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4 November 2009

Robert B. Zoellick
President
World Bank Group
1818 H Street, NW
Washington, DC 20433 USA

Dear Mr. Zoellick,

We are writing in regards to the World Bank's recent announcement to suspend International Finance Corporation (IFC) funding to the palm oil industry pending the development of a comprehensive strategy to guide the Corporation's lending in the sector. We commend this decision and request that the actions you are taking to ensure sustainable environmental and social practices in palm oil development for the IFC be equally applied to the World Bank Group's public sector investments. This is of particular concern for our groups as the World Bank's public sector facility is actively investing in the palm oil sector in Papua New Guinea.

In an August 2009 letter to non-governmental organizations (NGOs), you outline a series of steps to be taken by the IFC to address underperformance in Indonesian oil palm investments. In addition to the moratorium on new investments and the promise of a sector strategy, you recommend clarification of categorization procedures to include supply-chain environmental and social impacts, strengthening implementation of the existing prohibition against clearing of critical habitats, and a commitment to work only with clients who agree to achieve internationally recognized certification in their operations.

These recommendations stem directly from a June 19, 2009 compliance audit produced by the Compliance Advisor Ombudsman (CAO). This audit made alarming findings with regard to IFC-supported palm oil operations in Indonesia, including:

- IFC did not address the livelihood and economic issues faced by smallholders or plantation workers in the supply chain (p. 21);
- Impacts on both low-cost labor and ecologically sensitive resources are directly relevant to the palm oil sector (p. 25);
- Despite extensive knowledge of social and environmental issues in the oil palm sector in Indonesia, IFC excluded assessments of supply chains in its due diligence (p.27); and
- IFC did not assess palm oil operations against compliance with national law (p.28).

Overall, the CAO concludes that a narrow interpretation of environmental and social risks, leading to project mis-categorization and limited due diligence on the part of IFC, was inconsistent with IFC's mandate and commitment to sustainable development.

Recognizing the significance of these findings, we applaud your response to immediately develop a comprehensive strategy to guide IFC's approach to oil palm and to suspend new IFC financing in the sector until such strategy is in place. However, we are concerned that these recommendations have been limited to IFC investments and do not equally apply to IBRD/IDA projects.

Oil palm investments from IBRD/IDA are likely to have similar livelihood impacts for smallholders and plantation workers and will trigger equivalent social and environmental risks. Furthermore, public sector investments are no less susceptible to failure in due diligence and mis-categorization that has led to adverse impacts in the case of IFC investments in Indonesia.

Given the severity of the CAO's findings and the congruous mandate between the IFC and IBRD/IDA for sustainable development, a World Bank Group-wide review of palm oil, including private and public investments, is essential. Similarly, the moratorium on new oil palm investments should duly extend to IBRD/IDA operations until a comprehensive World Bank Group strategy to guide responsible and sustainable palm oil investments is in place.

Thank you for your attention to these issues, and we look forward to your response.

Sincerely,

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