

**U.S. Comments on “The World Bank Group’s Framework for
Engagement in the Palm Oil Sector, Draft for Consultation”
September 2010**

Overview

The World Bank Group’s draft framework for engagement in the palm oil sector is being developed following the controversy surrounding the IFC’s investments in the Wilmar Group, which resulted in the IFC’s Compliance Advisor and Ombudsman (CAO) report on these investments in June 2009¹ and a temporary moratorium on new World Bank Group (WBG) financing for palm oil projects. We appreciate the leadership of President Zoellick on this issue and welcome the World Bank Group’s effort to address the complex issues associated with the palm oil sector. The United States believes the World Bank Group can and should play a constructive role via selective engagement in the sector.

The draft palm oil framework is being developed in the context of the World Bank Group’s existing policies, which include, importantly, the World Bank’s suite of safeguard policies and the IFC’s Sustainability Framework (Sustainability Policy, Performance Standards and Disclosure Policy). These policies establish key requirements for the World Bank Group’s engagement in all sectors, including the palm oil sector, where there is a potential for negative social or environmental impacts. Similarly, the World Bank’s Country Assistance Strategy (CAS) is the primary vehicle for defining policy support in a country. We support the effort to produce a framework for the World Bank Group’s global engagement in the sector and understand that country-specific issues will continue to be addressed in the Country Assistance Strategies. It would be helpful if the World Bank Group could clarify these distinctions, given that many NGO concerns regarding the framework relate to safeguards and country-specific issues.

Given the potential for negative impacts from palm oil development, we wish to ensure that such development is done on the basis of sound technical and financial analysis; avoids harm to natural forests, peatlands, and their biodiversity; and is done in a manner that ensures public participation and reduces the risk of social conflict. In our experience, very transparent criteria and good public information, robust due diligence, accountability, and appeals processes are what work best. The existing World Bank and IFC requirements on consultation and disclosure, protecting critical habitat and high value habitat, and ensuring adequate analysis of supply chains are particularly important in the context of the palm oil sector. With these considerations in mind, we have the following specific recommendations.

Specific Recommendations

Objective and Strategic Priorities: The strategy’s stated objective on page 11 should include biodiversity conservation. Regarding overarching priorities, the framework proposes a menu of local actions to consider, but does not address whether certain actions may be more applicable in one region than another, or whether certain projects (e.g., vertically integrated operations vs. single-stage) would benefit more from WBG engagement than others. Given the input received

¹ http://www.cao-ombudsman.org/uploads/case_documents/Combined%20Document%201_2_3_4_5_6_7.pdf

from various regions on the strategy, prioritizing specific actions in certain regions may merit a closer look.

Areas to Avoid: The framework notes an expectation that over time, planting will gradually shift away from forested areas with high conservation value to existing agricultural/converted/degraded land. The palm oil framework should advance this shift. Consequently, the framework should include a clear preference for location in agricultural/converted/degraded land, preferably highly-degraded land. More broadly, we would welcome IFC development of a transparent and systematic methodology for prioritizing acceptable areas for sustainable oil palm development, taking into account environmental, economic, social and legal factors. The framework should also include clear guidance on the types/locations of projects/operations that the World Bank Group would *not* finance. In particular, we recommend highlighting the following issues, given the nature of the sector:

- *Tropical natural forests, peatlands and critical habitat* - The framework should include a commitment that, in general, the World Bank Group will safeguard tropical natural forests, peatlands and critical habitat, will avoid financing operations that would convert, degrade, deforest, or otherwise negatively impact tropical natural forests, peatlands and critical habitat, and will work with clients to support this objective. In addition, we recommend a deeper discussion of *how* the World Bank Group will work with clients to avoid projects that would impact these areas.
- *Carbon Emissions:* - The framework should articulate some parameters or principles on carbon emissions and oil palm. For example, the World Bank Group could commit to avoid projects with net carbon emissions (taking into account direct and indirect emission), or with net carbon emissions above a certain threshold, where measuring such emissions is feasible and where the public benefit is worth the effort to measure such emissions.

Development Impact:

- *Framework Analysis* - The framework should include stronger analysis of how palm oil sector activity can promote poverty reduction and the factors that determine whether or not a World Bank and/or IFC-financed intervention would have a positive effect. The analysis should include relevant data and differentiate among affected populations (such as women, different types of small-holders, and indigenous communities).
- *Evaluation of Framework Success* - The framework should include metrics for evaluating success including clear guidelines for baseline data, include and metrics on, for example, (i) the extent to which palm oil is sustainable and traceable and (ii) increases in small-holders' incomes as a result of WBG intervention. We recommend regular reporting on the implementation of the framework.

- *CASs and Investment Projects* - Country Assistance Strategies for countries anticipated to have large oil palm investments and investment projects should include metrics on development impact.
- *Secondary Impacts* - The framework should discuss potential negative secondary impacts and how the World Bank Group will seek to address these issues. For example, a typical pattern is that approval to establish a road in natural forest is accompanied by a permit to clear-cut along the road, providing timber harvest that is then used to help fund plantation development. Another typical pattern is logging an existing forest, and then using that “converted” land for palm oil. These are both damaging to the environment; the framework should be explicit about the potential problems and should articulate a proactive approach to addressing these sorts of situations.

Regulatory Reforms:

- *How and Where to Engage* - Has the World Bank considered how to target its engagement on regulatory reforms in the sector? For example, are there best practices regarding priority reforms that should be considered in all countries? If not, we would expect an individual CAS to address country-specific reforms in a comprehensive manner.
- *Incentives for Borrowers* - The framework should include a strategy to engage governments of palm oil producing countries that might not consider strengthening the regulatory framework a priority. To this end, the World Bank Group should explore how to use the growing interest that many countries have in reducing emissions from deforestation and forest degradation (REDD) to engage them in reforming policies, so that palm oil expansion into natural forests and peatlands is redirected to degraded lands. Often, this will involve efforts to better define and map “degraded lands” and to clarify the land tenure situation in such areas.

Financial Intermediaries (FI): In addition to the requirements governing FI disclosure in the existing Disclosure Policy, the IFC should clarify the bar for specific investments in the palm oil sector. First, FI clients should not just “promote” a requirement of independent certification; they should require independent certification. Second, the idea that the IFC will “stress” early engagement, especially in new plantations to improve project design to better address smallholder impacts and to protect critical habitat/high conservation value habitat, is unclear. The framework should include better definition of how and when early engagement will occur, and how the IFC will support FI clients – or the FI’s clients – on early engagement.

Project Categorization: The framework should discuss categorization issues specific to the palm oil sector, in light of the discussion of these issues in the Management response to the 2009 CAO audit of the IFC’s Wilmar Group investments, the current IFC sustainability framework review and efforts to improve consistency of categorization across the World Bank Group. In particular, the Bank needs to review how they ensure that single-company, single-industry and vertically integrated operations (in contrast to diversified portfolio operations) are categorized correctly,

taking into account sector, country and supply chain risks. Sector-specific categorization guidelines might be appropriate.

Project Assessment/Due Diligence: The framework should include a discussion of the project evaluation/assessment process, highlighting any issues that would merit particular attention in a palm oil context, such as location, freedom from (or potential for) social conflict, and climate change impacts.

Sectoral Environmental and Social Impact Assessments (ESIA): The framework should encourage the use of sectoral ESIA's to determine appropriate locations for palm oil activities, including guidance on when/how to use sectoral ESIA's at a country or regional level to determine appropriate locations for plantations. We recommend that sectoral ESIA's in the palm oil sector pay particular attention to such issues as: landscape-level planning; ecosystem impacts, including those resulting from lower water tables that in turn result from drains dug to allow growth of oil palms (as might happen in the Sungai Putri forest); whether an area provides important connectivity between critical habitat/high conservation value areas and/or needs to be restored to provide such connectivity; and whether areas are owned/used by customary law communities/Indigenous Peoples.

Biodiversity: The Management response to the 2009 CAO audit of the IFC's Wilmar Group investments stated that, "In particular, IFC is currently supporting RSPO's biodiversity working group, as well as several projects which will inform the practical application of the requirements for biodiversity conservation on oil palm plantations." We would welcome specific requirements for biodiversity conservation.

Cumulative Impacts: The discussion of project level investments should state that project appraisal will include cumulative impact assessment as well as direct and indirect impacts (page 17).

Supply Chains and Certification: The palm oil framework supports the development of certification mechanisms relating to both the sustainability of plantation operations and to product supply chain or 'sourcing' concerns, including for FI operations. While certification procedures can be valuable, and clearly merit IFC support, it is not clear whether the institutions and procedures that would be needed in this sector have evolved sufficiently to fulfill this role effectively. The framework should:

- Identify potential mechanisms to ensure that Roundtable on Sustainable Palm Oil (RSPO) and/or other independent certification approaches are upheld.
- Identify key elements/minimum criteria that need to be contained in any certification scheme that the IFC supports or accepts as satisfactory, noting that different certifications themselves might have different requirements and be more or less attractive to various participants in the palm oil industry.
- Discuss the maturity and scope of potential certification mechanisms, potential challenges, and potential World Bank Group interventions.
- Discuss due diligence relating to supply chains in particular, including an update on the following sentence in the Management response to the CAO's 2009 audit of the of the

IFC's Wilmar Group investments: "Pending the outcome of the Performance Standards review process, IFC will put renewed emphasis on supply chain mapping as part of the due diligence process, and provide templates to its environmental and social specialists for including this in their project screening and review responsibilities."

- Discuss lessons learned from IFC experience with other sectoral certification mechanisms that might be applicable here. (Does the Bertin project, for example, offer any lessons on certification systems?)
- State an intention to abide by any international standards and codes of practice that are developed with World Bank Group support, absent a compelling reason not to.

Links to Markets and Consumers: We recommend a fuller discussion of the connection between the palm oil sector and its markets/consumers, and market/demand-side dynamics that might affect the success of the framework in achieving its objectives. Such a discussion should include: current and potential demand for RSPO-certified products; the role of multinational buyers in supply chains; impacts on demand by multinational buyers and/or end consumers if the prices of RSPO-certified products dramatically rise or fall, and resulting impacts on smallholders and other producers.

Smallholders: The framework should include:

- A fuller discussion of potential support for smallholders, making a distinction between (1) situations where the IFC is investing in a larger plantation and/or processing company to which the smallholder is an associated third-party supplier, and (2) situations where there is no such larger operation.
- Discussion of how services such as supporting group certification, access to SME finance and crop reinsurance might be made widely available to smallholders.
- Discussion of potential differences within the grouping of "smallholders" and whether different approaches or considerations would apply.
- Discussion of the land tenure issues that often arise in the case of small-holders, and differ from the tenure issues that arise in the case of large concessions

Advisory Services: The framework should discuss the type of analysis that will be used to determine the nature and scope of Advisory Services activities. It should also include a more detailed discussion of the types of issues for which Advisory Services might be provided. We recommend that the framework state that such advisory services projects are subject to the standard IFC requirements in the sustainability policy, performance standards and disclosure policy, including environmental/social impact assessment requirements.

Implementation: The framework needs to identify how the World Bank Group is implementing "a more robust level of due diligence" for the sector, as recommended by the CAO in its 2009 audit of the IFC's Wilmar Group investments and agreed by Management in its response, and otherwise strengthen implementation. This should include incentives for strong environmental/social due diligence by World Bank and IFC staff, staff training, specific measures to strengthen cooperation between the World Bank and the IFC (e.g., What might joint sector work focus on? What innovations in coordination might be useful? Does a standard process to ensure cooperation exist?); and evaluation of public and private sector client capacity to address palm oil sustainability issues and client training to address weaknesses.

Note on US policy: Pursuant to a legislative mandate, the United States will oppose any loan or other financial assistance for establishing or expanding production for export of palm oil, if such loan or assistance will cause injury to United States producers of the same, similar, or competing agricultural commodity.