

RACHEL KYTE

*Vice President,
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19 May 2010

Rivani Noor
Director
CAPP
Jl HM Yusuf Singedikane (d.h. Sri Sudewi) No. 10 RT 16
Kelurahan Sungai Putri, Telanaipura
Jambi 36122, INDONESIA

On behalf of:

CAPP, `Ulu Foundation Hawai`i, Rainforest Action Network, Forest Peoples Programme, Uргewald, Perkumpulan HuMa, WALHI North Sumatra, Kabut, Riau, KpSHK, JKPP, Telapak, Scale Up, Greenpeace South East Asia, Yayasan Wahana Bumi Hijau, PPS Central Kalimantan, WALHI Kalimantan Selatan, Yayasan Setara Jambi, Sawit Watch

Dear Messrs. and Mmes. Noor, Fried, Cortesi, Colchester and Schuecking,

Thank you for your letter of 27 April 2010 regarding the IFC advisory program in support of sustainable forest plantations in Indonesia. We agree that there is considerable risk in the Indonesian forestry sector but also believe there are unique and historic opportunities to help build transformational partnerships which reduce pressures on natural forest resources while engaging with selected companies and communities based on more participatory and sustainable land management practices. We share your commitment to improving the lives of rural communities through constructive, sustainable forest management and do not accept the premise of your letter that the sustainable forestry advisory project we are formulating in consultation with stakeholders is at odds with this shared objective.

There are a number of misconceptions in your letter regarding the status of project activities and the nature of future plans. These can quickly be addressed through direct contact between your organizations and our project staff. I hope you will be able to meet with them soon. In the meantime, it is important to point out that we are not focusing on pulp and paper companies, have not invested in pulp and paper companies in Indonesia and are not considering any investment at this time in P&P companies in Indonesia. However, we are open to working with forest plantation companies that may produce a broad range of timber products – including non-solid wood for forest products such as pulpwood, particle board, bio-energy and medium-density fiberboard. Consistent with IFC's objectives in the forest sector, IFC would not invest in a prospective client that practices unsustainable or illegal harvesting of natural forests and thus cannot meet IFC's Performance Standards on Social and Environmental Sustainability (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards>).

The sustainable forestry project has engaged in a broad and ongoing stakeholder consultation process which will continue throughout project implementation. The first step undertaken by the project team was to hold a consultation in November 2009 which included a number of CSOs, as well as government and industry representatives. This meeting was followed in January 2010 with the first of a series of dedicated consultations held to explicitly seek CSO views on the

proposed forestry interventions. A second consultation was held with CSOs on 27 April 2010. CAPP was invited to attend both meetings and, while not able to attend the first meeting in January, offered to provide written comments to IFC. Your 27 April letter was delivered during the second consultation and was the first input we received from any of the signatories. As noted during all three consultations, the forestry project was approved in August 2009 and is a four-year effort.

The forestry advisory program is designed to work with a few carefully selected lead firms to examine the business case for sustainable plantations that engage with local communities on degraded mineral soils. These firms have not yet been selected, although our team has evaluated over 10 candidate companies in the search for firms that can meet the IFC Performance Standards and share a commitment to community engagement and continual improvement in industry standards. We undertake a thorough integrity due diligence that includes background checks of major shareholders and the company itself. Please note that this work is in support of responsible plantation development with private companies, and does not provide grants to the Government of Indonesia. Also note that none of the companies IFC would work with has private ownership of forest lands in Indonesia. Instead, we have targeted firms working on existing industrial forest plantation concessions where legal status is clear, there are no current company-community conflicts. In all cases the companies would use only degraded lands that would otherwise not be planted.

An explicit objective of the project is to accelerate adoption of internationally-recognized standards for forestry and climate change in order to ensure, among other things, inclusion of local communities in the forest planning and management process. Thus, once a company has undergone the integrity due diligence screening, selected firms will be required to meet all of the relevant IFC Performance Standards, applicable E&S laws and regulations, and work to achieve appropriate independent forest certifications.

You have also highlighted oil palm issues and we fully appreciate the links that sector has to the protection of forest resources. Consultations have been conducted or are ongoing in Asia, Africa, Latin America, North America and Europe to seek views from CSOs, community members, government and palm oil producers to inform development of the World Bank Group oil palm strategy.

Your letter identifies a number of additional problematic issues pertaining to the Indonesian forest sector. IFC's future interventions must acknowledge these issues and where possible address or overcome them while seeking to reduce greenhouse gas emissions, increase rural incomes, and implement new models of sustainable private sector participation. We believe we share common ground with you in this respect and that direct dialogue between your organizations and our advisory project staff going forward can help reinforce this common ground. As evidenced during the 27 April consultation, our Indonesia-based forestry team is open to constructive suggestions and welcomes your input and engagement.

Sincerely,

A handwritten signature in black ink, appearing to be the initials 'HST' or similar, written in a cursive style.