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Dear Ms. Sierra

As the World Bank Group prepares to launch the Forest Carbon Partnership Facility (FCPF), the World Resources Institute (WRI) would like to draw attention to a number of issues that warrant greater attention.

WRI welcomes the leadership role of the Bank in pioneering new and innovative approaches to advance sustainable forest management. Staff within both the Carbon Finance Unit and Forestry Team are trying to respond quickly to the challenges and opportunities presented by proposals to reduce emissions from deforestation and degradation (REDD). But the unresolved scientific and technical issues¹ demand that the Bank adopt a phased and structured approach. Any carbon finance transactions that are derived from the “pilot” phase of this facility’s actions must not be held valid for compliance purposes. Finally, the difficulties raised by using carbon finance as the driver of forest protection may well prove intractable. The Bank needs to remain open to applying the results of the readiness efforts to other types of positive incentives. The credibility of the Bank and the pilot projects it develops hinges on robustly addressing all of these concerns.

- **Readiness for carbon trading should not be the only goal**

Despite concerted “readiness” efforts by the Bank, it may be that the carbon market approach will not work in all cases or for all countries. Making carbon markets so central a part of the REDD discussion preempts the results of the readiness efforts. Other approaches may prove more effective, either generally or in specific countries, but may benefit equally from the capacity building efforts the Bank is already developing. Leaving the door open to try other approaches may provide further learning to policy makers as they move forward with this issue.

- **Carbon trading should not begin until “readiness” efforts have had an impact**

While the “Carbon Finance Mechanism” will not become operational until sufficient funding has been received for the “Readiness Fund”, it is crucial to ensure that adequate measures to build the “readiness” of countries have been taken before actual carbon finance transactions begin. The whole point of having a “readiness mechanism” is to address the fact that all countries seeking to respond to deforestation do not presently have the capacity to meet the requirements of an REDD-based carbon finance scheme. The learning curve for addressing the scientific, technical and governance issues will vary greatly from country to country. The time required to build this capacity should not be underestimated. In addition it should be clear that even once carbon finance transactions begin as part of a pilot phase, they will not be usable for compliance purposes.

The Bank currently proposes to launch the FCPF at the December 2007 Conference of the Parties to the UNFCCC, and has stated that it intends to have identified initial buyers and sellers of credits by this time. However, the first “readiness” activities are not expected to take place until later in 2008. To launch the facility having already selected country governments to sell emission reductions emissions, and at least implicitly matching them with prospective buyers, presumes that the technical and political issues around REDD at the country level can be satisfactorily addressed, and these countries will be able to credibly provide emission reductions from deforestation. There are no guarantees that this will come to pass.

¹ Including rates of deforestation, uncertainty in the ability to track emissions from deforestation and degradation, and the permanence of potential credits

- **Clear criteria for “readiness” are needed**

The criteria for determining “readiness” as currently outlined do not seem sufficiently specific or comprehensive. Although countries are required to develop a strategy to reduce emissions, little emphasis has been placed on the capacity of the government to actually implement this plan in practice, or how seller governments will use carbon finance revenues. Nor is it clear what the continued feedback loop will be between learning from readiness activities and consideration of the broader value of the mechanism. The following issues must be addressed not only hypothetically but as part of the broader learning around the pilot projects:

- Credible information about deforestation, forest degradation and emissions: The World Bank term sheet does require a robust assessment of historical emissions from deforestation and degradation, together with a projection into the future of emissions from deforestation. But emissions of carbon from deforestation and degradation are highly variable and very poorly understood, especially in tropical forest regions. In the same vein, uncertainty about the rates of deforestation in most developing countries is very high. Trading cannot start until there is credible baseline information in place.
- Verifying reductions in deforestation and degradation: An adequate system to verify emission reductions from avoided deforestation is needed. Satellite technologies are making monitoring of forest cover more feasible, but these systems are not perfect, and the human and financial costs of maintaining them are significant.
- Permanent, enduring change: It can be difficult to ensure the permanence of avoided deforestation credits. Forests can burn; they are susceptible to temperature and rainfall variations, and can be affected by political or market forces, which may repudiate conservation commitments.
- Leakage: Given that leakage will be a problem, possibly even within countries depending on the monitoring available and its ability to capture degradation, the question of how address the environmental harm caused by leakage, especially in a carbon market mechanism needs to be addressed seriously.
- Valuing ecosystem services other than carbon: In addition to sequestering carbon, forests deliver significant ecosystem services and benefits that are currently not valued. Systems must be put in place to assess and manage potential tradeoffs between the carbon benefits of forests, and the other ecosystem services that forests provide.
- Distribution of payments and equity: Given the Bank’s goals to address poverty, to limit corruption, and to create positive change in the countries where it works, it is essential that any mechanism support these goals. Poverty alleviation and social issues need to be central REDD efforts, rather than peripheral concerns or potential “side benefits”. Seller governments need to develop a plan for how they will use the revenues from avoided deforestation. As governments respond to new incentives to conserve forest lands, and find politically feasible approaches to expand protected areas, new efforts will be needed to ensure respect for the human rights of the people and communities who live in forests. If a seller country cannot prove that it has robust policies in place to deal with human rights and rights and poverty issues, or does not intend to use any of the revenues from avoided deforestation payments to address poverty and social issues, then this raises very serious questions about whether it should be part of the FCPF pilot.

- **Wider stakeholder consultation is imperative**

Given the complexity of the issues at hand, we are concerned by the lack of transparency and public disclosure of key information around the Bank’s approach to the FCPF. The Bank has made concerted efforts to collaborate with governments, private sector actors, and international groups. But the lack of

engagement of local community organizations and grassroots organizations, who will be directly affected by the outcomes of the pilot programs, is highly problematic. Special, systematic efforts to consult local stakeholders and integrate their interests and inputs into a plan for addressing deforestation at the national level must be an integral part of “readiness” programs to ensure that the approaches adopted to reduce deforestation are truly responsive to local needs, and are also socially and politically acceptable.

- **Assessing progress against these criteria for “readiness”**

More than 17 countries have expressed interest in participating in the FCPF, yet they will not all be able to participate in the Carbon Finance Mechanism. In the absence of clear criteria and a transparent process for making these decisions, this system is unlikely to safeguard the positive outcomes that must result from the pilot phase of the FCPF.

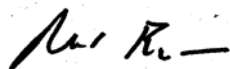
A system to monitor the implementation of country policies and measures and their impact is necessary. Such a system can allow best practices to be captured and advanced, and problematic approaches --that result, for example, in human rights infractions, or the prioritization of carbon over other essential ecosystem services-- to be identified and addressed.

We understand that a Technical Advisory Committee will review the adequacy of a seller country’s “readiness plan”, and then assess progress made in implementation. This Committee should be composed of internationally credible experts. We also note that the World Bank will assist countries to implement their readiness plans. To avoid potential conflicts of interest, the Technical Advisory Committee should have final word on whether adequate progress has been made. The key question of how to deal with countries that have not demonstrated progress, and cannot be considered “ready”, must be addressed head on. If the Technical Advisory Committee finds that implementation of the readiness plan is not satisfactory, then the seller country should not be able to participate in the Carbon Finance Mechanism until progress has been demonstrated, unless a credible, technically robust case contesting the Advisory Committee finding can be presented.

WRI welcomes the Bank’s recognition of the critical role that forests can play in poverty eradication and achieving sustainable development. Its efforts to find new and innovative ways to deal with the pressing global environmental challenges of deforestation and climate change are greatly needed, and we hope that our input can help inform efforts to this end.

My colleagues and I welcome the opportunity to discuss these recommendations further.

Sincerely,



Manish Bapna
Managing Director, World Resources Institute

CC: Board of Directors of the World Bank Group
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