# The WWF-World Bank Alliance
# Global Collaboration for Forest Conservation and Sustainable Use

# Thoughts on Making It Work

## I. Issue

Taking the broad objectives and specific instruments of the WWF-World Bank Allianceas a starting point, the purpose of this paper is to provide an analysis of major economic and political forces driving the deforestation/degradation process which need to be considered and addressed to maximize the achievement and effectiveness of the Alliance. By laying out some of the difficult issues at the heart of forest degradation/deforestation, we hope to spur a frank discussion on what are the challenges facing both the World Bank and WWF. The intent is to provide a common understanding of the broader context in which the Alliance will be evolving, to identify complementary market, policy, and institutional reforms needed to achieve the Alliance's objectives, and what role the Alliance partners might play in addressing them.

This paper concludes that the viability of the specific targets that define the Alliance, and more generally the long-term contribution of the Alliance partners to arresting global trends in the forestry sector, will depend on the extent to which the Alliance can address the broad array of economic, social, and political factors driving deforestation and forest degradation.[1]

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**The WWF-World Bank Forestry Alliance**
The overarching objective of the WWF-World Bank Alliance for Global Collaboration for Forest Conservation and Sustainable Use is to promote the conservation of forest biodiversity and sustainable livelihoods dependent on forests and their products, by halting and helping to reverse the global trend of deforestation and forest degradation.

To reach that objective, WWF and the World Bank will:

[1] This paper draws heavily on research carried out by the Center for International Forestry Research (CIFOR) including the following: David Kaimowitz, Neil Byron, and William Sunderlin, *Public Policies to Reduce Inappropriate Tropical Deforestation*, Center for International Forestry Research, Forthcoming. David Kaimowitz, *Protected Areas and Tropical Logging from a Political Economy Perspective*, Personal Notes, 1997. David Kaimowitz's participation in writing this article is on a personal basis and does not imply endorsement of CIFOR. This views expressed in this paper do, however, reflect the views of WWF's Macroeconomic Program Office (MPO), Washington, D.C..

- Promote the establishment of an ecologically representative network of protected areas, covering at least 10 % of each of the world's forest types by the year 2000. The Bank has adopted a specific target of establishing 50 million hectares of new forest protected areas in its client countries by 2005.

- Cooperate to achieve the Bank's new target of the independent certification of 200 million hectares of well-managed production forests by 2005, 100 million hectares being in temperate and boreal forests and 100 million hectares in tropical forest regions.

To achieve these targets, the World Bank and WWF will focus on four particular areas of cooperation:

1. Identification and establishment of forest protected areas
2. Independent certification and private sector involvement
3. Integration of policies and programs, and involvement of other groups
4. Development of new products and instruments

## II. Underlying Assumptions

We begin by making explicit a number of definitions and assumptions on which this paper is constructed.

First, for purposes of clarity, we will use FAO's definition of deforestation as: "the sum of all...transitions from natural forest classes (continuous and fragmented) to all other classes". For forest degradation, we again refer to the FAO definition as a: " decrease of density or increase of disturbance in forest classes".

Second, the actors involved in deforestation/degradation, and in efforts to alter current patterns, are many and they interact in complex patterns and in response to a wide range of incentives and motivations. The actors driving deforestation include private economic agents (from powerful large-scale operations to small farmers) and government agencies at different levels. Actors that participate in efforts to change current trends include a wide range of government agencies, multilateral and bilateral development institutions, and diverse groups of civil society including international NGOs and community-based organizations. These actors interact by either reinforcing each other's activities or by competing with each other. Their interactions are complex and it is usually not possible to attribute unilateral causality and responsibility for deforestation to any one actor. Yet, despite this complexity, all actors must be involved in finding adequate solutions to halt the deforestation process.

Third, deforestation and degradation may be considered appropriate under a number of given conditions, such as when they generate significant economic and social benefits which will contribute to the national development process and when the integrity of ecosystems and social groups living in those regions are protected. Deforestation is inappropriate in areas that are characterized by, among others, the following factors:

- little agricultural value by virtue of soil quality, terrain gradient, water availability and climatic conditions;
- high endemic biodiversity which is not well represented in existing protected areas;
- large numbers of forest-dependent dwellers;
- fragile ecosystems with significant erosion, downstream effects, among other factors.

Fourth, the basic causes of deforestation /degradation can be organized into four categories:

- market forces: international, national and local market structures and price fluctuations;
- policy interventions: government actions designed to alter market behavior for identified social purposes, such as promoting agricultural exports;
- institutional factors: legal, regulatory, and managerial arrangements usually applied on national levels;
- political decisions: government actions to benefit specific individuals that are often contrary to formal policy objectives.

Finally, the underlying assumption of this paper is that market forces are the main determinants of the deforestation/degradation process, and that it will require a combination of appropriate policy interventions, and improvement of institutional arrangements in order to alter in any enduring way the current process. Specifically, deforestation/degradation continues today because it provides high profits to private economic agents and, that to slow the deforestation/degradation process, it is necessary that either profits decline or alternatives to deforestation be made more profitable. How these factors influence the establishment of protected areas and certified forestry regimes will now be considered.

## III. Influencing market dynamics

The following five points summarize wide ranging efforts to shift the profitability of deforestation/degradation by market behavior:

1. Changing prices for tropical agricultural and forest products:

These measures are indirect and “blunt instruments” which have mixed, often indirect effects on deforestation and which can also generate perverse outcomes. They include: changing the price for agricultural products grown on deforested land; removing or increasing government subsidies to agricultural commodities; devaluating currency; and

banning tropical logs exports, among others. Some of these market interventions accelerate deforestation/degradation while others tend to slow down the process. In this short paper, we have not, however, attempted to summarize under what conditions these interventions tend to generate positive or negative outcomes on the deforestation/degradation process.

- Changing prices of agricultural products produced on deforested land: Governments often establish price supports for tradable agricultural commodities to encourage exports. However, global market forces which affect price fluctuations of these agricultural goods are beyond the ability of any government to control. While such price fluctuations - for instance, on red meat, cocoa, coca, or coffee - do influence the rate of deforestation, national governments and multinational agencies have seldom been able to influence global prices, particularly in the short run;

- Altering government subsidies intended to increase agricultural production: Removing subsidies intended to increase exports of certain agricultural products and to stabilize their long-term prices can be effective to reduce deforestation and can actually improve national fiscal balances. However, this approach frequently runs directly contrary to government plans to increase agricultural exports, which, in turn, can have significant negative short-term macroeconomic impacts. Given the political costs of removing such incentives to agri-businesses, this approach is politically risky. Moreover, removing these subsidies may run counter to national development priorities;

- Devaluing currency: Devaluation is frequently intended to increase the attractiveness of tradable agricultural commodities; which in turn stimulates expansion of the agricultural frontier and therefore runs counter to the interests of halting deforestation. Devaluation also tends to decrease the price, and therefore increase demand, of timber on international markets, further contributing to deforestation/degradation pressures.

- Banning exports of tropical logs: Bans are implemented to reduce deforestation and/or to increase local timber processing. They tend to have mixed results. On one hand they may reduce extraction and capture of resources rents by foreign companies but, on the other, may increase net timber harvests because processing by local firms often tend to be less efficient than international competitors and require higher volumes of logs to produce same amount of export goods. This approach can also accelerate deforestation/degradation if price supports are accorded to local producers.

In short, these instruments are blunt, indirect, are politically unpopular and frequently work against national development priorities in the agricultural sector. These drawbacks notwithstanding, efforts to influence prices and market dynamics may under certain conditions be the best available instruments and should be used accordingly.

2. Increasing Costs and Risks of Deforestation

These measures include shifting subsidies, raising fees, and altering road construction strategies;

- Shifting subsidies: Effective measures include reducing explicit and implicit subsidies that encourage extensification of agricultural, and increasing subsidies which intensify agricultural production. One obvious measure to halt expansion of the agricultural frontier is to end government sponsored colonization and transmigration programs. Shifting subsidies to promote intensified agricultural production, while simple in principle, is very complex in practice because subsidies for fuel, credit, seeds, and inputs can also be used to stimulate agriculture extensification which runs counter to efforts to halt deforestation. A country-by-country, case-by-case approach is required;

- Raising fees: Increasing royalties, stumpage fees, and licensing requirements, among other, may have, under certain circumstances, positive effects on containing deforestation/degradation, to increase government rent capture, and to improve management regimes. Political acceptability remains the main weakness of this approach because it increases the financial burden of private agents;

- Constructing roads: Road construction in frontier areas is inevitable to a certain degree. The main issues are the location, purpose, and characteristics of new roads. Impacts on rates of deforestation need to be considered where transport policy in frontier areas is prompted by political and military factors;

These policy interventions can be effective and efficient. They are not popular because they cut into profit margins and restrict privileged access to forest rents. They may also conflict with national agricultural policy which that serves macroeconomic and political needs.

3. Decoupling deforestation from establishing property rights

Clearing forest land to establish property ownership remains a policy of many frontier countries in Africa, Asia and Latin America. The impact of recent efforts to decouple these two conditions have ranged from "mildly effective to negative". Main opposition has come not from national politicians but from local elites whose rent seeking behavior is threatened. Recently, more attention has been given to establishing common property regimes to protect indigenous peoples in efforts to limit the scope of land markets. Underlying forces shaping land markets (including land speculation) tend to be infrastructure investments, growth of regional markets, and provision of public services to frontier areas. Government land purchases for protected areas and other purposes also tend to inflate local land markets. These factors often have a strong influence on land markets in frontier areas and thereby have stronger impacts on the long-term viability of common property regimes than does, for instance, the formal legal status of a particular area;

4. Increasing profitability of maintaining forests

These activities include increasing timber revenues, increasing profitability of non-timber products, and increasing payment for global environmental services:

- Increasing timber revenues: The market logic of growing timber scarcity would indicate that as prices rise, and as the future value of forest stocks increase, incentives would be stronger to develop and manage commercial forest more sustainably. Market mechanisms would indicate that as commercial plantations become more abundant, natural forests would be reserved for "high-value" products, thus placing a premium on protecting forests in their natural state. There is little basis for relying on these market forces. For example, timber concessionaires, doubting the long-term stability of existing commercial arrangements, tend to pursue rent maximization activities in a short-term perspective, believing that long-term arrangements may benefit others but not themselves.

- Increasing profitability of non-timber products: Recent NGO efforts to increase the volume and diversity of non-timber forest products have generated interesting, though far from conclusive, results. Ultimate impacts on protecting the livelihoods of forest dwellers is not clear. CIFOR research indicates that crucial determinants of this approach are distribution of property rights, the ability of local people to enforce their tenurial rights, and their commitment to maintaining a way of life based on sustainable extraction.

- Payment for global environmental services: A number of innovative initiatives have opened avenues for increasing financial transfers to countries and groups who provide as-yet unpriced environmental services. These include carbon sequestration services and maintenance of biodiversity reserves. Transfers for the former could be formalized under "joint implementation agreements" between pollution emitters and providers of carbon sinks; payments for the latter include royalties for biodiversity prospecting.

5. Increasing opportunity costs of labor and capital

The basic point of this last approach is to encourage the industrialization process in developing and transition countries because such economic diversification tends to raise the opportunity cost of labor and capital. When labor and capital can be put to more profitable uses, the attractiveness of employing them in extractive activities, such as logging, decreases. In actual practice, the benefits of economic diversification have not been shared equally, leaving rural poor very much at the margin of rising living standards associated with globalization and industrialization. Thus, poverty-induced pressures leading to deforestation have not abated even in most Asian tiger countries. In the long run, however, such economic transformation may be an important factor in reducing deforestation rates.

None of these approaches offers simple, fail-safe solutions which, when applied singly or in combination, will ensure reversing the deforestation/degradation trend. However, the most important approach that can be taken by concerned parties is to correct existing market shortcomings, deficient policies, and institutional weaknesses, rather than trying to promote new schemes or interventions. Improving land tenure regimes, removing or shifting subsidies, reforming the terms and processes of establishing licenses and concessions, strengthening managerial regimes, eliminating rent-seeking behavior, reducing political favoritism, devolving decision making responsibilities to local communities, among other measures, remain the basic paths to altering the current market incentives driving the deforestation/degradation process.

## IV. Political Economy of Deforestation and Degradation

Although the foregoing discussion makes reference to which of these approaches may be politically or economically viable, this analysis has not presented an inclusive review of why these reforms have not succeeded in the past, despite the best intent and efforts of various local, national, and international actors. To complement the foregoing analysis, therefore, in this section we will briefly discuss the political forces at work which impede the implementation of the reforms signaled above.

The first consideration is to recognize that current policies, institutions, and legal arrangements undergirding the deforestation/degradation process fundamentally serve the interests of powerful sectors of a given society. These influential groups will change their behavior only if there are strong market incentives to use their financial and productive resources in other, more attractive economic activities. Having uninterrupted access to forest rents provides the source of wealth for major logging corporations operating in national and international markets and for small loggers who sell timber to either middlemen or the large corporations. Moreover, powerful agricultural companies are beneficiaries of the deforestation process. Converting forests to grazing and agricultural lands is not only in their benefit, it is usually sanctioned by formal national development policy.

Second, in many parts of the world land poor and landless farmers similarly benefit in the short term from conversion of forests as they seek to lay claim to or expand agricultural lands. Their activities also count on the support, albeit implicit, of government policy. Though lacking formal political influence and access to productive assets, poor farmers living on or near the agricultural frontier similarly depend on forest resources to expand their traditional agricultural production and to extract rents.

Third, the existence of interest groups and often competing policy objectives means that government agencies have relatively little motivation to alter the current deforestation process. To begin, government development strategy in frontier areas usually encourages expansion and diversification of agricultural production, even at the cost of deforestation. Admittedly, agencies recognize the costs, and issue pronouncements of concern about forest conversion, but usually do little to alter underlying policy options. Government agencies frequently do not operate effectively in areas under threats of deforestation. In addition, government agencies and their staffs often have little ability to resist the pressures of powerful business sectors which have significant influence over development policy. Finally, local NGOs and groups of civil society, while usually articulate and forceful in their demands to halt deforestation, lack powerful constituencies capable of forcing changes in the practices of government agencies. In short, government performance reflects the broader balance of power in society.

Fourth, bilateral agencies have been active players in efforts to reverse the deforestation/degradation process over the past several decades. These international development agencies tend to have flexible operational procedures, have relatively few internal policy constraints, and can work directly with local organizations. They lack the

same institutional influence as the World Bank, for instance, on government policy making and do not offer financial resources of the same magnitude. Bilaterals are often directly accountable to public constituencies and therefore have the need to demonstrate immediate, visible results. These institutional characteristics encourage investment in projects which promise to generate tangible outcomes but which frequently fail to address and change the underlying political economy driving the deforestation process.

Fifth, multilateral development agencies - like government agencies - often have a somewhat contradictory approach to the addressing deforestation/degradation. On one hand, their institutional logic often supports forestry sector development and trade liberalization. Their policies also favor the removal of distortions and rent-seeking behavior. On the other hand, the fact that they are publicly financed institutions accountable to stakeholders north and south, has led them to respond to growing public demand to support efforts to stop deforestation. For example, in response in public pressure, the World Bank instituted a policy prohibiting financial support for logging operations in moist tropical forests. The Bank has also used its policy dialogue with governments and loan conditionalities to pursue forestry sector reforms with various governments such as Cote d'Ivoire and Papua New Guinea.

Given the major role the World Bank will play in implementing the Alliance we will quickly review its strengths and weaknesses as it enters this partnership. Among its strengths we must count its ability to analyze national policies and to identify market dynamics driving or retarding the deforestation/degradation process on national and international levels. These policy resources can be coupled with its significant technical capability for designing projects and sectoral policies in the context of individual countries. In addition, the World Bank maintains very dynamic relations with governments of virtually all countries through which it can raise concerns about underlying development strategy. Combined with its financial resources, these assets endow the Bank with the potential for exerting significant influence on forest policy and practice in individual countries. It should be noted, however, that the current prohibition lending operations which support logging in natural forests places constraints on its potential influence in the forestry sector.

Regarding the weaknesses of the Bank's approach, we will mention first its limited influence on the ground in borrowing countries. The Bank has very limited capacity to monitor and influence activities once loan agreements become effective. Not only does it lack in-country field staff for monitoring purposes, its policies prohibit financing land purchases and also discourage supporting activities with recurrent costs such as those required for establishing and maintaining protected areas. These factors, which distance the Bank from project implementation, are reinforced by its approach to promoting policy reforms through "all or nothing" power relations with the highest levels of government. This approach has weakened national ownership of policy reforms and it has systematically excluded civil society and the private sector from planning and implementing structural changes. A third weakness is that the Bank's approach to arresting deforestation/degradation has been through forest sector activities which do not

take into account broader agricultural policy, infrastructure development, energy policy or general macroeconomic reforms. As a consequence potential contributions of Bank-supported forest initiatives are frequently eclipsed by other market and political forces in which the Bank itself may be involved.

In light of these constraints, the World Bank's recent interventions have favored development of management plans, promoting institutional reforms, purchasing vehicles and installations, and providing training. In short, the Bank has been able to generate outcomes which are visible and help address public demands for action, but their effectiveness in altering the political economy do not match the requisites of halting deforestation on a local level. This imbalance is exacerbated by the current prohibition on funding logging operations in tropical natural forests.

Sixth, international NGOs have been among the most strident and persistent advocates of changing behavior that causes deforestation/degradation. Although they have been very successful in drawing attention to the social and environmental consequences of deforestation, they have not been as successful in altering the underlying political economy of deforestation. Usually armed with analysis grounded in the natural sciences, their responses and actions have tended to be more symbolic than profound and enduring. International NGOs have sponsored a number of creative approaches designed to strengthen local groups, create protected areas, open market opportunities for non-traditional forest products, and encourage community participation in forest management. They have demonstrated great ability to play well at the international level, often prompting international development agencies to engage in symbolic actions, but their ability to influence the behavior of elites and logging companies on national and local levels has fallen short of their expectations.

Considering the role WWF will be called upon to play in the Alliance, we will likewise review its relative strengths and weaknesses. Foremost among its strengths is the WWF Network's relations with a wide range of groups from civil society including NGOs, scientific and research institutes, and community organizations which are grounded in and operate on local and national levels. These relations are complemented by growing ties to corporations as it seeks to build partnerships with the private sector in pursuit of mutually beneficial environmental objectives. Another issue of relevance to the Alliance is WWF's role in creating "Buyer's Groups" for independently certified forest products. WWF's approach to environmental issues is primarily through the natural sciences which has allowed this international network to establish its intellectual credibility and reliability. By developing these assets, WWF has acquired a strong track record for excellence in local project implementation.

These strengths on a local level lie in contrast to its weaknesses regarding broader policy issues. Other than in an occasional local project, WWF's work is not grounded in economics or political economy. The organization has not acquired a capacity to analyze the broader forces shaping national development policy and consequently is not able to decipher how those forces drive deforestation/degradation on a local level. WWF has not

grounded its project-level investments in a firm understanding of surrounding political and social processes and, as a consequence, its project interventions are often buffeted by powerful political pressures. By not having a broader policy framework which integrates environmental issues with economic and social factors, the potential success of local project activities are under constant pressure from meso and macro policies which often run contrary to WWF's goals of protecting biodiversity.

While on forests and selected other themes (i.e. through the Target Driven Activities, or TDAs), WWF has recently begun to bring together capacity and resources to try to influence these broader economic forces, it is clear that WWF still faces a serious challenge in being able to "scale up" its activities to meet the requirements of the Alliance. By scaling up we mean being able to translate small, demonstration projects for which it is well known onto a larger platform of national politics and markets. In this bigger arena, it is no longer possible to provide steady subsidies through technical inputs, expatriate professionals, and modern technology. Instead, successful outcomes of the Alliance will rely more directly on sound macro and sectoral policy, viable regulatory and management regimes, and transparency of political processes. It will require developing an implementation strategy and mobilizing allies who can contend successfully with powerful vested interests on local and national levels. These are major challenges for which WWF has comparatively limited experience.

## V. Specific Instruments of the WWF-World Bank Alliance

In this context, we will now return to assess the potential impact of the two instruments, i.e., protected areas and certification, in promoting the objective of halting deforestation and forest degradation. This section will not seek to describe these targets in any specific sense, as this is adequately done elsewhere. Instead, it will assess the general characteristics of the targets and their potential effectiveness in addressing forest degradation and loss.

1. Independent Certification

Independent certification of forest products approaches the deforestation issue from the demand side of the market equation. Certification tries to influence market behavior by broadening a clearly defined market niche and by providing incentives to producers who seek to capture premium prices for high-value timber owing to the sustainable stamp of approval. The needs of timber companies to maintain their public image of being environmentally sensitive provides an additional incentive for them to seek certification. Initial skepticism and objections to certification have been overcome, to a certain degree, by clearly defined and predictable verification mechanisms which have been established, for instance, through the Forest Stewardship Council.

At the present time, less than one eighth of one percent of the world's tropical forests are managed on a sustainable basis. Admittedly, the economics of producing timber on a sustainable basis are not nearly as attractive as the short-term opportunities now open to

logging companies: a company can earn significantly more by harvesting stocks at a high rate today and investing proceeds in other economic opportunities rather capturing a modest premium for sustainable management and postponing harvests for any significant time. (Scientific American; April 1997:45-49). One of the key determinants of certification's viability will be confirming the niche's stability and breadth which relies on moral convictions of consumers in industrialized countries.

Promoting certification brings into focus potential relations with private corporations in implementing the Forestry Alliance. A standard approach to alliance building between private corporations and environmental organizations involves working with the "leading" groups of a given economic sector. The leading groups tend to be highly competitive, oriented to international markets, and technologically advanced. This basis of their competitive advantage places them at the cutting edge of environmental stewardship and pushes them to protect their advantage by trying to raise environmental standards, in conjunction with government agencies, which become applicable throughout the industry. Their leadership position stands in stark contrast to the resistance demonstrated by "laggard" and "free rider" groups in the sector. Opportunities for working with the leading sectors frequently abound for innovative environmental organizations seeking partnerships with private companies.

This general alliance building approach faces a certain number of challenges when dealing with the forestry sector. There are clear "market leaders" already emerging, and a growing number of European and North American companies that are beginning to express an interest in the creation of markets for sustainably managed and produced forest products. However, there continues to exist a large number of multinational timber corporations, headquartered mostly in Asia, that are resistant to change in this sector. The dominant positions of these multinational corporations are often attributable to their ability to capture rents through rapacious behavior in different countries. Other than wanting to foster an environmentally-friendly corporate image, these corporations have little interest in subscribing to sustainability standards associated with certification because it would limit rent seeking behavior. Large corporations which are leading efforts to promote sustainability standards do so primarily because of national cultural traditions or social regulations; small corporations supporting certification are often motivated by establishing a stable market niche for their products. These dynamics will influence prospects for alliance building on national and international levels as the project promotes timber certification.[2]

[2] We attach an addendum to this memorandum which reviews the potential impact of these two instruments on the timber market. In brief, creation of forest reserves can move the supply curve leftward to a certain, though undetermined, degree by restricting overall supply. Raising timber costs through restricted supply (which is intended to reflect internalization of some associated social and environmental externalities) can reduce the total volume being harvested and placed on the market. Certified timber will act as a substitution for current unsustainably-managed timber and, hypothetically, by pushing demand downward, also act to reduce the total volume of non-certified timber reaching the market. These market dynamics are, of course, hypothetical but do illustrate the potential impact of the two instruments in influencing market behavior. Moreover, it must be kept in mind that the main determinants of

2. Forest protected areas

The expectation that the creation of expanded forest protected areas will successfully protect one-tenth of the world's forests must be carefully considered. Recent studies assessing the success of forest protected areas and reserves indicate relatively scant success in staving off market and political forces currently driving the deforestation process. Whether the targets of efforts to create forest protected areas and reserves during the past several decades have been large logging companies or land poor peasants, success has been elusive. The World Bank-WWF-USAID study, *Parks and People* (Wells and Brandon: 1992), underscores that successful efforts to create integrated conservation-development projects (ICDPs) have resulted in rising incomes for poor neighboring villages, but those economic gains have not been accompanied by improved management in forest areas themselves. A more recent study by Brandon (1997) goes even further in challenging the assumptions on which protected areas have been established and attempts to explain why those deficient assumptions have contributed to their limited success in protecting forests. What successes have been registered are the result of the confluence of a number of parallel activities which include improved and sustained government agency attention and investment, strong government policy coupled with predictable enforcement measures, and high level of support and involvement of surrounding communities. Those and other factors must, however, be carefully tailored to address the specific forces and pressures operative in each protected area so as to ensure the right mix of policies, a proper balance of incentives and disincentives, and the rightful place of local actors.

This assessment makes clear that we must be quite modest in our expectations that the two instruments, when taken alone, will influence the political economy driving the deforestation process on a local level. Neither of the two approaches is designed to alter power relationships in developing countries by disrupting incentive structures, imposing new regulatory constraints, or creating effective managerial regimes. Nor will the two instruments reorient the distribution of subsidies, change agriculture sector policies, or induce changes in the development strategies of governments as a way of shifting power among social groups. Moreover, as presently constructed, the instruments do not provide clear incentives to alter the rent-seeking behavior of multinational corporations which occupy a dominant position in the international market. The targets of independent certification and creation of protected areas, therefore, need to be seen as part of a larger approach to addressing the underlying causes of forest degradation.

**In summary, we believe that the effectiveness of the Alliance's two instruments is closely tied to the implementation of complementary policy and institutional reforms in the forestry sector and national development policy. Moreover, this analysis demonstrates, we believe, the need to adjust both the instruments and**

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deforestation/degradation are not timber markets *per se*, but rather land markets and underlying governmental policy objectives.

**complementary policy and institutional reforms to the particular political economy of each country and locality. The recommendations we now offer are made with such a need in mind.**

## VI. Recommendations

We recommend that the three approaches presented below be addressed by WWF and the World Bank as they construct the operational strategy for implementing this project. These recommendations build on the potential strengths of the World Bank in the policy analysis and dialogue arena and on WWF's technical expertise and relations with the private sector and groups of civil society. Using these potential strengths to full advantage will be critical in ensuring the successful outcome of this ambitious endeavor.

1. Policy analysis and dialogue:

A. Successful achievement of the two targets will require an analysis of sectoral and macro policies which shape market behavior in each country. This analysis should identify, among other points:

- subsidies (implicit and explicit);
- incentives and disincentives (fees, taxes, credits, export credits, etc.);
- planned expansion of the agricultural frontier (colonization plans, forest conversion programs, infrastructure development, etc.) ;
- trends in land markets (including speculative pressures);

This analysis should provide both the framework and specific areas where policy reforms are needed to support application of the two instruments.

B. Similar analysis should be conducted of institutional arrangements influencing behavior in the designated protected areas including:

- land tenure regimes;
- management and regulatory policy;
- reach and influence of government agencies.

This analysis should lend itself to identifying institutional reforms at various levels which would support protected areas and certification of sustainably managed forest.

These elements should be translated into the Bank's country assistance strategies (CAS) and serve as the basis of a policy dialogue with the governments of the countries included in this project.

2. Influencing the local political economy

The analysis presented above highlights the central role that the local political economy plays in determining the outcomes of efforts to influence the sustainability of forested areas. In order to address this dimension of the problem a thorough analysis of local political economy and a set of appropriate responses should be designed. On an analytical level this would include understanding:

- relative influence and behavior of major economic agents (large corporations, medium sized logging companies, land poor or landless farmers);
- role and influence of political elites and how they influence local political systems;
- influence and functions of local organizations, systems of community governance;
- compatibility of land tenure regimes with sustainable management objectives;
- presence and influence of externally funded organizations.
- capacities of local NGO communities.

This analysis should serve to identify opportunities for building partnerships with and strengthening the influence of groups whose interests are compatible with the objectives of this project. Such partnerships and approaches could include:

- creating innovative management regimes with local forestry companies;
- increasing community participation in the management of the forest reserves, including changing the modalities and scope of that participation;
- identifying linkages between local economic development endeavors and sustained forestry management, including potential incentives;
- strengthening the presence and contributions of local and international NGOs and development agencies;
- building or strengthening other constituencies (press, research institutes, universities and schools, etc.) who could contribute to the public stewardship of the protected areas.

## 3. The Alliance's hybrid design

Successful implementation of this alliance will require a fusion of macro and meso level policy interventions and local level project activities. While alliance partners have complementary strengths in these two distinct areas, successful implementation strategies will require more than simply pasting the organizations' respective assets on top of or next to each other. Successful design will require a thorough integration of the partners' implementation approaches to ensure proper staging and coordination of activities. For example, pressure politics with multinational timber corporations must be handled in such a way as to ensure that enduring, practical partnerships to promote certification can be forged over the project's five year duration. Likewise, creation of locally managed forest reserves must be coordinated with national policy reforms to guarantee a conducive institutional and regulatory environment.

While WWF will have to scale up from demonstration projects to increase its capacity to act on the national and international stage, the World Bank will have to step down from its policy heights to become a more effective partner on the national and local levels. Moreover, as the two partners move to design implementation strategy, they will have to contend with capacity gaps in their combined resources which may best be addressed by drawing other organizations into program activities. In short, the institutional limitations of the two partners will have to viewed as opportunities to broaden the Alliance to include other institutional contributors who share its objectives.

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