resources, primarily through community forest management and development of agroforestry. Governance: Strengthen the institutional capacity to reduce the losses from illegal logging by \$5 billion per year; and improve management of forest concessions to increase government revenues by \$2.5 billion per year. Protection and Conservation: Bring 50 million hectares (ha) of forests into new protected areas; improve the management of 50 million ha of currently protected areas. Sustainable forest management: Bring 200 million ha of global forests under sustainable forest management, independently verified and certified. |
| Implementation Issues | From policy to action: Strengthen quality at entry through better project design. Strengthen capacity for monitoring and evaluation (M&E) through refocusing M&E to include strategic aspects of bank's agriculture and rural development portfolio. Adopt a balanced set of lending and nonlending instruments, whereby capacity building will play an important role. Formulate and update Action Plan to guide operational departments in the implementation of ARDSP. | Implementation criteria: Development projects affecting forest areas to be consistent with national development priorities and legislation; environmental impact assessment required for project and program designs; in multisector projects with a forestry development component, clear mechanisms for coordination required; local groups, including indigenous communities, to participate directly or indirectly in economic benefits generated; deterioration of living conditions to be avoided | Main operational changes: Focus on protecting environmentally and culturally critical areas and permitting more proactive support of sustainable forest management through support for selective commercial logging. Develop demand through knowledge sharing and country-driven economic and sector work leading to effective integration of forest conservation and management in country assistance strategy and broader poverty reduction |

| | African Development Bank | Inter-American Development Bank (IDB) | World Bank |
|--|---------------------------------|--|--|
| | | <p>and land and other rights to be respected as determined by national legislation; participation of final beneficiaries in project activities is important, and IDB will support innovative financial mechanisms to accomplish this; where pertinent, ex-post evaluation to include assessment of environmental impact, and participation of beneficiaries; promote, when possible, regional programs and technical cooperation to support application of program; economic-financial assessment to take into account long-term impacts</p> | <p>and economic development programs. Catalyze engagement and investment by centrally defraying costs of preparing forest projects. Build and strengthen partnerships. Apply selectivity and sequencing, which will lead to phased adoption of objectives espoused in the revised Forest Strategy.</p> |